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AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

AMENDMENT
PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)
PAKISTAN
AGRICULTURAL COMMODITIES AND EQUIPMENT
391-0418

JUNE 1983

UNCLASSIFIED

CLASSIFICATION: UNCLASSIFIED

AID 1120-1 (6-67) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. Grant No. 391-K-603 LOAN 391-K-187A 2. COUNTRY Pakistan 3. CATEGORY Commodity Financing - Standard Procedure 4. DATE May 3, 1983
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 <input checked="" type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD Nov. 1983 - Sept. 1985
14. TRANSACTION ELIGIBILITY DATE August 1, 1983		

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 U.S. only: \$60,000,000 (See Block 18) Limited F.W.: Free World: Cash: Pakistan (Minimum)	17. ESTIMATED SOURCE U.S.: \$60,000,000 (See Block 18) Industrialized Countries: Local: Other: Pakistan (Minimum)
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18. SUMMARY DESCRIPTION
TITLE: AGRICULTURAL COMMODITIES AND EQUIPMENT, 391-0468

This PAAD authorizes \$60 million, consisting of \$40 million in loan funds and \$20 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: agricultural inputs such as fertilizers and improved seeds; equipment and machinery for farm use; commodity support for agencies which provide agricultural services; and commodities in support of a proposed FY 1983 development project in poppy-growing areas of the North West Frontier Province. This document describes the second 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 1984-87.

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 <table border="1"> <tr> <td>REG#DP</td> <td>AA/ASIA C.W. Greenleaf</td> <td>DATE</td> <td>6/15</td> </tr> <tr> <td>REG#OE</td> <td>AA/PFC J.R. Bolton</td> <td>DATE</td> <td>6/22</td> </tr> <tr> <td>REG#PC</td> <td>GC R.A. Derham</td> <td>DATE</td> <td>6/21</td> </tr> <tr> <td>REG#ONT</td> <td>FM/LMD H.W. Shropshire</td> <td>DATE</td> <td>6/10/83</td> </tr> <tr> <td>REG#A</td> <td>FM/PAD E.S. Owens</td> <td>DATE</td> <td>10 June 83</td> </tr> <tr> <td>REG#PRR</td> <td>Donor M. Lion, Director, USAID/Pakistan</td> <td>DATE</td> <td>9 June 83</td> </tr> </table>	REG#DP	AA/ASIA C.W. Greenleaf	DATE	6/15	REG#OE	AA/PFC J.R. Bolton	DATE	6/22	REG#PC	GC R.A. Derham	DATE	6/21	REG#ONT	FM/LMD H.W. Shropshire	DATE	6/10/83	REG#A	FM/PAD E.S. Owens	DATE	10 June 83	REG#PRR	Donor M. Lion, Director, USAID/Pakistan	DATE	9 June 83	20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED M. Peter McPherson AUTHORIZED SIGNATURE DATE: 24 JUN 1983 ADMINISTRATOR TITLE
REG#DP	AA/ASIA C.W. Greenleaf	DATE	6/15																						
REG#OE	AA/PFC J.R. Bolton	DATE	6/22																						
REG#PC	GC R.A. Derham	DATE	6/21																						
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PROGRAM ASSISTANCE APPROVAL
DOCUMENT (PAAD) AMENDMENT

Block-18 Continued

mutually programmed 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.

PAAD AMENDMENT
AGRICULTURAL COMMODITIES AND EQUIPMENT
391-0468

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I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

1. Funding

USAID/Pakistan recommends the FY 1983 authorization of \$60 million, consisting of \$40 million in loan funds and \$20 million in grant funds, to finance the importation of agricultural equipment, fertilizer and other commodities in support of agriculture sector activities. These funds represent the second tranche of a contemplated \$300 million five-year program to finance agricultural commodities and equipment, all of which will be designed to achieve the balance of payments and agricultural productivity purposes of the U.S. Economic Assistance Program in Pakistan.

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

2. Geographic Code

Except as A.I.D. may otherwise agree in writing, source and origin of goods and services financed under this Program shall remain the same as in the existing authorization. (See Annex A.3.)

3. Shipping Differential

USAID/Pakistan recommends that the freight cost differential between U.S. and non-U.S. flag carriers for loan-financed shipments under this Program be converted to a grant in accordance with FAA Section 640 C. Annex A.4. contains cables concerning this issue.

B. Summary Program Amendment Description

1. The Program

The FY 1982 \$60 million tranche of the Agricultural Commodities and Equipment (ACE) Program initiated the first major activity of the renewed U.S. Economic Assistance Program in Pakistan. The Program is designed to promote the productivity of the agriculture sector through the provision of needed imported commodities and equipment and to provide balance of payments support. Commodities financed under the Program may support agricultural activities with a short to medium-term impact, such as

fertilizer or other production inputs and storage or grain handling equipment; or those with a longer-term impact, such as equipment for public sector institutions which provide services to the agriculture sector.

The Program also serves as one instrument of the agricultural policy dialogue with the GOP, along with a major PL 480 Title I Program and other specific projects in the agriculture sector. Policy implementation options designed to promote productivity and expand the role of the private sector are discussed during Program negotiations and are included in the Program or Project Agreement as appropriate.

2. FY 1982 Activities

The FY 1982 Program financed the importation of 130 thousand metric tons (MT) of diammonium phosphate (DAP) fertilizer, valued at \$32.8 million, and earthmoving and workshop equipment and spare parts, valued at \$24.0 million, for the use of the four Provincial Irrigation Departments (PIDs). Fertilizer deliveries were completed in late November 1982. Equipment is being procured with the assistance of two Procurement Services Agents (PSAs); deliveries are expected to begin in August 1983. The equipment will be used to support the objectives of USAID/Pakistan's FY 1983 Irrigation Systems Management (ISM) Project (391-0467), which will be co-financed by the World Bank (IBRD) through its International Development Association (IDA) affiliate under the Irrigation Systems Rehabilitation (ISR) Project. The equipment was included in the ACE Program following IBRD and USAID/Pakistan's determination that the equipment was needed, would be effectively utilized and maintained, and was justified in advance of the final design of the ISM project. The ability to initiate procurement of these long lead items through the PAAD mechanism will greatly accelerate the implementation of the ISM project.

No specific policy actions were proposed as part of the FY 1982 Program Agreement. Several policy studies, however, have either been completed or are in the final stages of completion in the areas of fertilizer marketing and the edible oil industry to identify policy implementation options. (See Section IV.)

3. FY 1983 Activities

Proposed allocations for the FY 1983 Program are shown in Table 1 and are summarized below:

TABLE 1

PROPOSED FY 1983 PROGRAM AMENDMENT IMPORT COMPOSITION

<u>Category of Commodities</u>	<u>Provisional Allocations ^{a/}</u> <u>(In \$ Million)</u>	
	<u>Loan</u>	<u>Grant</u>
1. Fertilizer		
a. 125,000 MT of Diammonium Phosphate (DAP)	34.0 ^{b/}	-
b. 10,000 MT of Triple Super Phosphate (TSP)		
2. Irrigation Equipment		
a. Earthmoving and Workshop Equipment for the Irrigation Systems Management Project	-	5.0
b. Hydraulic Measurement Equipment for the Irrigation Systems Management Project	-	1.0
c. Excavating Machinery for the Sind and Punjab Irrigation Departments	-	3.5
d. Flood Protection Equipment for the Punjab Irrigation Department	-	1.6
e. Irrigation Pumps for the Northwest Frontier Province Irrigation Department	-	1.0
3. Drilling Rigs for the Sind Agricultural Engineering Department	-	1.2
4. Commodities for the Agricultural Production, Distribution, and Storage Project	1.0	3.5
5. Commodities for the Forestry Planning and Development Project	5.0	-
6. Additional Commodities		
a. Small Tractors	-	1.0
b. Breeding Rams		
c. Miscellaneous Items		
d. Commodities in support of development activities in poppy growing areas	-	.5
7. Procurement Services Agent (s) Fee at 8% (for 2.a. - 2.e, 4., and 5 only)	-	1.7
TOTALS	40.0	20.0

^{a/} All figures include the estimated costs of the commodities/equipment, freight and insurance, as well as inland transportation for the irrigation equipment only.

^{b/} Approximately \$1.0 million in loan funds remains unearmarked under the FY 1982 program (see Annex E) and will be applied to the costs of the fertilizer to be procured under the FY 1983 program.

a. Fertilizer

Imports of \$35.0^{1/} million worth of Diammonium Phosphate (DAP) and Triple Super Phosphate (TSP) are planned. At projected international prices, including freight and insurance, the quantity of fertilizer supplied would be about 125,000 MT of DAP and 10,000 MT of TSP. This quantity will provide 62,100 Nutrient Metric Tons (NMT) of phosphorous.

b. Irrigation Equipment

A total of \$12.1 million worth of equipment is contemplated, consisting of: (i) earthmoving and workshop equipment for the four PIDs in support of the ISM Project (\$5.0 million); (ii) hydraulic measurement equipment for the Alluvial Channel Observation Project (ACOP), an implementing entity under the ISM Project, and several of the PIDs (\$1.0 million); (iii) excavating machinery for the Sind and Punjab PIDs (\$3.5 million); (iv) flood protection equipment for the Punjab PID (\$1.6 million); and, (v) irrigation pumps for the Northwest Frontier Province PID (\$1.0 million).

c. Drilling Rigs

Six power drilling rigs, valued at an estimated \$1.2 million, for sinking tubewells will be procured for the Agriculture Engineering Department of the Government of the Sind.

d. Commodities for the Agricultural Production, Distribution, and Storage Project

Approximately \$4.5 million has been allocated under the FY 1983 ACE Program for the procurement of data collection and analysis and post-harvest grain handling and storage equipment to be used in support of the Food Security and Data Collection and Analysis Components of USAID/Pakistan's FY 1983 Agricultural Production, Distribution, and Storage (APDS) Project (391-0476). This project is currently in the design phase, and the estimated cost of the equipment required for the project will exceed the funds available under the project. As in the case of the ISM project, the ability to initiate procurement of commodities for the APDS Project through the PAAD mechanism will greatly accelerate the implementation of the APDS Project.

^{1/} Consisting of \$34.0 million under the FY 1983 program and \$1.0 million under the FY 1982 program.

e. Commodities for the Forestry Planning and Development Project

Earthmoving and land clearing, nursery, surveying, watering, research and analytical, and transport equipment as well as education/information commodities, valued at approximately \$5.0 million, are expected to be imported under the FY 1983 ACE Program to be used in support of USAID/Pakistan's FY 1983 Forestry Planning and Development (FPD) Project (391-0481). This project is currently in the design phase, and the estimated cost of the equipment required for the project will exceed the funds available under the project. In addition, the ability to initiate procurement of commodities for the FPD Project through the PAAD mechanism will greatly facilitate implementation of the FPD Project.

f. Additional Commodities

Approximately \$1.0 million has been provisionally allocated for the procurement of the following items:

i. Small Tractors

Importation of about fifty (50) small size (below 35 engine horse power) tractors for sale to farmers and/or use at agricultural research stations is contemplated to support the GOP's policy to encourage small farm technology.

ii. Breeding Rams

Importation of about twenty (20) breeding rams is planned to support a herd improvement program in the Northwest Frontier Province which will be financed in part by the Australian Government.

iii. Miscellaneous Small Value Items

To respond to targets of opportunity, some funds may be made available under the ACE Program to finance small value items which are consistent with the overall objectives of this program and which support GOP, other donor, and/or other USAID/Pakistan projects.

iv. Support to Development in Poppy Growing Areas

Approximately \$500,000 has been provisionally allocated for support of development activities in poppy producing areas. These items will be identified as project design proceeds for the Area Development Project in the North West Frontier Province (391-0485), which is expected to directly address the need for alternative development opportunities in areas which now depend heavily on poppy production.

C. Statutory Criteria and Mission Director's Certifications

The statutory checklists and Mission Director's 611(e) and 612(b) certifications contained in the original PAAD remain valid.

D. Program Amendment Issues

1. Policy Dialogue

The APAC approval cable for the original PAAD specifically emphasized AID/Washington's interest in the degree to which policy considerations would be addressed by the ACE Program and the way in which the policy dialogue would be carried out. In response to AID/Washington's request, the Mission sent a cable to AID/Washington in January 1983 which provided a preliminary overview of agricultural sector policy issues, dialogue, and studies. (See Annex A.5.) A more complete discussion of these issues is contained in Section IV. of this PAAD Amendment.

2. FY 1982 Program Evaluation

In accordance with the Evaluation Plan in the original PAAD, a two-person team of AID/Washington officials conducted an evaluation of the first nine months of implementation experience under the FY 1982 Program. Annex A.6. contains a summary of the draft conclusions and recommendations of the evaluation team. Section II.B. of this PAAD Amendment discusses the evaluation findings and identifies in particular those lessons learned from the evaluation which have been incorporated into the design of the FY 1983 Program Amendment.

E. Contributors to the PAAD Amendment

The following individuals contributed to the development of this PAAD Amendment:

- | | |
|----------------------|---|
| Mr. Russel Backus | - Assistant Rural Development Officer, Office of Agriculture and Rural Development, USAID/Pakistan |
| Mr. John S. Blackton | - Chief, Office of Program, USAID/Pakistan |
| Dr. Ronald V. Curtis | - Chief, Office of Agriculture and Rural Development, USAID/Pakistan |
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Mr. William McKinney - Assistant Program Officer, Office of Program, USAID/Pakistan

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Mr. Stephen J. Spielman - Regional Legal Advisor, USAID/Pakistan

Mr. Jimmie M. Stone - Deputy Director, USAID/Pakistan

II. BACKGROUND

A. Relationship to Economic Assistance Program

Like the U.S. Economic Assistance Program of which it is a part, the ACE Program provides foreign exchange for balance of payments support and promotes specific development activities by financing imports of critical agricultural commodities and equipment. It serves as an important vehicle, in conjunction with other elements of the assistance package, for carrying out the agricultural policy dialogue. Local currency generations from the sale of commodities imported under this Program assist the GOP in carrying out important investment activities in the agriculture sector. Thus the ACE Program addresses major objectives of the U.S. Economic Assistance Program in Pakistan, namely, providing foreign exchange, expanding imports critical to agricultural productivity, and promoting implementation of key policy changes.

B. FY 1982 Program

1. Implementation Experience

Implementation has progressed satisfactorily. The basic rationale of the Program has proven sound, and the mode of implementation, while not without some problems, remains appropriate for most of the commodities expected to be financed under the FY 1983 tranche.

a. Fertilizer

Fertilizer imports were undertaken through host country procurement procedures by the Pakistan Embassy in Washington, D.C., with the assistance of SER/COM, AID/Washington, with no significant problems. Deliveries were completed in November 1982 as scheduled and well in time for fertilizer application during the 1982/83 rabi crop season. As of March 31, 1983, \$32.8 million of the \$34.0 million provisionally allocated for fertilizer had been fully disbursed. (See Annex E.)

b. Equipment

Procurement of equipment is in progress by two Procurement Services Agents (PSAs) contracted under host country contracting competitive procedures, with USAID/Pakistan acting as Agent of the GOP. Equipment is expected to begin arriving in August 1983. A substantial effort was required on the part of the Mission to solicit proposals from PSAs and evaluate offers and to assist the GOP to negotiate contracts and arrange for the preparation and review of equipment specifications. When the equipment arrives, the

Mission will be responsible for clearing the goods through customs and for ensuring that appropriate arrangements have been made in accordance with previously agreed upon procedures to enable the GOP to deliver the equipment to the provinces in a timely and efficient manner.

The complexities of the PSA contracting and equipment specification process proved more time-consuming than had been anticipated, but delivery of most of the earthmoving equipment is expected by December 1983. Arrival of the workshop equipment and spare parts will be delayed by several months because of unanticipated problems associated with obtaining the timely approval of equipment lists by the four PIDs. The progress achieved to date compares most favorably with the equipment procurement performance experienced through other procedures under earlier A.I.D. projects in Pakistan. The early arrival of equipment will significantly expedite implementation of the ISM Project.

c. Policy Studies

To strengthen the role of this Program as an instrument for agricultural policy dialogue, a study on Pakistan's agricultural development policy options was undertaken and has been completed. More specific edible oil and fertilizer sub-sector studies have also been undertaken. These sub-sector policy studies explore policy implementation choices conducive to more favorable agricultural performance, including an enhanced private sector role, which will serve as the bases for discussions with the GOP. Recommendations of the fertilizer marketing study for a greater and more independent fertilizer distribution role for private companies have been a particular focus of negotiations for the FY 1983 tranche of this Program. The edible oil industry study, scheduled for completion in May 1983, will shape the design of the Agricultural Production, Distribution and Storage (APDS) Project (391-0476).

2. Evaluation Findings

In December 1982, a two-member evaluation team from AID/Washington reviewed the implementation experience for the first nine months of the Program and concluded:

"Implementation of the Program activities during the first nine months of the first tranche.... has progressed on schedule and has basically conformed to design plans. Activities intended for the first nine months have been accomplished and the program has made significant progress in achieving the primary objective of the first tranche -- providing balance of payments support. The evaluation team supports the continuation of this program and offers ... more specific conclusions and recommendations in the design of the subsequent tranches".

A copy of the draft conclusions and recommendations of the evaluation team is included in Annex A.6. A summary of the major findings and those lessons learned from the evaluation which have been incorporated into the design of the FY 1983 Program are provided below.

a. Procurement

i. Fertilizer

Fertilizer procurement went smoothly and on schedule. There were no significant problems though negotiations between SER/COM and the GOP over charter party terms were somewhat protracted. The evaluation team, therefore, recommended, and the Mission has already taken steps (See Section VI.) to ensure that for future fertilizer procurements, discussions between SER/COM and the GOP on charter party terms begin well in advance of tendering. The team also recommended and the Mission plans to institute a system of selective monitoring of the warehousing procedures for A.I.D.-financed fertilizer.

ii. Equipment

The evaluation team noted the unusual character of USAID/Pakistan's role in the equipment procurement process and the heavy administrative burden associated with it. The Agent arrangement was viewed to bring with it a "fiduciary responsibility to the GOP", and it was accordingly suggested that USAID/Pakistan "should move cautiously in determining what functions it will perform" and to avoid especially taking "physical possession of any equipment". The team also suggested that USAID/Pakistan consider, as an alternative, traditional host country procurement arrangements with SER/COM involvement and, regardless of the procurement approach, to bring on board a full-time experienced procurement specialist. The team states, however, that "despite the risks associated with USAID's role as agent of the GOP, the evaluation team does not necessarily believe the agent role should be abandoned". As regards implementation progress, the team found that the existing arrangements were working.

The team further observed that "it is too early to make a judgement on these procurement arrangements" and recommended that "after current procurement actions have been completed, USAID should conduct a thorough review to provide more definitive findings on the procurement arrangements". USAID/Pakistan supports this recommendation and plans to conduct such a review as part of the next scheduled program evaluation (See Section VI.) In addition, several of the team's findings and recommendations relating specifically to the management, selection, and contracting procedures employed by the Mission have been duly noted and incorporated into the Mission's implementation plans for the FY 1983 Program.

The use of PSAs coupled with an active role for USAID/Pakistan as an Agent of the GOP, was determined by USAID/Pakistan and the GOP to be the most efficient, expeditious, and cost-effective way of procuring equipment in order to maximize the balance of payments impact of the Program. Key GOP officials and the Mission are fully satisfied with the approach and the progress to date. The experience gained and lessons learned from the FY 1982 Program should greatly facilitate the smooth and timely implementation of this same procedure under the FY 1983 Program. The recent addition to the Mission's staff of a direct-hire Contracting Officer with procurement experience and two highly experienced Executive Officers, coupled with the TDY assistance of SER/COM specialists will enable the Mission to carry out its administrative and monitoring responsibilities in a timely and effective manner. In the Mission's judgement, future PSA contracting should proceed much more smoothly, and the risk associated with this procedure should be no greater than in any other area of A.I.D.'s work.

b. Policy Studies

To facilitate agricultural policy dialogue with the GOP, the PAAD proposed special studies to explore policy implementation options which would promote production performance in the agriculture sector. The evaluation team noted considerable progress in this area. Of the six specific prospective studies identified in the PAAD, considerable progress has been made in three of the areas: a study of the privatization of fertilizer marketing was completed in October 1982; the edible oil industry study is due for completion in May 1983; and, water management policy has been examined in great detail during the design of the ISM Project. The evaluation team recommended that the scope of work for the next evaluation should include an examination of the quality and usefulness of these policy studies which the Mission endorses. (See the Evaluation Plan in Section VI.)

C. Current Economic Situation

1. The Economy

The general economic trends presented in the original PAAD continue to persist. In the context of a three-year IMF reform program, the GOP has continued to pursue import liberalization, improvement in cost/price structures, fiscal restraint, and re-orientation of public sector investment priorities. These policy initiatives have resulted in a fairly high Gross Domestic Product (GDP) growth rate of about 6 percent continuously for the last five years. Fiscal measures taken in recent years have significantly reduced the budgetary

deficit and Government resort to bank borrowing. The overall deficit in Government revenues and expenditures declined from 6.2 percent of Gross National Product (GNP) in Pakistan Fiscal Year (PFY) 1979/80 to 4.8 percent in PFY 1980/81, but rose again to 5.5 percent in PFY 1981/82. The reason for the rise was a shortfall in tax revenues, mainly due to lower than projected customs duties and sales tax on imports. Expenditures, however, were lower than the target figures. Substantial progress has been made in reducing the subsidies. The GOP financed the deficit by a combination of external financing (foreign aid), domestic non-bank financing, and financing from the banking system. This last category is inflationary and is a critical measure under the Extended Fund Facility (EFF) Agreement signed by the GOP with the International Monetary Fund (IMF) in November 1980. It declined from 3.1 percent of GNP in PFY 1979/80 to 2.3 percent in PFY 1980/81, to 2.0 percent in PFY 1981/82, and is projected to be 1.7 percent in PFY 1982/83. This measure is directly connected to credit expansion (net domestic assets) and the money supply. Both of these have expanded at less than the target ceiling rates, and the growth rate in domestic liquidity has been less than that of nominal GNP. As a result of the various adjustments in public finance, money and credit, and trade policies, the rate of inflation (GDP deflator) fell from 10.9 percent in PFY 1980/81 to 9.6 percent in PFY 1981/82 and is projected to be about 8.0 percent in PFY 1982/83.

2. The Balance of Payments

Pakistan continues to suffer from the burden of a low domestic savings rate plus chronic balance of payments deficits, even after several years of adherence to the IMF Extended Fund Facility, exchange rate adjustments, reduction in inflation and self-sufficiency in wheat. External resources are necessary to maintain an investment rate that will sustain GNP growth at approximately 6 percent per year. This degree of growth is necessary to permit structural changes and to provide the production increase, including in exports that eventually will allow Pakistan to be self-supporting. Shortages of imported fertilizer, industrial raw materials and capital goods are very real constraints to growth.

The current account deficit in PFY 1981/82 increased by more than 50 percent and was 66 percent of exports (See Table 2). The decline in exports of 17 percent was the major reason for the poor state of the current account balance. The decline in rice export earnings of 30 percent reflected both price and volume declines due to abundant world supplies. Raw cotton prices fell by 26 percent and the export volume also fell even though production increased. Prices of cotton yarn and cotton cloth also fell although the volume of cotton cloth exports increased. The performance of other products was mixed, with the "other" category of manufacture being the only

TABLE 2

PAKISTAN: BALANCE OF PAYMENTS, PFY 1979/80-1983/84 ^{a/}
(in millions of U.S. dollars)

	ACTUAL			PROJECTED	
	1979/80 Revised	1980/81 Revised	1981/82 Provisional	1982/83	1983/84
Trade balance	-2,516	-2,765	-3,373	-3,397	-3,502
Exports, f.o.b	2,341	2,798	2,318	2,608	3,005
Imports, f.o.b	-4,857	-5,563	-5,691	-6,005	-6,599
Services (net) ^{b/}	- 524	- 459	- 539	- 658	- 730
Private transfers (net)	1,895	2,233	2,382	2,710	2,981
Current account balance	-1,145	- 991	-1,530	-1,345	-1,341
Long-term capital (net)	747	581	681	1,025	1,119
Gross disbursements	1,054	958	1,053	1,345	1,502
Amortization ^{b/}	- 395	- 516	- 492	- 445	- 483
Other (including private long-term capital)	88	141	170	125	100
Private short-term capital and errors and omissions (net)	20	13	31	12	-
SOR allocation	39	37	-	-	-
Balance requiring official financing	- 339	- 360	- 830	- 308	- 222
Official assistance and debt relief	577	336	274	53	27
IMF Trust Fund	157	15	-	-	-
Debt relief	90	161	258	38	-
Official short-term capital (net)	52	134	6	15	-
Other	278	25	10	-	-
Overall Balance	238	- 24	- 556	- 255	- 195
Net foreign assets (increase)	- 238	24	556	255	195
Net use of fund credit	- 79	315	358	422	487
Other central bank and commercial banks	- 159	- 291	198	- 167	8
Memorandum items:					
New capital inflow ^{c/}	1,272	783	949	1,063	1,146
Growth rates (in percent) ^{d/}					
Exports, f.o.b.	42.2	19.5	- 17.2	12.5	15.3
Imports, f.o.b.	27.3	14.5	2.3	5.5	9.9

Sources: IMF, Staff Report for the 1982 Article IV Consultation and Program Under the Extended Arrangement, January 1983, p. 12

a/ Refers to 1981/82 program and revised 1982/83 projection set forth in EBS/81/222 (Nov. 83)

b/ Includes actual and rescheduled debt service payments

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 1979/80 actual; for 1981/82 "revised projection" and "actual" calculated with respect to 1980/81 actual; for 1982/83 "revised projection" calculated with respect to "revised projection"; for 1981/82 and "program" calculated with actual 1981/82 as a base; for 1983/84 calculated with respect to 1982/83 program.

bright spot. Imports increased by about 2 percent, with fuel imports increasing by about 10 percent while all other imports decreased by 3 percent. Stagnant prices for most goods and a large decline in the volume of fertilizer (due to increased domestic production) were responsible for the change. Workers' remittances, the largest part of Private Transfers in Table 2, increased slightly and actually exceeded exports for the first time. The increase was less than 7 percent and aroused concerns about the prospects of this category to continue to grow. Given the sizable current deficit and the projections, Pakistan will have sizable external financing requirements for at least the next few years.

The short-term outlook as revealed in the PFY 1982/83 and PFY 1983/84 projections is for slight improvement in the current account balance as exports recover, remittances continue to grow, and imports increase due to liberalization of the tariff and trade system. Ten months of PFY 1982/83 already have passed, and the current account projection still appears accurate, although the components have shifted. Exports have increased less than projected while imports have remained stagnant. Remittances are much higher than projected, due in part at least, to exchange rate shifts which have made it more attractive for Pakistani workers to send their earnings back to Pakistan.

The current account deficit is covered by a combination of net long-term capital inflows (mainly foreign assistance), debt relief, the IMF EFF drawings (net use of Fund credit) and changes in gross reserves (other central bank and commercial banks). Reserves fell by \$198 million in PFY 1981/82 because of the large increase in the current account deficit. Debt relief of \$258 million and EFF drawings of \$358 million served to moderate the loss of reserves, which are down to seven weeks of projected PFY 1982/83 imports, f.o.b. Reserves are expected to increase in PFY 1982/83 even though debt relief will be much less. The increase in foreign assistance, largely due to the U.S., is the reason for the projected improved situation. This assistance will be even more critical in PFY 1983/84 (which starts July 1, 1983), when reserves are expected to decline. In addition, IMF drawings end in 1983.

The external debt of Pakistan continues to increase, rising from \$12.3 billion at the end of June 1981 to \$13.1 billion a year later. This debt amounts to about 40 percent of GDP. The ratio of debt service payments to current account receipts (including remittances) was about 11 percent in PFY 1982/83 and is projected to rise to 13.4 percent in PFY 1983/84 (23 percent of exports). Actual payments will increase from

\$631 million in PFY 1981/82 to \$953 in PFY 1983/84, or more than 50 percent. The U.S. support is essential to managing the balance of payments while the GOP undertakes various adjustments in order to cope with the heavy burden of debt maturing in the second half of the 1980's.

The projected improvement in the balance of payments for PFY 1982/83 and PFY 1983/84 depends upon foreign assistance, both bilateral and multilateral. The current account deficit, which is projected to decline from 4.5 percent of GNP in PFY 1981/82 to below 4 percent in PFY 1983/84, assumes a growth in remittances of 15 percent per year and in exports of 12.5 percent. The growth in remittances is vulnerable to cutbacks in development projects in the Gulf caused by a fall in oil prices. The savings to Pakistan on oil imports could be small in comparison. Export growth assumes larger crops, larger export volumes, and higher prices, especially for cotton and rice. The latter two assumptions are outside the control of the GOP. Exports of other products are dependent on a recovery of the world economy and on continuing improvement in competitiveness resulting from the exchange rate depreciation, deregulation and other factors. Aside from these factors, good weather is essential to continue self-sufficiency in wheat, and continued supplies of electricity and natural gas are essential for production of exports, fertilizer and other essential commodities. The rains have been good so far this year, but load shedding and gas rationing have increased. The assumptions underlying the projections demonstrate the fragility of the balance of payments position.

3. Economic Impact of Program Amendment

The \$60 million second tranche of the ACF Program is the largest single annual U.S. contribution to strengthening Pakistan's balance of payments. The FY 1983 \$50 million PL 480 Title I Program for the purchase of edible oil also will contribute directly to supporting the balance of payments. Both of these programs are essential to maintaining the foreign exchange position while Pakistan makes major adjustments to increase the production of food and other goods both for domestic consumption and export.

Fertilizer and equipment imports should increase agricultural production and contribute positively to income, employment and food security. Over time, expenditure of the local currencies generated by the program will tend to offset the anti-inflationary impact of the goods imported. In global terms, in any event, the monetary effect of the program will be minor, because counterpart would represent a relatively small proportion of public outlays and because it would be expended over several months.

III. PROGRAM AMENDMENT DESCRIPTION

A. Allocations

1. Fertilizer

As described in the FY 1982 PAAD, Pakistan is currently self-sufficient in nitrogenous fertilizers but has to import a predominant proportion of its phosphatic fertilizer requirements. Fertilizer is imported through the Federal Directorate of Fertilizer Imports (FDFI) under the Ministry of Food, Agriculture and Cooperatives, and retailed through a reasonably large network of private and public distributors.

The FY 1983 Program will finance the importation of \$35 million worth of DAP and TSP. At projected international prices including freight and insurance, the quantity of fertilizer supplied will be about 125 thousand MT of DAP and 10 thousand MT of TSP. This quantity will provide about 63 thousand NMT of phosphorous or about 41 percent of the total phosphorous import requirements for the 1983/84 rabi crop season. In the event that requirements for other commodities fall short of expectations, additional quantities of fertilizer could be financed and readily absorbed in the system. (See Section V.A.)

2. Irrigation Equipment

a. Equipment for the ISM Project

While most equipment needs for the ISM Project were financed under the FY 1982 tranche of this Program, the ISM Project Paper identified \$5 million worth of earthmoving and workshop and \$1 million worth of hydraulic measurement equipment for funding under the FY 1983 tranche. Earthmoving and workshop equipment will be used for canal rehabilitation activities, and hydraulic measurement equipment will be provided to the Alluvial Channel Observation Project, an implementing entity under the ISM Project, and also to those provinces which have expressed a keen desire to increase their hydraulic data collection capabilities. The justification for and assurances of proper utilization and maintenance for this equipment are documented in the ISM Project Paper dated January 1983. Annexes C.2.a. and C.2.b. provide illustrative lists of the equipment which is likely to be imported.

b. Additional Irrigation Equipment

The ISM Project provides only a part of the total equipment requirements of the PIDs. The equipment for the ISM Project was identified for what the World Bank called a first "time slice" of a longer term rehabilitation effort. At the

present time, the Irrigation Departments of the Punjab, Sind and NWFP have firm requirements for the additional equipment detailed below which is valued at \$4.5 million (including spare parts, freight, insurance and inland transportation), but are constrained to procure these items because of foreign exchange shortages:

i. Punjab: Annex C.2.c. lists the additional equipment required by the Punjab Irrigation Department to replace its near obsolete inventory. When equipment needs were developed for the ISM Project, provision was not made for replacement of all obsolete equipment due to funding constraints.

ii. Sind: The additional excavating machinery requested by the Sind Irrigation Department (See Annex C.2.c.) is needed for the annual maintenance of channels. The request is minimal considering the mileage of canals and drains to be maintained.

iii. N.W.F.P.: The Government of the NWFP has requested new irrigation pumps to replace the five existing pumps in the Warsak Pump Station. The existing pumps are about 20 years old and are no longer able to operate at their design capacity. A feasibility study of the Warsak Canal System strongly recommended the replacement of these pumps.

This additional equipment is similar to the equipment provided under the ISM Project, and hence no significant difficulties are anticipated in the effective utilization and maintenance of the equipment.

c. Flood Protection Equipment

In 1975, the Punjab Irrigation Department prepared a scheme for obtaining heavy equipment and spare parts to enhance its capability to maintain flood protection works and meet emergency repair demands during floods. Over the last 8 years, the Department has procured a part of the needed equipment but a significant amount (approximately \$10.0 million) of equipment and spare parts (See Annex C.2.d.) still remains to be funded. This Program Amendment will provide about \$1.6 million worth of the remaining balance. The Department has the capacity to operate and maintain this heavy equipment.

3. Drilling Rigs

Six power drilling rigs for sinking tubewells have been requested by the Agriculture Engineering Department, Government of Sind. These rigs will be used for tapping the groundwater reserves in cultivable lands outside the reach of the canal irrigation system in the districts of Dadu, Thatta

and Karachi. Four straight rotary power and two power percussion drilling rigs with the capacity of drilling up to 1,000 feet are required. Total foreign exchange cost, including spare parts, freight and insurance is estimated at \$1.2 million.

4. Agricultural Production, Distribution and Storage Project Commodities

Approximately \$5.0 million has been allocated under the FY 1983 ACE Program for the procurement of data collection and analysis and post-harvest grain handling and storage equipment to be used in support of the Food Security and Data Collection and Analysis Components of USAID/Pakistan's FY 1983 Agricultural Production, Distribution, and Storage (APDS) Project (391-0476). This project is currently in the design phase, and the estimated cost of the equipment required for the project will exceed the funds available under the project. As in the case of the ISM project, the ability to initiate procurement of commodities for the APDS Project through the PAAD mechanism will greatly accelerate the implementation of the APDS Project. An illustrative list of the equipment which is likely to be imported is included in Annex C.3.

5. Forestry Planning and Development Project Commodities

Earthmoving and land clearing, nursery, surveying, watering, research and analytical, and transport equipment as well as education/information commodities, valued at approximately \$5.0 million, are expected to be imported under the FY 1983 ACE Program to be used in support of USAID/Pakistan's FY 1983 Forestry Planning and Development (FPD) Project (391-0481). This project is currently in the design phase, and the estimated cost of the equipment required for the project will exceed the funds available under the project. In addition, the ability to initiate procurement of commodities for the FPD Project through the PAAD mechanism will greatly facilitate implementation of the FPD Project. An illustrative list of the equipment which is likely to be imported is included in Annex C.4.

6. Additional Commodities

Approximately \$1.0 million has been provisionally allocated for the importation of the following commodities:

a. Small Tractors

The importation of tractors was considered extensively during the design of the FY 1982 tranche of the Program, and it was decided, in consultation with the GOP, to defer any allocation of the Program resources to the

subsequent FY 1983-86 period. With regard to the technical aspects of the tractor subsector, the examination revealed a growing demand as well as a well-established sales and services network.

The current GOP import policy restricts tractor imports to six standardized makes ^{2/} in the 45-64 engine horse power (HP) range of which two, Ford and International Harvester (IH), are of U.S. origin. These standardized makes are judged to be technically suitable and most appropriate to Pakistan's needs. All imports are in completely knock down (CKD) condition for in-country assembly. Currently, all the operating companies on the standardized list, with the exception of IH, have local assembly operations. IH, in fact, has not been imported since PFY 1977/78.

Only Ford of the U.S. origin tractors meets the GOP standardization and local assembly requirements and has a functioning sales and services network. In 1982, Ford established a joint venture with the Allied Engineering and Services Limited of Pakistan. However, Ford considers that shipments of U.S. manufactured tractors would be counter to their joint venture agreement, which requires progressively increasing use of Pakistan-made components. The agreement requires that tractor units be shipped in CKD condition which are not available at its Romeo, Michigan plant. Apart from this, the Allied Engineering believes that U.S. source/origin tractors are expensive and cannot compete successfully with lower cost units from non-U.S. sources. Annex A.2. contains relevant cables on this matter. For these reasons, 45-64 HP tractors have not been included in this Program Amendment.

Importation of up to fifty (50) small tractors (below 35 HP), however, may be imported under the FY 1983 tranche of this Program. As a part of its overall effort to encourage small farm technology, the GOP is currently developing a policy for importation of these small tractors and, in fact, already has limited numbers of Russian, Chinese, Japanese and English units for field testing. If imported under this Program Amendment, the tractors would be used for demonstration/experimental purposes and would be provided to small farmers and/or for use at selected agricultural research stations in the country. The service and maintenance of these small tractors could be handled by the existing private dealer network as well as by the tehsil level tractor pools established recently in the Punjab which has traditionally accounted for nearly 80 percent of the total tractor sales market.

^{2/} Massey-Ferguson, Fiat-Allis, Ford, International Harvester, Belarus (Russian) and IMT (Yugoslav).

b. Breeding Rams

The importation of breeding rams under this Program Amendment derives from an earlier initiative by A.I.D. and the Government of the NWFP to support this important but largely neglected activity in agriculture. Under the A.I.D. economic assistance program in the late 1950's, a herd improvement program was supported by USAID/Pakistan through the importation of improved blood lines. The program has continued over the years but with decreased support from outside agencies. Two years ago, the GOP approached the Australian Government to provide assistance to revitalize this program. A recent appraisal team from Australia confirmed the interest of their Government, and an agreement is expected to be formalized in the near future.

The United States is the preferred source for the breeding stock because of differences between meat and wool yield. Although the breeds share common ancestors, selective breeding in the U.S. has emphasized meat yield over wool. Australian producers have managed their breeding program with wool production as the primary output. Since meat is the most important output from sheep production in the NWFP, there is a strong and logical preference for breeding stock from the U.S.

USAID/Pakistan involvement in this program will be limited to the importation of about twenty(20) breeding rams, which is a relatively small but critical input. All other technical advisory services and supporting material will be provided by the Australian Government and the Government of the NWFP.

c. Miscellaneous Small Value Items

To respond to targets of opportunity, some funds may be made available under the ACE Program to finance small value items which are consistent with the overall objectives of this program and which support GOP, other donor, and/or other USAID/Pakistan projects.

d. Support to Development in Poppy Growing Areas

Approximately \$500,000 has been provisionally allocated for support of development activities in poppy producing areas. These items will be identified as project design proceeds for the Area Development Project in the North West Frontier Province (391-0485), which is expected to directly address the need for alternative development opportunities in areas which now depend heavily on poppy production.

B. Policy Issues

A discussion of the policy framework governing the specific commodities to be imported under this Program Amendment is provided in Section IV.D.4.

IV. POLICY ANALYSIS AND DIALOGUE

A. Current Agricultural Development Policy

The 1980 National Agricultural Policy statement sets out the basic agricultural development policy stance of the GOP. The policy seeks to achieve improvements in the "quality of life of Pakistani people" through increased agricultural production, enhanced employment opportunities, a more equitable access to natural resources for agricultural production, improvement in the delivery of social services in rural areas, and preservation of natural environments. The policy statement highlights development problems and prospects in crop, livestock, fisheries and forestry sub-sectors and provides a generalized sense of policy direction which recognizes the need for pricing, investment and institutional changes to facilitate agricultural and rural development.

The agricultural development policy is wedded to the overall economic development posture which is conditioned ideologically by the desire to restructure the economy in accordance with the tenets of Islam and technically with the IMF structural reform package agreed to by the GOP in 1981. The three-year IMF reform program aims to overcome the structural and financial weaknesses of the economy so as to strengthen its supply capacity, improve domestic resource mobilization, and establish a sustainable external financial position.

B. Policy Implementation

1. General

Judging from the recent production performance of the economy, the new policy directions have clearly been a success. In recent years, the country has gained self-sufficiency in wheat and, in addition to the continuing traditional cotton and rice surpluses, has generated sugar production levels well above its domestic requirements.

During the last five years, the growth rate of value added in agriculture has averaged close to 4.6 percent annually. Production, however, increased by 4 percent during the most recent PFY 1981/82 against a target of 5 percent, principally due to less than anticipated production of the dominant wheat crop; the wheat crop stood at 11.6 million metric tons, about a million short of the target, though rice, cotton and sugarcane crops achieved record production levels of 3.4 million MT, 4.4 million bales, and 3.6 million MT, respectively.

The recent healthy growth in agriculture notwithstanding several difficulties continue to exist in executing the pronounced policies. Over the medium and longer-term, the GOP will have to place more emphasis on policy execution if the recent gains in agricultural production are to be sustained and expanded.

2. Pricing Policy

The GOP has continued with its policy of aligning input and output prices in agriculture more closely with international prices. The crop procurement prices for PFY 1982/83 (Table 3), with the exception of sugarcane, increased over the preceding year's level by 1 to 10 percent. As regards input prices, the GOP has continued to demonstrate its resolve to pursue vigorously cost recovery policies. The GOP increased retail prices of fertilizer by 9 and 15 percent in March and October 1982. Extension of the policy of transfer of full plant protection costs to the farmers started in the Punjab and Sind. The plant protection subsidy in the NWFP was reduced by about 50 percent. The ration shop atta (flour) issue price was also raised to bring it closer to the corresponding open market price.

The impact of these price adjustments on farmers' production responses as well as on the subsidy bill has been positive. Agricultural production has continued to register a healthy growth while subsidies on major agricultural items, particularly wheat and fertilizer, have continued to show a decline.

3. Investment Policy

There has been a recent discernible effort on the part of the GOP to channel an increasing proportion of total budgetary resources to the agriculture sector. Table 4 summarizes the current investment portfolio for both the public and private sectors for the period PFY 1981/82-1982/83. The share of public budgetary resources flowing directly or indirectly to agriculture is projected to increase from 30.9 percent of the total in PFY 1981/82 to a corresponding figure of about 31.5 percent in PFY 1982/83. This level will be at least sustained in the Sixth Plan. Major areas of investment within the agriculture sector are: grain storage; livestock; forestry and fisheries; agricultural education, research and extension; rural electrification; and, rural roads.

A significant departure from past investment planning practice has been the initiation of a Special Priority Sector Program and Special Development Programs for Baluchistan and the Tribal Areas of the NWFP. In addition

TABLE 3

SUPPORT PRICES FOR PRINCIPAL AGRICULTURAL COMMODITIES.
(Prices in Rs per 40 Kgs.)

	1981/82	1982/83	Percentage Change
Wheat	58.00	64.00	10.3
Rice Paddy			
Basmati	85.00	88.00	3.0
Irri-6	45.00 ^{a/}	49.00	8.9
Rice Milled			
Basmati	150.00	153.00	2.0
Irri-6			
15% Broken	83.00	89.00	7.2
40% Broken	72.50	80.00	10.3
Cotton			
Seed Cotton			
AC 134, NT, BS.I	170.00	175.00	2.9
B-557, 149/F	178.00	183.00	2.8
Surmast, Qalandri,			
Deltapine, MS.39, MS.40	192.00	197.00	2.6
Desi	166.00	168.00	1.2
Sugarcane			
NWFP	9.38	9.38	-
Punjab	9.65	9.65	-
Sind	9.81	9.81	-

^{a/} For superior quality rice, the price is Rs 49 per 40 Kgs.

Source: Ministry of Food, Agriculture & Cooperatives,
 Islamabad

TABLE 4

PAKISTAN : RESOURCE ALLOCATION PATTERN ^{a/}

Sub-sector	Allocation/Target ^{b/} (Million Rupees)		Percent Change
	1981/82	1982/83	
Agriculture, Water and Rural Development	11,359	13,928	22.6
A. Public Sector	8,357	10,308	23.3
1. Governments' Budgetary Resources ^{c/}	8,335	10,273	23.3
Fertilizer Subsidy	1,819	1,600	(-) 12.0
Foodgrain Storage	520	529	1.7
Livestock, Fisheries and Forestry	399	407	2.0
Ag Education, Research and Extension	428	470	9.8
Rural Electrification	538	1,353	151.5
Rural Roads	379	643	69.7
Water	3,661	4,472	22.2
Others	591	799	35.2
2. Semi-Government Non-budgetary Resources ^{d/}	22	35	59.1
B. Private Sector	3,002	3,629	20.6
Tractors	1,446	1,840	27.2
Tubewells, threshers and other machinery	974	1,130	16.0
Farm buildings and land development	582	650	11.7
Total Resources for all Sectors	49,194	60,362	22.7
A. Public Sector	32,533	39,862	22.5
1. Governments' Budgetary Resources ^{c/}	27,000	32,595	20.7
2. Semi-Government Non-budgetary Resources ^{d/}	5,533	7,267	31.3
B. Private Sector	16,661	20,500	23.0

Percent Share of Agriculture, Water and Rural Development in:

Governments' Budgetary Resources	30.9	31.5
Semi-Government Non-budgetary Resources	0.4	0.5
Total Public Sector Resources	25.7	25.9
Total Private Sector Resources	18.0	17.7
Total Resources	23.1	23.1

^{a/} Excludes non-development (recurring) expenditures

^{b/} Estimated actual investment for PFY 1981/82 and allocations for PFY 1982/83

^{c/} Federal and Provincial Annual Development Programs

^{d/} Self-financing of development schemes largely by public sector Corporations

Sources: GOP, Annual Development Plan, 1982/83

to the traditional allocation in the regular Annual Development Programs, the Priority Sector Program for PFY 1982/83 provides Rs 800 million for primary education, primary health care, rural roads, rural water supply and small farm technology. The Special Development Programs for Baluchistan and the Tribal Areas of the NWFP have been allocated Rs 860 million and Rs 50 million, respectively. These regional development programs call for a total of additional investments of Rs 19,400 million in Baluchistan and Rs 4,274 million in the Tribal Areas of the NWFP.

Re-orientation of public sector investment priorities is necessarily a gradual process as current investment choices are heavily conditioned by past investment patterns. The current changes in investment planning represent a window to the future, and increasing public sector budgetary resources will be earmarked for agricultural development during the forthcoming Sixth Five-Year Plan Period.

4. Institutional Policy

Current institutional changes have tended to broaden the private sector role in agricultural development. Increased private sector participation has been facilitated recently in the following areas:

a. Livestock

The GOP in 1982 issued an Ordinance to relax the application of the Land Reforms Act of 1972 with regard to the maximum size of landholdings of 150 acres in irrigated and 300 acres in rainfed areas. Under the new Ordinance, the size of landholdings can be relaxed to any limit for the purpose of establishing livestock farms. The new change will encourage private commercial farming.

b. Pesticides

The GOP has continued to take measures aimed at ensuring a dominant private sector role in pesticide distribution, which was handed over to the private sector in the provinces of the Punjab and Sind in 1980. A partial role has been admitted in the province of the NWFP also. It is expected that beginning next year, the public sector will completely withdraw from pesticide distribution in the NWFP.

5. Islamization and Agricultural Policy

On June 20, 1980, the GOP promulgated the Zakat and Ushr Ordinance. Ushr, a five percent compulsory religious levy on agricultural produce for redistribution to the needy, became effective with the 1982/83 rabi season. The production and income distribution impact of Ushr has not yet been assessed.

C. Policy Directions of the GOP Sixth Five-Year Plan

Currently in the final stages of preparation and to be completed and approved by June 1983, the GOP's Sixth Five-Year Plan (PFY 1983-88) outlines a national development strategy which establishes agriculture as one of the Plan's three major priority sectors. Agriculture and related activities constitute about one-fourth of the Plan's proposed investment. The Plan focuses more than in the past on incentives and other measures to increase output and agricultural yields, agricultural diversification, agricultural exports, the promotion of agri-business, the strengthening of infrastructure which serves agriculture (including rural roads), and the expansion of the private sector in agriculture-related activities.

D. USAID/Pakistan and the Policy Dialogue

1. Approach

Working with the World Bank, the IMF and several other donor agencies, including A.I.D., the GOP has, since 1977, consistently sought to modify and improve its national policy thrust and framework to stimulate economic activity, raise efficiency of investment, encourage private sector and market activity, and increase the effectiveness of external assistance. This effort has produced sound policy and has resulted in concrete successes, including in the agriculture sector.^{3/} In this situation, USAID/Pakistan, in various ways and most specifically in project development, design, and implementation, reinforces and supports GOP and other donor activities, so as to accelerate policy goal achievement and steps taken to move along the determined policy directions. Emphasis is placed on identifying and supporting policy implementation actions consonant with the policy framework, with A.I.D.'s guidelines, and with specific USAID-supported projects.

^{3/} See Annex A.5. and the "Strategy Statement for U.S. Economic Assistance to Pakistan, FY 83 - FY 87" for details and a full description of the conduct and substance of the policy dialogue.

There are clear "overriding U.S. foreign policy objectives other than economic stability and development" 4/ in Pakistan. The economic assistance package was negotiated without conditions related to policy change. However, USAID/Pakistan's dialogue with the GOP has been conducted to achieve the "maximum developmental impact of the resources provided" 5/. The mechanics of the policy dialogue are both direct, such as conditions precedent to loan/grant disbursement, and indirect, such as helping to build up Pakistan's "policy analysis capacity, support for applied research in certain policy areas, professional exchange among government agencies, seminars and conferences, and the provision of short-term technical assistance for the analysis of the political and economic implications of certain policy measures".6/

2. Activities

To assist USAID in carrying out the foregoing approach, several studies were and will be commissioned in a number of subject areas. For example, the overall economic policy framework was examined in 1982 by Dr. Schiavo Campo, Senior Economic Advisor, A.I.D./ Washington. Dr. Kenneth Nobe, Chairman, Department of Agricultural Economics, Colorado State University, analyzed agricultural development policy options and prepared a preliminary ranking of long-term as well as short-term policy areas. Nobe's report suggested several specific actions for immediate emphasis in the areas of price and import/export adjustments, irrigation water, availability of purchased inputs, and marketing and infrastructure. Over the longer-term, the report recommended strengthening of the agricultural universities, encompassing teaching, research and extension functions using the so-called land grant system; continuing with the policy stance in irrigation water supplies which is moving to better management of the existing resource base; accelerating research and development efforts for increasing the utilization of Pakistan's non-irrigated land resources; continuing with agricultural product diversification efforts; accelerating rural development efforts; and beginning comprehensive studies for assessing agricultural manpower needs and the land tenure situation. Most of the policy thrusts recommended in these studies have already been reflected in the design of several projects or will be, and have guided other aspects of the Mission's policy dialogue with the GOP. These studies

4/ A.I.D. Policy Paper, Approaches to the Policy Dialogue, December 1982, p.10.

5/ Ibid, p.10.

6/ Ibid, p.15.

have strengthened USAID/Pakistan's information and analytical base for reinforcing GOP policy intentions in the agriculture sector. Without claiming responsibility for their adoption, it should be noted that GOP policy pronouncements and formulations in the Sixth Five-Year Plan and other GOP policy documents, set forth GOP policy objectives, directions and planned actions very much in line with the policy recommendations presented in these studies. Moreover, the dialogue has produced agreement between the GOP and USAID on many of the issues involved in the form of mutually approved project designs.

In addition to the studies mentioned above, more focused fertilizer and oilseed sub-sector studies have been completed or are in progress. Investigations into the privatization of fertilizer marketing were completed in October 1982 by a three-member team of SER/COM specialists headed up by Mr. Wolfgang Von Spiegelfeld. The team recommended continuation of fertilizer imports in the public sector but suggested progressively increased allocations to the private sector distributors directly from the Federal Directorate of Fertilizer Imports. The team also recommended that private sector distributors be actively involved in determining the type of products imported. These recommendations are actively being pursued with the GOP. The oilseed study is nearing completion, and a team of USDA experts will complete a first draft in May 1983. The study examines in detail, inter alia, the vertical and horizontal linkages of the oilseeds industry and Pakistan's comparative advantage in oilseeds production. Preliminary indications are that a number of policy recommendations will be proposed to stimulate and rationalize the oilseed sector.

3. Policy Impacts of Other Agriculture Sector Projects

All USAID/Pakistan programs and projects include or will include a policy focus, as discussed below.

a. PL-480 Title I

The self-help measures negotiated for the FY 1983 program link the importation of edible oils to the forthcoming Agricultural Production, Distribution, and Storage Project (391-0476). The self-help measures agreed to by the GOP are intended to enhance the role of the private sector in the edible oil industry, rationalize the price structure, analyze the edible oil buffer stock management policy, and stimulate the livestock industry through, inter alia, opportunities for the private trade to participate in available credit programs.

b. Agricultural Production, Distribution, and Storage (APDS) Project

There are several activities under design as follows:

i. A new Fruit and Vegetable Marketing Board in the NWFP will be a major institutional factor in the implementation of the APDS Project. Preliminary review of the proposed Ordinance to establish the Board revealed insufficient attention to the private sector. As a direct result of the Mission's dialogue with NWFP officials, the structure of the Board and the regulations pertaining to its role and operations substantially upgrade the role of the private sector.

ii. Food security activities will examine ways to improve data collection and increase the analytical capability of public bodies for effective policy evaluation and implementation. Additionally, discussions are in an advanced stage on the inclusion of the examination of buffer stock policy for food grains. GOP officials have agreed in principle to examine issues related to the costs of wheat stocks and to examine ways to encourage a role for the private sector to maintain wheat stocks. Definition of the terms of reference of these studies will be completed in June, 1983.

iii. As mentioned above, support for the edible oil industry under this project is linked to the PL 480 Title I Program. The role of the private sector in the processing industry is one of the predominant issues. Price policy will also be a focus of attention.

c. Agricultural Education, Research and Extension Project

The Mission portfolio for FY 1983 includes substantial support for basic agricultural institutions, e.g., under the Agricultural Education, Research and Extension Project. While identification of specific issues is underway, the question of institutional reform and realignment has already been discussed.

i. The national research and extension network requires changes in operating procedures and the establishment of mechanisms to forge linkages among education, research and extension bodies. While USAID/Pakistan and the GOP have reached substantial agreement on these matters, discussion of specific changes will occur as the design of the Agricultural Education, Research and Extension Project progresses.

ii. In the case of support for the Agricultural University at Peshawar, the Mission has had numerous discussions with government officials to set the stage for the design team (a Title XII contractor). These discussions have focused on the issue of institutional responsibilities and the requirement for a clear statement of intent to examine alternatives for institutional reorganization to build effective and lasting linkages among the University, research bodies, and the extension service. Again, substantial agreement has been obtained. During the design process, specific issues will be addressed to translate that agreement into concrete steps to bring about the needed institutional reform of agricultural service institutions.

4. Policy Context of the Program Amendment

a. Fertilizer

i. Price Policy

In the FY 1982 program, no specific policy or procedural changes were required as conditions to funding, reflecting the importance of obtaining rapid balance of payments results from the renewed assistance program. The PAAD indicated, however, that an important policy change relevant to A.I.D. financing of fertilizer had already been negotiated between the GOP and the IMF and World Bank, that is, the GOP is committed to reducing the fertilizer subsidy through gradual retail price increases and to eliminating it by June 1985. Crop procurement prices are likewise increased so as to maintain favorable cost/benefit ratios. The GOP has energetically carried out this policy, with average price increases of 9 percent on March 15, 1982, and another 15 percent this fiscal year, on October 6, 1982. In consequence, the fertilizer subsidy burden has been reduced from Rs 2.44 billion (\$244 million) in PFY 1980/81 to an estimated Rs 1.6 billion in PFY 1982/83 (\$125 million).

ii. Reserve Policy

Policy adjustments have also improved reserve operations. The FY 1982 PAAD noted that reserve requirements of 25 percent of annual offtake for nitrogen and 50 percent for phosphate did not match the annual cycle of use. Half of fertilizer use occurs during November through January; previous policy resulted in excessive reserves most of the year. Reserve requirements have been reduced to 20 percent for nitrogen and 40 percent for phosphates, reducing costs and increasing the efficiency of reserve practices.

iii. Privatization of Fertilizer Marketing

An increased private sector role in fertilizer marketing is a policy objective of the GOP and has been identified as an important area for policy implementation which this Program can support. The SER/COM experts who examined the privatization of fertilizer marketing recommended continuation of importation by the public sector but suggested progressively increased allocations to the private distributors directly from FDFI. Distribution of imported fertilizer has thus far depended on a nominal pass through via provincial (public) distributing agencies. Direct FDFI allocations, the study argued, would improve the private distributors' control over timing, quality and quantity of shipments and enable them to operate more effectively a balanced product line of domestically produced nitrogen and imported phosphorous.

In 1982, the GOP made an exception to the established distribution system and allowed Fauji Fertilizer Company (FFC), a private sector fertilizer producer/distributor, direct allocation of imported fertilizer through FDFI. FFC was also allowed higher marketing costs (called incidentals) than other private distributors.

Program Amendment negotiations have focused on three aspects of fertilizer marketing: (a) allocation of at least 50 percent of all fertilizer imports to the private sector with progressive increases in subsequent years; (b) the same level of incidentals on imported fertilizer for all private sector distributors; and, (c) allocation of imported fertilizer to all allottees on a timely basis. The GOP has agreed to these suggestions, and relevant excerpts from the GOP's letter of April 11, 1983 (See Annex C.5.) are reproduced below:

"The recommendations of AID specialists are basically in consonance with our own policy to encourage all fertilizer manufacturers to play an increasing role in the supply and distribution of all types of fertilizer to the farmers. Even before we received AID recommendations, we had held a series of meetings with both the private and public sector agencies on this subject. We had urged them to enter into mutually acceptable agreements on bilateral basis so that the private sector distributors should have an assured access to adequate quantities of imported fertilizer to feed their sales outlets and the public sector agencies should similarly get locally produced urea as may be required by them.

We have now held further meetings and it has been decided that at least 50% of the imported fertilizer should be marketed by the private sector distributors. This fertilizer would be handed over to them by the Provincial Government agencies at Karachi on a ship-to-ship basis in accordance with their demands which would have been agreed in advance on a yearly basis. It has also been decided in principle that uniform incidentals would be allowed to all private sector distributors for marketing imported fertilizer.

The Ministry of Food and Agriculture would keep an eye on the situation and would not hesitate in securing for the private distributors even a greater share of imported fertilizer, if so required."

The new distribution arrangements shall become effective with the arrival of fertilizer financed under this Program Amendment.

The enhanced private sector role continues to be a major objective of USAID/Pakistan and will be the focus of an additional fertilizer policy study to be undertaken later this year. (See Section 5.a. below).

b. Irrigation Equipment

The institutional and policy context for the provision of irrigation equipment was examined in detail in the Irrigation Systems Management (ISM) Project Paper. The Project has specific covenants related to the financial integrity of the system (reinforcing the commitments agreed upon between the World Bank and the GOP) as well as conditions precedent to disbursement tied to specific actions on the part of the PIDs. The most significant of these include agreement on increasing water user charges to cover the full cost of operation and maintenance (O&M) of irrigation facilities and an increase in O&M funds to be made available by each province to its Irrigation Department.

In addition to these already agreed upon changes, analysis is underway for the design of a Command Water Management (CWM) Pilot Program in all four provinces which will serve as the basis for a major amendment to the ISM Project. The CWM Program will focus directly on the productivity of water and the participation of users in the management of irrigation water supplies. The CWM activity will also facilitate the implementation of major policy changes in the way the irrigation system is managed.

c. Equipment/Commodities for the APDS
and FPD Projects

The policy context for equipment to be financed for use under the FY 1983 Agricultural Production, Distribution and Storage and the FY 1983 Forestry Planning and Development Projects is being examined during project design and will be fully documented in the respective Project Papers. Appropriate conditions and covenants will also be negotiated and included in the respective Project Agreements.

d. Other Equipment/Commodities

The policy framework related to drilling rigs and rams is judged to be appropriate. Hence no policy areas have been identified for discussion with the GOP. With regard to tractors, the local manufacturing and distribution systems as well as the GOP's mechanization policy were examined during preparation of the FY 1982 PAAD. The basic policy framework for tractor imports was judged to be appropriate. Examination of specific mechanization issues will be undertaken, however, as described in Section 5.b. below.

5. Future Policy Studies

a. Fertilizer

An extensive fertilizer policy study is planned as an outgrowth of work done to date, including the SER/COM study on the privatization of fertilizer marketing and Dr. Nobe's report on agricultural development policy options. The scope of work for the study has already been developed and is currently being discussed with the GOP. Major areas of investigation will include: phasing out of public sector fertilizer distributors; fertilizer retail price policy; dealers and farmers' fertilizer stocks; efficiency of fertilizer use at the farm level; and policy analysis capabilities of the National Fertilizer Development Center (NFDC). This study will assist A.I.D. and the GOP to define issues and problems, suggest alternative solutions, and develop workable plans of action. It should offer improved policy options to the GOP and also possibly lay the groundwork for additional A.I.D. activities in the fertilizer sub-sector.

b. Mechanization

It is now generally recognized that inadequate farm power characterizes Pakistan's agriculture. Seasonal labor shortages have surfaced, particularly in the rainfed

areas, impeding the harvesting operation and the possibilities of double cropping. Causative factors for these seasonal labor shortages appear to be increasing off-farm employment options both in-country and abroad, particularly in the Middle East. The most visible impact of this employment situation has been a continued heavy demand for tractor imports and, more recently, the rapid proliferation of mechanical threshers.

Even a cursory examination of the mechanization process in Pakistan suggests limited use of tractor related equipment, a fact that is likely to be addressed by the newly established Farm Mechanization Board. The Board will also, inter alia, refine the currently emerging policy for small farm mechanization.

The planned study will provide an overview of Pakistan's mechanization process; examine the employment, production and income distribution impact of mechanization; both farm and off-farm use of tractors; the potential for increased use of tractor-related equipment; and, issues and problems of small-farm technology.

c. Food Security

Food security is a major component of the APDS Project. Under this activity, alternatives will be examined to improve data collection and increase the analytic capability of public bodies for effective policy evaluation and implementation. In addition, the advisability of establishing buffer stocks for wheat and possibly edible oil will be examined as will rationing and price policy. Discussions are underway to define a role for the International Food Policy Research Institute (IFPRI) in this work.

V. TECHNICAL ANALYSES

A. Fertilizer

1. General

The fertilizer sub-sector was examined in detail during the design of the FY 1982 Program. The examination revealed continuing phosphatic import requirements and an adequate institutional network to receive and market the imported product. About 60 percent of Pakistan's phosphorous requirements are imported. Imports are arranged by FDFI under the Federal Ministry of Food, Agriculture and Cooperatives. FDFI is responsible for floating international tenders, receiving supplies at the Karachi port and unloading, bagging, and transporting the fertilizer from the Karachi port to the first destination within the country as provided in despatch plans of the distributors, via rail, trucks of the National Logistics Cell, and privately owned trucks. Fertilizer is retailed at Government fixed prices through a reasonably large dealers' network serving the public and the private distributors.

A major recent development in the fertilizer sub-sector has been Pakistan's entry in the fertilizer international market as a urea exporter. Increased domestic urea production, based principally on the recent commissioning of the 262 thousand product MT rated capacity plant of the Fauji Fertilizer Company, coupled with lower than projected fertilizer demand and involuntary nitrogen imports along with binary and complex fertilizers, has generated what appears to be a short-term nitrogen surplus, thus prompting Pakistan to look towards the nitrogen export markets. However, from the agronomic standpoint, Pakistan continues to be a nitrogen deficit country with actual nitrogen use being only about one-half of the recommended dosage.

2. Supply and Demand

Table 5 presents the supply and demand projections for the crop year 1982/83 and for the rabi season of crop year 1983/84. These projections are predicated on the fact that the farmers' crop benefit-cost ratios resulting from recent increases in fertilizer and crop prices (See Annex C.1.c.) continue to be attractive so that there are prospects of continuing fertilizer demand. Based on past trends and extensive discussions with public and private industry officials, fertilizer offtake is projected to increase annually by 5 percent for nitrogen, 7 percent for phosphorous and 15 percent for potash. On the supply side, domestic production has been estimated by using the current operating rates of the installed production capacity.

TABLE 5

FERTILIZER SUPPLY AND DEMAND PROJECTIONS
(1000 Nutrient Metric Tons)

	<u>Crop Year 1982/83^{a/}</u>				<u>Crop Year 1983/84: Rabi^{b/}</u>			
	<u>N</u>	<u>P</u>	<u>K</u>	<u>Total</u>	<u>N</u>	<u>P</u>	<u>K</u>	<u>Total</u>
<u>Supply</u>	<u>1,372</u>	<u>345</u>	<u>53</u>	<u>1,770</u>	<u>909</u>	<u>132</u>	<u>30</u>	<u>1,070</u>
Opening Inventory ^{c/}	335	138	15	488	428	96	30	554
Indigenous Production	957	72	-	1,029	480	36	-	516
Imports	80	135	38	253	-	-	-	-
<u>Demand</u>	<u>1,129</u>	<u>349</u>	<u>46</u>	<u>1,524</u>	<u>702</u>	<u>285</u>	<u>41</u>	<u>1,028</u>
Offtake	926	249	23	1,198	508	178	16	702
Exports	18	-	-	18	-	-	-	-
Reserves Required ^{d/}	185	100	23	308	194	107	25	326
<u>Surplus (+)/Deficit (-)</u>	<u>(+) 243</u>	<u>(-) 4</u>	<u>(+) 7</u>	<u>(+) 246</u>	<u>(+) 206</u>	<u>(-) 153</u>	<u>(-) 11</u>	<u>(+) 42</u>

a/ October-September.

b/ October-March.

c/ Stock with distributors, factories and FDFI.

d/ 20, 40 and 100 percent of annual offtake for nitrogen, phosphorous and potash, respectively.

Source: FDFI and USAID Staff Estimates.

The projections indicate that by the end of crop year 1982/83, the country is likely to have a fertilizer surplus of 246 thousand NMT -- surpluses to the extent of 243 thousand and 7 thousand NMT for nitrogen and potash, respectively, and a deficit of 4 thousand NMT for phosphorous. For the rabi season of crop year 1983/84, the projections show that there is likely to be a deficit of 153 thousand NMT of phosphorous and 11 thousand NMT of potash. Nitrogen will, however, be surplus to the extent of 206 thousand NMT.

3. Import Requirements

The GOP has already firmed up import arrangements for crop year 1982/83 (Table 6). Total imports are likely to be on the order of 253.3 thousand NMT -- 80 thousand NMT of nitrogen, 135.3 thousand NMT of phosphorous and the remaining 38 thousand NMT of potash. Phosphorous and potash import requirements (153 thousand NMT and 11 thousand NMT, respectively) for the rabi season of crop year 1983/84 beginning October 1983 have, however, not been planned as yet. Fertilizer under this Program will be scheduled to arrive in the fall of 1983 for use in this rabi 1983/84 period.

The types of fertilizer that the GOP has decided to import for meeting its phosphorous requirements are determined, apart from import prices, by farmers' acceptability of the product, funding sources, and the nitrogen content in the binary and complex products. The GOP has already decided not to import nitrophos which has equal nitrogen and phosphorous nutrient, except on a grant or barter basis. The current GOP thinking is to rely predominantly on DAP for phosphorous requirements. Recognizing that DAP also has nitrogen nutrient, the GOP is also considering imports of small quantities of TSP which has no nitrogen and appears to be appropriate under the current nitrogen surplus situation. Large quantities of TSP imports do not appear to be feasible at this time as TSP has been sparingly used in the past and farmers' response to this product appears to be uncertain. The 10 thousand MT of TSP provided under this Program Amendment will be used primarily for testing/experimentation purposes.

Taking into account the above stated GOP thinking as to the choice of phosphatic products, the import requirements of 153 thousand NMT of phosphorous and 11 thousand NMT of potash can be translated into the product quantities shown in Table 7.

TABLE c

FERTILIZER IMPORTS PLANNED FOR CROP YEAR 1982/83

PRODUCT	TYPE OF FINANCING	QUANTITY (MT)	NUTRIENTS ('000 MT)			
			N	P	K	Total
<u>Rabi</u>		<u>369,335</u>	<u>68.0</u>	<u>119.2</u>	<u>16.1</u>	<u>203.3</u>
NPK (13:13:21)	Norwegian Grant	14,200	1.8	1.8	3.0	6.6
NP (23:23:00)	Dutch Grant	55,140	12.7	12.7	-	25.4
DAP (18:46:00)	A.I.D. Loan	89,000	16.0	40.9	-	56.9
NPK (13:13:21)	Czech Barter	20,975	2.7	2.7	4.4	9.8
NPK (13:13:21)	Bulgarian Barter	31,170	4.1	4.1	6.5	14.7
NPK (10:20:20)	Bulgarian Barter	10,500	1.1	2.2	2.2	5.5
NP (23:23:00)	Bulgarian Barter	42,350	9.7	9.7	-	19.4
NP (23:23:00)	Czech Barter	16,000	3.7	3.7	-	7.4
DAP (18:46:00)	Hungarian Barter	20,000	3.6	9.2	-	12.8
DAP (18:46:00)	Sukab Barter	20,000	3.6	9.2	-	12.8
DAP (18:46:00)	Barter <u>a/</u>	50,000	9.0	23.0	-	32.0
<u>Kharif</u>		<u>99,500</u>	<u>12.0</u>	<u>16.1</u>	<u>21.9</u>	<u>50.0</u>
NPK (13:13:21)	Norwegian Grant	28,000	3.6	3.6	5.9	13.1
NP (23:23:00)	UK Grant	25,000	5.8	5.8	-	11.6
DAP (18:46:00)	Japanese Grant	4,500	0.8	2.1	-	2.9
DAP (18:46:00)	West German Loan	10,000	1.	4.6	-	6.4
SOP (00:00:50)	West German Loan	32,000	-	-	-	16.00
Total		<u>468,835</u>	<u>80.0</u>	<u>135.3</u>	<u>38.0</u>	<u>253.3</u>

a/ Name of the Country not known

SOURCE: FDFI and Food and Agriculture Division.

TABLE 7

FERTILIZER IMPORT REQUIREMENTS: RABI 1983/84

Product	Quantity	Nutrients			Total
		('000 NMT)			
		<u>N</u>	<u>P</u>	<u>K</u>	
DAP (18:46:00)	322	58 <u>a/</u>	148	-	206
TSP(00:46:00)	10	-	5	-	5
SOP (00:00:50)	22	-	-	11	11
Total	354	58 <u>a/</u>	153	11	222

a/ "Involuntary" Imports

Total cost of the DAP and TSP imports is estimated at around \$75 million. No other donor commitment has been made to the GOP thus far for funding these import requirements. The quantity of fertilizer to be imported under this Program, which is valued at \$35.0 million, will provide 62.1 thousand NMT of phosphorous or about 41 percent of the total phosphorous import requirements for the 1983/84 rabi crops.

B. Irrigation Equipment

1. Equipment for the ISM Project

The FY 1982 PAAD Amendment described in some detail the irrigation system and the institutional network which will utilize the machinery, including its maintenance capabilities and equipment needs. The FY 1983 ISM Project Paper defines a program of canal rehabilitation and the improved operation, maintenance and management of the irrigation system for which the equipment is to be supplied. The FY 1983 ACE Program Amendment will finance more of the earthmoving and workshop equipment funded previously and hydraulic measurement equipment as identified in the ISM Project Paper. The technical analyses in the respective programming documents fully demonstrate the technical suitability of the equipment and assure their proper utilization and maintenance.

2. Additional Earthmoving Equipment

The excavating machinery to be provided to the Irrigation Departments of the Punjab and Sind is similar to the equipment provided for the ISM Project. When equipment requirements were developed for the ISM Project, the objective was only to meet the needs for civil works under that Project

without considering the comprehensive equipment needs of the PIDs. The excavating machinery included in this Program Amendment constitutes a small but critical contribution to a larger requirement to replace equipment that has been used beyond its economic life. The technical analyses of the equipment described in the ISM Project Paper apply equally to this excavating machinery.

3. Irrigation Pumps

The five pumps provided under this Program Amendment will replace the existing 20-year old pumps at the Warsak Pump Station in the NWFP. The NWFP Irrigation Department has been able to maintain these pumps well beyond their economic life and has also performed well in maintaining the canals into which water is pumped.

4. Flood Protection Equipment

This Program Amendment will provide a portion of the balance of equipment that remains to be procured under a 1975 scheme for flood protection works in the Punjab. The Punjab Irrigation Department has already procured a major portion of the needed flood protection equipment and the Department's field experience to date indicates that the equipment is versatile and suitable for site conditions in the province. Adequate repair and maintenance facilities are also available within the Department for such equipment.

C. Drilling Rigs

The Agriculture Engineering Department of the Government of Sind has had six power drilling rigs since 1966. Four of these rigs are still in use, but performance is low due to the age of the machines. Only 24 tubewells a year are currently being sunk or six tubewells per rig per annum. The requested new rigs are expected to bore 12 tubewells per machine each year.

The areas where these rigs will be used are in the districts of Dadu, Thatta and Karachi in the Sind province. These areas are outside the reach of the canal irrigation system and have sweet water pockets where substantial groundwater is available. There are, however, deep rocky strata 6 to 8 feet below the soft soil, and 300 to 600 feet of drilling is required to exploit the groundwater reserves.

The capability of the Sind Agriculture Engineering Department was reviewed in September 1980 by a British team and found to be high. Given their ability to keep 15 year old machinery running with only spare parts manufactured locally, the new rigs with adequate spare parts should be utilized and maintained effectively.

D. Agricultural Production, Distribution and Storage Project Commodities and Forestry Planning and Development Project Commodities

Firm equipment requirements for the FY 1983 APDS and FPD Projects are now being defined as the Projects approach the final stages of design. The Project Papers will fully describe the respective technical needs, institutional setting, utilization and maintenance capabilities and other feasibility issues.

E. Additional Commodities

1. Tractors

As part of its efforts to encourage small farm technology, the GOP has started importing in limited numbers small size (35 engine HP) tractors. Unlike the traditional imports of medium size tractors (45-64 engine HP), the importation of small tractors is neither tied to standardization requirements nor in-country local assembly facilities. The GOP in recent years has imported small tractors from Japan, China and the United Kingdom, primarily to test their technical effectiveness and market suitability.

The small tractors provided under this Program Amendment will assist the GOP to refine its policy on small farm technology through field experimentation. These tractors will be used for testing and experimentation purposes at selected agricultural research stations and/or on private farms. The service and maintenance of these tractors can be handled by the well-established dealers' network for medium size tractors as well as by the tehsil level tractor pools established recently in the Punjab, which accounts for nearly 80 percent of the tractor sales market.

2. Breeding Rams

The breeding rams provided under this Program Amendment will be used for sheep research and production activities which are being supported by the Australian Government. An Australian Agricultural Mission visited Pakistan recently and recommended a coordinated plan for sheep research and production which, inter alia, envisages the establishment of a central farm at Mansahra in the NWFP. Since one of the objectives of the central farm is the production of superior rams for distribution to sheep owners, considerable thought has been given by the Australian Government and the GOP as to the choice of sheep breed. The U.S. is the preferred source of breeding stock because selective breeding in the U.S. has emphasized meat yield over wool.

Negotiations between the Governments of Australia and Pakistan are in an advanced stage, and an agreement is expected to be formalized in the near future. In anticipation of the agreement, the Government of the NWFP has prepared plans for the establishment of the central farm which encompasses production, research, training and outreach functions. A sound developmental program thus exists to which A.I.D. can provide a relatively small but critical input of 20 breeding rams. All remaining establishment and operational costs of the program will be shared by the Governments of Australia and Pakistan.

3. Miscellaneous Items

Small value items which may be procured under this Program will be carefully analyzed to assure that they fit into a coherent activity and are consistent with the overall objectives of this Program.

VI. IMPLEMENTATION PLAN

A. Commodities and Equipment

1. Procurement Plan

a. Fertilizer

As stated in the FY 1982 Program Evaluation report, "Procurement (of fertilizer) went smoothly and according to schedule." The same procedures outlined on pages 28-29 of the original PAAD will therefore be followed. Briefly stated, the GOP, through the FDFI, will be responsible for the procurement of fertilizer with the assistance of SER/COM, AID/Washington to ensure compliance with A.I.D. regulations. Tendering and awards will take place at the Pakistan Embassy in Washington, D.C. In order to expedite the procurement process and in accordance with the recommendations of the FY 1982 Program Evaluation team, the Mission, in April 1983, requested SER/COM to review the IFB and Charter Party used for the FY 1982 procurement of fertilizer and to provide recommendations to the Mission as to what changes if any in those terms and conditions should be negotiated with FDFI prior to the issuance of tender documents for the FY 1983 Program.

b. Irrigation Equipment

As discussed previously and described more fully in Annex C.2., the irrigation equipment to be procured under this Program Amendment consists of five categories of equipment, comprising over one hundred individual line items, valued at approximately \$12.1 million (including spare parts, freight, insurance, and inland transportation). Much of the equipment is the same as that procured under the FY 1982 program, and specifications have already been prepared for these items. Preparation of the specifications for the remaining equipment should be completed within the next several months.

Because of the large number of items involved and the complex nature of some of the items, which may require redefinition of specifications and re-issuance of tender documents, the Mission and the GOP have agreed to employ the same procedure which was followed under the FY 1982 program for the procurement of irrigation equipment. This procedure, which involved the use of Procurement Services Agents (PSAs), selected under competitive procedures and hired under host country contracts, with USAID/Pakistan acting as Agent of the GOP, has proved to be an effective and appropriate mechanism. Key GOP officials have expressed their complete satisfaction with the approach and the

progress achieved to date. As discussed in the FY 1982 Program Evaluation report, some problems were encountered during implementation of this procedure, but all of the problems have been resolved, and the procurement process is on track. Indeed, the experience gained and the lessons learned from implementation of the FY 1982 program should greatly facilitate the smooth and timely implementation of the same procedure under the FY 1983 program. Accordingly, contracts will be awarded competitively to one or more PSAs, with USAID/Pakistan acting as Agent of the GOP, in accordance with Chapter 1, A.I.D. Handbook 11 procedures.

c. Agricultural Production, Distribution, and Storage and Forestry Planning and Development Project Commodities

Approximately \$10.0 million has been allocated for the procurement of equipment/commodities under the FY 1983 APDS and FPD Projects. Again, because of the large number and diversified nature of the items involved, the same procedure described above for the irrigation equipment will be employed. Contracts will be awarded competitively to one or more PSAs, with USAID/Pakistan acting as Agent of the GOP.

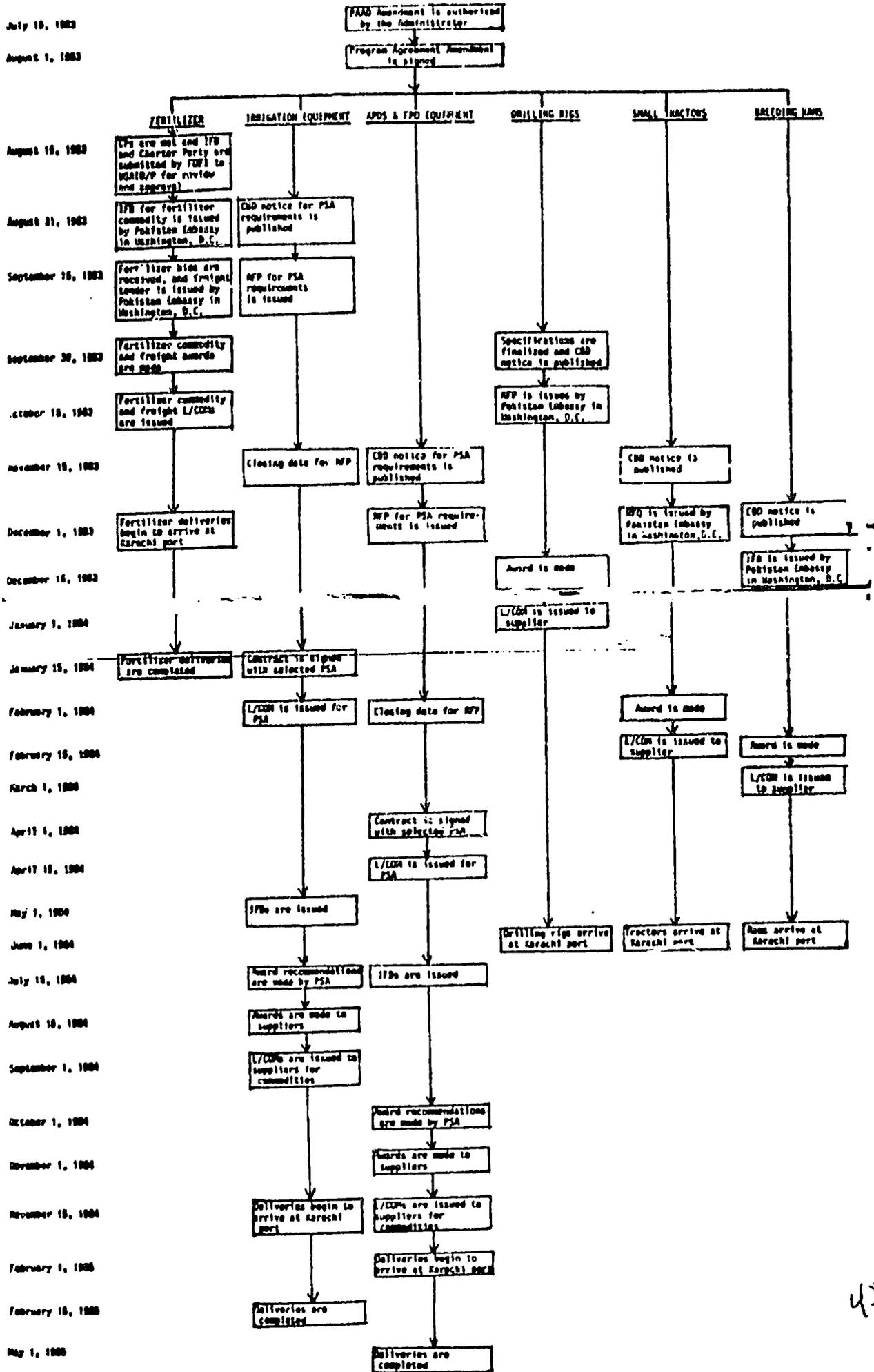
d. Additional Commodities

The drilling rigs (\$1.2 million) and the small tractors and breeding rams (\$1.0 million) will most likely be procured by the host government through its Embassy in Washington, D.C., with the assistance of SER/COM, AID/Washington, or through an importer under Regulation 1 procedures. Small value items may be procured either directly by USAID/Pakistan or through an importer under Regulation 1 procedures.

2. Implementation Schedule

A proposed implementation schedule is summarized in Table 8. As shown in the table, the tendering and award phases for the fertilizer, drilling rigs, small tractors, and breeding rams, all of which will most likely be handled by the Pakistan Embassy in Washington, D.C., with the assistance of SER/COM, have been staggered so as not to unduly overburden these two organizations. Similarly, the tendering and award phases for the two PSA procurement packages will also be scheduled in such a way so as not to impose an administrative burden on the host government and the Mission. According to the proposed schedule, fertilizer deliveries should be completed by January 15, 1984; the drilling rigs, small tractors, and breeding rams should arrive at the Karachi port in the summer of 1984;

TABLE B
PROPOSED IMPLEMENTATION SCHEDULE



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and, deliveries of all of the equipment/commodities procured with the assistance of PSAs should be completed by May 1, 1985.

B. Policy Studies

1. Fertilizer

The scope of work for this study is currently being discussed with the GOP and should be finalized by June 1983. Probable contractors for the study are the International Fertilizer Development Center (IFDC) and IFPRI. A PIO/T will be prepared by June 30, 1983 so as to enable the contractors to initiate the study by August 15, 1983. The contractors' final report should be available for discussion with the GOP by March/April 1984.

2. Mechanization

A contractor (preferably a University member) will be hired to develop the scope of work for this study by July 1983, in consultation with the Pakistan Institute of Development Economics (PIDE). After discussion of the proposed scope of work with the GOP, a team, consisting of an economist, marketing specialist, agronomist, agriculture engineer (machinery) and a sociologist will be fielded to develop the study design in collaboration with PIDE. The contractor (most likely a U.S. University) will commence work by November 1983, and the final report should be available by June 1984.

3. Food Security

The APDS Project Paper will describe the proposed implementation plan for the studies to be conducted in the area of food security. The probable contractor is IFPRI.

C. Administrative and Monitoring Arrangements

The administrative and monitoring arrangements described on pages 33 - 35 of the original PAAD have proved to be effective and will continue to be used. Project monitoring responsibility resides in USAID/Pakistan's Office of Agriculture and Rural Development, which will be assisted by the Office of Project Development and Monitoring and the Executive Office. In addition, it is anticipated that SER/COM, AID/Washington will play a major role in assisting the Mission implement the FY 1983 Program. Representatives of SER/COM will be called upon to work with the Pakistan Embassy in Washington, D.C. to prepare tender documents and make awards, to develop and/or review

specifications for certain commodities, to review tender documents, to provide advice and/or participate in the PSA selection and contracting process, and to participate as necessary in program evaluations.

In addition, in accordance with the recommendations of the FY 1982 Program Evaluation team, selective monitoring of intermediary warehousing of A.I.D.-financed fertilizer will be instituted. Upon the arrival of each shipment, despatch plans will be obtained from FDFI, a random sample of warehouses in all four provinces will be selected, and field visits will be made to ascertain the adequacy and quality of storage. In so far as possible, staff of USAID/Pakistan's Provincial Liaison Offices will be involved in field visits.

D. Evaluation Plan

The first evaluation of this Program was conducted in November/December 1982. The evaluation covered, inter alia: procurement procedures for fertilizer and equipment; progress made towards planning, developing and executing policy studies; monitoring and evaluation of Program performance and impact; and generation and use of sales proceeds. The next program evaluation is planned for late calendar year 1984/early 1985, by which time all of the commodities imported under the FY 1982 tranche will have reached their ultimate destination in the provinces; several key policy studies will have been completed or nearing completion; many of the commodities under the FY 1983 tranche will have arrived at the Karachi port; sufficient implementation experience will have been obtained regarding the programming of generated rupees; and, implementation of other major A.I.D.-financed agricultural sector projects will have been begun.

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. End use of imported commodities;
3. Quality and usefulness of policy studies;
4. Role of this Program as an instrument of policy dialogue with the GOP;
5. Programming and use of generated rupees;

6. Procurement arrangements, including the performance of PSA(s);
7. USAID/Pakistan's monitoring of the receipt and distribution of the imported commodities;
8. Rapidity of disbursements;
9. A.I.D. and GOP collaboration and the role(s) of various organizations;
10. Potential areas for improving Program implementation schedules, funding arrangements, and procurement procedures;
11. Adequacy and appropriateness of evaluation and monitoring plans and procedures under other A.I.D.-financed projects in the agriculture sector for measuring beneficiary impact and changes in agricultural productivity; and,
12. Unanticipated problems.

This proposed evaluation should be completed in a period of three weeks by a three-member team consisting of an agricultural economist, commodity specialist, and an evaluation expert, working closely with both Mission and GOP officials. The total estimated cost of the evaluation is \$30,000, and will be financed under the Project Design Fund (391-0470).

III. DOLLAR AND COUNTERPART ALLOCATIONS

A. Dollar Allocations and Disbursements

1. Allocations

a. Fertilizer

i. 125,000 MT of Diammonium Phosphate (DAP)

ii. 10,000 MT of Triple Super Phosphate (TSP)

b. Irrigation Equipment

i. Earthmoving and Workshop Equipment for the Irrigation Systems Management Project

ii. Hydraulic Measurement Equipment for the Irrigation Systems Management Project

iii. Excavating Machinery for the Sind and Punjab Irrigation Departments

iv. Flood Protection Equipment for the Punjab Irrigation Department

v. Irrigation Pumps for the Northwest Frontier Province Irrigation Department

c. Drilling Rigs for the Sind Agricultural Engineering Department

d. Commodities for the Agricultural Production, Distribution, and Storage Project

e. Commodities for the Forestry Planning and Development Project

f. Additional Commodities

i. Small Tractors

ii. Breeding Rams

iii. Miscellaneous Items

iv. Commodities in Support of Development Activities in Poppy Growing Areas

g. Procurement Services Agent (s) Fee at 8% (for b., d., & e. only)

Provisional Allocations ^{7/}
(In \$ Million)

Loan Grant

34.0 ^{8/}

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5.0

1.0

3.5

1.6

1.0

1.2

3.5

1.0

5.0

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1.0

--

.5

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1.7

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TOTALS

40.0

20.0

^{7/} All figures include the estimated costs of the commodities/equipment, freight and insurance, as well as inland transportation for the irrigation equipment only.

^{8/} Approximately \$1.0 million in loan funds remains unearmarked under the FY 1982 program (see Annex E) and will be applied to the costs of the fertilizer to be procured under the FY 1983 program.

2. Disbursement Schedule

If the Program Agreement Amendment is signed no later than August 1, 1983, it is anticipated that fertilizer commodity and freight Letters of Commitment (L/COMs) will be issued by October 15, 1983, that fertilizer deliveries will begin to arrive at the Karachi port by December 1, 1983, and that fertilizer shipments to Karachi will be completed and disbursements of approximately \$35.0 million made by January 15, 1984. It can also be expected that between January 1, 1984 and April 15, 1984, L/COMs will be issued in favor of suppliers for the drilling rigs, small tractors, and breeding rams, and in favor of the selected PSAs to cover their fees. For the commodities to be procured with the assistance of the PSAs, it is anticipated that L/COMs will be issued in favor of suppliers between September 1, 1984 and November 1, 1984. While the drilling rigs, small tractors, and breeding rams are expected to arrive at the Karachi port in June 1984, deliveries of the irrigation equipment are not expected to begin arriving until November 15, 1984. Similarly, deliveries of commodities for the APDS and FPD Projects are not expected to begin arriving at the Karachi port until February 1, 1985. It is anticipated that all deliveries will have been completed and all disbursements made by August 1, 1985.

3. Local Cost Financing

A minimum amount of dollar funding provided under this Program amendment 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 signed by the Mission Director is included in the original PAAD.

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 Program 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 1983". Releases from the account will be made by the GOP, after consultation with A.I.D., for mutually agreed upon activities as specified in the original PAAD.

The Government of Pakistan will convene a meeting with A.I.D. not less than once every six months to consult on the agreed upon 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, 1983 should be submitted to USAID/Pakistan by January 15, 1984, with subsequent reports due at six month intervals.

III. CONDITIONS, COVENANTS, AND NEGOTIATING STATUS

A. Conditions Precedent to Disbursements

Prior to the first disbursement under this Loan Amendment and/or this Grant Amendment 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 Amendment:

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

2. except for the fertilizer and the irrigation equipment, 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 Amendment 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 Programme for US FY 1983".

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, 1983 to be provided by January 15, 1984.

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 Amendment. 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/commodities under this Agreement Amendment. Activities contemplated include, by illustration, preparing and executing letters of instruction or other procurement documentation for equipment/commodities, arranging for issuance of

Letters of Commitment and/or other financial documentation, clearing of equipment/commodities through customs, and arranging with provincial authorities for delivery to appropriate sites.

The Borrower/Grantee shall, upon the request of USAID/Pakistan, execute letters of instruction and other documents as necessary for the procurement of services and equipment/commodities under this Agreement Amendment.

4. Eligible Items

The commodities eligible for financing under this Grant Amendment and/or this Loan Amendment shall be those listed in the FAAD Amendment 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 Amendment negotiations, USAID/Pakistan will incorporate into the Agreement Amendment appropriate language to cover these terms and conditions.

IX. ANNEXES

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TO AMEMBASSY ISLAMABAD IMMEDIATE 6691
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F.C. 12005: N/A
TAGS:

SUBJECT: APAC REVIEW, AGRICULTURAL COMMODITIES AND
EQUIPMENT PAAD (391-4488)

APAC REVIEWED PAAD MARCH 10, 1982, AND AGREED TO
RECOMMEND APPROVAL BY A/AS. MISSION IS
CONGRATULATED ON SUBMISSION OF AN EXCELLENT PAPER WHICH
EFFECTIVELY PRESENTS PURPOSES, CONTENT AND IMPLEMENTATION
PLAN. DESCRIPTION OF POLICY CONTEXT, IN PARTICULAR, GOES
BEYOND WHAT APAC EXPECTED AT TIME OF PID REVIEW. FOLLOW-
ING ARE MAJOR PROGRAM ISSUES WHICH WERE DISCUSSED AT THE
MEETING:

1. FUNDING ALLOCATION (FERTILIZER VS. EQUIPMENT): IT
WAS NOTED THAT WHILE PAAD-FACESHEET (WHICH IS THE
AUTHORIZING DOCUMENT) DOES NOT EXPLICITLY ALLOCATE FUNDS
AS BETWEEN THE MAJOR CATEGORIES OF COMMODITIES, THE BODY
OF THE PAPER DOES. TO ADD AN ELEMENT OF FLEXIBILITY IN
THE PAPER AND MAKE IT CONSISTENT WITH THE FACESHEET, A
SENTENCE WILL BE ADDED ON PAGE 3 INDICATING THAT EXPECTED
ALLOCATIONS ARE SUBJECT TO CHANGE IF CONDITIONS SO
WARRANT. ANNEX F, PAGE 2, WOULD ALSO HAVE THE EXPECTED
UNCLAS ADDED BEFORE THE ALLOCATIONS FOR THE FY 1982
PROGRAM . . . UNCLAS.

2. POLICY DIALOGUE: ASIA BUREAU AND FPC HAVE HAD RECENT
EXCHANGES REGARDING THE DEGREE TO WHICH POLICY CONSIDERA-
TIONS ARE ADDRESSED BY THIS PROGRAM AND THE WAY THE
POLICY DIALOGUE WILL BE CARRIED OUT. CURTIS WILL CARRY
COPIES OF RELEVANT MEMOS. PAAD DESCRIBES MISSION'S
APPROACH TO POLICY AND AREAS INTENDED FOR FURTHER
EXAMINATION. AID/W WOULD LIKE TO BE APPRISED OF PROGRESS
MADE AS THE PROCESS GOES ON AND TO HAVE AN OPPORTUNITY TO
COMMENT AS APPROPRIATE. SPECIFICALLY, PRIOR TO FORMAL
NEGOTIATIONS CONCERNING THE NEXT TRANCHE OR TRANCHES AND
DETERMINATION OF ANY CONDITIONS WHICH MAY BE INCLUDED IN
THE PAAD AMENDMENT, WE REQUEST THAT MISSION TRANSMIT IN
INFORMATION CALLS ON THESE MATTERS. WE WOULD HOPE THAT
BY DECEMBER MISSION WILL HAVE DELINEATED SPECIFIC AREAS
WHERE CHANGES IN POLICY DEFINITION AND IMPLEMENTATION MAY
BE WARRANTED. YOUR CALL, WHICH WE WOULD HOPE TO RECEIVE
BY DECEMBER, SHOULD ADVISE US OF THE POLICY PARAMETERS TO
BE DISCUSSED WITH THE GOP AND YOUR THINKING ON STRATEGY
AND OBJECTIVES.

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3. FURTHER TO THE POLICY DIALOGUE, J. SCHIAVO-CAMIC REPORTED TO APAC. BASED ON HIS RECENT TRY. THAT IN HIS JUDGMENT PROGRAM FITS PAKISTAN'S CURRENT MACRO ECONOMIC NEEDS AND THAT MISSION'S APPROACH TO POLICY-DIALOGUE IS APPROPRIATE. HIS REPORT, NOW IN PREPARATION, WILL CONTAIN SPECIFIC RECOMMENDATIONS TO MISSION FOR POLICY-AREAS TO BE EXAMINED IN CONNECTION WITH THIS AND OTHER PROGRAM INSTRUMENTS.
4. RELATIONSHIP TO IRRIGATION PROJECT: THE STATUS OF PROPOSED IRR AND AID PROJECTS WAS DISCUSSED. APAC UNDERSTANDS THAT MAJOR ISSUES CONCERNING WATER SECTOR, SUCH AS IMPROVEMENT IN CANAL MAINTENANCE, WILL BE MOST DIRECTLY ADDRESSED IN IRRIGATION AND ON-FARM-WATER MANAGEMENT PROJECTS. ALTHOUGH AGRICULTURAL COMMODITIES AND EQUIPMENT TRADE SHOULD ENHANCE MISSION'S POSITION-IN INFLUENCING THESE AREAS.
5. EQUIPMENT PROCUREMENT MECHANISM: AN AID/W CLARIFYING CAPRE ON THE MEANS OF EFFECTING HOST COUNTRY CONTRACTS WITH THE PSA AND SUPPLIERS IS BEING SENT SEPTEL. WHILE THIS IS AN IMPORTANT IMPLEMENTATION ISSUE, -IT-DOES NOT-AFFECT AUTHORIZATION LANGUAGE.
6. STAFFING: THE IMPLEMENTATION PUPEN OF THIS PROJECT WAS NOTED, BOTH AS REGARDS PROCUREMENT OF EQUIPMENT NEED TO DEFINE AND CARRY OUT POLICY STUDIES/DIALOGUE. EFFORTS CONTINUE TO FILL APPROVED SLOTS AS RAPIDLY AS POSSIBLE.
7. DOLLAR FINANCING OF LOCAL COSTS: APAC AGREED THAT MISSION SHOULD HAVE ABILITY TO FUND SUCH ITEMS-AS INLA TRANSPORT IF NEEDED TO AVOID A LOGJAM IN DELIVERY. HOWEVER, STRONG PREFERENCE IS TO ENCOUPAGE-HOST COUNTRY FINANCING OF SUCH ITEMS WHENEVER FEASIBLE. SINCE A PORTION OF FUTURE TRANCHES OF THIS-PROGRAM WILL BE FUNDED WITH DEVELOPMENT ASSISTANCE FUNDS, MISSION/GOP-SHOULD BE-AWARE OF NEED AT THAT TIME FOR HOST COUNTRY CONTRIBUTION OF 25 PERCENT OF CA COSTS.
8. COUNTERPART GENERATIONS: SHOULD THE MISSION/GOP WISH TO DO SO, UNDER SEC. 600 (FAA), ESF GRANT GENERATED RUPPES OR SOME PORTION THEREOF MAYBE-CREDITED TO THE -GOP'S TRUST FUND AND BE USED TO FINANCE MISSION OPERATION COSTS.
9. POINTS OF CLARIFICATION: MINOR LANGUAGE CHANGES WILL BE MADE TO CLARIFY FOLLOWING POINTS. (C-RTIS-WILL CARRY CORRECTED PAGES.)

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ANNEX A.1
Page 3 of

A. SOURCE/ORIGIN: USUAL CARGO PREFERENCE REQUIREMENTS MUST BE MET FOR FERTILIZER. SEE PARA 5, ANNEX A.4.-

B. OCEAN SHIPPING COSTS FOR FERTILIZER SHIPPED ON CODE 035 FLAG VESSELS MAY BE FINANCED UNDER THE PROGRAM. -

C. PROGRAM TOTAL: THE REFERENCE TO THE DOLS 300 MILLION PROGRAM TOTAL IN THE PROGRAM AGREEMENT (ANNEX F, PAGE- AND THE FAAD PAGESHEET WILL BE CONDITIONED AS FOLLOWS OF THE PROGRAM IS EXPECTED TO TOTAL DOLS 300 MILLION OVER FIVE YEARS SUBJECT TO AID PROGRAM APPROVAL. -AVAIL- ABILITY OF FUNDS AND AGREEMENT OF THE PARTIES TO PROCE- UNOTE. HAIG
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TO RUEHIL/AMEMBASSY ISLAMABAD IMMEDIATE 6048
INFO RUEHJA/AMEMBASSY JAKARTA 3303
RUEHBR/AMEMBASSY BANGKOK 2002

INDIAS STATE 075858

AIDAC, INFO RCMO BANGKOK

U.C. 12356: N/A

PAGE:

SUBJECT: AGRICULTURAL COMMODITIES AND EQUIPMENT PAAD
(951-046E); IMPORTATION OF TRACTORS

REF: (A) STATE 68171; (B) ISLAMABAD 4330

1. THE PORTIONS OF MR. SARFAS' LETTER (QUOTED REF B) ACCURATELY REFLECT POSITION OF FORD TRACTOR INTERNATIONAL OPERATIONS ACCORDING TO MR. PETER WALL, SALES PROGRAM MANAGER, WHO MET WITH SER/COM STAFF PER REF A. MR. WALL ELABORATED ON DETAILS OF TRACTOR MARKETING IN PAKISTAN WHICH SIGNIFICANTLY AFFECT FORD'S PERFORMANCE AND COMPETITIVE POSITION UNDER ALLIED TRACTOR JOINT VENTURE.

2. IN ADDITION TO POINTS CITED IN MR. SARFAS' LETTER MR. WALL ALSO POINTED OUT THAT SHIPMENT OF U.S. MANUFACTURED FORD TRACTORS WOULD BE COUNTER TO THEIR JOINT VENTURE AGREEMENT WHICH REQUIRES A SIGNIFICANT AND PROGRESSIVELY INCREASING PERCENTAGE OF PAKISTAN-MADE COMPONENTS. THIS DICTATES THAT UNITS BE SHIPPED IN "KNOCKED DOWN" (KD) FORM WHICH IS NOT AVAILABLE FROM U.S. PLANT. APART FROM THIS THE JOINT VENTURE COMPANY WOULD NOT BE ABLE TO SELL THE CONSIDERABLY MORE EXPENSIVE U.S. BUILT MODELS 3610 AND 4610 IN COMPETITION WITH THOSE OF THE TWO OTHER JOINT VENTURE COMPANIES AUTHORIZED BY THE GOP.

3. IF AID FINANCING OF TRACTORS IS CONSIDERED TO BE ESSENTIAL, SWITCH TO 941 SOURCE WOULD SEEM TO BE ONLY WAY TO SOLVE FORD'S COMPETITIVE POSITION. HOWEVER, IF SUCH A SWITCH WERE APPROPRIATE IT WOULD HAVE TO INCLUDE OTHER MANUFACTURERS' TRACTORS PRODUCED IN 941 COUNTRIES SUCH AS MASSEY FERGUSON.

4. FORD HAS 941 TRACTOR MANUFACTURING PLANTS IN INDIA AND BRAZIL. HOWEVER, INDIA OPERATION IS ONLY 40 PERCENT FORD OWNED (COMPARED TO 100 PERCENT FOR BRAZIL) AND WOULD NOT BE AN ATTRACTIVE SOURCE FOR FORD TO SUPPLY TRACTORS. BRAZILIAN OPERATION IS CAPABLE OF SUPPLYING KD UNITS OF 4610 MODEL ONLY (AND NOT MODEL 3610 WHICH ALLIED ALSO WISHES TO MARKET). ALLIED IS CONCERNED THAT GOP MIGHT NOT BE WILLING TO ASSURE THAT NON-AID FOREIGN EXCHANGE WOULD BE AVAILABLE IN SUFFICIENT QUANTITY FOR ALLIED TO HAVE A VIABLE

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ANNEX A.2
Page 2 of 4

MIX OF BOTH TRACTOR SIZES. IN ADDITION, THERE WOULD BE SOMEWHAT LONGER LEAD TIME FOR DELIVERY OF BRAZILIAN UNITS COMPARED TO THOSE PRODUCED IN UK OR US. WHILE MASSEY FERGUSON (MF) DOES NOT MANUFACTURE TRACTORS IN THE US, THEY DO MANUFACTURE THEM IN BRAZIL AND COULD NOT BE EXCLUDED FROM BEING ELIGIBLE TO SUPPLY TRACTORS WITH AID FUNDS. FYI, DISCUSSION BY ALLIED WITH FORD U.S. OF POSSIBILITY OF IMPORTING U.S. MADE MODEL 6610 (86/77 ENGINE/PTO HP) IF AUTHORIZED BY GOP ALSO DOES NOT APPEAR PROMISING AS PRICE WOULD BE ALMOST DOUBLE PRICE OF UK PRODUCED 3612. END FYI.

5. ADVISE IF SER/COM CAN BE OF FURTHER ASSISTANCE. SHULTZ
BT
#5858

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STATE 075958

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FM SECSTATE WASHDC
TO RUEFHIL/AMEMBASSY ISLAMABAD PRIORITY 6847
RUMTBK/AMEMBASSY BANGKOK 3203
INFO RUEHJA/AMEMBASSY JAKARTA 4041
RUEHML/AMEMBASSY MANILA 7917
BT
UNCLAS STATE 106216

ALEAC

F.O. 12256: N/A

TACS:

SUBJECT: AGRICULTURAL COMMODITIES AND EQUIPMENT PAAD
(391-0468); IMPORTATION OF TRACTORS

REFS: (A) ISLAMABAD 05710; (B) STATE 75858

1. UPPER LIMIT OF 35 ENGINE HP ELIMINATES ALL U.S. MANUFACTURED TRACTORS OF CONVENTIONAL DESIGN BUT DOES OFFER POSSIBILITIES FOR INTERMEDIATE TECHNOLOGY TRACTORS OF APPROXIMATELY 15 TO 20 HP. THESE UNITS WHICH COST, FOR U.S. FACTORY, ROUGHLY DOLS 5,500 IN BASIC GASOLINE CONFIGURATION (WITH ELECTRIC START) APPEAR TO BE WELL SUITED FOR MANY DEVELOPING COUNTRY APPLICATIONS DEPENDING, OF COURSE, ON PRICE COMPETITION AND MARKET ACCEPTANCE. HOWEVER, BECAUSE OF ABSENCE OF EXISTING DEALER NETWORK FOR THESE TRACTORS NUMBERS THAT MIGHT BE IMPORTED UNDER CIP FINANCING WOULD BE SMALL IN SHORT TERM.

2. BEST KNOWN AND MOST VERSATILE EXAMPLES OF U.S. MANUFACTURED INTERMEDIATE TECHNOLOGY TRACTORS ARE AGRO-UTIL MANUFACTURED BY KALAMAZOO INTERNATIONAL, SOUTH HAVEN, MICHIGAN AND TUFF-BILT MANUFACTURED BY TRI-TRACTOR, CUMMING, GEORGIA. IN BASIC CONFIGURATION AGRO-UTIL COSTS DOLS 5379 FOR SOUTH HAVEN FOR 17 HP GASOLINE WITH ELECTRIC STARTING; 17 HP DIESEL COSTS DOLS 5614 AND 6395 RESPECTIVELY FOR MANUAL OR ELECTRIC STARTING. TUFF-BILT COSTS DOLS 5465 FOR CUMMING FOR BASIC 16 HP GASOLINE WITH ELECTRIC STARTING; 17 HP DIESEL FOR TUFF-BILT IS CONSIDERABLY MORE EXPENSIVE, DOLS 7315 AND 7695 RESPECTIVELY FOR MANUAL AND ELECTRIC STARTING. (NEW 40 CYLINDER DIESEL AT 19.5 HP SHOULD BE AVAILABLE SOON AT ROUGHLY SAME PRICES.) BOTH AGRO-UTIL AND TUFF-BILT HAVE 8.30X24 REAR TIRES AND GROUND CLEARANCE OF ABOUT 20 INCHES (51 CM) AND ARE CAPABLE OF PERFORMING MANY FULL SIZE TRACTOR FUNCTIONS. THEY SHOULD NOT BE CONFUSED WITH SMALL U.S. TYPE HOMEOWNER TRACTORS USED PRIMARILY FOR LAWN MOWING OR OTHER NON-AGRICULTURAL USES.

3. SFR/CGM DISCUSSED TRACTOR QUESTION WITH SHAHID PERVAIZ DURING TDY. WE ARE FORWARDING WITH HIM LITERATURE ON AGRO-

UTIL AND TUFF-BILT WHICH MAY BE USEFUL IN DISCUSSIONS WITH
 GOP. BOTH MANUFACTURERS HAVE EXPRESSED WILLINGNESS TO MEET
 WITH USAID OR GOP IN PAKISTAN IF IT IS CONSIDERED HELPFUL.
 FYI, MR. JOHN (JACK) JENSEN, PRESIDENT OF KALAMAZOO INTER-
 NATIONAL (AGRO-UTIL) HAS A PREVIOUSLY SCHEDULED TRIP THAT
 CALLS FOR HIS ARRIVAL IN KARACHI ON MAY 9, WITH DEPARTURE
 ON MAY 11, 1983. HE HAS EXPRESSED TO SER/COM WILLINGNESS
 TO MAKE SIDE TRIP TO ISLAMABAD AND/OR EXTEND HIS STAY IN
 PAKISTAN BY ONE OR MORE DAYS IF TRAVEL AND OTHER DETAILS
 CAN BE WORKED-OUT. PLEASE ADVISE VIA SER/COM OR TELEX
 DIRECTLY (TELEX NO. 729242 JENSENSHAV) AS SOON AS PRACTI-
 CABLE AS MR. JENSEN DUE TO DEPART U.S. ON OR ABOUT APRIL
 27, 1983. MR. BOBBY WALLACE, PRESIDENT OF TUFF-BILT
 (TELEX NO. 762332 TRITRACH CUMG), HAS LIKEWISE EXPRESSED
 WILLINGNESS TO TRAVEL TO PAKISTAN FOR DISCUSSION WITH USAID
 AND/OR GOP. HE WOULD PREFER TO INTEGRATE THE VISIT INTO
 HIS NEXT TRIP TO A NUMBER OF ASIAN COUNTRIES, BUT WOULD BE
 WILLING TO MODIFY THOSE PLANS TO ALLOW EARLY ARRIVAL IN
 PAKISTAN. END FYI.

4. FYI, TUFF-BILT DESIGN WITH HYDRAULIC DRIVE AND BUILT IN
 HYDRAULIC SYSTEM OFFERS ADVANTAGES OF VERSATILITY AND UN-
 USUAL DRAWBAR PULLING POWER FOR ITS ENGINE SIZE. AGRO-
 UTIL WITH BELT DRIVE HAS LIMITED APPLICATIONS IN WET FIELD
 CONDITIONS. END FYI.

5. WHILE NO TUFF-BILT UNITS ARE CURRENTLY IN PAKISTAN,
 MISSIONS IN BANGKOK, JAKARTA, AND MANILA MAY BE ABLE TO
 FURNISH INFORMATION ON UNITS IN SERVICE IN THOSE COUNTRIES,
 ESPECIALLY PHILIPPINES WHERE SEVEN AID FINANCED UNITS ARE
 IN OPERATION INCLUDING SOME AT IRRI (CONTACT SR. FREDERICO
 V. RAMOS, FARM SUPERINTENDENT, IRRI LOS BANOS, R.P.).

5. ADVISE IF SER/COM CAN BE OF FURTHER ASSISTANCE. DAM
 FF
 #6216

F 000247Z DEC 61
 FM SECSTATE WASHDC
 TO AMEMBASSY ISLAMABAD PRIORITY 4464
 BT
 UNCLAS STATE 323974

AIDAC

E.O. 12065: N/A

TAGS:

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

REF: A. ISLAMABAD 15320, B. STATE 317541

1. PARAGRAPH 3 OF REFTEL P ADVISED THAT SOURCE FOR PROCUREMENT OF COMMODITIES SHOULD BE CODE 002. IT THEREFORE FOLLOWS, PER SEC 7P 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 EXPECTED 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(5) 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 002.

5. ADDITIONALLY, THIS DETERMINATION DOES NOT ALTER THE USUAL OBLIGATION AS EXPRESSED IN 10A6 OF SUPPLEMENT F HANDBOOK 1 TO COMPLY WITH CARGO PREFERENCE REQUIREMENTS. HAIG

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FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7915
INFO RUMJRV/AMEMBASSY RANGOON 0296
RUMTRT/AMEMBASSY BANGKOK 4311
BT
UNCLAS ISLAMABAD 15313

AIDAC

SECSTATE FOR AA/ASIA AND AA/M FROM DIRECTOR LION
BANGKOK FOR VIRAGH

T.O. 12356 N/A

SUBJECT: AGRICULTURAL COMMODITIES & EQUIPMENT PROGRAM
- (391-0468) : U.S. FLAG VESSEL FREIGHT COSTS

REF: (A) RANGOON 3893 (B) ISLAMABAD 14076
- (C) ISLAMABAD 14129 (D) STATE 271492

1. MISSION RECENTLY RECEIVED A LETTER FROM THE JOINT SECRETARY OF THE ECONOMIC AFFAIRS DIVISION OF THE GOP MINISTRY OF FINANCE, PLANNING, AND ECONOMIC AFFAIRS REGARDING THE FREIGHT COSTS OF U.S. FLAG VESSELS AS COMPARED WITH NON-U.S. FLAG VESSELS UNDER THE FERTILIZER COMPONENT OF THE SUBJECT PROGRAM. THIS OFFICIAL LETTER FOLLOWS SEVERAL INFORMAL DISCUSSIONS WHERE THIS ISSUE HAS BEEN RAISED INDEPENDENTLY BY GOP OFFICIALS OF THE MINISTRY OF WATER AND POWER, MINISTRY OF FOOD AND AGRICULTURE, AND EAD FOR BOTH THE FERTILIZER AND IRRIGATION EQUIPMENT PORTIONS OF THE SUBJECT PROGRAM.

2. UNDER THE TERMS OF THE SUBJECT PROGRAM AGREEMENT AND IN COMPLIANCE WITH THE CARGO PREFERENCE ACT, ALL COMMODITIES, WITH THE EXCEPTION OF FERTILIZER, MUST BE SHIPPED ON EITHER U.S. OR PAKISTANI VESSELS UNDER THE 50/50 REQUIREMENT. IN THE CASE OF FERTILIZER, BECAUSE OF THE NEED TO MARRY COMMODITY AND FREIGHT BIDS, A WAIVER WAS OBTAINED TO PERMIT THE SHIPMENT OF UP TO 50 PERCENT OF THE FERTILIZER ON CODE 935 COUNTRY VESSELS WHILE THE REMAINING 50 PERCENT MUST BE SHIPPED ON U.S. FLAG VESSELS. OF THE TOTAL FY 82 PROGRAM OF DOLLARS 40 MILLION DOLLARS 34 MILLION IN LOAN FUNDS WERE SET ASIDE FOR FERTILIZER AND THE REMAINING DOLLARS 6 MILLION IN GRANT FUNDS HAVE BEEN RESERVED FOR THE PROCUREMENT OF IRRIGATION EQUIPMENT, INCLUDING THE FEES FOR PROCUREMENT SERVICES AGENTS AND RELATED PROCUREMENT EXPENSES.

3. THE GOP LETTER IS QUOTED BELOW IN ITS ENTIRETY:

- QUOTE: DEAR DR. LION:

- (1) ACCORDING TO SEC. 5.12 OF OUR AGREEMENT DATED

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ISLAMABAD 15313

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APRIL 13, 1992 FOR AGRICULTURAL COMMODITIES AND EQUIPMENT, AT LEAST 50 PERCENT OF THE GROSS TONNAGE OF ALL EQUIPMENT AND COMMODITIES WAS TO BE TRANSPORTED TO PAKISTAN ON PRIVATELY OWNED U.S. FLAG COMMERCIAL VESSELS, TO THE EXTENT THAT SUCH VESSELS ARE AVAILABLE AT FAIR AND REASONABLE RATES. (LAST PHRASE WAS UNDERLINED IN LETTER.)

(2) TENDERS FOR THE PURCHASE OF FERTILIZER AND CHARTERING OF VESSELS FOR TRANSPORTATION OF THE COMMODITY FROM USA TO PAKISTAN WERE INVITED BY OUR EMBASSY IN WASHINGTON. THE COMMODITY AND FREIGHT OFFERS RECEIVED IN RESPONSE TO THE TENDERS HAVE BEEN COLLECTIVELY ANALYSED WITH A VIEW TO ACHIEVING THE LOWEST LANDED COST AND THE AWARDS FOR FREIGHT AND COMMODITY HAVE BEEN MADE AS FOLLOWS:

S.NO.	NAME OF SHIP	QUANTITY (M/TONS)	FREIGHT RATE (US DOLS PER M/TON)
1.	STAR OF TEXAS	31,500	105.50
2.	POTOMAC/MERRIMAC	21,000	97.25
3.	EDWARD RUTLEDGE	12,500	108.50
-		55,000	
NON-U.S. FLAG VESSELS			
4.	WORLD AGAMEMMON	25,000	22.22
5.	ETHONS	20,000	22.50
6.	K.Z. NICHALSO	20,000	23.87
-		55,000	

(3) IT WOULD BE OBSERVED FROM THE ABOVE STATEMENT THAT THE FREIGHT RATES FOR U.S. FLAG VESSELS ARE NEARLY FIVE TIMES AS HIGH AS THOSE OF NON-AMERICAN VESSELS. THIS CAN HARDLY BE CONSIDERED QUOTE REASONABLE UNQUOTE. (QUOTE AND UNQUOTE USED IN LETTER.) AS A RESULT OF THESE EXORBITANT RATES WE HAVE TO PAY AS MUCH AS DOLLARS 5.21 MILLION MORE (UNDERLINED IN LETTER) THAN WHAT WE WOULD HAVE HAD TO PAY.

- (4) I AM SURE YOU WOULD AGREE WITH ME THAT THE PRICE DIFFERENTIAL OF DOLLARS 5.24 MILLION IS IN EFFECT A SUBSIDY TO THE U.S. SHIPPING INDUSTRY. WARRANTED THROUGH THIS SUBSIDY MIGHT BE, WE FEEL THAT IT IS IMPROPER FOR IT TO BE DEBITED TO OUR LOAN ACCOUNT.

- (5) UNDER THESE CIRCUMSTANCES, I WOULD REQUEST YOU TO ASK WASHINGTON TO CONSIDER CREDITING BACK TO THE LOAN ACCOUNT THE AMOUNT OF THE FREIGHT DIFFERENTIAL. ALTERNATIVELY, USAID MIGHT CONSIDER GIVING US AN ADDITIONAL DOLLARS 5 MILLION BALANCE OF PAYMENTS SUPPORT GRANT TO CUSHION THE ADVERSE EFFECT OF THE HIGHER FREIGHT RATES FOR COMMODITIES CARRIED IN U.S. FLAG VESSELS. UNQUOTE.

4. COMMENT: MISSION HAS VERIFIED THE FIGURES IN THE GOP LETTER. THIS MEANS THAT FOR THIS PROGRAM ALONE, AS MUCH AS 15.4 PERCENT OF THE LOAN OR DOLLARS 5.24 MILLION WAS USED TO PAY THE ADDITIONAL COST OF SHIPPING ON U.S. FLAG VESSELS. FOR THIS AMOUNT, THE GOP COULD HAVE PURCHASED AN ADDITIONAL 23,200 TO 25,000 MT/TONS OF FERTILIZER. FOR THE REMAINDER OF THE PROCUREMENT WHICH IS PLANNED UNDER THIS PROGRAM, THE PRICE DIFFERENCE COULD AMOUNT TO AS MUCH AS DOLLARS 24 MILLION FOR THIS 5-YEAR, DOLLARS 300 MILLION PROGRAM. SINCE BALANCE OF PAYMENTS RELIEF WAS AND IS A MAJOR OBJECTIVE OF THE RENEWED ECONOMIC ASSISTANCE PROGRAM TO PAKISTAN AND IN PARTICULAR, OF THIS PROGRAM, IT IS EASY TO APPRECIATE THE GOP'S CONSTERNATION AT SEEING THE VALUE OF OUR ASSISTANCE REDUCED SO DRASTICALLY BY THE 50/50 REQUIREMENT. MISSION AND EMBASSY BELIEVE THAT THE UNFAIR AND UNREASONABLE DISPARITY IN FREIGHT RATES BETWEEN U.S. AND NON-U.S. FLAG VESSELS AND THE RESULTING SUBSTANTIAL UNDERMINING OF ONE OF THE PROGRAM'S MAJOR OBJECTIVES WARRANT A WAIVER OF THE 50/50 REQUIREMENT FOR THIS PROGRAM. THE SAME ARGUMENT FOR FERTILIZER APPLIES EQUALLY TO THE IRRIGATION EQUIPMENT TO BE PROCURED UNDER THIS PROGRAM. WHILE THE FIVE-FOLD PRICE DIFFERENTIAL BETWEEN U.S. AND FOREIGN FLAG VESSELS APPARENTLY APPLIES, ACCORDING TO PARA B OF REF. D, ONLY TO BULK SHIPMENTS (FERTILIZER), IT IS OUR UNDERSTANDING, NOTWITHSTANDING PARA. B OF REF. D, THAT THERE IS AT LEAST A TWO-FOLD DIFFERENCE IN PRICE BETWEEN U.S. AND FOREIGN LINERS ON WHICH OTHER PROJECT COMMODITIES, SUCH AS THE IRRIGATION EQUIPMENT, ARE NORMALLY SHIPPED.

5. ACTION REQUESTED: (A) I REALIZE THAT THE 50/50 RULE IS FIRMLY BASED ON A LEGISLATIVE REQUIREMENT AND THAT IT IS CLEARLY PRESCRIBED IN HANDBOOK 15, CHAPTER 7. NEVERTHELESS, I UNDERSTAND THAT THE REQUIREMENT CAN BE WAIVED IN CERTAIN INSTANCES, AND I BELIEVE A PERSUASIVE CASE FOR A WAIVER CAN BE MADE AT LEAST FOR THOSE PROJECTS WHERE BOF RELIEF IS THE PRIMARY QUOTE RAISON D'ETRE. UNQUOTE. IN THE CASE OF PAKISTAN, THAT INCLUDES FOR NOW PRINCIPALLY THE SUBJECT PROGRAM. I ASK, THEREFORE, THAT YOU CONSIDER SUCH A WAIVER WITH RESPECT TO THE PROCUREMENT OF COMMODITIES NOT ALREADY FIRMLY AWARDED UNDER THIS PROGRAM (NAMELY THE IRRIGATION EQUIPMENT), AND THAT THE WAIVER COVER ALL REPEAT ALL COMMODITIES

PROCURED DURING THE REMAINING FOUR YEARS OF THIS PROGRAM. BOTH THE MISSION AND THE EMBASSY BELIEVE THAT THE 50/50 REQUIREMENT SHOULD BE WAIVED AS BEING INCONSISTENT WITH THE OBJECTIVES OF THIS PROGRAM AND CONTRARY TO THE INTERESTS OF BOTH THE USA AND THE GOP.

ANNEX A.4
Page 4 of 14

(B) IN ADDITION TO A WAIVER OF THE 50/50 REQUIREMENT FOR THIS PROGRAM, I REQUEST THAT A WAIVER BE APPROVED TO PERMIT SHIPMENT OF ALL COMMODITIES FINANCED UNDER THIS PROGRAM ON CODE 935 VESSELS TO ACHIEVE THE MAXIMUM BALANCE OF PAYMENTS OBJECTIVE OF THIS PROGRAM. THE REASON FOR THIS IS AS FOLLOWS. AS INDICATED IN PARA 1 ABOVE, THE AUTHORIZED GEOGRAPHIC CODE FOR SHIPPING FOR THIS PROGRAM IS U.S. AND PAKISTAN. ONLY IN THE CASE OF FERTILIZER WAS A WAIVER OBTAINED TO INCLUDE CODE 935 COUNTRIES. THIS MEANS THAT IN THE CASE OF PROJECT COMMODITIES OTHER THAN FERTILIZER, EVEN IF THE 50/50 REQUIREMENT WERE TO BE WAIVED, ONLY U.S. AND PAKISTANI FLAG VESSELS COULD BE USED. MISSION AND EMBASSY BELIEVE IT IS IMPERATIVE, FOR THIS PROGRAM, THAT MAXIMUM COMPETITION BE SOUGHT IN ORDER TO OBTAIN THE LOWEST POSSIBLE FREIGHT RATES TO ENABLE THE GOP TO UTILIZE PROGRAM FUNDS TO THE MAXIMUM EXTENT POSSIBLE TO PURCHASE COMMODITIES. MISSION AND EMBASSY BELIEVE THAT LIMITING SHIPPING TO U.S. AND PAKISTANI FLAG VESSELS ONLY AND ALSO APPLYING THE 50/50 REQUIREMENT UNDER THIS PROGRAM WILL SERIOUSLY INTERFERE WITH THE ATTAINMENT OF THIS PROGRAM'S OBJECTIVES IN ADDITION TO ALREADY RAISING QUESTIONS IN THE MINDS OF OUR GOP COLLEAGUES AS TO THE ULTIMATE BENEFICIARIES OF THE RENEWED U.S. ECONOMIC ASSISTANCE PROGRAM TO PAKISTAN.

6. PLEASE ADVISE ASAP SO WE CAN REPLY TO EAD. SPIERS
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ANNEX A.4
Page 5 of 14

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ANNEX A.4
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 TO RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 2327
 INFO RUMJRV/AMEMBASSY RANGOON PRIORITY 9145
 RUMTRK/AMEMBASSY BANGKOK 6770
 BT
 UNCLAS (STATE 291056)

AIDAG, INFO RCMO BANGKOK

E.O. 12356: N/A

TAGS:

SUBJECT: AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM
 291-0468, U.S. FLAG VESSEL FREIGHT COSTS

REFERENCE: ISLAMABAD 15313

1. WE SHARE USAID/GOP CONCERN OVER THE SIZE OF THE U.S./FOREIGN FLAG SHIPPING DIFFERENTIAL. SER/COM HAD PREVIOUSLY EMPHASIZED THE FIGURES CITED BY MISSION IN A REPORT TO M/DAA/SER ON THE EXCESSIVE COST OF CARGO PREFERENCE COMPLIANCE. NONETHELESS, CARGO PREFERENCE LEGISLATION DOES REQUIRES THAT AT LEAST 50 PERCENT OF AID-SPONSORED CARGO MOVE ON U.S.-FLAG VESSELS TO THE EXTENT THEY ARE AVAILABLE AT FAIR AND REASONABLE RATES FOR U.S.-FLAG COMMERCIAL VESSELS. IT IS THE MARITIME ADMINISTRATION--AND NOT AID--WHICH DETERMINES WHETHER RATES ARE FAIR AND REASONABLE, AND MARAD HAS DETERMINED THAT THE RATES IN QUESTION MEET THIS STANDARD.
2. WE CANNOT QUIBBLE WITH THE CONTENTION THAT CARGO PREFERENCE IS A SUBSIDY TO THE U.S. SHIPPING INDUSTRY. MARAD'S DETERMINATION THAT U.S. RATES WERE FAIR AND REASONABLE IS, IN EFFECT, A DETERMINATION THAT THIS ALLEGED SUBSIDY IS WITHIN LEGISLATIVELY-ACCEPTABLE LIMITS. AS NOTED IN CHAPTER 12 OF HANDBOOK 1-B, THE STATUTE NEED NOT BE APPLIED WHERE IT CAN BE DETERMINED THAT IT IS NOT PRACTICABLE TO DO SO. WE DO NOT SEE ANY BASIS FOR THAT CONCLUSION HERE. INDEED U.S. VESSELS ARE AVAILABLE, AND AT WHAT HAS BEEN DETERMINED TO BE FAIR AND REASONABLE RATES.
3. THE GOVERNMENT OF PAKISTAN IS NOT ALONE IN EXPRESSING ITS DISMAY AT THE PRESENT SIZE OF THE U.S.-FLAG DIFFERENTIAL. IT IS BECAUSE THE GOP'S PROBLEM IS NOT UNIQUE THAT AID/W HAS BEEN ATTEMPTING TO FIND SOME SOLUTION TO THIS PROBLEM, AND WE HOPE SOME RELIEF WILL BE AVAILABLE IN THE NEAR FUTURE. WE ARE CURRENTLY SEEKING APPROVAL TO PERMIT AID TO GRANT FINANCE THE U.S./FOREIGN FLAG SHIPPING DIFFERENTIAL UNDER THE AUTHORITY OF FAA SECTION 540C. THIS WILL NOT BE RETROACTIVE, BUT THE MECHANISM MAY BE IN PLACE

PRIOR TO THE NEXT GOP FERTILIZER TENDER, IF THE PROPOSAL IS APPROVED BY THE ADMINISTRATOR, AFTER CONSULTATION WITH OMB AND INTERESTED CONGRESSIONAL COMMITTEES. THE EFFECT OF THIS PROCEDURE WOULD BE TO ALLOW THE USE OF UNREBURSED LOAN FUNDS FOR SHIPPING DIFFERENTIAL ON A GRANT BASIS, AND THEREFORE WOULD PROVIDE RELIEF TO THE GOP FROM INTEREST AND REPAYMENT OBLIGATIONS. HOWEVER, GIVEN THE HURDLES NOTED ABOVE, WE BELIEVE IT WOULD BE BEST NOT TO DISCUSS THIS POSSIBILITY WITH GOP UNTIL WE HAVE ATTAINED DESIRED RESULT.

ANNEX A.4
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4. WITH REGARD SHIPMENT OF THE HEAVY EQUIPMENT IT IS POSSIBLE THAT THE LINER DIFFERENTIAL COULD BE AS HIGH AS CITED BY MISSION BUT WE CONSIDER IT UNLIKELY. SPECIFIC DIFFERENTIALS CAN ONLY BE IDENTIFIED BY COMPARISON OF THE PARTICULAR COMMODITY RATES WHICH U.S. AND PAKISTAN LINER OPERATORS HAVE ESTABLISHED IN THEIR TRAFFIC. WE WOULD EXPECT TO SEE PROJECT RATES WITH DISCOUNTS OF 10 PERCENT OR SO FROM THE PUBLISHED TARIFF BY BOTH U.S. AND PAKISTAN FLAG CARRIERS.

5. WE SEE NO REASON FOR ADDING CODE 935 SHIPPING AT THIS TIME. WE BELIEVE THAT THE CURRENT U.S. AND PAKISTAN FLAG AUTHORIZATION ASSURES ADEQUATE SERVICE AND COMPETITION. SHULTZ

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1972 MEMORANDUM FROM GC/PNT TO SER/COM/RF, INDICATE THAT THE FAILURE OF A.I.D. TO FORMALLY IMPLEMENT THIS LEGISLATION WAS A PRODUCT OF THE FACT THAT THE SO CALLED "SA FUNDS" WERE THEN BEING DISBURSED ONLY ON A GRANT BASIS. THIS, OF COURSE, IS NO LONGER THE CASE.

IN 1974, A SECOND MEMORANDUM FROM GC/PNT TO, AMONGST OTHERS, SER/CM RECOGNIZED THAT 640C WAS DESIGNED QUOTE

- (1) TO RELIEVE THE IMPORTING COUNTRY AND THE
- END-USER OF THE ADDED COST OF SHIPPING
- ON U.S.-FLAG VESSELS TO THE EXTENT REQUIRED
- BY THE CARGO PREFERENCE ACT;

- (2) TO IDENTIFY THE FACT THAT PAYMENT OF SHIPPING
- DIFFERENTIALS IS NOT ASSISTANCE TO THE
- RECIPIENT COUNTRY BUT RATHER SUPPORT FOR
- THE U.S. MARITIME INDUSTRY; AND

- (3) TO ASSIST PRIVATELY-OWNED U.S.-FLAG VESSELS
- TO SECURE CARGOES UNDER A.I.D. FINANCING
- UNQUOTE.

THESE LEGISLATIVE INTERESTS ARE EXACTLY THOSE WHICH ARE ADDRESSED BY THE GOP LETTER TO USAID AND REF (A).

6. IN THIS SAME 1974 MEMORANDUM, IT WAS STATED THAT STANDARD LANGUAGE WAS BEING PREPARED FOR USE IN IMPLEMENTATION LETTERS UNDER LOANS OR GRANTS WHERE SHIPPING DIFFERENTIAL FUNDS MAY BE MADE AVAILABLE PURSUANT TO SECTION 640C AUTHORITY. NONETHELESS, AS FAR AS THIS MISSION IS AWARE, SUCH STANDARD LANGUAGE HAS NOT BEEN PREPARED OR AT LEAST HAS NOT BEEN MADE AVAILABLE TO THIS MISSION. ACCORDINGLY, WHEN THE AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM AGREEMENT WAS SIGNED ON APRIL 13, 1982, NO PROVISION WAS MADE TO PERMIT GRANTS FOR FREIGHT DIFFERENTIAL TO ADJUST THE SUBSTANTIAL INEQUITIES CREATED BY REQUIRING USE OF U.S. FLAG CARRIERS.

7. THIS ISSUE AGAIN SURFACED IN THE G.C. FILES IN FEBRUARY 1982 WHEN G.C., IN AN OPINION TO SER/COM, INDICATED "... THE AGENCY SHOULD MAKE NEW EFFORTS TO IMPLEMENT SECTION 640C AUTHORITY". THIS G.C. MEMORANDUM SPECIFICALLY, REPEAT SPECIFICALLY, MADE

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Best Available Document

REFERENCE TO THE IMPORTANCE OF GIVING NEW MEANING TO SECTION 640C IN THE CONTEXT OF LOANS WHICH MAY BE OF PARTICULAR IMPORTANCE IN THE LARGE COMMODITY PROGRAMS SUCH AS PAKISTAN. NONETHELESS, NO REVISION TO THE AIE HANDBOOK HAS BEEN DEVELOPED, NOR GUIDANCE PROVIDED TO THIS MISSION AT THE APAC REVIEW OF THE SUBJECT PROGRAM IN AIE/W IN FEBRUARY 1982 OR SUBSEQUENTLY AS TO POSSIBLE MECHANISMS TO IMPLEMENT THE LEGISLATIVE MANDATE OF 640C.

2. MISSION BELIEVES IT IS NECESSARY AND APPROPRIATE, FOR REASONS DISCUSSED IN REF (A), AND IN ACCORD WITH THE LONG RECOGNIZED BUT UNIMPLEMENTED MANDATE OF 640C, TO PROVIDE RELIEF TO THE GOP FOR FREIGHT DIFFERENTIALS INCURRED IN FY1982 AND LIKELY TO BE INCURRED IN THE FUTURE UNDER THIS PROGRAM.

3. MISSION, THEREFORE, REQUESTS G.C. ASSISTANCE IN DETERMINING THE AVAILABLE MECHANISM AND PROCEDURE TO MAKE GRANTS TO THE GOP TO COVER BOTH THE DIFFERENTIAL BETWEEN THE COST OF SHIPPING AID FINANCED GOODS ON U.S. FLAG VESSELS AND FOREIGN FLAG VESSELS UNDER THE LOAN PORTION OF THE FY1982 AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM, AND UNDER THE LOAN PORTION OF THE PLANNED FUTURE TRANCHES OF THE AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM. IT IS, TO REPEAT, THE MISSION'S POSITION THAT FAA 640C CONTEMPLATED JUST SUCH ADJUSTMENTS AS ARE HEREIN PROPOSED AND THAT THE INTEREST OF THE AID PROGRAM IN PAKISTAN WILL BE BEST SERVED BY RECOGNIZING AND CORRECTING FOR THE FREIGHT DIFFERENTIAL UNDER BOTH THE 1982 AND FUTURE TRANCHES OF THIS PROPOSED FIVE YEAR PROGRAM. SPIERS

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ANNEX A.4
Page 12 of 14

ACTION MEMORANDUM FOR THE ADMINISTRATOR

THRU : ES

FROM : AA/M, R. Tom Rollis
AA/PPC, John R. Bolton

SUBJECT: Shipping Differential - Foreign Assistance Act (FAA)
Section 640C

Rollis
John R. Bolton

Problem: To implement fully Section 640C of the FAA.^{1/}

Summary: Section 640C was enacted in 1973, at AID's request, as a means to relieve its borrowers from the costly and negative impact of the Cargo Preference Act on the foreign assistance program. In some cases it may cost five times as much to ship cargo (e.g. fertilizer to Pakistan) on U.S.-flag vessels as on foreign-flag vessels.

The Agency has not made full use of Section 640C authority to finance the U.S.-flag shipping differential on a grant basis. Current AID policy authorizes Geographic Bureaus to allocate grant funds to cover ocean freight differential but does not provide for the use of Section 640C in connection with undisbursed loan funds. The Bureaus have been reluctant to shift grant funds from other activities in order to cover shipping differentials.

1/ Section 640C provides:

Shipping Differential.-For the purposes of facilitating implementation of section 901(b) of the Merchant Marine Act 1936 (46 U.S.C. 1241(b)), funds made available for the purposes of chapter 1 of part I or for purposes of chapter 4 of part II may be used to make grants to recipients to pay all or any portion of such differential as is determined by the Secretary of Commerce to exist between United States and foreign-flag vessel charter or freight rates. Grants made under this section shall be paid with United States-owned foreign currencies wherever feasible.

The purpose of this section was threefold:

- (1) to relieve the importing country and end-user of the added cost of shipping on U.S.-flag vessels to the extent required by the Cargo Preference Act;
- (2) to identify the payment of shipping differentials as support for the U.S. maritime industry rather than assistance to the recipient country; and
- (3) to assist U.S.-flag vessels to secure cargoes under AID financing.

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ANNEX A.4
Page 11 of 14

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E.O. 12356 N/A
SUBJECT: AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM
391-0468, US FLAG VESSEL FREIGHT COSTS.

REFERENCE: (A) ISLAMABAD 1667E (B) STATE 291056
(C) ISLAMABAD 15313

1. REPTEL (A) REQUESTED ASSISTANCE OF GC IN DETERMINING AVAILABILITY OF SHIPPING DIFFERENTIAL GRANT PROVIDED FOR IN FAA SECTION 640 C FOR LOAN FINANCED COMMODITIES UNDER AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM. UNDERSTAND GC HAS PREPARED MEMORANDUM REQUESTING APPROVAL OF A/AID FOR APPLICATION OF THIS PROVISION.

2. REQUEST UPDATE ON STATUS OF THIS REQUEST, PARTICULARLY SINCE FY 83 PAAD AMENDMENT FOR THIS ACTIVITY IS NOW BEING DRAFTED, AND IS EXPECTED TO BE SUBMITTED TO AID/W FOR AUTHORIZATION IN APRIL. GIVEN INTENSE GOP CONCERN REGARDING FREIGHT DIFFERENTIAL, THIS IS LIKELY TO BE RAISED DURING NEGOTIATION OF THE AMENDMENT. WE NEED EARLIEST POSSIBLE INDICATION OF APPROVAL. SPIERS
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We are informed by the Office of General Counsel that Section 640C permits the Agency to use that authority in one additional way. Section 640C permits the Agency to use loan funds to pay ocean freight differentials without including the amounts so paid in the loan repayment obligations of borrowers. Loan funds administered in this manner may be counted as loan obligations for purposes of the loan allocation in the appropriation legislation. See legal opinion at Tab A.

Discussion: The legal analysis makes the following points: (1) Congress provided Section 640C authority in 1973 to relieve borrowers from having to pay the high cost maritime subsidy and to remove the disincentive to use U.S.-flag vessels generated by the subsidy. (2) Section 640C authorizes the Agency to use either grant or undisbursed loan funds to pay the ocean freight differential. (3) The prohibition on the forgiveness of principal and interest contained in FAA Section 620(r) is not applicable as long as no loan repayment obligation is created. (4) Although the statute requires that U.S.-owned foreign currencies be used to cover the differential whenever feasible, we do not believe such payment is feasible except where U.S.-flag carriers are willing to accept foreign currency as freight payment. (Tab A.)

A substantial amount of AID funds are presently used to pay shipping differentials for AID-financed bulk commodities. M/SER/COM estimates that the amount in CY 1980 - under both loans and grants - was \$30,500,000. In CY 1981, it was \$8,300,000 and in CY 1982 the amount is expected to be about \$31,000,000. (The low 1981 figure results from the timing of some major shipments of fertilizer to India and corn and coal to Egypt.) These figures do not include the shipping differentials associated with Israel or PL 480 Title II cargoes. (The extra cost of shipping to Israel on U.S. flag vessels will amount to approximately \$40,000,000 in CY 1982.)

We propose a change in Agency policy with respect to approximately \$11,000,000 of the expected CY 1982 amount which will be attributable to loan programs in India, Pakistan and Zambia. These are the major programs where bulk commodities are now financed by AID on a loan basis. Under present policy the Agency would not apply Section 640C to these programs because they do not involve a reallocation of grant funds. We would apply the authority to these loan programs and to any others where bulk commodities were financed.

Our proposal to shift these ocean freight differentials to a grant basis could be implemented by means of an internal accounting entry. The Office of Financial Management has been involved in discussions concerning this procedure and assures us that the mechanics of it could be worked out and monitored administratively. We expect to apply it to shipments of bulk commodities under charter where the amount of the differential is most readily measured rather than to liner shipments which are usually small and more difficult to measure as an administrative matter.

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we recommend that the Agency adopt this proposed use of Section 640C so that borrowers of AID funds can be fully relieved of the ocean freight differential cost which constitutes a subsidy to U.S. maritime interests. If you agree, we will initiate consultations with OMB and the interested committees of the Congress. We believe such consultation is advisable because the authority has not previously been used to pay for ocean freight differentials with undisbursed loan funds.

Before approving this proposal you should consider whether or not to go forward at this time in light of the impact of the proposal on the federal budget and the potential Congressional reaction to it if presented now. There would be some (though minimal) impact on the Treasury of relieving borrowers of loan repayment obligations in the amount of the differentials. The Agency may also face criticism on the Hill for proposing now what could have been proposed in 1974 when the legislation was enacted. On balance we believe the benefits to the AID program of the full implementation of Section 640C outweigh these potential difficulties.

You might also consider the feasibility of resolving the shipping differential problem more fundamentally by seeking a separate line item to cover the cost of the differential either in the appropriation of the Maritime Administration (preferable) or in the foreign assistance appropriation. The Agency considered seeking such a resolution in the past but decided against it in the face of arguments that the amount needed could not be accurately forecast and that the level of foreign assistance appropriations might be reduced by the amount of any such separate line item. If the subsidy were shifted to the Maritime Administration the Agency's problem would be completely resolved. This approach could be considered for the future even if the proposed use of Section 640C were adopted.

Recommendation: That you approve, subject to consultations with OMB and the interested committees of Congress, the use of undisbursed loan funds to pay ocean freight differential on a grant basis without including such amounts in the loan repayment obligations of the borrower.

Approved: _____

Disapproved: _____

Date: 07 MAR 1983

Attachment:

Tab A - GC/CCM opinion of Feb. 1, 1982

Clearance:

GC: CvOrman CLVO 1/20/83
 M/SER/COM: WCSchmeisser WCS 12-01-82
 LEG: DDenning DD 12/19
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F.O. 12356 N/A
SUBJECT: AGRICULTURAL COMMODITIES AND EQUIPMENT PROJECT
(391-2483); PRELIMINARY OVERVIEW OF AGRICULTURAL
SECTOR POLICY ISSUES, DIALOGUE, AND STUDIES

REFERENCE: (A) AGRICULTURAL COMMODITIES AND EQUIPMENT PAAD
(B) 82 STATE 241090 (C) 82 ISLAMABAD 17394

I. APPROACH

A. POLICY FRAMEWORK

PRIOR TO THE SUBMISSION OF THE FY 1983 AGRICULTURAL COMMODITIES AND EQUIPMENT PAAD AMENDMENT, MISSION WISHES TO SHARE WITH WASHINGTON THE SUBSTANCE OF THE POLICY DIALOGUE CURRENTLY TAKING PLACE OR PROJECTED AS THE INDIVIDUAL COMPONENTS OF THE AGRICULTURAL PORTFOLIO ARE DEVELOPED. WHILE IT IS TOO EARLY TO GAUGE THE IMPACT OF CURRENT DISCUSSIONS, OUR EXPERIENCE TO DATE SUPPORTS THE WIDELY HELD VIEW THAT THE GOP POLICY FRAMEWORK IN GENERAL AND POLICY ACTIONS SPECIFIC TO AGRICULTURAL DEVELOPMENT ARE CONSISTENT WITH AGENCY POLICY GUIDELINES AND THAT THE GOP IS RESPONDING TO SUGGESTIONS FOR POLICY CHANGES. THE POLICY FRAMEWORK IS PERFORCE EVOLUTIONARY, REQUIRING CONTINUING MODIFICATIONS AS IMPLEMENTATION MOVES FORWARD.

THROUGH A COMBINATION OF AGREEMENTS WITH THE IMF AND THE WORLD BANK, THE GOP IS COMMITTED TO AN OVERALL MACRO POLICY OF FISCAL RESTRAINT, RELAXATION OF IMPORT AND EXPORT RESTRICTIONS, RATIONAL PRICING POLICY IN CRITICAL SECTORS AND, IN GENERAL, A BIAS TOWARDS INCREASING THE ROLE OF THE PRIVATE SECTOR TO ACHIEVE NATIONAL ECONOMIC GOALS. WITHIN THIS POLICY FRAMEWORK, WHICH THE MISSION CONSISTENTLY REINFORCES IN MEETINGS WITH GOP OFFICIALS, OUR EFFORTS IN THE AGRICULTURE SECTOR ARE DIRECTED TOWARDS IDENTIFYING AND SUPPORTING POLICY IMPLEMENTATION ACTIONS WHICH ARE CONSISTENT WITH THE OVERALL FRAMEWORK AND SPECIFIC TO THE PROGRAMS SUPPORTED BY A.I.D. THE POLICY DIALOGUE ENGAGED IN BY A.I.D. TENDS TO SEEK ANSWERS TO THE QUESTION, WHAT CHANGES ARE NEEDED TO ACHIEVE THE OBJECTIVE(S) OF A SPECIFIC PROGRAM? THIS CAN INCLUDE PRICE POLICY, INSTITUTIONAL REFORM OR ELIMINATION OF CONSTRAINING REGULATIONS.

B. POLICY DISCUSSIONS

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POLICY DISCUSSIONS ARE CONDUCTED WITHIN THE PROGRAM AND PROJECT GUIDELINES ESTABLISHED DURING THE NEGOTIATIONS IN AUGUST, 1981 (WHICH DID NOT STRESS THE NEED FOR MAJOR POLICY-SHIFTS). RATHER, THE OVERALL POLICY AGREEMENTS WITH THE IMF (DESCRIBED ABOVE) FORMED THE BASIS FOR THE JUDGEMENT THAT THE ECONOMIC ASSISTANCE PROVIDED BY THE USG WOULD BE SUPPORTED, IN GENERAL, BY A FAVORABLE POLICY ENVIRONMENT. ACCORDINGLY, THE POLICY DIALOGUE TAKING PLACE NOW DURING THE DESIGN PHASE IS, ON THE ONE HAND, CONSTRAINED BY THE LIMITED LEVERAGE AVAILABLE TO A.I.D. TO QUOTE INSIST UNQUOTE ON SPECIFIC POLICY CONDITIONS (WHICH WOULD REPRESENT A CHANGE IN THE IMPLICIT TERMS OF THE ORIGINAL AGREEMENT). ON THE OTHER HAND, DISCUSSIONS ARE ENHANCED BY AN ATMOSPHERE OF CO-EQUAL PARTICIPATION WHERE THE OBJECTIVE IS TO IDENTIFY THE MOST APPROPRIATE MEANS OF ACHIEVING MUTUAL OBJECTIVES.

THE EXCEPTION IS IN THE AREA OF NARCOTICS. THIS IS AN ACTIVITY AND AN ISSUE WHICH WAS NOT DISCUSSED IN THE ORIGINAL NEGOTIATIONS. IN THE SHORT TIME SINCE THE AUGUST 1981 NEGOTIATIONS, THE ACCELERATED GROWTH OF NARCOTICS-RELATED PROBLEMS IN PAKISTAN HAS STIMULATED POLICY DISCUSSIONS ON THIS CRITICAL ISSUE. APART FROM INTERNATIONAL TRANSACTIONS OF SPECIAL CONCERN TO THE USG, HEROIN ADDICTION IN PAKISTAN HAS SHARPLY MOVED OPIUM CULTIVATION AND HEROIN PRODUCTION UPWARD ON THE SCALE OF GOP POLICY CONCERNS.

C. POLICY ANALYSIS

CONTINUING POLICY ANALYSIS IS A DISTINCTIVE FEATURE OF THE MISSION'S STRATEGY TO ENGAGE THE GOP IN A POLICY DIALOGUE. THE OVERALL ECONOMIC POLICY FRAMEWORK WAS EXAMINED IN 1981 BY SCHIAVO CAMPO, SENIOR ECONOMIC ADVISOR, A.I.D./WASHINGTON. RECENTLY DR. KENNETH NOBE, CHAIRMAN, DEPARTMENT OF AGRICULTURAL ECONOMICS, COLORADO STATE UNIVERSITY, ANALYZED AGRICULTURAL POLICY DEVELOPMENT OPTIONS AND PREPARED A PRELIMINARY RANKING OF LONG AS WELL AS SHORT-TERM POLICY AREAS. NOBE'S REPORT (COPY BEING FOUCHED) SUGGESTS SEVERAL SPECIFIC ACTIONS FOR IMMEDIATE EMPHASIS IN THE AREAS OF PRICE AND IMPORT/

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REPORT ADJUSTMENTS, IRRIGATION WATER, AVAILABILITY OF PURCHASED INPUTS, AND MARKETING AND INFRASTRUCTURE. OVER THE LONGER TERM, THE REPORT RECOMMENDS STRENGTHENING OF THE AGRICULTURAL UNIVERSITIES, ENCOMPASSING TEACHING, RESEARCH AND EXTENSION FUNCTIONS USING THE SO-CALLED LAND GRANT SYSTEM; CONTINUING WITH THE POLICY STANCE IN IRRIGATION WATER SUPPLIES WHICH IS MOVING TO BETTER MANAGEMENT OF THE EXISTING RESOURCE BASE; ACCELERATING RESEARCH AND DEVELOPMENT EFFORTS FOR INCREASING THE UTILIZATION OF PAKISTAN'S NON-IRRIGATED LAND RESOURCES; CONTINUING WITH AGRICULTURAL PRODUCT DIVERSIFICATION EFFORTS; ACCELERATING RURAL DEVELOPMENT EFFORTS; AND BEGINNING COMPREHENSIVE STUDIES FOR ASSESSING AGRICULTURAL MANPOWER NEEDS AND THE LAND TENURE SITUATION.

IN ADDITION TO THESE MACRO LEVEL ASSESSMENTS, MORE FOCUSED FERTILIZER AND OILSEED SUB-SECTOR STUDIES HAVE BEEN COMPLETED OR ARE IN PROGRESS. INVESTIGATIONS INTO THE PRIVATIZATION OF FERTILIZER MARKETING WERE COMPLETED IN OCTOBER 1982 (SEE PARA 3.B). THE OILSEED STUDY WHICH WILL, INTER ALIA, ASSESS THE COMPARATIVE ADVANTAGE OF OILSEED PRODUCTION IN PAKISTAN, IS IN PROGRESS. THESE ANALYTICAL WORKS FORM THE BASIS OF OUR POLICY DIALOGUE ON THESE ISSUES WITH THE GOP. AS THE PROGRAM DEVELOPS, ADDITIONAL POLICY STUDIES WILL BE COMMISSIONED.

2. POLICY DIALOGUE

SPECIFIC EXAMPLES OF THE SUBSTANCE AND TONE OF AGRICULTURAL POLICY DIALOGUE ARE GIVEN BELOW.

- A. WATER SECTOR

(I) MISSION HAS AGREED (WITH THE WORLD BANK) ON FINANCIAL MEASURES FOR O AND M EXPENDITURES TO REVERSE THE DETERIORATION OF THE INDUS BASIN IRRIGATION SYSTEM. SPECIFICALLY, PROVINCIAL GOVERNMENTS HAVE AGREED TO INCREASE WATER RATES AND MEET BUDGET TARGETS FOR ALLOCATION FOR O AND M EXPENDITURES. ADDITIONALLY, THE GOP IS CARRYING OUT A STUDY OF ALTERNATIVES TO TURN OVER TO THE PRIVATE SECTOR PUBLICLY OWNED AND OPERATED TUBEWELLS IN FRESH WATER ZONES.

(II) A MAJOR ACTIVITY UNDER THE IRRIGATION SYSTEM MANAGEMENT PROJECT IS INSTITUTIONAL IMPROVEMENT. DURING THE COURSE OF PROJECT IMPLEMENTATION, PROVINCIAL IRRIGATION DEPARTMENTS ARE COMMITTED TO EXAMINE CURRENT OPERATING EFFICIENCY. WHILE SPECIFIC CHANGES HAVE NOT YET BEEN QUANTIFIED -QUANTIFIABLE INDICATORS WILL BE DEVELOPED DURING THE COURSE OF IMPLEMENTATION- THE ATTITUDES OF IRRIGATION AND HIGH LEVEL FEDERAL OFFICIALS ARE CLEARLY CONDUCIVE TO INSTITUTIONAL CHANGE.

(III) THE DESIGN OF A PILOT COMMAND WATER MANAGEMENT COMPONENT OF THE ISM PROJECT IS NOW IN PROGRESS. DURING THE DESIGN OF THIS COMPONENT, ADDITIONAL ISSUES RELATED TO THE ECONOMIC AND INSTITUTIONAL FRAMEWORK OF WATER MANAGEMENT WILL BE EXAMINED. SUBSTANTIAL CHANGES IN

MANAGEMENT AND FINANCIAL PROCEDURES ARE EXPECTED TO OCCUR IN THIS PILOT EFFORT.

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B. PL 480 TITLE I

THE IMPORTATION OF EDIBLE OIL UNDER THE TITLE I PROGRAM IS LINKED TO A COMPANION DEVELOPMENT PROJECT (AGRICULTURAL PRODUCTION, DISTRIBUTION AND STORAGE) NOW IN THE DESIGN STAGE, TO SUPPORT THE EDIBLE OIL INDUSTRY. DISCUSSIONS ARE UNDERWAY TO ENHANCE THE ROLE OF THE PRIVATE SECTOR IN THE EDIBLE OIL INDUSTRY AND TO RATIONALIZE THE PRICE STRUCTURE.

C. AGRICULTURAL PRODUCTION, DISTRIBUTION AND STORAGE

THERE ARE THREE ACTIVITIES UNDER DESIGN. POLICY DISCUSSIONS ARE UNDERWAY FOR ONE COMPONENT (DESIGN IS MORE ADVANCED) AND IDENTIFICATION OF POLICY CONCERNS IS SCHEDULED IN THE REMAINING TWO.

(1) A NEW FRUIT AND VEGETABLE MARKETING BOARD IN NWFP WILL BE A MAJOR INSTITUTIONAL FACTOR IN THE IMPLEMENTATION OF THE AGRICULTURAL PRODUCTION, DISTRIBUTION, AND STORAGE PROJECT. PRELIMINARY REVIEW OF THE PROPOSED ORDINANCE TO ESTABLISH THE BOARD REVEALED INSUFFICIENT ATTENTION TO THE PRIVATE SECTOR. THIS CONCERN WAS RAISED WITH PROVINCIAL AUTHORITIES AND, IN A MEETING WITH THE GOVERNOR OF THE NWFP, THE MISSION DIRECTOR SUGGESTED THAT THE FINAL APPROVAL OF THE ORDINANCE BE WITHHELD UNTIL THE GOVERNMENT REVIEWED AID CONSULTANT RECOMMENDATIONS. THIS WAS AGREED AND THE DESIGN TEAM (UPON ITS RETURN IN JANUARY) WILL EXPLORE MEANS OF ENSURING ADEQUATE INVOLVE-

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MENT OF THE PRIVATE SECTOR. IN THIS SAME PROJECT, THE ROLE OF PRIVATE COMMISSIONED AGENTS (WHO MARKET WHEAT) WILL BE EXPLICITLY INCORPORATED IN THE PROJECT. THE INITIAL THINKING WITHIN GOVERNMENT CIRCLES WAS TO ELIMINATE OR AVOID THIS CRITICAL PLAYER.

(II) FOOD SECURITY ACTIVITIES WILL EXAMINE WAYS TO IMPROVE DATA COLLECTION AND INCREASE THE ANALYTICAL CAPABILITY OF PUBLIC BODIES FOR EFFECTIVE POLICY EVALUATION AND IMPLEMENTATION. ADDITIONALLY, DISCUSSION WILL RESUME IN MARCH AS TO THE ADVISIBILITY OF ESTABLISHING A WHEAT STOCK FOR WHEAT (THE PRIMARY STAPLE) AND POSSIBLY EDIBLE OIL. DISCUSSION WITH GOVERNMENT OF PAKISTAN OFFICIALS HAS REVEALED A WILLINGNESS TO EXAMINE HERETOFORE SENSITIVE ISSUES RELATED TO THE COSTS OF WHEAT STOCKS AND EXAMINE WAYS TO ENCOURAGE A ROLE FOR THE PRIVATE SECTOR TO STORE WHEAT STOCKS. THESE DISCUSSIONS ARE IN THE PRELIMINARY STAGES AND ARE POLITICALLY SENSITIVE IN THE EXTREME.

(III) SUPPORT FOR THE EDIBLE OIL INDUSTRY IS LINKED TO THE PL 483 TITLE I PROGRAM. THE ROLE OF THE PRIVATE SECTOR IN THE PROCESSING INDUSTRY IS THE DOMINANT ISSUE. PRICE POLICY WILL ALSO COME UNDER DISCUSSION. THIS ISSUE IS PARTICULARLY COMPLEX GIVEN THE DEPRESSED STATE OF INTERNATIONAL EDIBLE OIL PRICES WHICH HAS REDUCED, FOR THE SHORT-TERM, THE FISCAL PRESSURE FOR BOLD POLICY DECISIONS. MISSION, HOWEVER, IS ARGUING TO THE GOP THAT THE DEPRESSED STATE OF INTERNATIONAL PRICES PRESENTS A UNIQUE BUT SHORT-LIVED OPPORTUNITY FOR THE GOP TO REMOVE ALL PRICE CONTROLS FOR EDIBLE OIL PRODUCTS WITH MINIMAL DISRUPTIVE EFFECT ON CONSUMER PRICES.

D. AGRICULTURAL INSTITUTIONS

THE MISSION PORTFOLIO FOR FY 1983 INCLUDES SUBSTANTIAL SUPPORT FOR BASIC AGRICULTURAL INSTITUTIONS. WHILE IDENTIFICATION OF SPECIFIC ISSUES IS UNDERWAY, THE QUESTION OF INSTITUTIONAL REFORM AND REALIGNMENT HAS ALREADY BEEN DISCUSSED.

(I) THE NATIONAL RESEARCH AND EXTENSION NETWORK NEEDS CHANGES IN OPERATING PROCEDURES AND THE ESTABLISHMENT OF PROCEDURES TO FOSTER LINKAGES AMONG EDUCATIONAL, RESEARCH, AND EXTENSION BODIES. WHILE WE HAVE REACHED AGREEMENT IN PRINCIPLE, DISCUSSION OF SPECIFIC DETAILS WILL OCCUR AS THE DESIGN OF THE AGRICULTURAL EDUCATION, RESEARCH AND EXTENSION PROJECT PROGRESSES.

(II) IN THE CASE OF SUPPORT FOR THE AGRICULTURAL UNIVERSITY IN PESHAWAR, THE MISSION HAS HAD NUMEROUS DISCUSSIONS WITH GOVERNMENT OFFICIALS TO SET THE STAGE FOR THE DESIGN TEAM (A TITLE XII CONTRACTOR). THESE DISCUSSIONS HAVE FOCUSED ON THE ISSUE OF INSTITUTIONAL RESPONSIBILITIES AND THE REQUIREMENT FOR A CLEAR STATEMENT OF INTENT TO EXAMINE ALTERNATIVES FOR INSTITUTIONAL REORGANIZATION TO BUILD EFFECTIVE AND LASTING LINKAGES AMONG THE UNIVERSITY, RESEARCH BODIES, AND THE

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EXTENSION SERVICE. GOP RESPONSE TO THESE DISCUSSIONS HAS BEEN POSITIVE. DURING THE DESIGN PROCESS, SPECIFIC ISSUES WILL BE ADDRESSED THAT ARE CRITICAL TO THE IMPLEMENTATION OF THIS GENERAL POLICY STATEMENT HIGHLIGHTING THE NEED FOR INSTITUTIONAL REFORM OF AGRICULTURAL SERVICE INSTITUTIONS.

- E. IMPORT OF AGRICULTURAL COMMODITIES AND EQUIPMENT

THE GUIDELINES FOR IMPORTS OF COMMODITIES AND EQUIPMENT FOR THE AGRICULTURAL SECTOR STIPULATED IN THE PAAD STRESS TIES TO SPECIFIC PROGRAMS FOR IDENTIFICATION OF YEAR BY YEAR IMPORTS. THIS DESIGN ACHIEVES THREE OBJECTIVES; FIRST, THE BURDEN OF MANAGING A GENERALIZED IMPORT PROGRAM IS LESSEMED BY CLEAR SPECIFICATION OF COMMODITIES. THIS IS ESPECIALLY IMPORTANT IN A MISSION WITH LIMITED STAFF. SECONELY, THE ECONOMIC RETURN ON THE IMPORTED COMMODITIES IS ASSUMED TO BE HIGHER IF PLACED IMMEDIATELY INTO AN OPERATING PROGRAM IN THE PUBLIC OR PRIVATE SECTOR. THIRDLY, THE POLICY COMMITMENTS UNDER SPECIFIC COMPANY PROGRAMS ARE TIED TO THE IMPORTATION OF THE COMMODITIES.

IN THE FY 1982 PAAD, FERTILIZER AND EQUIPMENT FOR IRRIGATION DEPARTMENTS WERE SPECIFIED FOR IMPORTATION AND WERE TIED TO GOP POLICY COMMITMENTS: FOR FERTILIZER, TO ACTIONS RELATED TO THE REDUCTION OF THE SUBSIDY ON FERTILIZER AND, FOR IRRIGATION EQUIPMENT, TO COMMITMENTS TO RATIONALIZE MANAGEMENT, WITH SPECIAL EMPHASIS ON FINANCIAL REQUIREMENTS FOR OPERATION AND MAINTENANCE OF THE IRRIGATION SYSTEM.

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THE FY 1983 PAAD AMENDMENT, THE MISSION IS CONSIDER-
THE IMPORTS OF (I) FERTILIZER, (II) IRRIGATION EQUIPMENT,
(III) TRACTORS, AND (IV) MISCELLANEOUS COMMODITIES
REQUIRED BY ON-GOING PROGRAMS. THE POLICY LINKS FOR
THESE IMPORTS ARE LIKELY TO BE:

(I) FERTILIZER: CONTINUED PROGRESS ON THE ELIMI-
NATION OF THE FERTILIZER SUBSIDY. ADDITIONALLY, THE
ROLE OF PRIVATE MANUFACTURERS OF NITROGEN FERTILIZERS IN
THE MARKETING OF IMPORTED PHOSPHATIC FERTILIZERS IS
UNDER DISCUSSION. IN THE SHORT-TERM, THE OBJECTIVE IS
TO SIMPLIFY PROCEDURES TO INSURE SUPPLIES OF IMPORTED
FERTILIZERS ON A TIMELY BASIS TO PRIVATE COMPANIES.
THIS WILL ENHANCE THEIR ABILITY TO OFFER FARMERS
A RANGE OF FERTILIZER NUTRIENTS WHICH RESPOND TO ON-FARM
REQUIREMENTS. OVER THE LONGER TERM, WE WOULD EXPECT
THE PRIVATE COMPANIES TO BE THE DOMINANT SUPPLIER OF
AGRO-CHEMICALS WITH A MINIMAL ROLE FOR PUBLIC BODIES.

(II) IRRIGATION EQUIPMENT: DURING THE DESIGN OF
THE IRRIGATION SYSTEMS MANAGEMENT PROJECT, ADDITIONAL
EQUIPMENT REQUIREMENTS WERE IDENTIFIED. THIS PROJECT
HAS SPECIFIC COVENANTS RELATED TO THE FINANCIAL
INTEGRITY OF THE SYSTEM (REINFORCING THE COMMITMENTS
AGREED UPON BETWEEN THE WORLD BANK AND THE GOP) AS WELL
AS CONDITIONS PRECEDENT FOR DISBURSEMENT TIED TO REQUIRED
ACTIONS ON THE PART OF THE PROVINCIAL IRRIGATION DEPART-
MENTS. BY EXTENSION, THESE COMMITMENTS FORM PART OF THE
FY 1983 PAAD.

(III) TRACTORS: DURING THE DEVELOPMENT OF THE
ORIGINAL PAAD, TRACTOR IMPORTS WERE SERIOUSLY CONSIDERED.
CONSIDERABLE TIME WAS SPENT IN EXAMINING LOCAL MANUFAC-
TURING AND DISTRIBUTION SYSTEMS AND MECHANIZATION POLICY.
SEVERAL QUESTIONS WERE RAISED ON SPECIFIC MECHANIZATION
ISSUES (FOR EXAMPLE, THE RATE OF MECHANIZATION TAKING
PLACE IN PAKISTAN, ON-FARM APPLICATIONS OF SPECIFIC
TRACTOR IMPLEMENTS, THE RELATIVE EFFICIENCY OF DIFFERENT
CUMMINS UNITS, AND THE EXTENT OF CUSTOM MECHANIZATION
SERVICES), THE BASIC POLICY FRAMEWORK WAS JUDGED TO BE
APPROPRIATE. BECAUSE OF SOURCE AND ORIGIN
RESTRICTIONS UNDER THE PAAD, TRACTORS WERE NOT IMPORTED IN
THE FIRST YEAR. HOWEVER, DISCUSSIONS ARE NOW UNDERWAY TO
DETERMINE IF U.S. MANUFACTURED TRACTORS SHOULD BE IDENTI-
FIED FOR IMPORTATION UNDER THE FY 1983 AMENDMENT.

(IV) MISCELLANEOUS: THE REMAINING IMPORTS ARE
RELATIVELY SMALL VALUED ITEMS AND NO IMPORTANT POLICY
ISSUES HAVE BEEN IDENTIFIED FOR THEM.

C. POLICY STUDIES.

THE FOOD SECURITY COMPONENT OF THE AGRICULTURAL PRODUC-
TION, DISTRIBUTION AND STORAGE PROJECT WILL INVOLVE THE
EXAMINATION OF POLICY IMPLEMENTATION ALTERNATIVES AND
FORM A BASIS FOR CONTINUING POLICY EVALUATION. SEVERAL
POLICY-RELATED STUDIES ARE PROJECTED UNDER THAT COMPONENT.
IN ADDITION, SPECIFIC AREAS OF STUDY WILL BE TIED TO

THE CONTINUATION OF THE PAAD. WORK HAS ALREADY BEGUN ON DEFINITION OF THESE STUDIES WITH THE GOP WHICH INCLUDE:

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- A. MECHANIZATION

WHILE THE BASIC POLICY FRAMEWORK FOR TRACTOR IMPORTS IS JUDGED TO BE APPROPRIATE EXAMINATION OF SPECIFIC MECHANIZATION ISSUES IS REQUIRED. THE SCOPE AND METHOD OF EXAMINING THESE ISSUES WILL BE DESCRIBED IN THE FY 1983 PAAD AMENDMENT.

- B. FERTILIZER

TO CONTINUE TO EXAMINE THE EFFICIENCY OF DISTRIBUTION AND ON-FARM APPLICATIONS. CRITICAL AREA OF THE INVESTIGATIONS IS LIKELY TO BE THE CONVERSION-EFFICIENCY OF FERTILIZER AT THE FARM LEVEL. AN IMPORTANT AREA IN THE FERTILIZER SUB-SECTOR, PRIVATIZATION OF FERTILIZER MARKETING, WAS EXAMINED IN OCTOBER 1982 BY A THREE MEMBER TEAM OF SER/CCM SPECIALISTS LED BY WOLFGANG VON SPIEGELFELD. THE TEAM'S REPORT RECOMMENDS THE CONTINUATION OF FERTILIZER IMPORTS IN THE PUBLIC SECTOR BUT SUGGESTS, BASICALLY, PROGRESSIVELY INCREASED ALLOCATIONS TO THE PRIVATE SECTOR DISTRIBUTORS DIRECTLY FROM THE FEDERAL DIRECTORATE OF FERTILIZER IMPORTS. AS INDICATED IN PARA 2. E. (1) ABOVE, THE RECOMMENDATIONS OF THE TEAM ARE BEING DISCUSSED WITH THE GOP.

- C. RESOURCE MOBILIZATION

THE IMPOSITION OF TAXES ON THE AGRICULTURE SECTOR AS PART OF THE ISLAMIZATION PROCESS WILL AFFECT THE PROFITABILITY OF AGRICULTURAL PRODUCTION. THE EFFECTS

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OF THESE NEW TAXES ARE NOT YET WELL UNDERSTOOD.
PRELIMINARY DISCUSSIONS ARE UNDERWAY WITH UNIVERSITY
SCHOLARS IN PAKISTAN TO ASSIST THE MISSION TO EXAMINE
THESE NEW TAX LAWS. SPIERS

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REF: 12358: N/A

SUBJECT: CONCLUSIONS AND RECOMMENDATIONS OF THE
AGRICULTURAL COMMODITIES AND EQUIPMENT

1. THE CONTENTS OF THIS CABLE REPRESENTS SECTION 2 OF
THE AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM
EVALUATION REPORT. A DRAFT COPY OF THIS REPORT WILL BE
SENT OUT WITH THE NEXT PERSON LEAVING FOR ISLAMABAD.

2. OVERALL CONCLUSIONS AND RECOMMENDATIONS.
IMPLEMENTATION OF PROGRAM ACTIVITIES DURING THE FIRST
NINE MONTHS OF THE FIRST TRANCHE OF THE AGRICULTURAL
COMMODITIES AND EQUIPMENT PROGRAM HAS PROGRESSED ON
SCHEDULE AND HAS BASICALLY CONFORMED TO DESIGN PLANS.
ACTIVITIES INTENDED FOR THE FIRST NINE MONTHS HAVE BEEN
ACCOMPLISHED AND THE PROGRAM HAS MADE SIGNIFICANT
PROGRESS IN ACHIEVING THE PRIMARY OBJECTIVE OF THE FIRST
TRANCHE-- PROVIDING BALANCE OF PAYMENTS SUPPORT. THE
EVALUATION TEAM SUPPORTS THE CONTINUATION OF THIS
PROGRAM AND OFFERS THE FOLLOWING MORE SPECIFIC
CONCLUSIONS AND RECOMMENDATIONS FOR CONSIDERATION IN THE
DESIGN OF SUBSEQUENT TRANCHE .
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3. PROCUREMENT OF AGRICULTURAL COMMODITIES AND EQUIPMENT
A. FERTILIZER PROCUREMENT. PROCUREMENT WENT SMOOTHLY
AND ACCORDING TO SCHEDULE. THERE WERE NO MAJOR
PROBLEMS. MINOR PROBLEMS IN SHIPPING WERE ENCOUNTERED.

RECOMMENDATION: TO RESOLVE THE SHIPPING ISSUES, MISSION
SHOULD ENCOURAGE AND ASSIST EARLY DISCUSSIONS BETWEEN
USIA AND M/SEK/COM ON CHARTER PARTY TERMS.

B. EQUIPMENT PROCUREMENT: THE MAJOR FEATURES OF THE
PROCUREMENT PLAN ARE THE USE OF PROCUREMENT AGENTS AND
USIA'S ROLE AS AGENT OF THE GOP. IT IS TOO EARLY TO
MAKE A DEFINITIVE JUDGEMENT ON THESE ARRANGEMENTS.
HOWEVER, WE HAVE MADE THE FOLLOWING
RECOMMENDATIONS/OBSERVATIONS:

1. THE AGENT ARRANGEMENT BRINGS WITH IT A FIDUCIARY
RESPONSIBILITY TO THE GOP AND SINCE, IN MANY CASES, IT IS
NOT THE GOP PERFORMING PROCUREMENT ACTIONS, IT-

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REPLACES THE USUAL PROTECTION ENJOYED BY THE AGENCY. THIS
THERE IS AN INCREASED RISK OF DAMAGE TO A.I.D. IF SERIOUS
PROBLEMS DEVELOP.

RECOMMENDATION: WE DO NOT NECESSARILY BELIEVE THE AGENT
ROLE SHOULD BE ABANDONED. HOWEVER, THE USAID SHOULD MOVE
VERY CAUTIOUSLY IN DETERMINING WHAT FUNCTIONS IT WILL
PERFORM. A SPECIFIC AREA TO AVOID IS PHYSICALLY TAKING
POSSESSION OF ANY EQUIPMENT. WE ALSO NOTE THAT THE
POTENTIAL DANGERS OF THE AGENT ROLE WERE NOT DISCUSSED IN
THE LAST PAAD. FUTURE PAADS SHOULD ADDRESS THIS ISSUE.

THE RATIONALE FOR THE USAID'S AGENT ROLE AND FOR THE
USE OF PSA'S WAS TO EXPEDITE THE PROCUREMENT PROCESS BY
REDUCING THE GOP'S ROLE IN THAT PROCESS TO A MINIMUM.
THE THEORY, AS WE UNDERSTAND IT, IS THAT THE PSA AND
USAID, NOT THE GOP, DOES THE PROCUREMENT, THUS AVOIDING
THE GOP BUREAUCRACY AND ACHIEVING RAPID IMPLEMENTATION.
IN PRACTICE, HOWEVER, THE GOP HAS RETAINED APPROVAL
POINTS AT THE MOST CRITICAL POINTS IN THE PROCUREMENT
PROCESS. FOR EXAMPLE, THE EQUIPMENT SPECIFICATION AND
AWARDS MUST BE APPROVED BY THE GOP. AS SUCH, IT IS
NOT YET CLEAR HOW MUCH GOP NON-INVOLVEMENT HAS BEEN
ACHIEVED. WITH REGARD TO WRITING EQUIPMENT
TERMS IN DECIDING WHETHER OR NOT TO CONTINUE THE PRESENT
ARRANGEMENTS. IF USAID DETERMINES THAT THE GOP HAS
ASSERTED AND WILL CONTINUE TO DEMAND A MAJOR ROLE IN THE
PROCUREMENT PROCESS, USAID MIGHT WISH TO CONSIDER MOVING
TO MORE TRADITIONAL PROCUREMENT PROCEDURES. UNDER THESE
PROCEDURES, SER/COM AND USAID ASSIST THE GOP PROCURING
AGENCY IN DEVELOPING SPECIFICATIONS AND IFB TERMS AND
CONDITIONS. THE IFB WOULD THEN BE ISSUED THROUGH THE GOP
EMBASSY IN WASHINGTON. BIDS WOULD BE EVALUATED AND
AWARDS MADE BY A TEAM FROM THE GOP PROCURING AGENCY.
SER/COM MONITORS THE EVALUATION PROCESS AND APPROVES
PROPOSED AWARDS. THIS PROCESS HAS BEEN FOUND TO WORK
WELL FOR ITEMS SUCH AS FERTILIZER. THE RECORD IS MORE
FIXED WHEN EQUIPMENT PROCUREMENTS ARE INVOLVED.
PROCUREMENTS ARE GENERALLY SUCCESSFUL IF THE HOST COUNTRY
PROCURING AUTHORITY POSSESSES SOME EXPERIENCE, IS
RECEPTIVE TO USAID AND SER/COM ADVICE, AND IF AUTHORITY
TO CONCLUDE CONTRACTS IS PROPERLY DELEGATED.

USAID REJECTED THIS PROCEDURE LARGELY ON THE ASSUMPTION
THAT IT REQUIRED A PROMINENT HOST COUNTRY ROLE. THIS IS
INCORRECT IN THAT THE PROCEDURE DESCRIBED ABOVE CAN BE
VARIABLE TO PROVIDE VIRTUALLY ANY DEGREE OF HOST COUNTRY
INVOLVEMENT. SER/COM OFTEN ASSISTS HOST COUNTRY AGENCIES
TO SUCH AN EXTENT THAT THE PROCUREMENT IS HOST COUNTRY IN
NAME ONLY.

RECOMMENDATION: NO MATTER WHICH APPROACH THE USAID

WHICH, WE BELIEVE AN EXPERIENCED FULL TIME PROCUREMENT SPECIALIST SHOULD BE BROUGHT ON BOARD (IF AT ALL POSSIBLE). THE CURRENT APPROACH WHICH COMBINES A HIGHLY ACTIVE ROLE IN THE PROCUREMENT PROCESS WITH RELATIVELY LITTLE EXPERIENCE IS VERY "HIGH RISK". WE KNOW OF NO OTHER COMMODITY IMPORT PROGRAM OF SIMILAR SIZE AND COMPLEXITY THAT HAS BEEN ATTEMPTED WITHOUT THE SERVICES OF A PROCUREMENT SPECIALIST.

RECOMMENDATION: AFTER CURRENT PSA PROCUREMENT ACTIONS HAVE BEEN COMPLETED, THE USAID SHOULD CONDUCT A THOROUGH REVIEW TO PROVIDE MORE DEFINITIVE FINDINGS ON THE PROCUREMENT ARRANGEMENTS.

5. PROGRESS MADE TOWARDS PLANNING, DEVELOPING AND EXECUTING POLICY STUDIES

WITH CONSIDERATION TO THE TIME AND EFFORT REQUIRED IN PLANNING, DEVELOPING AND EXECUTING THE STUDIES PROPOSED IN THE PAAD ALONG WITH THE STAFFING CONSTRAINTS UNDER WHICH THE MISSION CURRENTLY OPERATES, IT IS THE OPINION

OF THE EVALUATION TEAM THAT CONSIDERABLE PROGRESS HAS BEEN MADE TO DATE. STUDIES IN THREE OF THE SIX PROPOSED POLICY AREAS HAVE ALREADY BEEN EXECUTED AND THE INITIAL PLANNING STAGES OF DEVELOPING STUDIES IN TWO OTHER AREAS HAVE BEGUN. EVALUATION OF THE QUALITY OF THE POLICY STUDIES PLANNED AND EXECUTED WAS BEYOND THE SCOPE OF WORK FOR THIS TEAM DUE TO TIME CONSTRAINTS AND A LACK OF EXPERTISE IN AGRICULTURAL ECONOMICS.

RECOMMENDATION: THE SCOPE OF WORK FOR THE NEXT EVALUATION SHOULD INCLUDE AN EXAMINATION OF THE QUALITY AND USEFULNESS OF THE POLICY STUDIES BEING CONDUCTED. IF THIS TYPE OF EXAMINATION WOULD BENEFIT USAID/ARD BEFORE THE NEXT PLANNED EVALUATION IS SCHEDULED, CONSIDERATION SHOULD BE GIVEN NOW TO DEVELOPING A SCOPE OF WORK AND DETERMINING WHEN AN EVALUATION OF THE POLICY STUDIES WOULD BE MOST HELPFUL.

6. MONITORING AND EVALUATION OF PROGRAM PERFORMANCE AND IMPACT

7. DISTRIBUTION AND END USE OF COMMODITIES. TO MINIMIZE THE NEED FOR WAREHOUSING FERTILIZER FOR LONG PERIODS, AID SHIPMENTS ARE SCHEDULED TO ARRIVE BEFORE OR DURING PEAK MONTHS. SOME PORTION, HOWEVER, IS KEPT IN THE WAREHOUSE TO MAINTAIN A RESERVE LEVEL. THERE WAS CONCERN THAT THE STORAGE FACILITIES IN SOME DEPOTS WERE UNSATISFACTORY. THE MAGNITUDE OF THIS PROBLEM WAS UNCLEAR TO THE EVALUATION TEAM AND DUE TO TIME CONSTRAINTS THEY WERE UNABLE TO MAKE SELECTIVE CHECKS. CURRENTLY, USAID/ARD MONITORS FERTILIZER UTILIZATION BY RECEIVING INFORMATION FROM VARIOUS PUBLICATIONS AND REPORTS FROM LIAISON OFFICERS. THERE MAY BE A MISCONCEPTION IN USAID/ARD THAT THE FERTILIZER WAS IMPORTED IN BULK AND BAGGED BY FDFI IN THEIR OWN BAGS SO THAT A.I.D.

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FERTILIZER IS NO LONGER IDENTIFIABLE. THIS, HOWEVER, IS NOT CORRECT, SINCE A.I.D. FERTILIZER IS PLACED IN A.I.D. MARKED BAGS AND THE BULK DEPOT FOR WHICH THE FERTILIZER IS DESTINED IS DESIGNATED IN THE ALLOCATION PLAN.

RECOMMENDATION: USAID SHOULD INITIATE A SYSTEM OF SELECTIVE MONITORING OF THE WARHOUSING OF A.I.D. FERTILIZER TO ASSURE THAT FERTILIZER IS CARED FOR PROPERLY AND IS BEING DELIVERED IN A TIMELY MANNER.

2.1 DISTRIBUTION AND END USE OF EQUIPMENT. AFTER THE EQUIPMENT ARRIVES AND IS PROCESSED THROUGH CUSTOMS, A.I.D. MAY HANDLE THE COSTS INVOLVED IN TRANSPORTING THE ITEMS TO THE FOUR PROVINCES. ACCORDING TO DISCUSSIONS WITH AN OFFICIAL FROM THE PROVINCIAL IRRIGATION MINISTRY, AN AGREEMENT HAS BEEN ESTABLISHED WITH A.I.D. DELINEATING PROCEDURES FOR GETTING THE EQUIPMENT TO THE FOUR PROVINCES. THE OFFICIAL INTERVIEWED, HOWEVER, COULD NOT RECALL THE DETAILS OF THE PROCEDURES ESTABLISHED IN THE AGREEMENT AND IT WAS UNCLEAR TO THE EVALUATION TEAM WHETHER THIS AGREEMENT DOES, IN FACT, ESTABLISH PROCEDURES FOR HANDLING THE EQUIPMENT BEYOND CUSTOMS OR THAT IT SIMPLY STATES THAT A.I.D. WILL FINANCE TRANSPORTATION COSTS.

RECOMMENDATION: IF PROCEDURES FOR GETTING EQUIPMENT FROM CUSTOMS TO THE PROVINCES HAVE NOT BEEN ESTABLISHED, IT IS ADVISABLE TO DO SO WITH THE GOP AT THE SOONEST POSSIBLE TIME SINCE EQUIPMENT COULD ARRIVE AT ANY TIME. TO SIMPLIFY THE PROCESS OF TRANSPORTING THE PROPER EQUIPMENT TO THE APPROPRIATE PROVINCE, ARRANGEMENTS SHOULD BE MADE, IF THEY HAVE NOT AS YET, TO HAVE THE NAME OF THE PROVINCE FOR WHICH THE EQUIPMENT IS DESTINED CLEARLY MARKED ON EACH PACKAGE PRIOR TO BEING SHIPPED.

3.1 EFFECT OF PROGRAM ON BALANCE OF PAYMENTS AND ON PERFORMANCE OF AGRICULTURAL SECTOR. WITH REGARD TO IMPACT ON BALANCE OF PAYMENTS TO DATE, THE EFFECT WAS ESSENTIALLY FELT AS SOON AS THE CONTRACTS FOR DOLS 34

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MILLION WERE AWARDED FOR FERTILIZER DURING FY 1992. IF ALL HAD NOT FINANCED DOLS 34 MILLION OF FERTILIZER IN FY 92, THE GCP WOULD HAVE HAD TO USE PART OF THEIR OWN SCARCE FOREIGN EXCHANGE RESERVE. THUS, IT CAN BE SAID THAT THIS PROGRAM HAS ALREADY MADE PROGRESS IN PROVIDING THE GCP WITH BALANCE OF PAYMENTS SUPPORT.

IN ADDITION TO HAVING AN IMPACT ON BALANCE OF PAYMENTS, THE PROGRAM HAS ALSO BEEN DESIGNED TO HAVE AN IMPACT ON AGRICULTURAL PERFORMANCE. WITH THIS IN MIND, THE MISSION EVALUATION PLAN STATED THAT THE FY 1993 OR FY 1994 EVALUATION OF THE THIS PROGRAM SHOULD INCLUDE, TO THE EXTENT POSSIBLE, THE PROCESS OF QUANTIFYING INDICATORS FOR LATER MEASUREMENT OF THE IMPACT ON INCREASING AGRICULTURAL SECTOR PRODUCTIVITY. USAID/ARD, HOWEVER, INFORMED THE EVALUATION TEAM THAT BECAUSE THIS IS A COMMODITY IMPORT PROGRAM (CIP), IMPACT OF THIS PROGRAM ON AGRICULTURAL SECTOR PRODUCTIVITY WOULD NOT BE MEASURED. USAID/ARD ASSURED THE TEAM, HOWEVER, THAT AGRICULTURAL PRODUCTIVITY WOULD BE MONITORED AS PART OF THE MONITORING AND EVALUATION SCHEMES OF OTHER MISSION AGRICULTURAL PROJECTS. THERE WAS NOT ENOUGH TIME FOR THE EVALUATION TEAM TO REVIEW EVALUATION PLANS FOR OTHER AGRICULTURAL PROJECTS, SO IT IS DIFFICULT TO CONCLUDE THAT ADEQUATE

MONITORING IS PLANNED (I.E. DO THE EVALUATION SCHEMES OF OTHER PROJECTS PLAN TO MONITOR AGRICULTURE PRODUCTIVITY IN A WAY THAT CAN OFFER THIS PROGRAM AS WELL AS OTHER AGRICULTURE PROJECTS FEEDBACK ON SUCH CRITICAL ISSUES AS THE VALIDITY OF PROJECT ASSUMPTIONS, PERFORMANCE, EFFECTIVENESS OF STRATEGIES ETC). AT THE SAME TIME THERE REMAINS A DISCREPANCY BETWEEN THE EVALUATION PLAN AND USAID/ARD'S INTENTIONS REGARDING THE MEASUREMENT OF IMPACT OF THIS PARTICULAR PROGRAM. THE EVALUATION TEAM BELIEVES THAT A DEFINITE POSITION SHOULD BE TAKEN TO RESOLVE THIS DIFFERENCE OF OPINION.

RECOMMENDATION: WITH A.I.D.'S EMPHASIS ON MEASURING IMPACT, IN PARTICULAR BENEFICIARY IMPACT, THE MONITORING AND EVALUATION PLANS FOR MEASURING CHANGES IN AGRICULTURE PERFORMANCE SHOULD BE FURTHER EXAMINED TO ENSURE THAT THE EXPECTED CHANGES TO WHICH THIS PROGRAM AS WELL AS OTHER AGRICULTURAL PROJECTS ARE DIRECTED WILL BE ADEQUATELY MONITORED.

2. GENERATION AND USE OF RUPEE PROCEEDS ACCRUING FROM SALES OF IMPETEE COMMODITIES

THE GCP HAS ALREADY ESTABLISHED A FORMULA DESIGNATING THE AMOUNT OF RUPEES GENERATED PER TON OF FERTILIZER SOLD. DURING DISCUSSIONS WITH MISSION STAFF, IT APPEARED THAT SOME WERE UNINFORMED OF THE PARTICULARS OF THE FORMULA WHICH DEFINES THE AMOUNT OF RUPEES GENERATED FROM THE SALES.

RECOMMENDATION: THE PROGRAM OFFICE, WHICH WILL BE MONITORING RUPEE PROCEEDS SHOULD BE AWARE OF THE

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PARTICULARS OF THIS FORMULA AND ENSURE ITS CONFORMITY TO ANY REGULATIONS OR AGREEMENTS THAT MAY EXIST.

ANNEX A.6
Page 6 of 6.

TO DATE, 57 PERCENT OF ALL RUPEES RESULTING FROM THE FIRST TRANCHE HAVE BEEN GENERATED AND SHOULD HAVE BEEN DEPOSITED IN THE SPECIAL ACCOUNT. ACCORDING TO A SCHEDULE ESTABLISHED FOR THE RECEIPT OF REPORTS, THE FIRST REPORT DETAILING DEPOSITS FROM THE FIRST TRANCHE WAS DUE IN MID-DECEMBER 1982.

NEGOTIATIONS FOR USE OF RUPEE PROCEEDS HAVE BEEN INITIATED AND ARE PROCEEDING ON SCHEDULE. THE GOP IS AWARE OF USAID'S PROGRAMMING PREFERENCES AND ACCORDING TO THE PROJECT OFFICER, NEGOTIATIONS ARE, AT THIS POINT, PROGRESSING SATISFACTORILY.

3. ASIA/DF REGRETS THE PROBLEMS ASSOCIATED WITH PROVIDING MISSION WITH A CLEAN DRAFT OF THIS REPORT. WE LOOK FORWARD TO RECEIVING YOUR COMMENTS. SHULTZ

BT
#2193

DRAFT PROGRAM DESCRIPTION FOR INCLUSION
IN PROGRAM AGREEMENT AMENDMENT

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 important 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, prefabricated 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 the mutual agreement of the parties to proceed. The second 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 1983 program are shown in Table 1 and are described below :

1. Fertilizer

Imports of \$35.0^{1/} million worth of Diammonium Phosphate (DAP) and Triple Super Phosphate (TSP) are planned. At projected international prices, including freight and insurance, the quantity of fertilizer supplied would be about 125,000 MT of DAP and 10,000 MT of TSP. This quantity will provide 62,100 Nutrient Metric Tons (NMT) of phosphorous.

2. Irrigation Equipment

A total of \$12.1 million worth of equipment is contemplated, consisting of: (i) earthmoving and workshop equipment for the four Provincial Irrigation Departments (PIDs) in support of the A.I.D.-financed Irrigation Systems Management (ISM) Project (\$5.0 million); (ii) hydraulic measurement equipment for the Alluvial Channel Observation Project (ACOP), an implementing entity under the ISM Project, and several of the PIDs (\$1.0 million); (iii) excavating machinery for the Sind and Punjab PIDs (\$3.5 million); (iv) flood protection equipment for the Punjab PID (\$1.6 million); and (v) irrigation pumps for the Northwest Frontier Province PID (\$1.0 million).

3. Drilling Rigs

Six power drilling rigs, valued at an estimated \$1.2 million, for sinking tubewells will be procured for the Agriculture Engineering Department of the Government of the Sind.

4. Commodities for the Agricultural Production, Distribution, and Storage Project

Approximately \$4.5 million has been allocated under the FY 1983 tranche of this Program for the procurement of data collection and analysis and post-harvest grain handling and storage equipment to be used in support of the Food Security and Data Collection and Analysis Components of the proposed A.I.D.-financed FY 1983 Agricultural Production, Distribution, and Storage (APDS) Project (391-0476). This project is currently in the design phase, and the estimated cost of the equipment required for the project will exceed the funds available under the project.

^{1/} Consisting of \$34.0 million under the FY 1983 program and \$1.0 million under the FY 1982 program.

TABLE 1

EXPECTED DOLLAR ALLOCATIONS FOR THE FY 1983 PROGRAM

<u>Category of Commodities</u>	<u>Provisional Allocations</u> (In \$ Million)	
	<u>Loan</u>	<u>Grant</u>
1. Fertilizer		
a. 125,000 MT of Diammonium Phosphate (DAP)	34.0 ^{2/}	
b. 10,000 MT of Triple Super Phosphate (TSP)		
2. Irrigation Equipment		
a. Earthmoving and Workshop Equipment for the Irrigation Systems Management Project	-	5.0
b. Hydraulic Measurement Equipment for the Irrigation Systems Management Project	-	1.0
c. Excavating Machinery for the Sind and Punjab Irrigation Departments	-	3.5
d. Flood Protection Equipment for the Punjab Irrigation Department	-	1.6
e. Irrigation Pumps for the Northwest Frontier Province Irrigation Department	-	1.0
3. Drilling Rigs for the Sind Agricultural Engineering Department	-	1.2
4. Commodities for the Agricultural Production, Distribution, and Storage Project	1.0	3.5
5. Commodities for the Forestry Planning and Development Project	5.0	-
6. Additional Commodities		
a. Small Tractors	-	1.0
b. Breeding Rams		
c. Miscellaneous Items		
d. Commodities in Support of Development Activities in Poppy Growing Areas	-	.5
7. Procurement Services Agent(s) Fee at 8% (for 2.a. - 2.d., 4., and 5 only)	-	1.7
TOTALS	40.0	20.0

1/ All figures include the estimated costs of the commodities/equipment, freight and insurance, as well as inland transportation for the irrigation equipment only.

2/ Approximately \$1.0 million in loan funds remains unearmarked under the FY 1982 program and will be applied to the costs of the fertilizer to be procured under the FY 1983 program.

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5. Commodities for The Forestry Planning and Development Project

Earthmoving and land clearing, nursery, surveying, watering, research and analytical, and transport equipment as well as education/information commodities, valued at approximately \$5.0 million, are expected to be imported under the FY 1983 tranche of this Program to be used in support of the proposed A.I.D.-financed FY 1983 Forestry Planning and Development (FPD) Project (391-0481). This project is currently in the design phase, and the estimated cost of the equipment required for the project will exceed the funds available under the project.

6. Additional Commodities

Approximately \$1.0 million has been provisionally allocated for the procurement of the following items:

a. Small Tractors

Importation of about fifty(50) small size (below 35 engine horse power) tractors for sale to farmers and/or use at agricultural research stations is contemplated to support the GOP's policy to encourage small farm technology.

b. Breeding Rams

Importation of about twenty (20) breeding rams is planned to support a herd improvement program in the Northwest Frontier Province which will be financed in part by the Australian Government.

c. Miscellaneous Small Value Items

To respond to targets of opportunity, some funds may be made available under this Program to finance small value items which are consistent with the overall objectives of this program and which support GOP, other donor, and/or other A.I.D.-financed projects.

d. Approximately \$500,000 has been provisionally allocated for support of development activities in poppy producing areas. These items will be identified as project design proceeds for the Area Development Project in the North West Frontier Province (391-0485), which is expected to directly address the need for alternative development opportunities in areas which now depend heavily on poppy production.

A special account will be established in which the rupee proceeds accruing to the GOP from the sale or transfer of commodities imported under this Program will be deposited. The funds in this account will be jointly programmed 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.

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FERTILIZER SUPPLY AND DEMAND BALANCE

ANNEX C.1.1.a

('000 Nutrient Metric Tons)

	Crop Year 1981/82 1/											
	Rabi 2/				Kharif 3/				Total			
	N	P	K	Total	N	P	K	Total	N	P	K	Total
<u>Supply</u>	705	232	33	970	761	216	22	999	1,222	371	35	1,628
Opening Inventory 4/	325	174	22	521	244	77	20	341	325	174	22	521
Indigenous Production	335	37	-	372	457	31	-	488	792	68	-	860
Imports	45	21	11	77	60	108	2	170	105	129	13	247
<u>Demand</u>	637	245	33	918	602	171	27	800	1,063	326	40	1,429
Offtake	461	155	13	629	421	78	7	506	882	233	20	1,135
Exports	-	-	-	-	5	-	-	5	5	-	-	5
Reserves Required 5/	176	97	20	289	176	93	20	289	176	93	20	289
<u>Surplus (+)/Deficit (-)</u>	<u>(+)68</u>	<u>(-)16</u>	<u>-</u>	<u>(+)52</u>	<u>(+)159</u>	<u>(+)45</u>	<u>(-)5</u>	<u>(+)199</u>	<u>(+)159</u>	<u>(+)45</u>	<u>(-)5</u>	<u>(+)199</u>

1/ October - September

2/ October - March

3/ April - September

4/ Stocks with distributors, factories and FDFI

5/ 20, 40 and 100 percent of annual offtake for nitrogen, phosphorous, and potash, respectively

SOURCE: FDFI and USAID Staff estimates

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FERTILIZER SUPPLY AND DEMAND PROJECTIONS

ANNEX C.1.b

('000 Nutrient Metric Tons)

Crop Year 1981/82 1/

	Rabi <u>2/</u>				Kharif <u>3/</u>				Total			
	N	P	K	Total	N	P	K	Total	N	P	K	Total
Supply	880	293	31	1,204	870	179	38	1,087	1,372	345	53	1,770
Opening Inventory <u>4/</u>	335	138	15	488	378	127	16	521	335	138	15	488
Indigenous Production	477	36	-	513	480	36	-	516	957	72	-	1,029
Imports	68	119	16	203	12	16	22	50	80	135	38	253
Demand	687	266	38	991	627	183	31	841	1,129	349	46	1,524
Offtake	484	166	15	665	442	83	8	533	926	249	23	1,198
Exports	18	-	-	18	-	-	-	-	18	-	-	18
Reserves Required <u>5/</u>	185	100	23	308	185	100	23	308	185	100	23	308
Surplus (+)/Deficit (-)	(+)193	(+)27	(-)7	(+)213	(+)243	(-)4	(+)7	(+)246	(+)243	(-)4	(+)7	(+)246

1/ October - September

2/ October - March

3/ April - September

4/ Stocks with distributors, factories and FDFI

5/ 20, 40 and 100 percent of annual offtake for nitrogen, phosphorous and potash, respectively

SOURCE: FDFI and USAID Staff estimates

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FERTILIZER PRODUCT PRICES

<u>Product</u>	<u>Price (Rs/50 Kg Bag)</u>		
	<u>1980/81</u> ^{1/}	<u>1981/82</u> ^{2/}	<u>1982/83</u> ^{3/}
Urea (46:00:00)	93	103	118
DAP (18:46:00)	100	105	121
AS (21:00:00)	42	47	54
NP (23:23:00)	78	84	97
NPK (10:20:20)	63	65	75
NPK (13:13:21)	60	63	72
CAN (26:00:00)	50	55	58
SSP (00:18:00)	25	25	29
SOP (00:00:50)	30	30	35

1/ Effective February 24, 1980

2/ Effective March 15, 1982

3/ Effective October 6, 1982

Source: National Fertilizer Development Center

FERTILIZER NUTRIENT PRICES
(Rupees per Nutrient Kilogram)

Product	Nitrogen			Phosphorous			Potash		
	1980/81	1981/82	1982/83	1980/81	1981/82	1982/83	1980/81	1981/82	1982/83
Urea (46:00:00)	4.04	4.48	5.13	-	-	-	-	-	-
DAP (18:46:00)	4.04	4.48	5.13	2.77	2.81	3.25	-	-	-
AS (21:00:00)	4.00	4.48	5.13	-	-	-	-	-	-
NP (23:23:00)	4.04	4.48	5.13	2.74	2.82	3.30	-	-	-
NPK (10:20:20)	4.04	4.48	5.13	2.74	2.82	3.30	1.54	1.24	1.34
NPK (13:13:21)	4.04	4.48	5.13	2.74	2.82	3.30	1.52	1.45	2.20
CAN (26:00:00)	3.85	4.23	4.46	-	-	-	-	-	-
SSP (00:18:00)	-	-	-	2.78	2.78	3.22	-	-	-
SOP (00:00:50)	-	-	-	-	-	-	1.20	1.20	1.40

Assumptions:

- (a) Nitrogen in DAP and NP is priced the same as in Urea.
- (b) Nitrogen and phosphorous in NPK is priced the same as in Urea and NP, respectively.

Source: USAID staff estimates.

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FERTILIZER-OUTPUT AND BENEFIT-COST RATIOS

Crop	Crop Response Ratio	1981/82 1/			1982/83 2/		
		Fertilizer Price (Rs/Nutrient Kg) 3/	Crop Procurement Price (Rs/Kg)	Benefit Cost Ratio	Fertilizer Price (Rs/Nutrient Kg) 3/	Crop Procurement Price (Rs/Kg)	Benefit Cost Ratio
Wheat	1:7.0	3.67	1.45	2.8	4.60	1.60	2.4
Raddy (Irri-6)	1:10.5	3.77	1.13	3.5	4.18	1.23	3.1
Cotton	1: 4.5	3.77	4.45	5.3	4.18	4.58	4.9
Sugarcane	1:95.0	3.77	0.24	6.0	4.18	0.24	5.5

1/ Kharif 1981 and Rabi 1981/82

2/ Kharif 1982 and Rabi 1982/83

3/ Average price weighted for rabi or kharif offtake

Source: USAID staff estimates

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ILLUSTRATIVE LIST OF EARTHMOVING AND WORKSHOP EQUIPMENT
FOR USE UNDER THE IRRIGATION SYSTEMS MANAGEMENT PROJECT

ITEM NO.	DESCRIPTION
<u>EARTHMOVING & ANCILLARY EQUIPMENT</u>	
1.	Bulldozer, 200 HP
2.	Bulldozer, 140 HP
3.	Bulldozer, 75 HP
4.	Scraper, Elevating 8/11 cu.yd.
5.	Dragline, 2.5 cu.yd.
6.	Dragline, 1.5 cu.yd.
7.	Dragline, 0.75 cu.yd. (with crane attachment)
8.	Backhoe, 0.75 cu.yd.
9.	Excavator, Telescopic Boom, 0.75 cu.yd.
10.	Compactor, Self Propelled, 6 ton
11.	Compactor, Sheepsfoot, Towed
12.	Compactor, Self Propelled, 1 ton
13.	Compactor, Hand Vibratory Plate
14.	Compactor, Self Propelled, 4 ton
15.	Dump Truck, 10 ton
16.	Dump Truck, 8 ton
17.	Front End Loader, 2.5 cu.yd.
18.	Low Bed Tractor Trailer, 50 ton
19.	Low Bed Tractor Trailer, 35 ton
20.	Flat Bed Truck, 8 ton
21.	Water Truck, 2500 U.S. Gallons
22.	Fuel Truck, 2500 U.S. Gallons
23.	Fuel Trailer, 600 U.S. Gallons
24.	Lubrication Truck
25.	Dredge
26.	Mobile Crane, 35 ton
27.	Weed Cutting Boat, 12 HP
28.	Cable Tool Water Well Driller
29.	Generating Set, 50 KW
30.	Mobile Light Plant, 10 KW
31.	Ditch Cleaning Machine
32.	Spare Parts for Items 1-31 and for Existing Equipment

ITEM NO.	DESCRIPTION
<u>WORKSHOP EQUIPMENT</u>	
<u>A. GENERAL SHOP</u>	
1.	Floor Crane, 4 ton
2.	Sprocket and Bearing Puller
3.	Hydraulic Jack 50 ton
4.	Hydraulic Jack 25 ton
5.	Red Devil 110 lbs. Hammers, High Torque Air Wrenches, and Heavy Duty Sanders
6.	Lift Hydraulic, 10 ton
7.	Electric Welding Plant, 400 Amp.
8.	Mobile Welding Unit, Arc and Gas, Diesel
9.	Overhead Crane 20 ft. Span, 8 ton Chain Hoist
10.	Air Compressor, 350 cfm., Trailer Mounted
11.	Air Compressor, 150 cfm
12.	Cabinet Benches, Vices
13.	Track Press
<u>B. MACHINE SHOP</u>	
1.	Shaper, 36" Pass
2.	Mill (Knee Type)
3.	Planner, 10 ft. (Travelling Bed)
4.	Surface Grinder
5.	Tool Grinder
6.	Drill Press, Column 3/4"
7.	Power Hack Saw
8.	Pedestal Grinder, 12" Stone
9.	Crankshaft Build-up Machine
10.	Precision Instruments
11.	Wrenches: Master Mechanic Set, Heavy Duty
12.	Electric Hand Drill, 3/4"
13.	Crankshaft Grinder
14.	Floor Crane, 2000 lbs.
15.	Radial Drill 24"
16.	Lathe, 14 ft., 12" Swing
17.	Lathe, 8 ft., 17" Swing

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ITEM NO.	DESCRIPTION
18. 19. 20. 21. 22. 23. 24.	Lathe, 6 ft., 12" Swing with Tapper Attachment Lathe, 4 ft., 8" Swing Spot Welder Radial Drill, 24" Benches, Cabinets, Vices Precision Tooling and Supplies Floor Crane, 2000 lbs.
C. 1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13.	<u>MOBILE SHOP</u> Lathe/Mill Combination Injector Tester Hydraulic Hose Machine Hose Assembly Machine Bench Drill Press Owatana Pullers Wrenches, Mechanic Set Hydraulic Jack, 25 ton Winch (Front Power Take Off) Tripod Bench Grinder Hydraulic Tester Gasoline-Electric Starter
D. 1. 2. 3. 4. 5. 6. 7. 8. 9. 10. 11. 12. 13.	<u>ENGINE OVERHAUL SHOP</u> Engine Stand Valve Refacer Valve Seat Grinder Head Shop Valve Portable Cylinder Boring Machine, 5 $\frac{1}{4}$ " x 14" Owatana Liner Pullers Injector Tester Injector Pump Calibrator, 8 Cylinder Mobile Shop Crane, 5 ton Engine Tune-up Kit Battery Charger, 60 Amp. Allison Transmission Tools Hoist, 20 ton Tripod

ITEM NO.	DESCRIPTION
14.	Electric Drill, 3/4"
15.	Impact Wrenches
16.	High Pressure Steam Cleaner
17.	Honing Machine
18.	Lapping Machine
19.	Mechanic Tools, English-Metric
20.	Electric Test Stand, Alt., Gen.
21.	Engine Analyser
22.	Impact Wrenches
23.	Benches, Cabinets, Vices
24.	Pin Press
25.	Air-Compressor, 150 cfm
E.	<u>HYDRAULIC SHOP</u>
1.	Hydraulic Test Bench Pump 600 psi
2.	Hydraulic Cleaning Unit
3.	Owatana Cylinder Pulling Unit
4.	Hose Assembly Machine
5.	Hose Cutting Machine
6.	Cleaning Tank
7.	Tools
F.	<u>BRAKE SHOP</u>
1.	Mobile Crane, 4 Ton
2.	Compressor (Air), Electric, 150 cfm
3.	Brake Drum Lathe
4.	Disc Brake Lathe, 16" Diameter
5.	Brake Shoe Grinder
6.	Owatana Pullers
7.	Tool Kit (Wrenches)
8.	Tire Remover
9.	Tire Rim Remover
10.	Benches, Cabinets, Vices

ILLUSTRATIVE LIST OF HYDRAULIC MEASUREMENT EQUIPMENT
FOR USE UNDER THE IRRIGATION SYSTEMS MANAGEMENT PROJECT

ITEM NO.	D E S C R I P T I O N
1.	Sonic Sounders including Spares
2.	Chart Paper Rolls for Sonic Sounders
3.	Recording Current Meters with Accessories
4.	Pygmy Current Meters with Accessories
5.	Fresh Water AA Type Current Meters
6.	Dual-channel Strip Chart Recorder, High Impedance, Multi-Range with Spares and Accessories
7.	Digitization Tablet with Diskette Recorder for Sonic Chart Analysis
8.	Mobile Tow-Type Trailers to be Equipped as Mobile Sediment Labs
9.	Visual Accumulation Tubes for Particle Size Analysis with Accessories and Consumables
10.	Programmable Pocket Calculators with Accessories
11.	Fiberglass Flat Bottom Boats
12.	15 HP Outboard Motor Boat Engines including Spares
13.	Components of Hydraulic Measuring Equipment such as Improvisement Sets, Reels, Weights, Wading Rods, Suspended and Bed Material Samplers and other Accessories of Discharge and Sediment Measuring Equipment
14.	Surveying Equipment, such as Levels, Staves and other Accessories
15.	Expendable Equipment Needed for Hydraulic/Sediment/Morphologic Measurements
16.	Sampling Bottles, Cards, Tags, Stoppers, Crates, and Plastic Bags for collection of Suspended/Bed Material Samples
17.	Vehicles and Office Supplies such as Electric Typewriter for Technical Typing and Plain Paper Copier with reduction and reproducing capability

ILLUSTRATIVE LIST OF EXCAVATING MACHINERY FOR
THE PUNJAB AND SIND IRRIGATION DEPARTMENTS

<u>Item No.</u>	<u>Description</u>	<u>Estimated Number of Units Required</u>
<u>A. PUNJAB IRRIGATION DEPARTMENT</u>		
1.	Low Bearing Pressure Excavators	2
2.	Dragline, 1 cu. yd.	6
3.	Hydraulic Excavators, 3/4 cu. yd.	2
4.	Spare Parts	
<u>B. SIND IRRIGATION DEPARTMENT</u>		
1.	Hydraulic Excavators, 3/4 cu. yd.	4
2.	Dragline, 1/1.25 cu. yd.	2
3.	Bulldozer, 140-150 HP	4
4.	Mini Dredger	4
5.	Spare Parts	

ILLUSTRATIVE LIST OF FLOOD PROTECTION
EQUIPMENT FOR THE PUNJAB IRRIGATION DEPARTMENT

<u>Item No.</u>	<u>Description</u>
1.	Crawler Tractor
2.	Motorized Scrappers, 15-21 cu. yd.
3.	Rear Dump Truck
4.	Outboard Motors
5.	Generator Sets
6.	Pile Driving Hammer
7.	High Pressure Cleaning Plant
8.	Dragline, 2½ cu. yd.
9.	Side Boom Crane
10.	Pumping Set Diesel
11.	Spare Parts

ILLUSTRATIVE LIST OF COMMODITIES FOR USE UNDER THE
AGRICULTURAL PRODUCTION, DISTRIBUTION AND STORAGE PROJECT

<u>Item No.</u>	<u>Description</u>
1.	Grain Bins
2.	Dryers
3.	Cleaners
4.	Baggers
5.	Elevator Legs
6.	Augers
7.	Sorters
8.	Conveyors
9.	Milling Equipment (Rollers, Filters, Sifters, Soakers)
10.	Processing Equipment (Sterilizers, Cookers, Pumps, Strainers)
11.	Canning Equipment
12.	Threshers
13.	Aerial/Land-sat Photos
14.	Stereographic Photo Interpretation Equipment
15.	Photo Enlargers
16.	Mini/Micro Computers
17.	Edible Oilseeds
18.	Livestock
19.	Machine Shop Equipment (Lathes, Stampers, Drill Presses)

ILLUSTRATIVE LIST OF COMMODITIES FOR USE
UNDER THE FORESTRY PLANNING AND DEVELOPMENT PROJECT

<u>Item No.</u>	<u>Description</u>	<u>Estimated Number of Units Required</u>
<u>A. Earthmoving and Land Clearing Equipment</u>		
1.	Bulldozer	9
2.	Drum-Chopper	2
3.	Grader/Scraper	2
4.	Backhoe	4
5.	Fuel Trucks	4
6.	Lubrication Truck	4
7.	Water Truck	4
8.	Mobile Maintenance Equipment	1 set (Sind)
9.	Tractor	12
10.	Ridger	12
11.	Disc Plough	12
12.	Disc Harrow	12
13.	Scraper	12
14.	Root Rake	6
15.	Stump Extracter	1
16.	Chain Saws	25
<u>B. Nursery Equipment</u>		
1.	Seed Storage and Cabinet w/ and w/c Temperature Control	25
2.	Hand Tools (Shovels, Hoes, Picks)	500
3.	Wheel Barrows	100
4.	Well Drilling Equipment	4
5.	Seed Balances	10
6.	Tractors (Medium)	10
7.	Mouldboard Plow/Offset Disc Harrow	10
8.	Sectional Ladders w/safety Belts	10
9.	Pole Pruners	20

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<u>Item No.</u>	<u>Description</u>	<u>Estimated Number of Units Required</u>
10.	Seed Tumbler	1
11.	Seed Dewinger	1
12.	Seed Blower	25
13.	Cleaning/Grading Vibrating Table	25
14.	Cold Storage Chambers	1
15.	Germination Cabinets w/Light and Temperature Control	1
16.	Jacobsen Germination Equipment	1
17.	X-Ray Apparatus	1
<u>C. Surveying Equipment</u>		
1.	Dumpy Level	5
2.	Clinometer	12
3.	Steel Tape	12
4.	Stadia Rod	10
5.	Transit	5
6.	Compass	10
7.	Tripod	10
8.	Drafting Equipment	1
<u>D. Watering Equipment</u>		
1.	Tank Truck	6
2.	Submersible Electric Pump	25
3.	Hand Pump	25
<u>E. Research and Analytical Equipment</u>		
1.	Programmable Calculator	20
2.	Micro Computer	6
3.	Weighing Rain Gage	9
4.	Anemometer w/Recorder	4
5.	Thermohydrograph	8
6.	Pyranograph	4

<u>Item No.</u>	<u>Description</u>	<u>Estimated Number of Units Required</u>
7.	Sediment Sampler	6
8.	Bed Load Sampler	6
9.	Water Level Recorder	20
10.	Current Meter	3
11.	Laboratory Balance	6
12.	Soil Sieve	3
13.	Green House	2
14.	pH Meter	17
15.	Atomic Absorption Spectrophotometer	2
16.	Flame Photometer	2
17.	Microhjeldhal Apparatus	2
18.	Soil Auger	7
19.	Laboratory Reagents	
20.	Sample Bottles and Containers	
21.	Soil Moisture and Temperature Meter	2
22.	Microscope	
23.	Dissecting Microscope	
24.	Visual Accumulation Tubes For Particle Size Analysis w/Accessories	2 sets

F. Education/Information Equipment

1.	Photocopying Machine	6
2.	PMT Offset Plate Camera	1
3.	Photo Reduction Stand with Camera	1
4.	Darkroom and Printing Equipment	1
5.	Paper Cutting Machine	1
6.	Offset Press	1
7.	Stitching and Binding Equipment	1
8.	Electronic Typewriter w/Margin Justification and Proportional Spacing (IBM or Xerox)	1

<u>Item No.</u>	<u>Description</u>	<u>Estimated Number of Units Required</u>
9.	Collating Equipment	
10.	Air-conditioning for Process Laboratory	
11.	Micro Film and Fiche Readers	2 each
12.	Micro Fiche Camera and Developing Equipment	
13.	16mm Movie Projector w/Sound	4
14.	16mm Cameras and Sound Recording Equipment	2
15.	Slide Projector	10
16.	35mm Camera	5
17.	Screens	15

G. Transport Equipment

1.	Jeeps	30
2.	Carryalls	4
3.	Crew Trucks	25
4.	Flatbed Trailer w/Cab	9
5.	Pickup Trucks	30
6.	Economy Vans	5

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Telephone No. 20616



MANZUR AHMAD
ADDITIONAL SECRETARY.

Telegram. AGRIDIV
D. (I). No. F.3-10/82-Fert
GOVERNMENT OF PAKISTAN
MINISTRY OF FOOD, AGRICULTURE
AND CO-OPERATIVES
(Food & Agriculture Division)

Islamabad, the 11th April, 1983

Subject:- PRIVATIZATION OF FERTILIZER MARKETING.

Dear Mr. Curtis,

Please refer to your letter dated 14th March, 1983, on the subject cited above.

2. The recommendations made by the team of fertilizer specialists from AID/Washington to improve the efficiency of fertilizer distribution system have been examined in detail in consultation with the agencies concerned.

3. The recommendations of AID specialists are basically in consonance with our own policy to encourage all fertilizer manufacturers to play an increasing role in the supply and distribution of all types of fertilizer to the farmers. Even before we received AID recommendations, we had held a series of meetings with both the private and public sector agencies on this subject. We had urged them to enter into mutually acceptable agreements on bilateral basis so that the private sector distributors should have an assured access to adequate quantities of imported fertilizer to feed their sales outlets and the public sector agencies should similarly get locally produced urea as may be required by them.

4. We have now held further meetings and it has been decided that at least 50% of the imported fertilizer should be marketed by the private sector distributors. This fertilizer would be handed over to them by the Provincial Government agencies at Karachi on a ship-to-ship basis in accordance with their demands which would have been agreed in advance on a yearly basis. It has also been decided in principle that uniform incidents would be allowed to all private sector distributors for marketing imported fertilizer.

5. As you are perhaps aware, imported fertilizer is allocated to the four Provinces in a pre-determined ratio immediately on arrival at Karachi. The quantities of imports are regulated by the estimated offtakes and the need for maintaining specified level of reserves. It is the responsibility of the Provincial Governments to ensure that shortages do not develop in any part of their respective provinces, (if necessary, through direct intervention with the help of their own stocks) and the quantities earmarked for distribution in their areas are not diverted elsewhere. Since urea is not being imported any more, it is necessary that the Provincial Government agencies continue to get it, now from local

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manufacturers so that their own sale depots could provide the full range of fertilizer to the farmers served by such depots. These considerations warrant that the imported fertilizer should not be given to the private sector directly by FDFI but allotted through the Provincial sector agencies. It is quite clear, however, that this will be only an accounting arrangement as the imported fertilizer will be transferred to the private sector at the Karachi port itself. This arrangement will, in essence, achieve the objective of privatisation and yet, at the same time, promote fuller understanding and cooperation between the private sector and the public sector, which is so essential for the success of our fertilizer distribution policy. The Ministry of Food and Agriculture would keep an eye on the situation and would not hesitate in securing for the private distributors even a greater share of imported fertilizer, if so required.

With best regards,

Yours sincerely,

Manz

(Manzur Ahmad)

Mr. Ronald V. Curtis,
Chief,
Office of Agriculture and
Rural Development,
US AID Mission to Pakistan,
Islamabad.

LIST OF PROJECT-SPECIFIC REPORTS/STUDIES
ON FILE AT USAID/PAKISTAN

1. Pakistan: Privatization of Fertilizer Marketing - A Discussion Paper, by Wolfgang von Spiegefeld, Michael P. McAllister, and William Dunn, October 1982, Office of Agriculture and Rural Development, USAID/ Islamabad.
2. An Overview of Pakistan's Current Agricultural Development Policy Options, by Kenneth C. Nobe, Agricultural Policy Analyst, Consortium for International Development, December, 1982, Office of Agriculture and Rural Development, USAID/Islamabad.
3. Pakistan: Agriculture Commodities and Equipment (391-0468) Program Evaluation, by Sharon Pines, ASIA/DP/E and Steve Kinsley, SER/COM during the period: December 2 - 20, 1983.

FINANCIAL MANAGEMENT REPORT
AS OF 3/31/83 -
PROJECT NO./TITLE 0391-1468 AGRICULTURAL COMMO-
DITIES AND EQUIPMENT -

Project Start date: 4/13/82
No. of Revisions : 0
PACB : 01/13/84

AMOUNT AUTHORIZED
Loan \$34,000.

AID/FUNDED PROJECT
(IN \$000)

EXPENDITURES -

<u>ELEMENT</u>	<u>OBLIGATION</u>	<u>FARMARK</u>	<u>COMMITMENT</u>	<u>DISBURSED</u>	<u>ACCRUALS</u>	<u>TOTAL</u>	<u>PIPELINE</u>	<u>UNEARMARKED</u>	<u>UNCOMMITTED</u>	<u>COMMENTS</u>
HESA-82-37391-KL-32										
01 COMMODITIES	<u>34000</u>	<u>33066</u>	<u>33066</u>	<u>32784</u>	-	<u>32784</u>	<u>1216</u>	<u>934</u>		
L/COMM 391-K18701		9883	9883	9883	-	9883	-			
" " 02		10178	10178	10168	-	10168	10			
" " 03		4769	4769	4769	-	4769	-			
" " 04		473	473	462	-	462	11			
" " 05		2042	2042	1956	-	1956	86			
" " 06		3323	3323	3225	-	3225	98			
" " 07		9	9	9	-	9	-			
" " 08		477	477	429	-	429	48			
" " 09		556	556	531	-	531	25			
" " 10		1356	1356	1352	-	1352	4			
Unarmarked							934			
BPC TOTAL	<u>34000</u>	<u>33066</u>	<u>33066</u>	<u>32784</u>	-	<u>32784</u>	<u>1216</u>			
AMOUNT AUTHORIZED Grant: \$26,000										
01 COMMODITIES	<u>26000</u>	<u>25530</u>	<u>25530</u>	<u>305</u>	-	<u>305</u>	<u>25695</u>	<u>470</u>		
HESA-82-37391-KG-32		17935	17935				17935			
L/COMM 391-K-60201		950	950				950			
" " 02		6000	6000				6000			
" " 03		575	575	305	-	305	270			
" " 04		70	70				70			
" " 05							470			
Unarmarked										
BPC TOTAL	<u>26000</u>	<u>25530</u>	<u>25530</u>	<u>305</u>	-	<u>305</u>	<u>25695</u>			
TOTAL G & L	<u>60000</u>	<u>58596</u>	<u>58596</u>	<u>33089</u>	-	<u>33089</u>	<u>26911</u>	<u>1404</u>		

Note: Financial data based on February 28, 1983, latest AID/W reports.

ANNEX E

Best Available Document

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