PD-AAP-630

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

AMENDMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

PAKISTAN

AGRICULTURAL COMMODITIES AND EQUIPMENT

391-0468

MAY 1984

UNCLASSIFIED

PDAAP-630

CLASSIFICATION: UNCLASSIFIED

AID 1120-1 (8-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO. Grant No. 391-K-604 and Loan No. 391-K-187B

2. COUNTRY Pakistan

3. CATEGORY Commodity Financing - Standard Procedure

4. DATE May 18, 1984

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: $ 180,000,000

10. APPROPRIATION - ALLOTMENT ESF 72-1141-037

11. TYPE FUNDING [X] LOAN [X] GRANT

12. LOCAL CURRENCY ARRANGEMENT [ ] INFORMAL [X] FORMAL [ ] NONE

13. ESTIMATED DELIVERY PERIOD Dec.1984 - Dec.1987

14. TRANSACTION ELIGIBILITY DATE August 1, 1984

15. COMMODITIES FINANCED

Agricultural inputs such as fertilizers and improved seeds; equipment and machinery for farm use; commodity support for agencies which provide agricultural services; agricultural machinery, equipment, and commodities to be imported by the Pakistani private sector; and such other emergency commodity imports as USAID/Pakistan and AID/Washington may agree upon.

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:	$180,000,000 (See Block 18)	U.S.:	$180,000,000 (See Block 18)
Limited F.W.:		Industrialized Countries:	
Free World:		Local:	
Cash:		Other:	
	Pakistan (Minimum)		Pakistan (Minimum)

18. SUMMARY DESCRIPTION

TITLE: AGRICULTURAL COMMODITIES AND EQUIPMENT, (391-0468)

This PAAD authorizes $180 million, consisting of $123 million in loan funds and $57 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; agricultural machinery, equipment and commodities to be imported by the Pakistani private sector; and, such other emergency commodity imports as USAID/Pakistan and AID/Washington may agree upon. This document describes the third and final tranche, covering the period FY 1984 - FY 1986, of a $300 million program over the period FY 1982 - FY 1986, which is designed to increase the productivity of the agricultural sector and provide balance of payments support.

(Continued on next page)

19. CLEARANCES

XXXXXX AA/ASIA, CWGreenleaf CG 6/28
XXXXXX AA/PPC , Richard Derham RD 6/29
XXXXX GC , Howard Fry 6/29
XXXXX FM/LMD, HWShropshire 6/19/84
XXXX FM/PAD, ESOwens 6/19/84
XXXXXX Donor M. Lion 6/18/84
Director, USAID/Pakistan

Leon E. Vaughn
Controller, USAID/Pakistan

20. ACTION APPROVED

AUTHORIZED SIGNATURE 7/16/84

for M. Peter McPherson

TITLE Administrator

CLASSIFICATION: UNCLASSIFIED

PROGRAM ASSISTANCE APPROVAL
DOCUMENT (PAAD) AMENDMENT

Block-18 Continued

All accruals of proceeds to the Cooperating Country from the sale of grant-financed commodities shall, in accordance with Section 609 of the Foreign Assistance Act (FAA), be deposited in a Special Account to be utilized in development activities in such areas as agriculture, rural development, water resources, energy, population, education, health or any other use authorized by the FAA and agreed to by both parties, and where appropriate, may also be used to reduce opium poppy production and may be made available 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.

Mixed Credits: An appropriate clause regarding the availability of these funds for mixed credits will be included in the Program Agreement.

PAAD AMENDMENT
AGRICULTURAL COMMODITIES AND EQUIPMENT(391-0468)

TABLE OF CONTENTS

X. ANNEXES

A. Relevant Cables, Waivers, and Correspondence

B. USAID Office of Financial Management Report on ACF Program as of March 31, 1984

C. Program-Specific Annexes

1. Fertilizer Tables

2. Illustrative List of Water Sector Commodities

3. Illustrative List of Commodities for the Forestry Planning and Development Project

4. Illustrative List of Commodities for the Transformation and Integration of the Provincial Agricultural Network Project

5. Illustrative List of Commodities for the Baluchistan Area Development Project

6. Illustrative List of Commodities for the Management of Agricultural Research and Technology Project

7. Illustrative List of Commodities for the Rural Roads Project

LIST OF TABLES

I. SUMMARY AND RECOMMENDATIONS

A. Recommendations

1. Funding

USAID/Pakistan recommends that the A.I.D. Administrator authorize $180 million for the Agricultural Commodities and Equipment (ACE) Program (391-0468), consisting of $123 million in loan funds and $57 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 third and final tranche, covering the period FY 1984 - FY 1986, of a $300 million five-year program, which is designed to support the balance of payments and agricultural productivity objectives of the U.S. Economic Assistance Program in Pakistan. The Mission proposes to obligate $70 million, consisting of $30 million in loan funds and $40 million in grant funds, in FY 1984. Obligations of $60 million and $50 million are proposed in FY 1985 and FY 1986, respectively.

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.

B. Summary Program Amendment Description

1. The Overall Program

The FY 1982 $60 million tranche of the 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; or those with a longer-term impact, such as equipment for 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.

2. FY 1982 Activities

The FY 1982 Program financed the importation of: (a) 130,000 metric tons (MT) of Diammonium Phosphate (DAP) fertilizer, valued at $32.8 million; and, (b) earthmoving and workshop equipment and spare parts, valued at $24.2 million, for the four Provincial Irrigation Departments (PIDs), in support of the AID-financed Irrigation Systems Management (ISM) Project. Fertilizer deliveries were completed in late November 1982. Equipment is being procured with the assistance of two Procurement Services Agents (PSAs). About $10 million worth of the equipment has arrived in-country. Awards for an additional $5 million have already been made, and an estimated $2.2 million worth of additional equipment should be awarded in June 1984. The remaining $7 million worth of equipment procured with FY 1982 funds is expected to arrive in-country by December 1984.

No specific policy actions were proposed as part of the FY 1982 Program Agreement. The PAAD, however, did provide a preliminary overview of agricultural sector policy issues and policy dialogue opportunities and identified several policy studies which would be carried out to support the policy dialogue.

3. FY 1983 Activities

The FY 1983 Program Amendment provided $34 million for the importation of DAP and Triple Super Phosphate (TSP) fertilizers, about $13 million for additional irrigation equipment in support of the ISM Project and other water sector activities, and the remaining $13 million, of the $60 million authorized, for commodities in support of other USAID/Pakistan projects in the agriculture and rural development sector. Deliveries of about 115,000 metric tons of fertilizer, valued at $30.1 million were completed in February 1984.

In early 1984, the GOP requested A.I.D. to finance the importation of $35 million worth of cotton under the ACE Program to supplement domestic supplies necessitated by a severe production shortfall. Accordingly, with the concurrence of AID/Washington, approximately $25 million of FY 1983 ACE Program funds, originally allocated for project commodities, was reprogrammed to procure cotton, and the balance of $10 million worth of cotton will be procured with FY 1984 funds. Awards for 57,400 bales of 500 pounds each or 28.7 million pounds of cotton, valued at $24.1 million, were made in early April 1984. Procurement of those project commodities originally planned under the FY 1983 Program will be undertaken with FY 1984 funds. The remaining approximately $6 million under the FY 1983 tranche of the program has been allocated for commodities in support of the ISM Project, and procurement is in process.

Through a series of side letters, the Mission reached agreement with the GOP to implement several policy actions in PFY 1983/84 aimed at the increased privatization of fertilizer marketing. Progress in this regard and the findings and implications of policy studies in the areas of edible oil and agricultural mechanization are described in Section IV.D.

4. FY 1984 - FY 1986 Activities

As agreed by AID/Washington during the March 1984 CDSS reviews, this PAAD Amendment seeks authorization for the balance of the Program's life, i.e., FY 1984 through FY 1986. In accordance with AID/Washington guidance, this PAAD Amendment defines areas of policy dialogue in which the Mission is working and will continue to work. A policy strategy is presented in Section IV.D., which identifies desired policy changes and the Mission's plans for achieving these changes during the life of the Program.

The ACE program will continue to be incrementally obligated, and the Mission will hold annual negotiating sessions with the GOP, prior to obligation of each annual tranche, in which policy issues will be discussed, goals determined, and accomplishments reviewed. Prior to those negotiations, the Mission will cable to AID/Washington, for its review, an update on the policy environment, including progress in achieving objectives defined for the previous year, studies and implementation actions in progress, and its negotiating objectives for the succeeding year.

A new feature of the program, which is being introduced in the FY 1984 ACE Program, is a private sector commodity import program (CIP) component. The GOP, in its Sixth Five-Year Plan, emphasizes the need for an expanded role by the private sector to meet its development objectives. To assist the GOP implement this policy, which is also one of the cornerstones of A.I.D. policy, the Mission proposes to make some of the ESF loan funds available to the Pakistani private sector for importation of agricultural machinery and equipment. An initial tranche of $10 million for this component in the FY 1984 ACE Program is considered adequate to assess demand and evaluate implementation performance. If demand for these funds meets expectations and implementation progresses smoothly, increased allocations would be considered in future years.

The Mission proposes to allocate the $70 million to be obligated in FY 1984 as follows: $30 million for fertilizer; $10 million for the balance of cotton requested by the GOP in early 1984; $10 million for the private sector CIP; and, $20 million for commodities in support of other USAID-funded projects, specifically, Baluchistan Area Development, Forestry Planning and Development, Transformation and Integration of the Provincial Agricultural Network, and Management of Agricultural Research and Technology Projects, as well as water sector commodities related to but not specifically tied to the Irrigation Systems Management Project.

A summary of the provisional allocation of FY 1984 funds is shown in Table 1.

TABLE 1

SUMMARY OF PROVISIONAL FY 1984 FUNDING ALLOCATIONS
(In Dols Million)

Program Component	Loan	Grant	Total
Fertilizer	10	20	30
Cotton	10	-	10
Private Sector CIP	10	-	10
Project Commodities	-	20	20
	30	40	70

Table 2 provides a summary of actual and projected allocations of funds for the entire five-year life of the ACE Program.

TABLE 2

AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM:
ACTUAL AND PROJECTED FUNDING ALLOCATIONS (FY 1982 - FY 1986)
(IN Dols Million)

	FY 1982	FY 1983	FY 1984	FY 1985	FY 1986	All Years
Fertilizer	34	29	30	30	30	153
Cotton	-	25	10	-	-	35
Private Sector CIP	-	-	10	15	20	45
Project Commodities	26	6	20	15	-	67
Totals	60	60	70	60	50	300

In FY 1985 and FY 1986, the Mission seeks to reduce its management/administrative burden and to increase the fast-disbursing nature of the program to maximize its balance of payments impact. Our approach will be to maintain approximately the same level of fertilizer imports, provided there is progress by the GOP in achieving agreed-upon policy objectives with respect to increased privatization of fertilizer marketing, and to allocate an increasing proportion of program resources to the private sector CIP component, provided this component is meeting its objectives. Provision is also made in FY 1985 for the procurement of additional commodities to support other USAID/Pakistan projects, specifically, Irrigation Systems Management, Transformation and Integration of the Provincial Agricultural Network, and Rural Roads Projects. The Mission recognizes, however, the need to ensure sufficient program flexibility to respond to: agricultural production shortfalls or other emergencies; actual performance on fertilizer policy, other policy implementation actions, and the private sector CIP; the possible need for additional commodities for projects to be designed or already approved; and/or other balance of payments requirements which might arise over the next three years.

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

Section IV. summarizes the broad USG and GOP policy goals for the six-year ESF package and for Pakistan's Sixth Five-Year Plan. Theseprovide the context within which the ACE Program supports and reinforces key elements of the Mission's macro and agricultural sector policy objectives. The ACE Program does not operate in isolation as a policy tool, but serves to amplify and strengthen a complex set of policy discussions which the Mission will sustain with the GOP over the coming several years. There is a core set of policy issues, however, which are more explicitly built into the structure of the ACE Program. The Mission's plans and objectives in these areas are outlined in Section IV.

In response to AID/Washington's suggestion that the Mission develop a formal ACE policy dialogue matrix with preplanned goals, annual targets, benchmarks, and the like, the Mission's experience shows that such an effort is not practical and could introduce undesirable inflexibility into the dialogue. Gains in the policy area often cannot be preprogrammed. Therefore, although the PAAD Amendment outlines how the Mission will pursue policy objectives under the ACE Program, no specific rate of progress is projected. The Mission will continue to share policy performance reports with Washington and ensure that its annual negotiations on the ACE Program provide opportunities for both the Mission and AID/Washington to assess progress towards objectives in light of the total policy scene in Pakistan. We believe that this is not only realistic, but also is the most effective way to build the ACE Program into our overall multi-year, multi-sector development dialogue with the GOP.

2. Local Currency Generations

Section 609 of the Foreign Assistance Act (FAA) requires that the recipient country establish a Special Account for commodities to be furnished with ESF on a grant basis under arrangements which result in the accrual of proceeds to the recipient country from the sale of such imported commodities. Under the FY 1984 ACE Program, of the $40 million in grant financing, only the $20 million allocated for fertilizer falls within this legislative requirement. No sale or accrual of proceeds, as contemplated under FAA Section 609, will occur for project commodities imported under the Program since the GOP does not "sell" these commodities to the provinces nor is there an "accrual of proceeds" to the GOP from the transfer of these commodities to the provinces. Based on negotiations with the GOP, the Mission has also concluded that, in contrast to the FY 1982 and FY 1983 Programs, rupee generations from ESF loan-financed commodities will not be included in a Special Account. In FY 1985 and FY 1986, only rupees accruing from the sale of imported grant-financed commodities under the ACE Program will be deposited in a Special Account. (See Section VIII.C.)

3. ACE Program Pipeline

A total of $120 million, consisting of $74 million in loan funds and $46 million in grant funds, has been obligated to date under this Program. As of March 31, 1984, $53.4 million in loan funds and $10.4 million in grant funds or a total of $63.8 million had been disbursed. An additional $20.6 million in loan funds and $13.0 million in grant funds or a total of $33.6 million should be fully disbursed once payments are made for the fertilizer which arrived in February 1984 and for the cotton which is scheduled to arrive in June/July 1984, leaving an undisbursed balance of $22.6 million in grant funds. As discussed in Section II.B., this latter amount is expected to be fully disbursed by December 1984.

4. Private Sector CIP

The private sector "window" in the ACE Program is an important element of the Mission's overall program of support to the GOP's Sixth Five-Year Plan goal of enhanced private sector activity in Pakistan. The effective demand for U.S. equipment will reflect a balancing of three factors: (a) technological advantage of U.S. supplied equipment; (b) quality advantages of U.S. equipment; and, (c) price competitiveness of U.S. equipment. If the U.S. had to compete on price alone, there would be some doubt as to the total demand for U.S. goods under the Program. In fact, however, the slope of the demand curve for U.S. agribusiness equipment in Pakistan will be determined at least as much by the fact of U.S. proprietary technology embedded in many U.S. goods and in the U.S. quality advantage in some areas of agricultural equipment. There is no way to prove quantitatively a demand level in the context of a dynamic marketplace. The Mission will, however, test the market with a phased approach to credit availability. The FY 1984 ACE Program will make $10 million available through banks to the full universe of private sector borrowers. Based on the actual track record of this initial tranche, the pace of future tranches will be phased.

The Mission has held numerous discussions with GOP officials on the private sector CIP component but has not yet received official GOP concurrence with some elements of the proposed program. Section V.A.3.c. describes the likely characteristics of the program and reflects the position the Mission is taking in negotiations with the GOP on these matters. The major issues still under negotiation relate to participating banks, eligible importers, proposed payback periods for borrowers, procedures for making allocations to the banks, and the credit ceilings of participating banks. We anticipate reaching agreement with the GOP on these outstanding issues by the time of Program Agreement Amendment negotiations and will document the agreed upon particulars of the program, in a countersigned PIL, prior to the disbursement of funds for the private sector CIP component. (See Section IX.)

E. Contributors to the PAAD Amendment

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

Jalil Ahmed	- Program Specialist (Water Resources), Office of Agriculture and Rural Development, USAID/Pakistan
Russel Backus	- Assistant Agricultural Development Officer, Office of Agriculture and Rural Development, USAID/Pakistan
John Blackton	- Chief, Office of Program, USAID/Pakistan
Allen Hankins	- Chief, Office of Agriculture and Rural Development, USAID/Pakistan
Donor Lion	- Director, USAID/Pakistan
Linda Lion	- Chief, Office of Project Development and Monitoring, USAID/Pakistan
Robert Mathia	- Assistant Project Development Officer, Office of Project Development and Monitoring, USAID/Pakistan
Paul Mulligan	- Program Economist, Office of Program, USAID/Pakistan

James Politte	- Procurement and Contracts Officer, Office of Project Development and Monitoring, USAID/Pakistan
Barry Primm	- Agriculture Economist, Office of Agriculture and Rural Development, USAID/Pakistan
Stephen Spielman	- Regional Legal Advisor, USAID/Pakistan
Jimmie Stone	- Deputy Director, USAID/Pakistan
Wolfgang Von Spiegelfeld	- Chief, SER/COM/NEA, AID/Washington
Abdul Wasay	- Economic Specialist, Office of Agriculture and Rural Development, 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. Review of Program Implementation Experience to Date

Although some delays and problems were encountered at the beginning, implementation of this Program is now proceeding satisfactorily. The basic rationale of the Program continues to be sound, and the mode of implementation remains appropriate and valid for most of the commodities to be financed under this Program over the next three years.

1. FY 1982 Program

a. Fertilizer

The FY 1982 Program Evaluation report states: "Procurement (of fertilizer) went smoothly and according to schedule." Once agreement was reached between the GOP's Federal Directorate of Fertilizer Imports (FDFI) and SER/COM, AID/Washington on the terms and conditions in the Invitation for Bids (IFB) and Charter Party, the tendering and award phases of the procurement, which were undertaken by the Pakistan Embassy in Washington, D.C. with the assistance of SER/COM, using host country procurement procedures, went extremely smoothly. Deliveries of 130,000 MT of DAP fertilizer, valued at $32.8 million, were completed in November 1982 as scheduled and well in time for fertilizer application during the 1982/83 rabi (October - March) crop season. Allocations of the fertilizer by province were made in accordance with the established GOP formula for fertilizer distribution as follows: Punjab = 67 percent; Sind = 22.5 percent; NWFP = 9.0 percent; and, Baluchistan = 1.5 percent. Of the $34 million in loan funds allocated for fertilizer in the FY 1982 PAAD, $32.8 million was fully disbursed by March 1983, and the remaining $1.2 million, which was applied to the FY 1983 Program fertilizer procurement, was fully disbursed by March 1984.(See Annex B.)

b. <u>Equipment</u>

The FY 1982 PAAD provided $24.2 million in grant funds to import earthmoving and workshop equipment and spare parts for the four Provincial Irrigation Departments (PIDs). The equipment will be used to support the objectives of USAID/Pakistan's FY 1983 Irrigation Systems Management (ISM) Project (391-0467), which is being 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 accelerate the implementation of the ISM project.

Of the $24.2 million worth of equipment, approximately $130,000 worth of commodities is being procured directly by USAID/Pakistan through AID's Excess Property Program and is expected to arrive in-country by July 1984. The remainder is being procured by two Procurement Services Agents (PSAs), who were competitively selected, in accordance with A.I.D procedures for host country contracting, with USAID/Pakistan acting as Agent of the GOP. Contracts with the PSAs were executed in August 1982. However, initiation of the procurement process was significantly delayed due to the time required to: (i) prepare and obtain approval of required GOP planning documents (PC-is) to permit the importation of the commodities; and, (ii) reach agreement among A.I.D. and GOP participating entities, including the Federal Government and all four Provincial Governments, on both the types of commodities to be procured and the specifications for these items. All of these problems have been resolved, and program-financed commodities began arriving in October 1983.

As of March 31, 1984, about $10 million worth of earthmoving and other heavy equipment had arrived in-country and was delivered to the appropriate Province; another $2.1 million worth of this category of equipment has been shipped. Awards totalling $2.9 million for workshop and hydraulic measuring equipment were made by mid-February 1984, and these commodities should arrive in-country in June 1984. An estimated $2.2 million worth of additional workshop equipment should be awarded in

June 1984. All of the remaining $6.9 million worth of commodities procured with FY 1982 funds is expected to arrive in-country by December 1984. The balance of FY 1982 grant funds, which has been used for PSA fees, in-land transportation, and other related commodity costs, should be fully disbursed by December 1984.

A total of about 2,500 different items in various quantities for all four PIDs will have been procured under the FY 1982 Program. Despite the delays encountered in initiating the procurement process and the problems which had to be addressed subsequently relating to the need for retendering and the like, the Mission and the GOP are satisfied that the implementation approach using PSAs has proven sound, given the number and diversity of commodities involved. The assistance of the PSAs in processing insurance claims on damaged goods, arranging for supplier training, and facilitating communications with suppliers has been invaluable. The lessons learned by the GOP and the Mission in implementing the FY 1982 program should facilitate the expeditious implementation of future tranches of the Program.

c. Policy Studies and The Policy Dialogue

No specific policy actions were proposed as part of the FY 1982 Program. However, the Mission did carry out or initiate several studies, as described in the original PAAD, to identify policy options and recommendations to support the Mission's policy dialogue with the GOP in the agriculture sector. These included studies of Pakistan's overall economic policy framework and agricultural development policy options, and specific studies of the edible oil and fertilizer marketing sub-sectors. The results of these studies have provided the analytical base and framework of the Mission's strategy and approach to undertaking a policy dialogue with the GOP both under this Program as well as under other AID-financed agricultural sector projects. For example, the fertilizer marketing study provided the basis for policy negotiations under the FY 1983 PAAD Amendment related to an expanded role by the private sector in fertilizer marketing. The agricultural development policy options study identified specific policy actions which are being or will be pursued under the Mission's Irrigation Systems Management, Food Sec[illegible] Management, Management of Agricultural Research and Technology, and Transformation and Integration of the Provincial Agricul[illegible] Network Projects. The findings and recommendations of the edible oil study provided the framework for the Mission's policy dialogue with the GOP under the PL 480 Program as well as the Mission's proposed policy strategy under the FY 1984 - FY 1986 ACE Program. (See Section IV.D.)

d. Local Currency Generations

Under the FY 1982 ACE Program, only the fertilizer, which arrived in November 1982, generated rupees which were deposited in a Special Account. The Mission is currently engaged in discussions with the GOP concerning the handling of these local currency generations.

e. Evaluation Findings

In December 1982, a two-person evaluation team from AID/Washington examined implementation performance for the first nine months of the Program. A summary of the team's findings was provided in the FY 1983 PAAD Amendment. The evaluation served as the basis for the design of the FY 1983 Program and has been taken into account in the design of the proposed FY 1984 - FY 1986 Program.

2. FY 1983 Program

a. Fertilizer

Deliveries of 103,900 and 10,500 MTs of Diammonium Phosphate (DAP) and Triple Super Phosphate (TSP), respectively, valued at $30.1 million, were completed in February 1984. The implementation procedure was the same as that used under the FY 1982 Program. Of this amount, $1.2 million was charged against the FY 1982 Program and the remaining $28.9 million was charged against the FY 1983 Program, leaving a balance of $5.1 million of the $34 million in loan funds which had been allocated for fertilizer.

b. Other Commodities

In addition to an allocation of $34 million for fertilizer, the FY 1983 PAAD Amendment provided about $13 million for additional irrigation equipment in support of the ISM project and other water sector activities, and the remaining $13 million for commodities in support of other USAID/Pakistan projects in the agriculture and rural development sector. In early 1984, however, the GOP requested A.I.D. to finance the importation of $35 million worth of cotton under the ACE Program to supplement domestic supplies necessitated by a severe production shortfall due to unseasonable weather and pest attacks. Production dropped to 2.95 million bales as compared with a target of 5.2 million bales. This represented a 39 percent reduction as compared with last year's actual production level and was 43 percent less than the target production figure. Cotton production in PFY 1983/84 was not only insufficient to meet domestic consumption requirements, thereby adversely affecting Pakistan's cotton textile industry, but also widened an already serious trade gap for the GOP. Accordingly, with the concurrence of AID/Washington, $25 million of FY 1983 ACE Program funds, originally allocated for project commodities, was reprogrammed to procure cotton, and the balance of $10 million worth of cotton will be procured with FY 1984 funds.

The procurement process was beset, until just before awards, by controversy involving the cancellation of U.S. private sector contracts by Pakistani private sector importers. It was believed in some quarters that at least some of these cancellations occurred because the A.I.D.-financed procurement was thought likely to drive down prices. Prior to the issuance of the tender document, however, cotton prices rose, which satisfied the concerns of the U.S. private sector. Otherwise, the procurement process went extremely smoothly.

Procurement of the cotton followed the same procedure employed for fertilizer under the FY 1982 and FY 1983 Programs. Specifications were jointly developed by Mission and GOP representatives and reviewed by SER/COM, AID/Washington. A representative of the GOP's Cotton Export Corporation (CEC), which will be responsible for clearing the commodities through customs and distributing the cotton, reviewed the IFB and participated in the tendering and award process in Washington, D.C. with SER/COM and Pakistan Embassy officials. Awards for 57,400 bales of 500 pounds each or 28.7 million pounds of cotton, valued at $24.1 million, were made in early April 1984. Deliveries are expected to be completed by June/July 1984.

The remaining approximately $6 million in FY 1983 funds is being used to procure: (i) about $700,000 worth of vehicles, directly by the Mission, in support of the ISM project, which are scheduled to arrive in-country by May 1984; and, (ii) an additional $5.3 million worth of earthmoving equipment in support of the ISM project, which should arrive in-country by December 1984. Procurement of other project commodities originally planned under the FY 1983 Program will be undertaken with FY 1984 funds. In summary, the $60 million obligated in FY 1983 should be fully disbursed by December 1984.

c. Policy Studies and The Policy Dialogue

Through a series of side letters, the Mission reached agreement with the GOP to implement several policy actions aimed at the increased privatization of fertilizer marketing. FY 1983 Program Amendment negotiations focused on three aspects of fertilizer marketing: (i) allocation of at least 50 percent of all fertilizer imports to the private sector with progressive increases in subsequent years; (ii) the same level of incidentals on imported fertilizer for all fertilizer distributors; and, (iii) allocation of imported fertilizer to all alloteees on a timely basis. Progress in implementing these policy actions is discussed in Section IV.D.

An agricultural mechanization study was completed in December 1983 and examined, inter alia, the employment, production and income distribution impact of mechanization; both on-farm and off-farm use of tractors; the potential for increased use of tractors and tractor-related equipment; and, issues and constraints in the area of small-farm technology. The major conclusion of the study was that Pakistan has not yet reached the optimum desirable level of farm mechanization and therefore should continue to support tractorization, with minor adjustments in current policies relating to raw materials importation, regularized testing and certification, and requirements for the increased utilization of local componentry. The findings and implications of this study, as well as the comprehensive edible oil study, which was initiated in 1982 and completed in December 1983, are further discussed in Section IV.D.

A fertilizer policy study, which is designed to build on the work undertaken to date, is scheduled to begin in June 1984 and will focus on such areas as: phasing out public sector fertilizer distributors; removal of the fertilizer subsidy; 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). In addition, several other major studies related to buffer stocks, agricultural price policy, and food rationing, which will be initiated in early 1985 under the recently approved Food Security Management Project (391-0491), are described in Section IV.D.

d. Local Currency Generations

Both the cotton and fertilizer procured under the FY 1983 Program will generate rupees which will be deposited into a Special Account in accordance with the terms and conditions of the FY 1983 Program Agreement Amendment. The first report on the proceeds from the sale of fertilizer, which arrived in-country in February 1984, is not expected to be received by the Mission from the GOP before August 1984. Similarly, the first such report on cotton, which should arrive in-country in June/July 1984, is not expected to be submitted to the Mission by the GOP before January 1985.

III. PROGRAM MACRO-ECONOMIC CONSIDERATIONS

A. The Economy

The economic trends described in the original PAAD in March 1982 and the PAAD Amendment in May 1983 continue to persist in Pakistan. Government policies still are oriented toward fiscal and monetary restraint, incentive creating input/output relationships in agriculture, improved efficiency in the public sector and mobilization of the private sector. These policies have contributed to an annual rate of growth of gross domestic product (GDP) of about six percent over the last six years. This year, however, is likely to see a lower growth rate, largely because of poor cotton and wheat crops. In addition, the slowdown in remittances, which directly affects gross national product (GNP), will indirectly restrain GDP growth. GDP will probably grow by less than five percent in PFY 1983/84.

The sustained growth in the economy has been due, in part, to favorable crop production in the agricultural sector and, in part, to a public sector industrial policy that has concentrated on the completion of projects while holding back on new starts. The combination of good weather, favorable price policies and additional arable land brought under production have resulted in steady output growth despite little improvement in yields. Similarly, conservative public sector policies have resulted in industrial growth based on earlier investments despite low current investment and savings ratios. The question marks are whether agricultural output will continue to grow in the absence of ideal weather and net additions to land under cultivation and whether the private sector will increase its rate of industrial investment as public sector investment falls off.

The experience of PFY 1982/83 suggests that the private sector will not fill the investment gap left by the public sector. For example, private gross fixed investment in PFY 1982/83 was the same percentage of GNP that it had been for the last three years while the public shares declined from 9.4 to 8.5 percent. Qualitative evidence for the current fiscal year also suggests that a sharp upturn of investment by the private sector is not in the cards. The launching of the implementation of the GOP's Sixth Five Year Plan on July 1, 1983, with its strong emphasis on the private sector, may be too recent to have had any significant impact. Furthermore, the private sector still is deterred by shortages of electricity, natural gas, communications, transport and medium and long-term credit. The Government has not promulgated its deregulation package, and the private sector still is wary of making long-term investments. The investment data probably underestimate the role of the private sector because very little information is available on the small-scale sector, which appears to be booming. Nevertheless, one key to continued growth is greater investment by the medium and large private industries.

The rate of savings in Pakistan is important for increased private investment and the fiscal health of the Government. Both gross domestic and gross national savings are low by standards of similar countries. The past year, PFY 1982/83, witnessed a substantial increase in gross national savings from 11.7 to 14.1 percent. This increase was due to the introduction of savings schemes that pay high rates of interest (up to 15 percent), are tax free, and provide a means for "black market money" to earn a return. The funds from these schemes have been used to finance the Government deficit and thus have not contributed to a loosening of credit nor to additional private investment. Even public investment and the development budget have been shrinking as a share of total public expenditures. Thus, the need exists to mobilize additional public resources and to insure that it is used for investment rather than consumption.

The credit and inflation situation are mixed. The money supply increased by more than 25 percent in PFY 1982/83 because of the large increase in foreign exchange reserves. At the same time, inflation declined, perhaps due to the reduction in the budget deficit and adequate supplies of important commodities. The situation now is confused. There will be a substantial drawdown of foreign exchange reserves in PFY 1983/84, which already is serving to lower the expansion of the money supply. On the other hand, inflation has increased, due probably to the earlier expansion of the money supply, and definitely to shortages and price increases for onions, edible oil and some other commodities. The cotton crop is roughly 39 percent lower than last year, which has resulted in higher prices for cotton which undoubtedly will have some effect on textile prices.

The size of the budget deficit for PFY 1983/84 also is unclear. The portion to be financed by domestic bank borrowing was projected to be 1.5 percent of GDP in the budget. The assumptions underlying it (strong revenue performance, restraint on the growth of expenditures, recovery in net external assistance) are not holding true. In particular, there is an unexpected subsidy on edible oil. Thus, the deficit probably will be larger than projected, leading to higher inflation.

B. The Balance of Payments

Pakistan suffers from a chronic balance of payments deficit. Exports for PFY 1982/83 were about 47 percent of imports and the trade deficit was 9.5 percent of GNP. The current account deficit was 1.8 percent of GNP. Workers' remittances and a partial recovery of exports were the reasons for the substantial improvement in the current account deficit. Exports of raw cotton, cotton yarn and the "other category" increased substantially during the year. These exports plus remittances reduced the current account deficit from $1,530 million to $554 million in one year. (See Table 3.)

The change in foreign exchange reserves in PFY 1982/83 was even more dramatic than the change in the current account balance. Reserves declined by $198 million in PFY 1981/82 while they increased by $ 1,111 million in PFY 1982/83. This reversal and buildup in foreign exchange reserve were caused by the improved current account balance and also by substantial capital inflows. Long-term capital inflows increased from $730 million to $1,264 million during the same period. This gain was the result of increased foreign assistance disbursements, a larger net flow of IMF funds, and other capital inflows.

The outlook for the period covered by this PAAD Amendment is much less favorable than the PFY 1982/83 experience. The GOP projections that appear in the World Bank review of the Pakistan economy of February 24, 1984 show current account deficits of $769 and $849 million, respectively, for the next two years, and we anticipate similar levels for the balance of the PAAD Amendment period. The reasons given for the projected increases are anticipated slower growth in workers' remittances and a rapid increase in edible oil imports. The large base of imports relative to exports also is expected to contribute to the larger deficit. The GOP released new projections before the April Consortium Meeting in 1984 which projected the current account deficit to be $837 million in PFY 1983/84 and $984 million in PFY 1984/85. These projections represent 2.5 percent and 2.6 percent of GNP for the two years. The latter year's figure assumes that there will be no growth in remittances, but that exports will increase by 19 percent and imports by 10 percent. The original projections of the GOP showed foreign exchange reserves increasing by $440 million in PFY 1983/84 and no change in PFY 1984/85. The revised figures show a drawdown of $128 million in PFY 1983/84 and $270 million in PFY 1984/85.

The current level of foreign exchange reserves in Pakistan is equal to about 15 weeks of imports. This is a high level for Pakistan, but it is projected to fall. The termination of the IMF Extended Fund Facility will substitute capital outflows for the capital inflows of the past three years. Remittances have been declining for the past three months, compared to last year's experience. Most of this decline probably cannot

TABLE 3

THE BALANCE OF PAYMENTS, PFY 1979/80-1984/85

(In U.S. $ Million)

	1979/80	1980/81	1981/82	1982/83	1983/84/a	1984/85/b
Trade Balance	-2,513	-2,765	-3,373	-2,989	-3,423	-3,743
Exports (f.o.b.)	2,341	2,798	2,318	2,627	3,022	3,475
Imports (f.o.b.)	-4,854	-5,563	-5,691	-5,616	-6,445	-7,218
Invisibles (net)	1,373	1,774	1,843	2,435	2,654	2,901
Workers' remittances	1,748	2,097	2,225	2,886	3,174	3,491
Interest payments/c	-287	-357	-453	-421	-449	-484
Other invisibles (net)	-88	34	71	-30	-71	-106
Current Account Balance	-1,140	-991	-1,530	-554	-769	-842
Long-Term Capital (net)	837	581	730	1,264	816	955
Gross disbursements (official)	1,054	956	1,102	1,301	1,259	1,384
Amortization/c	-305	-516	-492	-389	-443	-488
Other	88	141	120	352	-	59
Basic Balance	-303	-410	-800	710	47	113
Errors and Omissions (net)	-8	-	-18	24	-	-
SDR Allocation	39	-	-	-	-	-
Official Short-term and Reserve Movements	272	410	818	-734	-47	-113
Official short-term inflow	356	50	-12	-49	26	-32
Official short-term outflow	-304					
IMF (net)/d	78	315	358	413	-63	-113
SBP reserves drawdown (- = increase)	-362	-291	198	-1,111	-10	-
Foreign Central Bank Deposits	214	-	-	-	-	-
Other	290	336	274	13	-	32

/a Revised Government estimates.
/b Government projections.
/c Interest and amortization are adjusted for debt relief.
/d Including Trust Fund.

SOURCE: *Pakistan: Recent Economic Developments*, World Bank, Report No. 4906-PAK, page 44, February 24, 1984.

be attributed to speculation as to further depreciation of the rupee. Exports depend on the weather, the world economy, protectionism and geo-political factors over which Pakistan has no control.

The drawdown in foreign exchange reserves need not harm the Pakistan economy and might help by reducing inflationary pressures through a more slowly growing money supply. The GOP does not want to restrain domestic credit expansion because such restraint might curtail the private sector revival on which the GOP's Sixth Five Year Plan depends.

C. Economic Impact of Program Amendment

The proposed $70 million tranche of the ACE program in U.S. FY 1984 will contribute to strengthening Pakistan's balance of payments. This program plus the PL 480 Title I Program for the purchase of edible oil and the proposed Energy Commodities and Equipment Program to be launched in U.S. FY 1984 are the major USAID efforts to directly support the balance of payments with FY 1984 funds. All three programs will result in substantial generation of local currency which will assist the GOP in managing its budget. Based on the latest figures, the FY 1984 ACE program will result in the current account deficit being approximately 10 percent lower then would otherwise be the case. Without these three programs, the expected drawdown in foreign exchange reserves in 1984/85 would be slightly more than 50 percent larger than projected. The projections given in the section above, however, include these expected programs.

The importation of cotton, fertilizer and other commodities under the ACE program should not exacerbate the inflationary situation in Pakistan. In fact, the program will reduce inflationary pressures by reducing the sizes of the current account and the Government budget deficits. Most of these commodities would have been imported even without this program. Government expenditures are not likely to increase as a result of this program.

D. Recent Agricultural Production Trends

In terms of real GDP, Pakistan grew by 5.8 percent during PFY 1982/83. The agricultural sector grew by 4.8 percent during the same period, as compared to 3.5 percent for the previous year, and remained the largest sector of the economy, accounting for 29 percent of the GDP, employing 55 percent of the labor force, and providing directly or indirectly 70 percent of export earnings. All crops, except for tobacco and sugarcane, registered increases in PFY 1982/83. Table 4 presents area and production statistics by major crop category for PFYs 1981/82, 1982/83 and selected estimates for PFY 1983/84.

Wheat and rice, the most important food crops, reached record production levels in PFY 1982/83 with the former being exported for the first time. Sugarcane production, on the other hand, dropped slightly, partially due to reduced acreage planted. Oilseed production remained nearly the same

TABLE 4

AREA AND PRODUCTION OF MAJOR CROPS, PFY 1981/82 - 1983/84

Crop	Area in (000) Hectares			Production in (000) MTs		
	1981/82	1982/83	1983/84	1981/82	1982/83	1983/84
Major Cereals						
Wheat[a/]	7223.0	7398.0	7274.0	11304.0	12414.0	11500.0
Rice	1976.0	1978.0	1954.0	3430.0	3445.0	3567.0
Oilseeds						
Rape/Mustard	391.0	385.0	na.	238.0	246.0	na.
Sunflower	2.4	4.2	na.	4.4	4.5	na.
Soybean	3.7	4.1	na.	1.4	1.4	na.
Groundnut	59.7	69.3	na.	72.2	84.1	na.
Sesame	42.8	28.5	na.	16.8	10.8	na.
Coarse Grains						
Sorghum	392.5	389.7	na.	224.6	221.9	na.
Millet	559.3	431.1	na.	272.4	220.9	na.
Maize	739.1	789.2	na.	938.4	1005.4	na.
Barley	221.6	263.1	na.	157.5	185.3	na.
Pulses						
Lentil	74.0	77.5	na.	31.4	36.0	na.
Mash	66.0	73.8	na.	32.7	30.3	na.
Mung	65.6	79.0	na.	31.6	39.6	na.
Gram	860.7	892.9	na.	286.4	491.0	na.
Other						
Cotton[b/]	3214.0	2263.0	2250.0	4398.0	4844.0	2950.0
Tobacco	43.1	43.1	na.	69.2	64.7	na.
Sugarcane	947.0	912.0	879.0	36580.0	32533.0	35018.0

Source: Agricultural Statistics of Pakistan-1982, Planning Unit, MOFAC, Islamabad (for 1981/82 - 1982/83 data) and Ministry of Food, Agriculture and Cooperatives (for 1983/84 data).

a/ Due to delayed rains, wheat production in PFY 1983/84 is not likely to exceed the previous year's level.

b/ Production is in thousands of bales. The 1983/84 production figure is the latest GOP estimate.

even though combined acreages of sunflower and soybeans increased by 36 percent. Due to the record corn crop and a slight increase in sorghum yields per acre, coarse grain production rose about 3 percent despite a 3 percent decrease in acreage.

Due to favorable conditions, gram yields per acre improved substantially resulting in a 56 percent increase in pulse production for PFY 1982/83. However, cotton production for the same year is estimated to be 61 percent of the previous year as a result of pests and untimely rains, which is expected to significantly increase the need for edible oilseed imports. Finally, acreage planted in tobacco remained constant while production dropped 6 percent in PFY 1982/83.

The livestock portion of the agricultural sector is, with one exception, showing continued slow progress despite intensified government production efforts. As shown in Table 5, cattle and buffalo registered the smallest percentage increases while the small ruminant categories (goats and sheep) increased 3.6 and 3.1 percent, respectively. The poultry industry continues its rapid expansion with a 1982/83 growth rate of 12.7 percent. Milk and meat production increased by 3 and 6 percent, respectively. The latter is attributable to the large increases in poultry production.

TABLE 5

LIVESTOCK POPULATION AND MILK, MEAT AND EGG PRODUCTION
PFY 1980/81 - 1983/84

Category	1980/81	1981/82	1982/83	1983/84
Livestock (000#s)				
Cattle	15770	15969	16160	na.
Buffaloes	11910	12190	12480	na.
Sheep	22110	22810	23520	na.
Goats	25840	26760	27720	na.
Poultry	58250	65650	74000	na.
Production				
Milk (000 MT)	9199	9382	9660	10100
Meat (000 MT)	869	918	940	1000
Eggs (000,000)	2427	2815	3000	3612

Source: Agricultural Statistics of Pakistan-1982, Planning Unit, MOFAC, Islamabad (for 1980/81 - 1982/83 data) and Ministry of Food, Agriculture and Cooperatives (for 1983/84 data).

IV. AGRICULTURAL POLICY ANALYSIS AND DIALOGUE

A. Overview of the Policy Context of the ACE Program

This section presents the broad USG and GOP policy goals for the six-year ESF package and for Pakistan's Sixth Five-Year Plan. These provide the context within which the Mission will utilize the annual ACE negotiations to support and reinforce key elements of both its macro and agricultural sector policy objectives.

Like all Commodity Import Programs (CIPs), the ACE program is first and foremost a balance of payments (BOP) tool. As such, it provides the Mission an opportunity to link the ACE negotiations to other USAID/Pakistan balance of payments negotiations (especially PL 480 Title I and the upcoming FY 1984 Energy Commodities and Equipment Program) in a broad review of resource allocation priorities in Pakistan. The foundation of the six-year ESF program in Pakistan is a bilateral understanding that the economic assistance package will assist the GOP to meet the BOP requirements associated with the costs of an enhanced defense capability required to meet mutually important strategic and geopolitical objectives in Southwest Asia. In this context, the ACE program fits into a broader pattern of fast-disbursing US economic assistance, and the Mission's policy discussions with the GOP are inevitably interlinked with these other programs. The Mission does not, therefore, plan on a discrete BOP and resource allocation dialogue with the GOP for each of the fast-disbursing BOP programs.

The ACE Program is targetted on two very important policy objectives which go beyond the BOP rationale for the program: fertilizer sector liberalization and private sector stimulation in the agribusiness area. These are major sub-themes of the Mission-wide policy concern for supporting and facilitating the GOP's progress toward broad economic liberalization and a greatly enhanced role for the private sector in both resource mobilization and productive investment.

The ACE PAAD provides the Mission with some very specific tools with which to conduct the policy dialogue on these two major topics. A combination of policy studies in the fertilizer sector and an annual set of conditions precedent and benchmarks on privatization link fertilizer financing directly to GOP policy performance. The private sector window of the ACE Program provides an annual opportunity for the Mission to deal directly with the GOP on issues related to banking, credit to the private sector, loan terms for private investors, and the like. These are opportunities for meaningful policy dialogue, backed by resources, which the Mission would not have without the ACE Program.

B. Agricultural Development Policy: The GOP's Sixth Five-Year Plan (1983-1988)

The overall goal of the GOP's Sixth Five-Year Plan (1983-1988) is the rapid and equitable development of the nation. The Plan also reflects a shift of public sector priorities from industrial projects and fertilizer subsidies to rural development, energy infrastructure, and the social sectors. Significant objectives of the Sixth Plan include the deregulation of a significant proportion of existing government controls on the national economy to more fully utilize the capabilities of the private sector and the targeting of the poorest elements of society for programs in nutrition, housing, water, sanitation, education and health.

The growth strategy for Pakistan's economy in the Sixth Five-Year Plan contains five major policy objectives, of which three are specific to the agricultural sector. Paraphrased, these three objectives include: increased agricultural yields through more efficient use of primary inputs and technology; an expansion of export markets for wheat, rice and other agricultural commodities; and, increased self-sufficiency in oilseeds. In this regard, the overall agricultural development goal of the Sixth Plan is to maintain the steady growth rate of the past; the Plan projects an average growth of 4.9 percent per annum.

During the next five years, the agricultural sector will benefit from the GOP's proposed plans to adopt even more appropriate price policies. Prices for both outputs and inputs are to be set at high enough levels to ensure that adequate incentives exist for increased farm production and productivity as well as to encourage the efficient use of water, fertilizer and other scarce inputs. Domestic prices are to be increasingly aligned with those of the international market which will likely move Pakistan into a competitive position in selected export crop categories.

Pakistan has successfully completed the transition from import substitution and meeting domestic demand deficits to overall self-sufficiency and occasional exportable surpluses in the important cereal grains. However, future increases in the production of these "major" crops are expected to be less dramatic than in the past. This will be compensated for by an induced higher growth rate in the production of minor crops such as fruits, vegetables, and traditional and non-traditional oilseeds along with meat, poultry and fish through favorable policies to stimulate the private sector and expanded programs in agricultural research, extension and credit.

All of the above will be supported by the planned expansion of improved seed-fertilizer technology; improved on-farm water management along with better canal maintenance, ensuring more efficient water utilization; and farm mechanization. The GOP, with considerable donor assistance, will continue to support programs in tillable land expansion, soil conservation and reclamation, quality seed generation and distribution, farm credit, and research and extension. In addition, special emphasis will be placed on increased non-traditional oilseed production and development of the livestock, poultry and fishery industries.

C. GOP Policy Performance in the Agriculture Sector

1. General

While the ACE Program is primarily targetted upon three policy areas: BOP at the macro level and fertilizer sector liberalization and agribusiness privatization at the sectoral level, it gives the Mission a seat at the table with the policy-makers in agriculture on a broad range of issues. Our voice is loudest where our resources are concentrated, particularly in the fertilizer area. In some cases, the Mission is able to link ACE with other programs, as in the case of oilseeds, to enhance its ability to pursue meaningful policy reforms which are addressed under other programs. (In the case of oilseeds, the Food Security Management (FSM) Project and the Title I Program are the core tools, but the importance attached by the GOP to the ACE Program enhances our effectiveness in using these other programs to pursue specific policy changes.)

This section reviews GOP performance in recent years on agricultural sector policy. Not all of the areas described will be centrally linked to ACE, but it is appropriate to present the wider picture in this PAAD because of the highly integrated and interlinked nature of the policy dialogue process. No other Mission project document carries the task of reviewing and updating the whole sectoral scene. The ensuing discussion, therefore, should be read and understood in the broader context of overall Mission goals for agricultural sector policy reform.

2. GOP Performance on Pricing Policy

The crop procurement prices for PFYs 1981/82, 1982/83 and 1983/84 are presented in Table 6. While the GOP remains committed to a policy of gradually aligning input/output prices in agriculture with those of the international market, its implementation performance has been somewhat mixed as discussed below and as shown in Table 6A.

Since self-sufficiency was achieved last year, GOP wheat procurement prices have remained constant. The atta (wheat flour) issue price was raised 8 percent to Rs 1800 per MT from Rs 1660 per MT in PFY 1982/83 as compared to an open market price of Rs 2333 per MT. Sugarcane prices, despite a continuing domestic glut, continue at the high PFY 1982/83 levels (approximately 294 percent above international prices). However, sugar has been derationed and is no longer subsidized at the retail level. While official PFY 1983/84 oilseed procurement prices have not been announced yet, an immediate and substantial farmgate price increase is certainly warranted in view of the recent 23 percent retail ghee price increase, an 8-9 percent annual growth in ghee consumption, modest increases in domestic oilseed production, and record setting international prices.

Regarding inputs, the supply situation has shown recent improvement, which has partially offset adverse weather conditions in Pakistan. For instance, agricultural credit grew by 18.8 and 29 percent in PFYs 1981/82 and 1982/83, respectively. Successful seed production programs in the past year have increased distribution of high-yielding varieties of wheat, cotton and rice by 33.4, 20.4 and 37.5 percent, respectively. Government subsidies on pesticides have been eliminated in the Punjab and

TABLE 6

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

Category of Commodity	PFY 1981/82	PFY 1982/83	PFY 1981/82	1981/82-1983/84 Percent Change
Wheat	58.0	64.0	64.0	10.3
Rice Paddy				
Basmati	85.0	88.0	90.0	5.9
IRRI-6	45.0	49.0	51.0	13.3
Rice Milled				
Basmati	150.0	153.0	157.5	5.0
IRRI-6				
15% Broken	83.0	89.0	92.0	10.8
40% Broken	72.5	80.0	83.0	14.5
Cotton				
Seed Cotton				
AC-134, NT, BS-1	170.0	175.0	178.0	4.7
B-557, 14 9/F	178.0	183.0	186.0	4.5
Surmast, Qalandri Deltapine, MS-39 & MS-40	192.0	197.0	200.0	4.2
Desi 166.0	168.0	169.0	1.8	
Sugarcane				
NWFP	9.4	9.4	9.4	0.0
Punjab	9.6	9.6	9.6	0.0
Sind	9.8	9.8	9.8	0.0
Oilseeds				
Sunflower	133.0	140.0	140.0	5.3
Safflower	112.0	120.0	129.0	15.2
Soybean 117.0	122.0	122.0	4.3	

Source: Agricultural Statistics of Pakistan-1982, Planning Unit, MOFAC, Islamabad (for 1981/82 - 1982/83 data) and Ministry of Food, Agriculture and Cooperatives (for 1983/84 data).

TABLE 6A

RATIOS OF DOMESTIC TO INTERNATIONAL PRICES ON SELECTED CROPS, 1973/74 - 1982/83 a/

(Percent)

	Cotton b/	Rice		Wheat	Sugar
		Basmati	IRRI-6		
1973/74	62	47	35	34	-
1974/75	90	41	46	58	-
1975/76	102	62	77	56	-
1976/77	82	99	97	72	-
1977/78	117	95	75	85	-
1978/79	130	52	75	73	-
1979/80	97	55	74	61	-
1980/81	87	65	70	64	-
1981/82	113	66	94	75 (102)	283
1982/83	95	68	97	74 (98)	294

a/ For rice, cotton and sugar, domestic prices are compared with equivalent export parity prices. For wheat, comparisons are made with import parity prices; export parity comparisons for 1981/82 and 1982/83 are shown in parentheses.

b/ Estimates for international prices are based on World Bank commodity price projections.

Source: World Bank Staff Report, No. 4215 PAK., dated February 11, 1983.

Sind Provinces and are scheduled for elimination in Baluchistan and NWFP Provinces in the current crop year. Pesticide procurement and distribution are totally in the hands of the private sector, and availability is generally considered adequate.

During PFYs 1980/81 and 1981/82, fertilizer offtake stagnated due to dry weather in the 1982 rabi season and fertilizer price increases of 50 percent and 15 percent in February 1980 and March 1982, respectively. Nevertheless, agricultural production and yields have continued to rise, suggesting a considerable increase in fertilizer use efficiency. In 1983, fertilizer offtake again resumed its upward trend, despite an 8.5 percent price increase in June, which resulted in a fertilizer price which was 22 percent higher than the price during the same period in 1982.

3. Investment Policy Performance

Agriculture's relative proportion of total public budgetary allocations has remained at 30-33 percent for the past several years. The allocation for PFY 1983/84 is 32.5 percent, which reflects a projected fall in fertilizer subsidies. Table 7 summarizes the investment portfolio for both the private and public sectors for PFYs 1981/82, 1982/83 and 1983/84. Major agricultural categories targeted for increased public investment during PFY 1983/84 include: livestock, fisheries and forestry; rural electrification; rural roads; and water. As in the previous year, rural electrification is slated for the largest budgetary increase. Conversely, public allocations for fertilizer subsidies, public foodgrain storage, and the aggregated category of agricultural education, research and extension are to decrease in PFY 1983/84. The reduction in the latter category reflects the removal of substantial subsidies on pesticides under the extension budget.

Reductions in subsidies are important steps towards, and offer the most immediate opportunity for, improving public sector resource allocations in the agricultural sector. Despite the reductions of recent years, fertilizer and irrigation subsidies remain large, equivalent to 5.1 and 2.3 percent, respectively, of the 1983 development budget. The GOP has committed itself to a phased reduction of fertilizer subsidies with complete elimination by 1985 and to periodic increases in water charges to achieve full cost recovery in all the provinces by the early 1990's. In the longer term, however, the GOP must revise its ineffective agricultural tax system and implement a well designed system of water user charges to cover the full O&M costs of the irrigation system.

4. Selected GOP Policy Changes

a. Livestock

In 1983, the GOP issued ordinances to allow: the export of buffalo breeding stock; the import of exotic bovine and poultry breed stock; provision of medium and long-term public bank credit to livestock producers and processors; further relaxation of the ceiling on maximum

TABLE 7

PUBLIC AND PRIVATE SECTOR RESOURCE ALLOCATIONS FOR PFY 1981/82 - 1983/84[a]

Sub-Sector	Allocations (in Rs Million)			Percentage (%)
	1981/82 b/	1982/83 b/	1983/84	1982/83-1983/84
I. Agriculture, Water & Rural Development Sector	11359	13879	15598	12.3
A. Public Sector c/	8357	9789	10078	2.9
1. GOP Budget	8335	9754	10028	2.8
Fertilizer Subsidy	1819	1948	1720	-11.7
Foodgrain Storage	520	529	416	-21.3
Livestock, Fisheries & Forestry	399	407	441	8.4
Ag. Education, Research & Extension	428	470	445	-5.3
Rural Electrification	538	1220	1371	12.4
Rural Roads	379	518	580	11.9
Water	3661	3863	3971	2.8
Other	591	799	1083	35.5
2. Semi-Public Non-Budgetary Resources d/	22	35	50	42.9
B. Private Sector	3002	4090	5520	34.9
Tractors	1446	2200	2736	24.4
Irrigation & Other Machinery	974	900	1077	19.7
Farm Buildings & Land Development	582	990	1707	72.4
II. Total Resources for All Sectors	49194	55855	67790	21.4
A. Public Sector	32533	36355	41500	14.2
1. GOP Budgetary Resources c/	27000	28855	33100	14.7
2. Semi-Public Non-Budgetary Resources d/	5533	7500	8400	12.0
B. Private Sector	16661	19500	26270	34.7

Percent Share of Agriculture, Water & Rural Development Sector in:

	1981/82	1982/83	1983/84
GOP Budgetary Resources	30.9	33.8	30.3
Semi-Public Non-Budgetary Resources	0.4	0.5	0.6
Total Public Sector Resources	25.7	26.9	24.2
Total Private Sector Resources	18.0	21.0	21.0
Total Resources	23.1	24.8	22.9

a/ Excludes non-development (recurring) expenditures.
b/ Estimated actual investment for PFY 1981/82 and 1982/83 and allocations for PFY 1983/84.
c/ Federal & Provincial Annual Development Programs.
d/ Self-financing of development schemes largely by public sector cooperations.

allowable land holdings, enabling large publicly-owned tracts to be leased to the private sector; and, an extended tax holiday for livestock producers and processors. Finally, as part of an expanded livestock extension program, the Government is providing artificial insemination services for nominal fees.

b. Edible Oils

The GOP is in the final approval stage for establishing a Pakistan Edible Oilseed Development Corporation (EODC) to implement an intensified and expanded non-traditional oilseed production program. This was previously the function of the Ghee Corporation of Pakistan which continues to be responsible for the importation and processing of edible oilseed. An important corollary to the formation of the EODC is the current expansion and restructuring of the Federal Oilseeds Development Board (FODB), which was formerly just an advisory body to the Government. The FODB, with an expanded staff and budget, will now have monitoring and evaluation responsibilities over federal and provincial efforts to increase traditional and non-traditional oilseed production and processing.

c. Fruits and Vegetables

On November 13, 1983, the Government of the NWFP passed an ordinance to establish a regional Fruit and Vegetable Development Board to address contraints to increased production and marketing in this important and growing sector. In addition, the Federal Government, in December 1983, established a National Fruit and Vegetable Board to serve as a policy advisory body to the Ministries of Planning, Industries, and Food, Agriculture and Cooperatives in stimulating domestic production and export of fruits and vegetables.

D. USAID/Pakistan and the Policy Dialogue

1. Background

The major multilateral donors, the GOP, and A.I.D. are engaged in a multi-year approach to structural reforms and sectoral policy reorientation. These parties share common long-term goals in the policy dialogue including increased investment, more efficient resource allocation and utilization, increased private sector participation, and sustained high economic growth rates.

The multilateral donors have set out a macro-policy reform agenda to move the nation towards economic liberalization in which public and private sectors will be increasingly focused upon their areas of comparative advantage, with the public sector concentrating on the provision of public goods and infrastructure and the private sector increasingly responsible for the production and distribution functions of the economy. These goals are currently being pursued by the GOP in a climate of fiscal restraint and inflationary control.

While agreeing with the broad policy initiatives of the multilateral donors in this area, A.I.D. has chosen to concentrate its efforts along a more narrowly defined set of policy parameters, namely, the improved delineation of public and private activities at the sectoral level. The Six-Year U.S. Economic Assistance Program to Pakistan will impact favorably on and provide support to GOP de-regulation and privatization policies:

a. to curb new capital spending on public sector production enterprises in sectors where the U.S. is active;

b. to limit capacity increases in existing public sector plants in sectors where the U.S. is active;

c. to gradually eliminate the GOP's "cost plus" approach to regulating returns to private investors, with particular reference to chemical fertilizers where the A.I.D. program is directly engaged;

d. to provide a fair and competitive environment between international, public and private financial institutions;

e. to remove inequitable credit access favoring public sector enterprises over private sector firms;

f. to price capital at its opportunity cost;

g. to remove administered prices and barriers to private entry in the industrial sectors,

h. for the progressive dis-investment of inappropriate public sector assets, especially in the edible oil sector;

i. for equitable investment rules and tax treatment for private sector investment;

j. for equitable pricing of inputs (e.g., electrical power) to private sector users, and,

k. to enhance private sector resource mobilization and utilization.

The policy core of the ACE Program is linked closely with the deregulation agenda outlined above. While deregulation/liberalization issues form only a part of our overall policy strategy, they represent a particularly vital element. In this context, the structured, incremental series of steps towards privatization of fertilizer distribution are fully consistent with the Mission's goals of more clearly delineating public and private sector roles in production and distribution functions in Pakistan. The "private sector window", of course, ties directly into the Mission's concerns for enhanced private sector investment in all sectors, including agribusiness. Once again, it is important to recall that the ACE program does not carry an isolated and discrete policy dialogue function. Rather, it is one piece of an interrelated policy agenda which encompasses the entire $1.625 billion six-year ESF program in Pakistan.

2. The Approach at the Sector Level

USAID/Pakistan's long-term agricultural strategy is to: build the technological foundations for yield and productivity gains and facilitate the policy and institutional shifts required to maximize sectoral efficiency in resource use, eliminate distortions within the marketplace, and complement growth in the agro-industrial and agro-service sectors of the national economy. Major economic policy thrusts in this sector include: oilseeds and fertilizer privatization and liberalization, irrigation sector cost recovery; increasing the effectiveness of agricultural research and education; and, improving grain storage and rural roads O&M finance policy.

The Mission, through project development, implementation and various analytical activities, reinforces and supports the GOP efforts to accelerate policy goal achievement. Emphasis is placed on identifying and supporting policy implementation actions consonant with the policy framework and agenda mentioned above to maximize the developmental impact of A.I.D.'s resources. The resulting policy dialogue is both direct (e.g., negotiation of CPs, covenants) and indirect such as developing the GOP's data collection and economic analysis capabilities to support policy-makers.

3. Elements of USAID's Sectoral Policy Program

During the past two years, several studies were carried out, the findings of which have been and will continue to be used to support the policy dialogue under the ACE Program as well as the PL 480 Title I Program and other projects in the portfolio. These included analyses of: Pakistan's existing economic policy framework by Dr. Schiavo Campo; agricultural development options by Dr. Kenneth Nobe; privatization of fertilizer marketing completed by a SER/COM team headed by Mr. Wolfgang Von Spiegelfeld; edible oilseed sector completed by a USDA team; and agricultural mechanization by a team led by Dr. Larry Laird, S&T, AID/Washington.

The 1982 report on agricultural development options identified price and import/export adjustments, irrigation water, availability of purchased inputs and marketing and infrastructure for immediate emphasis. For the longer term, the report recommended: strengthening of agricultural education, research and extension; maintaining A.I.D's current policy stance for improved management of irrigation water supplies; accelerating research and development efforts in support of expanded dryland cultivation; continuing agricultural product diversification; intensifying rural development efforts in lagging areas; and conducting comprehensive studies of agriculture manpower needs and land tenure.

The study on privatization of fertilizer marketing conducted in 1982 recommended continuation of fertilizer imports by the public sector with progressively larger allocations to be made to the private sector distributors directly from the Federal Directorate of Fertilizer Imports. In addition, the team recommended that private sector distributors be consulted in determining the type of fertilizers to be imported. These recommendations are being pursued with the GOP under the ACE Program.

The 1983 agricultural mechanization study concluded that Pakistan has not yet reached the optimum desireable level of farm mechanization and should continue to support tractorization with minor adjustments in current policies on raw materials import, regularized testing and certification, and requirements on increased utilization of local componentry. The report recommended that A.I.D. should: utilize ACE Program funds for importation of U.S.-made medium-sized tractors, land leveling equipment and tool making machinery; fund an autonomous private sector tractor and farm machinery testing center; encourage the GOP to limit the proliferation of new manufacturing facilities so economies of scale can be attained; and reinforce the level of indigenous expertise available to small implement manufacturers.

The 1983 edible oilseed report examined the entire industry and concluded that: Pakistan's annual increase in oilseed imports can be arrested through increased domestic production; oilseed production increases will be private sector driven; and only minor changes are required in concerned government organizations. The following policies were recommended: all private firms or public agencies should be free to import edible oils; importers should be required to sell oil at fixed uniform prices tied to the retail price of vegetable ghee; refiners should be free to import oil or buy from an importer or domestic crusher; the retail ghee price should be allowed to rise to international levels; the current cotton seed price support levels should be the oilseed floor price; firms should be free to earn normal processing and marketing margins; and the oilseed processing sector should be denationalized and deregularized.

4. Policy Content of Other Agricultural Sector Projects

a. PL 480 Title I

The PL 480 Title I Program is the Mission's major tool for improving the policy environment in the edible oil sector. The programs of the past several years have encouraged increased research activities, improved processing of non-traditional oilseeds, and led to the establishment of a high level GOP Oilseeds Board and an enlarged pilot production project. Since increased edible oil production is one of the highest priorities in the GOP's Sixth Five Year Plan, the PL 480 strategy for the remainder of AID's six year program will focus on problems which still exsist in the overall policy environment.

The most effective way the GOP can stimulate increased oilseed production and edible oil supplies is to increase efficiency within the industry. This can best be accomplished through increased competition resulting from an expanded private sector role. Uncontrolled prices, however, are a necessary condition to provide the required incentives to stimulate substantial investments in production and processing by the private sector. The specific objectives of the FY 1984 PL 480 Program are to liberalize price policies of the GOP and to increase the role of the private sector in extension, processing and marketing, thus increasing the efficiency of the edible oilseed sector.

b. <u>Food Security Management (FSM) Project</u>

This recently approved 5-year project will assist the GOP in addressing its agricultural policy concerns by: (i) establishing and institutionalizing a network of Pakistani economists from public and private institutions to conduct analyses in direct support of an annual research agenda established by a high-level federal committee; (ii) assisting the Provincial and Federal Departments of Food and Agriculture in adopting improved data collection methodologies to generate more timely, accurate and cost effective agriculture statistics; and, (iii) assisting the Federal & Provincial Governments in adopting improved financial and physical grain storage management policies and procedures , implementing a grain storage facility rehabilitation program, and adopting improved grain quality maintenance technologies.

GOP officials have agreed in principle to examine issues related to buffer stock operations versus financial market arrangements and management of the national ration shop system for increased food security ? in cereal grain. In addition, a management and recurrent cost audit of the public grain storage system will be conducted during the first year of the project. This study will not only generate recommendations for improved public sector management but will also examine the constraints and provide recommendations aimed at an expanded role for the private sector in the critical area of grain storage. Under the economic analysis network, a series of farm management, rural household, and production costs studies will be conducted in support of rational price policies for agricultural inputs and outputs.

c. <u>Management of Agricultural Research and Technology (MART) Project</u>

This proposed 5-year project will improve the capacity of the GOP to effectively conduct agricultural research. This will be accomplished by: improving the allocation and management of research resources; increasing the availability and accessibility of research results to the general public and other information users; strengthening the national research network's ability to identify personnel needs and to provide in-country, in-service professional career development training for agricultural scientists; and forging linkages with the private sector and adopting a farming systems approach to research as a complement to the traditional commodity and disciplinary methodologies.

The GOP and the Mission agree on the need for policies to encourage existing provincial and federal research institutions to: substantially improve their systems of financial reporting and cash management; develop and implement systems by which research resources can be more effectively managed; and reach immediate resolution on constraints to the timely disbursement of government research funds. As part of the above, the project will institutionalize an agricultural technical information system which is responsive to the needs of various target advances and strengthen the capacity and rational use of the Provincial and Federal training centers in support of agricultural research/extension personnel.

d. Transformation and Integration of the Provincial Agricultural Network (TIPAN) Project

As part of A.I.D.'s support to the GOP in developing the more undeveloped areas of Pakistan, this proposed project will create within the NWFP Agricultural University the institutional capacity to transform and mobilize agricultural and rural production activities to accelerate growth in the province. This will be done by: producing higher quality agriculture graduates at the B.Sc. and M.Sc. levels; developing an agriculture research program to create production technology packages specifically adapted to local conditions; linking applied research with outreach training to improve the quality of the provincial agricultural extension agency; and establishing and/or strengthening working relationships between the various provincial agriculture agencies serving the farming community and the general public.

The Federal and Provincial Governments agree on the need for institutional strengthening of the current system of agricultural research, education and extension for introducing new technologies into the NWFP. This will involve unifying the entire provincial research system under the auspicies of the NWFP Agricultural University. Major policy decisions brought about during the project design phase include: transfer of provincial research technical and financial responsibility to the University; commitment to enhanced financial support for research and associated outreach; and integration of the two personnel (University and research service) systems in the Province.

e. Forestry Planning and Development (FPD) Project

This 9-year project will assist the GOP to: increase national energy supplies, reverse the deforestation process, expand the extremely limited forest resource base, and help Pakistan achieve energy self-sufficiency. This will be accomplished by strengthening the capability of indigenous institutions at the federal, provincial and local levels to design, implement and evaluate policies and programs for increasing fuelwood/timber production and demonstrate the economic, technical and social feasibility of producing tree crops on privately-owned farms and range lands.

The project will directly contribute to the analysis of policy options and identification of dialogue opportunities by assisting the GOP in the: establishment of a senior level, federal policy advisory committee; development and implementation of federal and provincial forestry development plans; and training of forestry planners and economists. Analysis of the importance of forestry in agricultural and rural development and fuelwood as an energy source is expected to effect significant policy changes in the relative emphasis that the GOP places on managing public forests versus tree production on private lands, and the division of provincial and federal responsibilities in forestry planning and management.

5. The Policy Core of the ACE Program

This PAAD Amendment makes it quite clear that the ACE Program does not operate in isolation as a policy tool, but serves to amplify and reinforce a complex set of policy discussions which USAID will sustain with the GOP over the coming several years. There is a core set of policy issues, however, which are more explicitly built into the structure of the ACE Program. These are outlined below. While AID/Washington suggested that the Mission should have a formal ACE policy dialogue matrix with preplanned goals, annual targets, benchmarks, and the like, USAID/Pakistan has determined that the benefits which such an approach would offer in terms of management control are more than offset by the costs in terms of lost flexibility. The Mission recently was associated with a very substantial price increase in vegetable oil products in Pakistan, for example, in which sound policy advice from A.I.D., world market conditions and GOP political resolve conjoined to make a major step forward. These kinds of gains cannot be preprogrammed. USAID/Pakistan's continuous engagement at the policy level, its access to sound policy data and its ability to mount a ministerial level policy presentation on vegetable oil issues permitted the Mission to capitalize on unexpected externalities. This is often the case in policy work.

The sections which follow outline plans and objectives in a number of ACE-specific policy areas and suggest how the Mission will pursue those objectives. They do not, however, promise a specific rate of progress. The Mission will continue to share policy performance reports with Washington on a timely basis and to insure that its annual negotiations on the ACE Program provide opportunities for both the Mission and AID/Washington to assess progress towards objectives in light of the total policy scene in Pakistan. The Mission believes that this is not only realistic, but is the most effective way to build the ACE Program into its overall multi-year, multi-sector development dialogue with the Government of Pakistan.

a. Fertilizer

The stated long-term goal of the GOP in this critical industry is price de-regulation. To achieve this goal, the GOP has committed itself to steadily decreasing fertilizer subsidies with their total elimination scheduled for June 1985. Consequently, the fertilizer burden was reduced with average retail price increases of 50 percent in February 1980, 15 percent in March 1982, and 8.5 percent in June 1983. The GOP acknowledges a gross fertilizer subsidy burden of Rs 2.44 billion ($180 million) in PFY 1980/81, which has subsequently been reduced to Rs 1.95 billion ($144 million) in PFY 1983/84 with an estimated Rs 1.9 million ($0.14 million) in PFY 1984/85, which is in consonance with its stated goal.

As a result of the above and A.I.D.'s commitment to render rapid balance of payments assistance under the new 6-year program, no specific policy or procedural changes were required under the FY 1982 PAAD as conditions to funding. In the FY 1983 PAAD Amendment, however, several policy measures in fertilizer were agreed to by the GOP as follows: that at least 50 percent of all fertilizer would be distributed through the private sector; that all distributors would receive uniform incidentals to cover fertilizer marketing costs; and, that the requirements of the private sector distributors would be taken into account by the Government in determining the levels and types of fertilizer imports.

i. Privatization of Fertilizer Marketing

Based on a GOP classification scheme of private and public sector distributors, approximately 50 percent of all fertilizer was to be marketed through the private sector during PFY 1983/84. The validity of the classification scheme, however, has been questioned since one major para-statal distributor was classified as a private sector firm. As a result, the real proportion planned to be distributed by the private sector in PFY 1983/84 was 33 percent rather than 50 percent. The Mission is currently negotiating a revision of the PFY 1983/84 distribution scheme in order to revise upwards the private sector share. Under the FY 1984 Program, the GOP classification scheme will be further modified, and the 50/50 ratio between public and private sector fertilizer distributors will be implemented in PFY 1984/85. By the end of the 3-year PAAD Amendment period and as one of the policy initiatives to be implemented under this PAAD Amendment, the GOP has agreed, in principle, to increase the private/public ratio to 60/40. In addition, the Mission is currently discussing with the GOP targets for the period beyond the three years covered by this PAAD Amendment. There is general agreement among key GOP officials that the provinces should get out of the fertilizer distribution business. The fact that the GOP is no longer hiring new staff for the provincial distribution networks and is shifting some existing staff to the seed distribution network is evidence of the GOP's intentions in this regard.

As a result of legal difficulties and a lengthy approval process, the GOP was unable to implement uniform incidentals (marketing costs) for private and public firms until shortly before this document was drafted. Other problems regarding the cost plus approach used by the GOP in setting incidentals are described below. However, this requirement has now been met, and the fertilizer needs of the private distributors are being incorporated into the annual GOP planning cycle in determining fertilizer imports. In addition, private sector distributors are now allowed to pick up their imported fertilizer allocations at dockside instead of at the provincial government distribution centers.

ii. Price Policy

As previously stated, the Government is committed to eventually eliminating the fertilizer subsidy by June 1985. Considerable progress has been made in this area since PFY 1980/81. According to published figures, the fertilizer subsidy is responsible for about 5.4 percent of the total planned public allocations for PFY 1983/84 as compared to 6.1 percent for the previous year. In the past, however, planned versus actual expenditures have differed significantly. For example, the PFY 1982/83 fertilizer subsidy target was Rs 1.6 billion, but, at the end of the year, the actual figure was about Rs 1.94 billion or 22 percent above the planned level.

The gross subsidy and subsidy per nutrient metric ton (NMT) indicates that, despite a 1983 price increase of 8.5 percent, the fertilizer subsidy actually increased in PFY 1982/83. The price increase was more than offset by the increased ex-factory and incidental costs absorbed by the GOP. The gross subsidy is defined as the difference between the farmgate price and the manufacturing or CIF costs plus marketing costs (domestic transportation, storage and profit). Utilizing this definition with published cost data and ignoring the value of subsidized natural gas, it appears that the current "official" retail prices do not cover even the manufacturing cost of domestic fertilizers nor the CIF price of imported fertilizers.

In addition to a manufacturing subsidy, there is evidence of a marketing subsidy through widespread discounting by distributors resulting in a farmgate price substantially lower than the published figures (Rs 105/bag versus Rs 133/bag). Apparently, the fixed incidentals are large enough to enable distributors to allow discounts and still maintain an acceptable profit margin. Further analysis of the issue is complicated by the facts that fertilizer prices are fixed country-wide and do not reflect variable transportation costs and that up-to-date and sufficient data on actual farmgate prices are not available.

The mitigating factors explaining the increase in GOP fertilizer manufacturing and marketing subsidies (e.g., excess capacity, overproduction and decline in offtake) along with other policy questions affecting the industry will be examined in the upcoming fertilizer sector study (See Section IV.D.6., Future Policy Studies). Financing of fertilizer imports in FY 1985 and FY 1986 will be contingent on AID/GOP agreement on specific policy actions which are indicated by the study. Among other things, the fertilizer study will analyze the potential for increasing the efficiency of fertilizer production, and the potential for export markets for surplus urea, and provide the rationale and mechanics for price de-regulation. In addition, the study will provide an "exact and measurable" definition of subsidy, upon which progress in this area will be measured.

iii. Reserve Stock Policy

The FY 1983 PAAD Amendment recognized that GOP strategic reserve requirements, which were previously 25 percent of annual offtake for nitrogen and 50 percent for phosphate, had been reduced to 20 percent and 40 percent, respectively, thereby reducing inventory costs of the provincial distribution authorities. However, even under the new requirements, the carryover for nitrogen during the off-months (February -October) may be 130 percent of the actual monthly offtake. Such a large carryover is extremely costly in terms of storage costs/losses and is unnecessary since domestic production of nitrogen exceeds the annual offtake (See Annex C.1.)

In line with the above, A.I.D is seeking GOP agreement to continue the trend in reducing the nitrogen (urea) reserve requirement to more manageable levels. As the final fertilizer policy element of this PAAD Amendment, the Government has agreed to review the status of its strategic reserve requirements and to reduce the average monthly carryover in nitrogen by adopting a more realistic reserve formula (e.g., a two month moving average or simply 10 percent of the annual offtake) rather than a fixed percentage of the projected total annual requirements.

b. Cotton

Due to unseasonable weather, Pakistan is experiencing the worst cotton crop in a decade with an estimated shortfall of 43 percent of targeted production, which is 39 percent less than last year's crop and 22 percent less than the five-year average. In response to a request by the GOP for assistance in making up the shortfall, approximately 100,000 bales of cotton imports, valued at $35 million, will be financed with FY 1983 and FY 1984 ACE Program funds.

Cottonseed is the largest source of domestically produced edible oil in Pakistan. Consequently, the domestic cottonseed industry was examined as part of the A.I.D.-financed edible oilseed sector study conducted in 1982-1983. The USDA team developed a series of recommendations to encourage greater efficiency in cotton production and marketing and the subsequent utilization of the cottonseed which would have valuable spill-over benefits on the entire edible oilseed sector and assist in arresting Pakistan's deteriorating edible oil import situation. The primary policy recommendations were to establish a cotton procurement price that accurately reflects the value of lint and seed and to expand the role of the private sector in the industry.

The GOP is favorably disposed towards the above recommendations and is expected to instruct the Agricultural Prices Commission in the near future to take these into consideration in making its annual price recommendations and to document its methodology and findings in an annual report. In addition, the GOP and A.I.D. will continue their dialogue on the possibility of expanding the private sector role in the industry.

Areas under discussion include: (i) allowing farmers to determine whether or not to sell their seed to the ginner or some other party; and, (ii) permitting all crushing plants to sell the oil to the highest bidder whether the buyer is a public or private sector firm. To facilitate this dialogue, the Mission plans to request the GOP to prepare an implementation plan for these recommendations and a comprehensive directory of all cotton ginners, which should be available by late CY 1984 or early CY 1985.

c. The "Private Sector Window"

The GOP's Sixth Five Year Plan assigns the lion's share of industrial and productive investment to the private sector. The Plan recognizes the huge costs of excessive public sector investment in these areas and seeks rapidly to redress the balance. The Plan is not so clear, however, about the sources of financing for this private sector investment.

In the area of agribusiness broadly defined (encompassing food production on the farm, transportation and storage of agricultural products, food processing, manufacture and distribution of agricultural implements and machinery, and the like), new investment from the private sector has been inhibited from several directions. The Government has tended to play a dominant role in some aspects of food marketing and distribution. Agribusiness borrowers face complex problems in Pakistan's credit markets. Traditional agribusinesses such as cotton ginners and textile producers have evolved forms of commodity-secured lending which assure them of reasonable access to short-term liquidity and a modest line of working capital. While these traditional borrowers have not always found access to longer-term credit to be as easy as they might like, their problems in the credit area have been manageable. On the other hand, non-traditional agribusinesses such as food processors, commodity distributors, certified seed producers and meat and poultry processors have not had easy access to credit. The lack of a well-accepted set of collateral devices and the more complex appraisal requirements for lending to ventures against cash flow rather than assets has tended to constrain growth in this important area. Appropriate equipment for activities such as modern food processing or the manufacture of precision agricultural equipment has simply not been available in the local market. The "private sector window" of the ACE Program is a small step in the direction of redressing some of these deficiencies and towards the realization of the Sixth Plan goals of enhanced private sector participation in productive investment.

The private sector element of the ACE Program, as described in Section V., will provide Pakistani private investors access to A.I.D. dollars at prevailing market rates of interest for one to three year loans to finance the import of U.S. manufactured equipment for agribusiness purposes. While U.S. prices are high in the context of the local market, U.S. predominance in many areas of agribusiness technology, especially in such areas as food processing, food handling and food storage equipment, is expected to create a substantial demand for the credits under this Program.

Success in this undertaking offers the prospects of the very best kind of policy dialogue: empirical demonstration in-country of the soundness of letting the private sector take the lead in modern agribusiness. USAID/Pakistan seeks to discourage inclinations within the public sector which attempt to micro-manage such areas as agribusiness. Nothing will be more persuasive than the creation of new or improved market-responsive, privately-managed enterprises which outperform the public sector.

d. Irrigation Equipment

The provision of irrigation equipment is consonant with the institutional and policy initiatives described in the Irrigation System Management (ISM) Project Paper. Among these are Conditions Precedent (CPs) and covenants related to increasing and maintaining the financial integrity of the system, to increase water user charges to cover the cost of operations and maintenance, and to increase the Provincial Governments' annual allocation to their respective Irrigation Departments. The Command Water Management (CWM) Pilot Program, which is currently under design and will be incorporated into the ISM Project as an amendment, will also include specific CPs and covenants related to the policy and institutional changes required to successfully implement the CWM concept. This project is expected to bring about fundamental policy changes in the management of Pakistan's irrigation system.

e. Forestry Project Commodities

Procurement of earthmoving, land clearing, nursery, watering, and laboratory and other analytical equipment for the Forestry Planning and Development Project is fully supportive of the policy and institutional initiatives described in Section IV.D.4.e. These initiatives include: the establishment, staffing and funding of a Federal Advisory Committee for Farm and Energy Forestry to define goals for increased fuelwood production and develop and implement appropriate strategies for their actualization; mobilization and utilization of private sector firms and small landholders for increased forest production; clearly defining the responsibilities of the provincial, federal and local governments in forestry planning and development; and increased funding of applied agro-forestry research programs.

f. MART, TIPAN, BALAD and Rural Roads Project Commodities

The policy context under the FY 1984 MART, TIPAN, and BALAD Projects and the FY 1985 Rural Roads Project is being examined and negotiated as part of 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.

6. Future Policy Studies

a. Fertilizer

The GOP and AID have agreed on the terms of reference for a fertilizer sector study to build on the work undertaken to date in this area and examine other major issues in the industry affecting imported fertilizer levels and related domestic fertilizer policies. Scheduled for implementation beginning in June 1984, the study will examine fertilizer pricing, private and public sector roles in distribution, progress on subsidy removal, dealer and farmer stocks, efficiency of fertilizer use, and policy analysis capabilities and effectiveness of existing research institutions. The study will identify and prioritize critical issues and problems, provide alternative solutions, recommend specific action plans, and form a basis for future policy negotiations, which will be incorporated into the FY 1985 and FY 1986 ACE Program Agreement Amendments.

b. Edible Oil Stock and Trade Management

As an important adjunct to the edible oilseed sector study and as one of the 1983 PL 480 Title I Program Self-Help Measures, the GOP and A.I.D. agreed to conduct a Stock and Trade Management (STM) study to increase Pakistan's food security in edible oil. The study will develop an analytical framework for evaluation of alternative STM strategies to stabilize domestic edible oil supplies and prices in Pakistan at the least financial cost to the GOP. Scenarios to be analyzed will provide for exchange and/or widespread oilseed crop failure through a combination of stock holding and trade operations. This framework will then be applied to Pakistan's edible oil sector with projections for 1984-1994.

c. Food Grain Modeling

Under the recently approved Food Security Management (FSM) Project, the GOP has requested the Mission to finance a food grain modeling (FGM) study. This study will construct an econometric model, based on historical data for the last 15-20 years, identifying the important interactions between policy and production variables in Pakistan's wheat system. It will also provide estimates of the change multipliers in major environmental and policy variables as they affect wheat production, public stocks, trade and public expenditures. As a result, the GOP will be able to explore the impact of alternative policies affecting wheat production.

d. Ration Shop System and Alternatives

As funded under the Food Security Management Project, this study will provide guidance to GOP policy-makers on food security policy from the perspective of the grain consumption sub-system and as a counterpoint to the food grain model de'cribed in c. above. This study will first examine the ration shop system itself, measuring its effectiveness in achieving welfare objectives as compared to alternative strategies and the implications of selected policies for food consumption and nutrition of the poor. The primary output will be the increased availability of information on the impact of key policies through the preparation of a simulation model that can be used to estimate this impact on the basis of current and periodically updated information.

e. Agricultural Data Collection Systems Analysis

Aggregation, finalization and publication of agricultural statistics in Pakistan is hindered by unclear and overlapping data collection responsibilities, a shortage and inefficient use of ADP facilities, and cumbersome administrative procedures for releasing data on the major food crops. A systems analysis to specify the exact nature of these institutional policy constraints and to provide workable, alternative solutions for their resolution will be conducted as a pre-implementation activity for the agricultural data collection component of the FSM Project. The resulting report will serve as the primary vehicle for reaching an agreement between the GOP and AID on the policy and procedural changes to be implemented under the FSM Project.

V. PROGRAM AMENDMENT DESCRIPTION

The following proposed compositions of the FY 1984, FY 1985, and FY 1986 ACE Programs are provisional. The Mission recognizes the need to be able to respond to possible changes in the need for specific commodities or to unanticipated balance of payments requirements or emergencies, as well as to reprogram funds based on implementation performance with respect to policy measures and other program components. For example, in the event that requirements for other commodities fall short of expectations, additional quantities of fertilizer could be financed in FY 1984 and readily absorbed in the system. (See Section VI.A.) In addition, if the private sector CIP component is meeting its objectives and funds are disbursing rapidly, additional allocations may be made to this program component in FY 1984 and the procurement of some project commodities deferred to the next year's program.

A. FY 1984 Program

1. Fertilizer

As described in the FY 1982 PAAD and the FY 1983 PAAD Amendment, Pakistan is currently self-sufficient in nitrogenous fertilizers but has to import a high 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 large network of private and public distributors.

The FY 1984 Program will finance the importation of $30 million worth of DAP and TSP. At projected international prices, including freight and insurance, the quantity of fertilizer supplies will be about 94.3 thousand MT of DAP and 23.8 thousand MT of TSP. This quantity will meet 21-23 percent of the total DAP and 48-52 percent of the total TSP import requirements for crop year 1984/85. In terms of nutrients, these imports together would meet 24-26 percent of the total phosphatic import requirements for crop year 1984/85.

2. Cotton

As described previously, FY 1983 ACE Program funds were used to finance, on an emergency basis, the importation of 57,400 bales or 28.7 million pounds of cotton, valued at approximately $24.1 million. The cotton was imported by the GOP through its Cotton Export Corporation (CEC). The remaining $10 million worth of cotton, of the GOP's original request of $35 million , will be procured under the FY 1984 tranche of the ACE Program also through the CEC. At a projected price of $.85 per pound, the quantity of cotton will be about 11.8 million pounds or 23,530 bales of 500 pounds each.

3. Private Sector CIP

a. Rationale

The GOP, in its Sixth Five-Year Plan, emphasizes the need for an expanded role by the private sector to meet its development objectives. To assist the GOP implement this policy, which is also one of the cornerstones of A.I.D. policy, the Mission proposes to make some of the FY 1984 ESF loan funds available to the Pakistani private sector for importation of agricultural machinery and equipment. An initial tranche of $10 million for this program component is considered adequate in the FY 1984 PAAD Amendment to assess demand and evaluate implementation arrangements. If demand for these funds meets expectations and implementation progresses smoothly, increased allocations would be considered in future years.

b. Objectives

The primary objectives of the private sector CIP are to:

i. provide fast disbursing assistance for balance of payments support;

ii. increase participation by the Pakistani private sector in activities important for the country's economic development; and,

iii. promote agricultural development and utilization of agricultural products in Pakistan by providing incentives to the Pakistani private sector to invest in new capital stock for agribusiness.

c. Program Characteristics

The private sector CIP is likely to have the following characteristics:

i. Eligible Commodities

The A.I.D. Commodity Eligibility List will be restricted to Schedule 6. This will eliminate the following schedules: Schedule 1 - animal and vegetable products; Schedule 2 - wood and paper and printed matter; Schedule 3 - textile fibers and textile products; Schedule 4 - chemicals and selected products; Schedule 5 - nonmetallic minerals and products and glass and glass products; and Schedule 7 - specified products. Commodities prohibited for import by the GOP will not be eligible. Participating banks will be required to assure that imports under this CIP can be justified as contributing to agricultural sector activities, are listed as eligible items in Schedule 6 of the A.I.D Commodity Eligibility List, and comply with GOP regulations regarding eligible commodities for importation into Pakistan.

The imports likely to be financed under this program fall within the following general categories of commodities:

(1) Agricultural equipment and implements and equipment to produce and/or assemble these items locally;

(2) Irrigation equipment and supplies;

(3) Transportation equipment such as reefer trucks and the like, but not general purpose trucks;

(4) Handling equipment for agricultural commodities such as vacuvators, bagging equipment, forklifts and the like;

(5) Agricultural commodities storage facilities, prefabs, ventilators, air-conditioners, humidifiers and the like;

(6) Canning and food processing equipment; and,

(7) Miscellaneous commodities with USAID/Pakistan concurrence.

ii. Eligible Importers

All Pakistani privately-owned companies will be eligible to participate in this program. Specifically, the program will be open to privately-owned firms in the following categories: manufacturers; processors; distributors and transporters; importers; traders; and, licensed agents and stockists. Distributors, traders, importers, licensed agents and stockists will be treated on an equal footing with the various categories of end users.

The issue of defining "private ownership" will be dealt with in guidelines to be provided to the participating banks, with questionable cases referred to USAID for final determination. The guiding principles which will be used in determining eligibility will be two:

(1) all or most of the company equity held by private non-governmental persons or corporations; and,

(2) corporate control, both at the board level and at the operating level, completely or largely in private hands.

The reasons for not requiring 100 percent private equity and management lie in the fact that the major public sector investment institutions (life insurance companies, government mutual funds, and the like) often buy shares of private firms on the capital market. Also, as a condition for receiving long-term credit from the public sector financial intermediaries (who have a total monopoly on such credit), firms are sometimes required to accept on their boards a nominee of the lending agency. It is, however, the Mission's intention to provide A.I.D. funds only to firms which are, to all intents and purposes, private in ownership and in management. In no case will firms with less than majority private equity or management be permitted to borrow funds. In practice, the Mission will strive for a far higher private share (probably in the 80 percent - 100 percent range). USAID/Pakistan does not wish to penalize or exclude firms which, through no fault of their own, find that Government has taken a slice of their equity, provided that the firm is still predominately private in character. Previously private firms which were nationalized, however, will be expressly excluded from the program as will the firms which are organized as "quasi-autonomous organizations" with Government of Pakistan capitalization and oversight.

iii. Eligible Banks

Consideration is being given to participation by U.S. banks only or a combination of U.S. and Pakistani banks. This matter is under negotiation with the GOP Allocations made by the State Bank of Pakistan to participating banks should be additional to their established credit ceilings and should be made on a first-come, first-served basis.

iv. Maximum and Minimum Loan Transactions

(1) Maximum - $500,000

(2) Minimum - $ 25,000 (with the exception of spare parts for on-hand equipment)

Loan transactions of more than $500,000 must be approved by USAID/Pakistan.

v. Interest Rates and Lending Conditions

The Government of Pakistan's Ministry of Finance issues regulations which govern the relending terms for "foreign loans and credits". (See Annex A.3.) The ACE private sector "window" falls into a category titled by the GOP as "Foreign Loan Relent to Financial Institutions", for which the terms are specified as follows:

(1) GOP relends to Financial Intermediary:	at 8 percent plus a 3 percent charge for foreign exchange risk cover.
(2) Financial Intermediary lends to Final Borrower:	at 11 percent plus 3 percent pass through of foreign exchange risk cover charge from GOP. "If as a result of a higher spread demanded by the creditors, the interest rate to the final borrower exceeds 14 percent per annum, the excess will be passed on to the final borrower".

Operating within this framework, which the GOP applies to all relending of foreign assistance through financial intermediaries, the initial terms for ACE loans will be as follows:

Amount:	$10 million in first year
Borrower:	Islamic Republic of Pakistan
On-Lenders:	Commercial Banks in Pakistan
Terms of A.I.D. Loan to GOP:	Standard 40 year A.I.D. loan with 2 percent interest rate during 10 year grace period and 3 percent interest rate for remaining 30 years. Repayment in U.S. dollars.
Terms of Reloan:	The Government of Pakistan would relend the proceeds of the concessional loan to the intermediate lenders on terms which would provide a 3 percent to 4 percent spread to the intermediate lenders within the current foreign exchange lending rates and local currency lending rates prevailing in Pakistan. Rupee loans where borrowers assume the foreign exchange risk in the transaction would be at 11 percent and foreign exchange loans where the GOP insures the foreign exchange risk at the current 3 percent premium would be at 14 percent.
Repayment of Reloan to GOP:	The participating commercial banks serving as intermediaries would repay their loans to the GOP on the basis of the actual amortization schedule of each sub-loan. Sub-loans would have a schedule of eighteen months to three years, i.e., 18 months for intermediate goods and 36 months for capital goods and equipment. The GOP would bear the foreign exchange risk and interest rate risk, subject to provisions for a

3 percent charge to borrowers for the foreign exchange cover. Sub-loans would be at interest rates fixed at the time of the loan.

Conditions of Sub-Loans: The agriculture equipment sub-loans would be for U.S. source and origin commodities on a mutually agreed schedule. U.S.-financed shipping would be on U.S. or Pakistani bottoms. Non-U.S. financed shipping would be on bottoms of the borrower's choice. Duties and excise would be payable by the borrower in accordance with GOP regulations in effect at the time of the transaction, but would not be financed by the U.S.-provided sub-loan. U.S. banking charges would be eligible for financing from the U.S. sub-loan. Banking charges levied in Pakistan would be the responsibility of the sub-borrower and would not be eligible for U.S. financing.

Monitoring: The participating banks in Pakistan would be required to provide periodic reports of loan transactions to USAID/Pakistan and to the GOP. USAID/Pakistan would retain the right to audit sub-lending operations and to require repayment of loans made in violation of the terms of the Program Agreement.

The present structure of interest rates is high enough to avoid the problems of factor price distortion which are the root concern of AID policy in this area. It is consistent with AID policy and a reasonable starting point for launching the private sector window. The first tranche will constitute a pilot effort to test market demand, pricing and interest rates for US agricultural equipment. Modifications to the pricing and credit system would be considered in subsequent tranches if evaluation of experience this year indicates that this would be **desireable to achieve** the objectives of the private sector window.

4. Water Sector Commodities

a. Equipment for the Provincial Irrigation Departments (PIDs)

The ISM Project provides only a part of the total equipment requirements of the PIDs. The equipment for the ISM Project was identified as what the World Bank called a first "time slice" of a longer term rehabilitation effort. The four Provincial Irrigation Departments have firm requirements for the additional equipment detailed below, which is valued at $11 million (including spare parts, freight, insurance and inland transportation), but are constrained to procure these items because of foreign exchange shortages. (See Annex C.2. for an illustrative list of commodities.)

i. Excavating Machinery for the Punjab and Sind PIDs

Annex C.2. lists the additional equipment required by the Punjab and Sind Irrigation Departments to replace their 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. The additional excavating machinery, which is estimated to cost $3.5 million, is needed for the annual maintenance of channels. The request is modest considering the total mileage of canals and drains to be maintained.

1/ Procurement of most of this equipment was originally contemplated in the FY 1983 Program Amendment but was deferred to FY 1984 to enable the Mission to procure cotton, using FY 1983 funds.

ii. Irrigation Pumps for the NWFP PID

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. This additional equipment, valued at $1 million, 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.

iii. Construction Machinery for the Baluchistan PID

The Baluchistan PID requires additional equipment worth $1.2 million to supplement its fleet for annual maintenance of existing irrigation and drainage systems. One of the largest irrigation canals in Baluchistan is the Kirther Canal System, for which, until recently, the responsibility for maintenance resided with the Sind PID. Maintenance of this canal is now the responsibility of the Baluchistan PID, and additional equipment is required to adequately carry out this job.

iv. Flood Protection Equipment for the Punjab PID

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 portion of the needed equipment, but a significant amount (approximately $10 million) of equipment and spare parts still remains to be funded. This Program Amendment will provide $3.3 million worth of the remaining balance in FY 1984 and an additional $2.0 million in FY 1985. (See Annex C.2.) The Department has the capacity to operate and maintain this heavy equipment.

b. Drilling Rigs for the Sind Agricultural Engineering Department

Six power drilling rigs for sinking tubewells have been requested by the Sind Agricultural Engineering Department. 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, each 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.

5. Other Project Commodities

a. Forestry Planning and Development (FPD) Project[2/]

Earthmoving, land clearing, nursery, surveying, watering, and research and analytical equipment and commodities, valued at approximately $2 million, are expected to be imported under the FY 1984 ACE Program to be used in support of USAID/Pakistan's FY 1983 FPD Project. The earthmoving and land clearing commodities will support commercial forestry operations in Sind Province. Research and analytical commodities will be procured primarily for the Pakistan Forest Institute in Peshawar. The remaining commodities will be used to support activities of all four Provincial Forestry Departments. A limited amount of commodities will also be procured for the Office of the Inspector General of Forests, Ministry of Food, Agriculture and Cooperatives in Islamabad. The justification for and assurances of proper utilization and maintenance of this equipment are documented in the FPD Project Paper dated August 1983. An illustrative list of the commodities which are likely to be procured is included in Annex C.3.

b. Transformation and Integration of the Provincial Agricultural Network (TIPAN) Project

Approximately $1 million in FY 1984 and $4 million in FY 1985 for a total of $5 million in ACE Program funds will be used to procure commodities in support of the FY 1984 TIPAN Project. Commodities to be procured under the FY 1984 ACE Program include: farm machinery, instructional materials, and commodities for the computer laboratory, the Horticulture, Agronomy, and Weed Sciences Departments, the Extension Directorate, and the Office of the Vice Chancellor at the Agriculture University at Peshawar. An illustrative list of commodities is included in Annex C.4. Those commodities to be procured under the FY 1985 tranche are discussed in Section V.B.2. below. The justification for and assurances of proper utilization and maintenance of this equipment will be documented in the TIPAN Project Paper, which is scheduled to be submitted to AID/Washington for approval in June 1984.

2/ Procurement of this equipment was originally contemplated in the FY 1983 Program Amendment but was deferred to FY 1984 to enable the Mission to procure cotton using FY 1983 funds.

c. Baluchistan Area Development (BALAD) Project

An allocation of $3.2 million in FY 1984 ACE Program funds has been made to procure commodities in support of the FY 1984 BALAD Project. The equipment will include: earthmoving and road-building equipment, equipment maintenance vehicles and tools, operations support equipment, and hydrologic measuring devices and other engineering tools and equipment. (See Annex C.5.) The equipment will be procured for the Makran Communications and Works Department and the Project Implementation Management Office (Makran Planning and Development Office), and will support the implementation of a roads maintenance and improvement program and a water resources development program in the Makran Division of Baluchistan. The justification for and assurances of proper utilization and maintenance of this equipment will be documented in the BALAD Project Paper, which is scheduled to be submitted to AID/Washington for approval in June/July 1984.

d. Management of Agricultural Research and Technology (MART) Project

Approximately $2.5 million has been provisionally allocated under the FY 1984 ACE Program for the procurement of over 100 different items in support of the five components of the FY 1984 MART Project (See Annex C.6.) Commodities for the Research Management and Administration component include computer hardware and software, transport equipment, and commodities to upgrade selected provincial research stations. Audio-visual equipment, training/educational commodities, office equipment, and miscellaneous agricultural materials and implements will be procured to support the Agricultural Training Institutes and the proposed new studio production facility at the National Agricultural Research Center under the Project's Information Transfer and Agriculture Training Institutes components. Commodities in support of the Arid Zone Research component will include meteorological, animal range, and agronomy equipment, analytical laboratory equipment, and miscellaneous research support commodities including tillage equipment, threshers, and experimental plot combines and planters. In addition, miscellaneous demonstration and research equipment will be procured to support the Wheat and Maize Coordinated Programs component of the MART Project. The justification for and assurances of proper utilization and maintenance of this equipment will be documented in the MART Project Paper, which is scheduled to be authorized at USAID/Pakistan in June 1984.

As described in Section VII.C., Implementation Schedule, procurement of TIPAN, BALAD, and MART Project commodities is not planned to occur until after these three FY 1984 projects have been approved.

B. Proposed FY 1985 and FY 1986 Programs

1. General

In FY 1985 and FY 1986, the Mission seeks to reduce its management/administrative burden and to increase the fast-disbursing nature of the program to maximize its balance of payments impact. Our approach will be to maintain approximately the same level of fertilizer imports, provided there is progress by the GOP in achieving agreed-upon policy implementation objectives with respect to increased privatization of fertilizer marketing, and to allocate an increasing proportion of program resources to the private sector CIP component, provided this component is meeting its objectives. Provision is also made in FY 1985 for the procurement of additional commodities to support other USAID/Pakistan projects (see below). The Mission recognizes, however, the need to ensure sufficient program flexibility to respond to: agricultural production shortfalls or other emergency situations; actual performance on fertilizer policy, other policy implementation actions, and the private sector CIP; the possible need for additional commodity requirements under projects to be designed or already approved; and/or other balance of payments requirements which might arise over the next three years.

2. Project Commodities

A total of approximately $15 million has been provisionally allocated in the FY 1985 ACE Program for the importation of the following commodities:

a. Irrigation Systems Management (ISM) Project and Other Water Sector Commodities

Approximately $8 million has been provisionally allocated to import $6 million worth of water research equipment in support of the ISM Project and an additional $2 million worth of flood protection equipment for the Punjab Irrigation Department. (See Section V.A.4.)

The research facilities equipment is required for use by the water sector research organizations to upgrade their research facilities and to enable them to undertake the research activities planned under the ISM Project. The latter will address a diverse number of problems related to engineering, river and canal hydraulics, water management, and socio-economic aspects of water use for agriculture. The two research engineers on the long-term engineering team and also the short-term research definition team will assess research equipment needs and will identify the specific types of equipment required to carry out the agreed upon research agenda under the Project. An illustrative list of research facilities equipment is included in Annex C.2.

b. Transformation and Integration of the Provincial Agricultural Network (TIPAN) Project Commodities

An additional $4 million has been provisionally allocated under the FY 1985 ACE Program for the importation of commodities in support of the TIPAN Project. Items likely to be imported include commodities for the following Departments or Programs at the NWFP University of Agriculture at Peshawar: Agronomy, Horticulture, Soil Sciences, Plant Breeding and Genetics, Plant Protection, Agricultural Mechanization, Food Technology, Animal Husbandry, Agricultural Chemistry, Rural Social Sciences, Communications, Learning Resources Center, Computer Laboratory, and Continuing Education Center, in addition to a telecommunications system for the University. These commodities will be used to support the implementation of the teaching, research and outreach activities under the TIPAN Project. An illustrative list of commodities is included in Annex C.4.

c. Rural Roads Project Commodities

Approximately $3 million has been provisionally allocated for the importation of commodities in support of the proposed FY 1985 Rural Roads Project. (See Annex C.7.) Based on preliminary project design work, the commodities are likely to include road maintenance equipment, spare parts, and engineering tools and equipment for selected Districts in NWFP, Punjab, and Sind provinces to assist the Districts to establish improved rural roads maintenance programs. The justification for and assurances of proper utilization and maintenance of this equipment will be documented in the Rural Roads Project Paper, which is scheduled to be submitted to AID/Washington in the spring of 1985.

VI. Technical Analyses

A. Fertilizer

1. General

Fertilizer imports in Pakistan are arranged and controlled by the Federal Directorate of Fertilizer Imports (FDFI), in the Ministry of Food, Agriculture and Cooperatives, which floats international tenders and is responsible for receiving, unloading and bagging the commodity at the port of Karachi. The FDFI also arranges inland transportation, as provided in dispatch schedules, for private and public distributors via rail, trucks of the National Logistics Cell, and privately owned vehicles. Domestic and imported fertilizer is retailed at Government fixed prices through a reasonably large dealer's network serving both the public and private distributors.

Although from an agronomic standpoint, Pakistan is still a nitrogen deficit country, current production of urea has exceeded effective demand during the past two years. Pakistan, consequently, exported about 135 thousand MT of urea during crop year 1982/83, 156 thousand MT during crop year 1983/84, and, according to a recent GOP announcement, another 150 thousand MT will be exported next year. As a result of large carry-overs coupled with the nitrogen content of imported binary and complex fertilizers, the country will continue to have excess nitrogenous stocks during the life of this Program.

Regarding phosphatic fertilizers, however, Pakistan's growing requirements will continue to be met by increased imports from abroad. With almost static domestic production/c pacity and rising offtake, it is expected that about 83 percent of the national phosphatic fertilizer requirements in the 1986/87 crop year will have to be met from imports as compared to 60 percent for the 1983/84 crop year.

2. Supply and Demand

Tables 8 and 9 present the supply and demand projections for crop year 1983/84 through 1986/87 under two different offtake scenarios. One scenario is based on projections utilized in the GOP's Sixth Five-Year Plan, which assumes an overall offtake growth rate of 8 percent per annum along with a more favorable N-P ratio, namely, 2.9:1 in 1986/87 as compared with 3.6:1 in 1983/84. This translates into growth rates of 6 percent for nitrogen (N), 11 percent for phosphate (P) and 28 percent for potassium (K). The second scenario is based on the domestic fertilizer industry's view that farmgate prices will increase substantially if the GOP implements its policy decision to eliminate fertilizer subsidies by the end of PFY 1984/85. As a result of the expected price increase, the fertilizer industry projects an overall growth rate of only 5 percent in offtake: 3 percent for N, 8 percent for P, and 25 percent for K.

The industry's estimates are probably too conservative, however, in light of past experience which shows that fertilizer utilization by Pakistani farmers is not very responsive to price increases, expecially when coupled with corresponding increases in output prices and credit availability. The depressing effect on offtake of previous fertilizer price increases has been of short duration only. Therefore, it is reasonable to assume that the actual and effective demand will lie between these two estimates.

Domestic production 3/ of nitrogen increased appreciably in the past few years due to an expansion of the manufacturing base and increased capacity utilization. Three new urea plants, with a total capacity of 563 thousand nutrient MT (NMT), have been constructed since late 1980,

3/ Domestic production projections utilized in this analysis are based on estimates of the National Fertilizer Development Corporation (NFDC), adjusted for the crop years, which are in line with domestic capacity and capacity utilization trends.

TABLE 8

FERTILIZER SUPPLY AND DEMAND PROJECTIONS
HIGH OFFTAKE SCENARIO

('000 NMT)

	Crop Year 1/											
	1983/84			1984/85			1985/86			1986/87		
	N	P	K	N	P	K	N	P	K	N	P	K
Supply	1555	399	35	1487	200	27	1452	202.	35	1387	216	45
Opening Inventory 2/	454	145	16	446	121	27	348	123	35	318	137	45
Indigenous Production	1031	81		1041	79		1104	79		1069	79	
Imports 3/	70	173	19									
Demand	1311	389	54	1353	431	70	1361	479	90	1442	532	112
Offtake	1009	278	27	1069	308	35	1134	342	45	1202	380	56
Exports	100			70								
Reserves Required 4/	202	111	27	214	123	35	227	137	45	240	152	56
Surplus (+)/Deficit (-) 5/	244	10	-19	134	-231	-43	91	-277	-55	-55	-316	-67

1/ October-September.
2/ Stocks with distributors, factories, and FDFI.
3/ Actuals upto March 1984.
4/ 20, 40, and 100 percent of annual offtake for nitrogen, phosporous, and potash, respectively.
5/ A deficit shows import requirement.

SOURCE: FDFI and USAID staff estimates

TABLE 9

FERTILIZER SUPPLY AND DEMAND PROJECTIONS
LOW OFFTAKE SCENARIO

('000 NMT)

	Crop Year 1/											
	1983/84			1984/85			1985/86			1986/87		
	N	P	K	N	P	K	N	P	K	N	P	K
Supply	1555	399	35	1499	203	27	1507	198	34	1519	207	42
Opening Inventory 2/	454	145	16	458	124	27	403	119	34	450	128	42
Indigenous Production	1031	81		1041	79		1104	79		1069	79	
Imports 3/	70	173	19									
Demand	1296	385	54	1301	416	68	1284	449	84	1307	484	106
Offtake	997	275	27	1026	297	34	1057	321	42	1089	346	53
Exports	100			70								
Reserves Required 4/	199	110	27	205	119	34	227	128	42	218	138	53
Surplus (+)/Deficit (-) 5/	259	14	-19	198	-213	-41	223	-251	-50	212	-277	-64

1/ October-September.
2/ Stocks with distributors, factories, and FDFI.
3/ Actuals upto March 1984.
4/ 20, 40, and 100 percent of annual offtake for nitrogen, phosporous, and potash, respectively.
5/ A deficit shows import requirement.

SOURCE: FDFI and USAID staff estimates

raising the total national capacity to 1,048 thousand NMT. The annual capacity utilization has gradually increased from 77 percent in PFY 1979/80 to 98 percent in PFY 1983/84. As stated earlier, production in urea has outpaced offtake requirements, and this situation is expected to continue through the 1985/86 crop year. However, as mentioned previously, the country will continue to be deficit in phosphatic fertilizer. As a result, the GOP is currently considering the establishment of two Diammonium Phosphate (DAP) plants and more than one mini-plant for the production of Single Super Phosphate (SSP), none of which, however, will be on line before mid-1987.

3. Import Requirements

Table 10 shows that future phosphatic import requirements will range between 213-231 thousand NMT for crop year 1984/85, 251-277 thousand NMT for crop year 1985/86, and 277-316 thousand NMT for crop year 1986/87. If the low offtake scenario prevails, nitrogen fertilizer will remain in surplus throughout the entire period; otherwise, there will be some N deficiency in crop year 1986/87. This deficit, however, will be offset by "involuntary" nitrogen imports with DAP. Total potassium fertilizer import requirements are estimated to be 41-43, 50-55 and 64-67 thousand NMT for the respective years covered under this PAAD Amendment.

Apart from international prices, the types of fertilizer imported by the Government to meet domestic phosphatic requirements are determined by farmer acceptance of the product, funding and credit sources, and the nitrogen content in the binary and complex products. Current GOP policy is to rely on DAP to meet domestic requirements and to cease importation of nitrophos, which has equal nitrogen and phosphate nutrient content, except on a grant or barter basis.

In recognition of the nitrogen content in DAP, the Government is also importing small quantities of TSP which contains no nitrogen. While this is appropriate, given the overall nitrogen surplus in the country, large imports of TSP at this time are not warranted as farmer acceptance of the product is far from certain. The 10 thousand MT of TSP financed under the FY 1983 PAAD Amendment, which arrived in February 1984, will be used to test farmer acceptance. Consequently, phosphatic import requirements have been calculated on the assumption that 90 percent of the demand will be met from DAP and 10 percent from TSP.

Table 11 translates the nutrient requirements into product import requirements. For crop years 1984/85, 1985/86, 1986/87, DAP import requirements are projected to range between 417-452, 491-542 and 542-618 thousand NMT, respectively. TSP import estimates of 47-50, 55-60 and 60-69 thousand NMT will, in the final analysis, depend on its acceptability among farmers. Finally, and assuming that Sulfate-of-Potash (SOP) will meet all domestic potassic requirements, SOP import levels are projected at 82-86, 100-110 and 128-134 thousand NMT for the respective years under consideration.

TABLE 10

FERTILIZER IMPORT REQUIREMENTS
CROP YEARS 1983/84 - 1986/87
(Nutrients)

('000 NMT)

Crop Year	Scenario	Rabi				Kharif				Total			
		N	P	K	Total	N	P	K	Total	N	P	K	Total
1983/84	High Offtake	0	0	0	0	0	0	19	19	0	0	19	19
	Low Offtake	0	0	0	0	0	0	19	19	0	0	19	19
1984/85	High Offtake	0	167	31	198	0	64	12	76	0	231	43	274
	Low Offtake	0	155	30	185	0	58	11	69	0	213	41	254
1985/86	High Offtake	0	202	40	242	0	75	15	90	0	277	55	332
	Low Offtake	0	185	36	221	0	66	14	80	0	251	50	301
1986/87	High Offtake	78	228	48	354	0	88	19	107	78	316	67	461
	Low Offtake	0	203	46	249	0	74	18	92	0	277	64	341

Notes:

1. High Offtake: 6% for N, 11% for P, and 28% for K.
2. Low Offtake: 3% for N, 8% for P, and 25% for K.

SOURCE: Annexes C.1

TABLE 11

FERTILIZER IMPORT REQUIREMENTS
CROP YEARS 1983/84 - 1986/87
(Products)

('000 MT)

Crop Year	Scenario	Rabi			Kharif			Total		
		DAP	TSP	SOP	DAP	TSP	SOP	DAP	TSP	SOP
1983/84	High Offtake	0	0	0	0	0	38	0	0	38
	Low Offtake	0	0	0	0	0	38	0	0	38
1984/85	High Offtake	327	36	62	125	14	24	452	50	86
	Low Offtake	303	34	60	113	13	22	417	46	82
1985/86	High Offtake	395	44	80	147	16	30	542	60	110
	Low Offtake	362	40	72	129	14	28	491	55	100
1986/87	High Offtake	446	50	96	172	19	38	618	69	134
	Low Offtake	397	44	92	145	16	36	542	60	128

Notes:

1. High Offtake: 6% for N, 11% for P, and 28% for K.
2. Low Offtake: 3% for N, 8% for P, and 25% for K.
3. 90% of the P import requirements will be met from DAP, and 10% from TSP.
4. Any N import requirements will be met from DAP.
5. All K import requirements will be met from SOP.

SOURCE: Table 10

As of April 1984, the GOP had lined up approximately $47 million in grant, loan and barter agreements to finance fertilizer imports during PFY 1984/85. Details are given in Table 12. At a projected C&F price of $265 per MT, approximately 177 thousand MT of DAP could be procured, which is 39-42 percent of the total DAP and 35-38 percent of the total phosphatic import requirements for crop year 1984/85.

The GOP has requested A.I.D. to finance at least 20 thousand MT of TSP under the FY 1984 ACE Program. Accordingly, $5 million of the $30 million allocated for fertilizer will be used for TSP imports and the remaining $25 million for DAP. At projected C&F prices of $265 and $210 per metric ton, 4/ an estimated 94.3 thousand MT of DAP and 23.8 thousand MT of TSP, respectively, could be imported. The A.I.D.-financed imports would meet 21-23 percent of the total DAP and 48-52 percent of the total TSP import requirements for crop year 1984/85. In terms of nutrients, these imports together would meet 24-26 percent of the total phosphatic import requirements for the same crop year.

B. Cotton

1. General

The $10 million worth of cotton to be procured under the FY 1984 ACE Program represents the second and final tranche of an emergency and one-time import program. Pakistan normally exports about one-third of its cotton crop in raw form and nearly one-third more in the form of yarn, cloth and garments. The PFY 1983/84 cotton crop was a disaster at 2.95 million bales compared to 4.8 million bales the previous year and the projection for PFY 1983/84 of 5.2 million bales. The crop failure was so extensive that supplies were not adequate to meet the needs of the mills in Pakistan. The cotton imported under the ACE Program will help to meet that need and thus assist Pakistan to sustain the operations of its mills and maintain the employment and income levels of its largest industrial sector.

4/ The Economic Analysis and Projections Department of the World Bank has projected the U.S. Gulf FOB prices of DAP and TSP to be $210 and $155 per MT, respectively, for 1984. Based on last year's actual costs under the ACE Program, $55 per MT has been added to the respective FOB prices to cover estimated shipping costs.

TABLE 12

FINANCING ARRANGEMENTS FOR FERTILIZER IMPORTS FOR CROP YEAR 1984/85 a/

Source of Funding	Type of Financing	Amount of Financing (In Million U.S.$ Equivalents)
Asian Development Bank	Loan	5.8
Korea	Barter	1.8
West Germany	Loan	1.6
Japan	Grant	13.0
Norway	Grant	5.2
Finland	Barter	10.0
Sweden	Barter	10.0
	TOTAL	47.4

SOURCE: Ministry of Food, Agriculture, and Cooperatives.

a/ Funding secured by the GOP as of April 1984.

2. Supply

The most recent estimate of cotton production in Pakistan is 2.95 million bales (of 375 pounds each) for crop year 1983/84. Ginning has just been completed so this figure is not likely to change. The carryover stock from last year's supply was approximately 250,000 bales, all of which was exported, plus another 50,000 bales before the extent of this year's cotton crop failure became clear. As a result, there effectively was no carryover stock. Stocks have built up as a result of the cotton harvest in November and December. Most of this cotton has been ginned, but not all of it has been sold.

Prices for ginned cotton rose rapidly in the fall and winter of 1983 as the extent of the cotton crop failure became known. For example, the price rose from Rs 11.8/kg in February 1983 to Rs 20.5/kg in February 1984. Prices have been declining as a result of other imports of cotton and information about the AID-financed cotton procurement. For example, the price has come down from as high as Rs 22.5/kg to Rs 17.5/kg or about 63 cents/pound. The U.S. price is more than 80 cents/pound. The downturn in prices and financial pressures have persuaded the cotton ginners to sell their stocks, and thus the supply of unsold cotton will decline.

The future price of raw cotton may rise again if the current stocks are exhausted before U.S. cotton comes on the market. The reason is that the U.S. cotton probably will be sold at or near world market prices which now are higher than those prevailing in Pakistan. U.S. cotton will be the only available supply once ginners' stocks are exhausted.

3. Demand

The demand for cotton is much more difficult to predict than the supply. Last year's mill and nonmill consumption was approximately 3.2 million bales. The latest estimate for PFY 1983/84 reported in March 1984 by the textile trade also was 3.2 million bales. This figure will depend on the ability of the textile industry to produce and sell its products at world market prices when it must buy cotton at near world market prices. As pointed out above, the local price of cotton at one point was nearly double that of last year. Another problem area is whether Pakistan textile firms can regain the market in Iran for their products. Iran had greatly increased its purchases of textile products from Pakistan because of foreign exchange shortages, which made purchase from traditional suppliers more difficult. The poor quality of some Pakistan products, however, has reduced the demand.

The demand also will depend upon the ability of Pakistan yarn suppliers to maintain their markets in Hong Kong and Japan. There have been efforts, particularly in Japan, to restrict and reduce the amount of imported Pakistan yarn which has been increasing rapidly. Another element of demand is the usual requirement for end-of-season stocks. From 1979 to 1982, they averaged 662,000 bales with 500,000 bales as the modal value.

4. Import Requirements

Table 13 summarizes the estimated cotton import requirement for PFY 1983/84.

TABLE 13

ESTIMATED COTTON IMPORT REQUIREMENT FOR PFY 1983/84
(In Bales)[a/]

Supply	
Carryover	250,000
1983/84 Production	2,950,000
	3,200,000
Demand	
Export	300,000
Mill and Non-Mill Demand	3,200,000
End of Season Stocks	250,000-500,000
	3,750,000-4,000,000
Import Requirement	550,000-800,000

a/ One bale = 375 pounds

The estimated import requirement is between 550,000 and 800,000 bales, depending upon the desired end-of-season stocks. Actual and planned imports will total between 251,500-288,500 bales as shown in Table 14.

Table 14

ACTUAL AND PROBABLE COTTON IMPORTS IN PFY 1983/84
(IN BALES)[a/]

Sudan	66,000
China	20,000
U.S. - Private Imports	89,000-126,000
U.S. - ACE Program [b/]	76,500
	251,500-288,500

a/ One bale = 375 pounds

b/ Includes only the cotton procured under the FY 1983 ACE Program which will arrive in June/July 1984; the cotton to be procured under the FY 1984 ACE Program will not arrive until December 1984 or in the PFY 1984/85 crop season.

The unmet requirement, based on actual and probable imports, including the FY 1983 ACE Program buy, is therefore 261,500-548,500 bales. Thus, the importation of $35 million worth of cotton (equivalent to about 109,000 bales of 375 pounds each) under the U.S. FY 1983 and 1984 tranches of the ACE program will not produce a surplus even if mill and non-mill consumption in PFY 1983/84 falls back to the 1981/82 level and end-of- season stocks are half the normal level.

C. Private Sector CIP

1. Background

The private sector "window" in the ACE program is an important element of the Mission's overall program of support to the Sixth Five-Year Plan goal of enhanced private sector activity in Pakistan. Pakistan's private sector is currently concentrated heavily in the areas of agribusiness, agricultural machinery, agricultural processing, food processing and handling, and the transportation and distribution of both primary agricultural commodities and transformed agricultural products such as textiles. The vigor and initiative of the private sector in the agriculturally related sectors has not, unfortunately, always been matched by an equal degree of support and enthusiasm from the Pakistan Government. The decade of the seventies witnessed some major moves backwards for the indigenous agribusiness sector. Many processing firms were nationalized under the Bhutto regime. Many other agribusinesses simply could not operate for want of permits and licenses which required the acquiescence of a hostile federal bureaucracy. Others found that the nationalization of the commercial banks by Bhutto cut them off from their lifeline of operating capital and trade financing facilities.

The advent of the Zia Government in 1977 started a gradual rollback of the excesses of the Bhutto era, but substantial damage has been done to the confidence of the private sector engaged in agribusinesses. It has only been in the recent past, particularly since 1981, that private sector investment in agricultural processing industries and other agribusiness has begun to pick up. A sounder regime of market-oriented prices for major agricultural commodities and a growing government awareness of the importance of new private investment in agribusiness has been central to this upward trend.

2. Impact on the Agricultural Sector

The commodities to be imported under this program will enable farmers to mechanize and modernize their methods of production. The program will also finance commodities for local private industry to produce implements for farmers. It is also expected that irrigation equipment and supplies, to increase the efficiency and effectiveness of the irrigation system, will be imported which should have a favorable impact on agricultural production. Transportation equipment such as reefer trucks (but not general purpose trucks) will be eligible for purchase. Handling equipment for agricultural commodities, such as vacuvators, bagging equipment, forklifts and the like should facilitate the importation of locally unavailable agricultural commodities and the movement and storage of harvested products. Prefabs, ventilators, industrial air-conditioners, humidifiers and the like will also contribute to storage and preservation of harvested crops. In addition, the food canning and processing sector will benefit from modern U.S. equipment imported under this program.

3. Impact on Balance of U.S. Payments

The short and long-term impact on the U.S. balance of payments will be favorable because program funds will be restricted to U.S. goods and related services. This program will permit U.S. suppliers to reinvigorate trade relations with their distributors in Pakistan which were badly interrupted by U.S. goods being priced out of the market. Future follow-up orders for machinery and spare parts will result in additional U.S. exports on a commercial basis.

4. Demand for U.S. Agricultural Commodities

The private sector "window" of the ACE Program will permit importation of a broad range of agriculturally related equipment. Since most of Pakistan's private sector is in agriculturally related business, this insures the program a very broad market base. Participating banks will review equipment financing requests against three screens: (a) the GOP eligible list of imports, which is very broad; (b) the A.I.D. eligible commodities list, which is also very broad; and, (c) the narrative justification in the loan application which explains the agriculturally related nature of the requirement for the equipment.

Within this framework, USAID anticipates that very substantial market demand for commodities can be tapped by the private sector "window" in ACE. The U.S. enjoys a reputation for technological supremacy in many areas of agribusiness equipment, including food processing equipment; food packing equipment; meat and poultry handling equipment; high efficiency irrigation equipment; agrochemical processing and handling equipment; and, some categories of farm machinery. In other areas, such as machine tools for the agricultural machinery industry and processing for agriculturally related pharmaceuticals, we share the market with other national suppliers, but are competitive on quality if not price. In heavy agricultural equipment, the United States is without equal, as is the case in heavy irrigation-related equipment.

The effective demand for U.S. equipment will reflect a balancing of three factors: (a) technological advantage of U.S. supplied equipment; (b) quality advantages of U.S. equipment; and, (c) price competitiveness of U.S. equipment. If we had to compete on price alone, there would be some doubt as to the total demand for U.S. goods under the program. In fact, however, the slope of the demand curve for U.S. agribusiness equipment in Pakistan will be determined at least as much by the fact of U.S. proprietary technology embedded in many U.S. goods and in our quality advantage in some areas of agricultural equipment. There is no way to quantitatively prove a demand level in the context of a dynamic marketplace. The Mission will, however, test the market with a phased approach to credit availability. The FY 1984 ACE Program will make US $10 million available through banks to the full universe of private sector borrowers. Based on the actual track record of this initial $10 million tranche, we will phase the pace of future private sector tranches. The financial plan indicates the phasing which we anticipate at the present time, but we are prepared to modify this schedule of financing based upon what we learn from the actual response of the mark to the first year's funding.

5. Relationship of Loan Terms to "Market Interest Rates"

Any discussion of "prevailing market rates of interest" in Pakistan must be prefaced by the statement that interest rates are not a significant instrument for regulating the growth and distribution of domestic credit. Direct and selective credit controls such as annual credit plans are the GOP's preferred monetary tool. The State Bank of Pakistan (i.e., the Central Bank) sets minimum rates for deposits and maximum rates on advances. Although banks are theoretically free to pay higher rates for deposits and charge lower rates for advances, the crossing nature of the interest rate structure (interest rates for deposits rise with maturity while those for advances decline) and the relatively low rate of return available from Government securities used to meet minimum reserve requirements combine to work against much deviation from the prescribed rates and to encourage short-term quick-turnover transactions.

In the private sector "window" of the ACE Program, our approach to the interest rate issue will be built upon four pillars:

a. a firm commitment to avoid inducing misallocation of investment through wrongly priced capital;

b. an approach to capital pricing which incorporates both the explicit and implicit costs of capital to the borrower (i.e., nominal interest rate, local and foreign banking fees for documentary credits, cost of foreign exchange cover, compensating balance and other side-requirements, costs of U.S.-tied procurement, cost of A.I.D. shipping regulations, and the like);

c. a desire to work within the existing credit system to the maximum extent possible, recognizing that neither the participating banks nor the GOP will revise the structure of the credit markets simply to accommodate our private sector commodity window; and,

d. a recognition that all the banks in the system (both the Central Bank as recipient of the A.I.D. loan in the first instance and the implementing commercial banks as on-lenders in the two-step loan process) will have to receive sufficient spread to cover the commercial and business risks which they undertake as well as their overheads in operating the program.

In summation, the Mission believes that the interest schedule under the ACE private sector CIP will not distort investment decisions and will not result in an underpricing of capital to investors when all elements of capital cost are considered.

D. Water Sector Commodities

1. Equipment for the Provincial Irrigation Departments (PIDs)

a. Excavating Machinery for the Punjab and Sind PIDs

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 consitutes 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.

b. Irrigation Pumps for the NWFP PID

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 thesepumps well beyond their economic life and has also performed well in maintaining the canals into which water is pumped.

c. Flood Protection Equipment for the Punjab PID

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.

d. Construction Machinery for the Baluchistan PID

The equipment to be provided to the Baluchistan PID to supplement its fleet for annual maintenance of the large Kirther Canal System is similar to the Equipment provided for the ISM Project. The technical analyses of the equipment described in both the FY 1982 ACE PAAD and the FY 1983 ISM Project Paper apply equally to this equipment. In view of the length and size of the Kirther Canal System, procurement of these commodities is justified.

2. Drilling Rigs for the Sind Agricultural Engineering Department

The Agricultural Engineering Department of the Government of Sind has had six powerdrilling 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 per 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.

3. Research Equipment for the Irrigation Systems Management (ISM) Project

The FY 1982 PAAD Amendment described in detail the irrigation system and the institutional network which will utilize the machinery and equipment, including its maintenance capabilities and equipment needs. The FY 1983 ISM Project Paper defined a program of canal rehabilitation and adaptive water research and the improved operation, maintenance and management of the irrigation system for which the equipment is to be supplied. Most of the $6 million worth of water research equipment to be imported under the FY 1985 ACE Program is standard laboratory/analytical equipment which will either replace or augment the existing inventory of the participating water research organizations. In those cases where new equipment is procured to assist the research entities undertake the research agenda planned under the ISM Project, the Project-financed long-term research team of expatriate advisors will assist their respective counterparts in the proper use and maintenance of the equipment. Where appropriate, spare parts for specific items will also be provided to extend the functional life of the equipment. In summation, adequate provision has been made under the ISM Project in the form of technical assistance and training to ensure the suitability of the commodities to be imported and their proper use and maintenance.

E. Other Project Commodities

The commodities to be procured under the FY 1984 ACE Program in support of the Forestry Planning and Development (FPD) Project were described in both the FY 1983 FPD Project paper and the FY 1983 ACE PAAD Amendment. The institutional setting, technical need for and suitability of the commodities, utilization and maintenance capabilities of the user organizations, and other technical feasibility issues have been adequately addressed in the respective programming documents.

Firm equipment requirements for the FY 1984 Management of Agricultural Research and Technology (MART), Baluchistan Area Development (BALAD), and Transformation and Integration of the Provincial Agricultural Network (TIPAN) Projects are now being defined as the Projects approach the final stages of design. The Project Papers will fully document the respective institutional setting, technical need for and suitability of the commodities, utilization and maintenance capabilities of the user organizations, and other technical feasibility issues to justify the procurement of commodities in support of these projects under the FY 1984 ACE Program. Illustrative lists of commodities are included in Annex C.

The Mission is also in the final stages of developing the Project Identification Document (PID) for the FY 1985 Rural Roads Project. Provisional equipment requirements have already been identified for this project, and an illustrative list is included in Annex C. Commodities in support of the Rural Roads Project will be funded under the FY 1985 tranche of the ACE Program, by which time sufficient analytical work will have been undertaken to define equipment needs and to justify their procurement. The Rural Roads Project Paper, which will be submitted to AID/Washington in the spring of 1985, will fully document the technical feasibility of the project commodities to be procured under the FY 1985 ACE Program.

As in the case of the ISM Project, adequate provision has been, is being, or will be made, depending on the stage of design, in the FPD, MART, TIPAN, BALAD, and Rural Roads Projects, through technical assistance and training, to ensure that all commodities procured under the ACE Program in support of these Projects are fully justified technically and that they will be properly used, maintained, and stored.

VII. IMPLEMENTATION PLAN

A. Commodity Procurement Plan

1. Fertilizer

Procurement of fertilizer under both the FY 1982 and FY 1983 Programs went extremely smoothly. Therefore, the same procedures outlined on pages 28-29 of the original PAAD will 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, as in the case of the FY 1983 procurement, the Mission will request SER/COM to review the IFB and Charter Party used for the FY 1983 Program 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 1984 Program.

2. Cotton

Importation of cotton under the FY 1983 Program followed essentially the same procedures employed for fertilizer. The GOP, through the Pakistan Cotton Export Corporation, was responsible for the procurement, with the assistance of SER/COM, AID/Washington, and the tendering and award phases took place at the Pakistan Embassy in Washington, D.C. Since this procurement process was timely and efficient, required minimal USAID/Pakistan staff time, and will result in a rapid disbursement of funds, procurement of the $10 million worth of cotton under the FY 1984 Program will follow the same procedure.

3. Water Sector Commodities

As discussed in Section VI.D. and described more fully in Annex C.2., the water sector commodities to be procured under the FY 1984 and FY 1985 Programs consist of six different categories, comprising over 100 individual line items, valued at approximately $18.2 million. Some of this equipment was to be procured under the FY 1983 Program, but was deferred to FY 1984 to enable the Mission to purchase cotton; specifications have already been prepared for most of these items. Preparation of specifications for the remaining equipment to be procured in FY 1984 should be completed within the next several months. A definitive list of items and specifications for the $6 million worth of ISM research equipment, to be procured under the FY 1985 Program, will not be available before December 1984, by which time the ISM research definition team is expected to complete its assessment and recommend a long-term water research agenda for the ISM project.

For some of the categories of commodities, such as the irrigation pumps for the NWFP PID and the drilling rigs for the Sind PID, the Mission may request SER/COM to assist the GOP to procure these items, following the same procedures employed for fertilizer through the Pakistan Embassy in Washington, D.C. This same procedure may also be employed to procure the excavating machinery for the Punjab and Sind PIDs (7 line items plus spare parts), the flood protection equipment for the Punjab PID (10 line items plus spare parts), and/or the construction machinery for the Baluchistan PID (9 line items plus spare parts).

Alternatively, all or some of the above items may be combined and procured using 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 proven to be an effective and appropriate mechanism. This is especially the case when the procurement involves a large number of individual line items, many of which: need to be manufactured rather than being shelf items; require supplier training; and/or are susceptible to considerable damage/pilferage in transit. The water research commodities in support of the ISM Project, which will be procured with FY 1985 funds, will either be procured by the U.S. University selected and hired under a direct A.I.D. contract to implement the research program under the ISM Project or by a PSA selected competitively and hired under a host country contract. The U.S. University, in collaboration with engineers on the long-term equipment management team, will be responsible for preparing a definitive list of commodities and specifications as part of the research definition phase of its work, which is expected to commence in June 1984.

4. Other Project Commodities

a. Forestry Planning and Development

Of the $2 million worth of commodities to be procured, the earthmoving and land clearing commodities (7 items and spare parts) and the tractors for the nurseries, which are valued at $1.7 million, will be procured by the GOP with SER/COM assistance through the Pakistan Embassy in Washington, D.C. The remaining $300,000 worth of nursery, research and analytical, and watering commodities, comprising about 50 different line items in varying quantities, will be procured by a PSA selected competitively and hired under a host country contract. Consultants are now in-country to help prepare specifications for these commodities.

b. Management of Agricultural Research and Technology

As discussed previously and documented in Annex C.6., the commodities to be procured for the MART Project consist of over 100 line items valued at approximately $2.5 million. Preparation of specifications is expected to be completed, with the assistance of expatriate consultants, by September 1984. Procurement will be undertaken by the Pakistan Agricultural Research Council (PARC), the lead implementing agency under the MART Project. PARC, through its Procurement Section, has successfully procured $3.2 million of A.I.D.-financed commodities under the Agricultural Research Project. Many of the items to be procured under the MART Project are similar. In addition, the experience gained and lessons learned from the implementation of the Agricultural Research Project commodity procurement process should greatly facilitate the smooth and timely procurement of commodities for the MART Project. Accordingly, PARC, with the assistance of the USAID/Pakistan Mission, will be responsible for preparing and issuing tenders, making awards, and handling all communications with suppliers regarding shipping and insurance claims as well as clearance of the commodities at the Karachi port and inland transportation arrangements.

c. Transformation and Integration of the Provincial Agricultural Network

Procurement of the $1 million worth of commodities in FY 1984 and the $4 million in FY 1985 for the TIPAN Project will be undertaken by the University of Illinois, which was competitively selected and hired under a direct A.I.D. contract, in accordance with the Collaborative Assistance procedure, to both design and implement the TIPAN Project. The University has a large Procurement Department including an International Section which has had a wealth of experience procuring the types of commodities required for the project, including experience with A.I.D.-financed procurements. In addition, for some of the items to be procured, the University has indicated that the special discount rates accorded to it by suppliers will be obtained for the A.I.D.-financed commodities. ACE Program funds will be added to the University's existing Federal Reserve Letter of Credit (FRLC) to finance TIPAN Project commodities. University consultants are now in-country to finalize the list of commodities and develop specifications for the FY 1984 procurement. Specifications for the FY 1985 procurement should be completed by March 1985.

d. Baluchistan Area Development Project

Consultants are now in-country to assist the Mission and GOP to finalize the list of commodities and develop specifications. The commodities, which are valued at $3.2 million, are likely to consist of road maintenance equipment, heavy equipment spares, and miscellaneous hydrological and engineering equipment. Because of the diversity of the items involved, this procurement may be undertaken by the GOP with the assistance of a PSA. Alternatively, depending on the final composition of the commodity list and discussions between SER/COM and the Mission regarding workload and the scheduling of other commodity procurements requiring SER/COM assistance, all or some of these items may be procured by the GOP with the assistance of SER/COM through the Pakistan Embassy in Washington, D.C.

e. Rural Roads Project

A preliminary list of the commodities which are likely to be procured under the FY 1985 ACE Program in support of this project is included in Annex C.7. Depending on the nature and number of commodities to be procured, one of the two alternative procurement approaches described above for the BALAD Project will be used to procure these commodities.

Procurement of all Project commodities will be coordinated to ensure economies of scale in the procurement process. For example, where appropriate and feasible, commodities from several projects may be procured by the same PSA and/or IFBs issued by the Pakistan Embassy in Washington, D.C. may include similar commodities for several different projects. Final decisions regarding the most appropriate procurement approach will be made during implementation, taking into account when lists of commodities are finalized and specifications prepared and the work schedules of Mission, SER/COM, and host country as well as Pakistan Embassy officials.

B. Private Sector CIP

1. CIP Setting

Funds provided under the private sector CIP will be made available to participating commercial banks in Pakistan. The local participating banks will be responsible for ensuring that their customers purchase only eligible commodities which will contribute to agricultural development and utilization of agricultural products. They will also be responsible for ensuring that the commodities are purchased in accordance with A.I.D. and GOP regulations and shall also comply with reporting requirements. USAID/Pakistan will spot-check the performance of the banking institutions.

2. Past Experience

Funds similar to the private sector CIP have not been made available by A.I.D. in Pakistan since the early 1970's. However, loans to the private sector have been made for some time by other donors. Large contributors have been the World Bank and the Asian Development Bank. In addition, many countries have provided lines of credit, both general and sector-specific, to the private sector.

The World Bank, over the past few years, has made available 14 loans and credits totalling US$ 454 million for project investment in the private industrial (manufacturing) sector. Of this, US$ 274 million has gone to the Pakistan Industrial Credit and Investment Corporation (PICIC) and US$ 80 million to the Industrial Development Bank of Pakistan (IDBP) for term loans. In February 1984, the World Bank extended an additional US$ 100 million loan to finance activites in the private industrial sector.

The Asian Development Bank has provided US$ 198 million in loan funds to the private sector via public sector lending agencies. Currently, the ADB is interested in expanding its level of activity in this area and is investigating ways to make funds directly available to private firms.

As a result of these efforts, a clear precedent has been established which provides the general basis for foreign loans and a useful framework for the proposed ACE Program private sector CIP. While each donor loan has specific implementation procedures, most follow the general pattern described below. Donor funds are loaned to the GOP on negotiated terms and conditions; these loans are transferred directly by the GOP or State Bank of Pakistan (SBP) to Designated Financial Institutions (DFIs) or Nationalized Commercial Banks (NCBs).

The DFIs and NCBs act as the implementing agents of the loans, conducting project appraisals, reviewing borrower credit worthiness and being responsible for placing the funds and for repaying the loans to the GOP. Therefore, it is from the DFIs and NCBs that the private sector investor obtains his funds and to whom he is responsible for repayment of his loan.

World Bank and Asian Development Bank loans, in addition to providing funding, generally also are used to assist in strengthening the financial system. For example, the recently signed World Bank loan has the following objectives:

a. improve credit delivery for industrial finance by focusing on the system as well as the individual;

b. reduce the possibility of jeopardizing industry's access to term finance as a result of a participating institution's non-compliance with conditionality/eligibility criteria by expanding the sources of financing;

c. remove operating anomalies which hamper competition among DFIs;

d. encourage competition among Participating Financing Institutions (PFIs) by expanding and improving the services offered by them;

e. strengthen individual institutions through technical assistance programs; and,

f. develop a more consistent and continous method of providing foreign exchange financing for industry in Pakistan.

Each donor loan has specific terms and conditions regarding the use of the loan; lending interest rates and repayment terms; foreign exchange risk responsibility; and loan limits and criteria which must be met before loan funds can be used.

3. Procurement Plan

The ACE Program private sector CIP will operate with a restricted commodity eligibility listing confined to Schedule 6 of the A.I.D. Commodity Eligibility List except where the GOP prohibits their importation. If importers desire to purchase commodities under other schedules, USAID will have to determine their suitability under this program.

Announcements in local papers will advise the Pakistani private sector of the availability of AID funds for procurement of agricultural machinery and equipment from U.S. sources. USAID/Pakistan will also request SER/COM, AID/Washington to announce the availability of this credit program to U.S. suppliers through publication of a notice in the PRE/OBR A.I.D. Procurement Information Bulletin. Depending on the response from U.S. suppliers, the Mission may also advertise this program in other publications.

A.I.D. Regulation 1 will apply, specifically Paragraph 201.23, Informal or Negotiated Procurement Procedures. Negotiated procurement shall be in accordance with good commercial practice with the solicitation of offers from a reasonable number of suppliers. Participating local banks will be responsible for ensuring compliance with this requirement.

When Pakistani licensed distributors of U.S. manufacturers purchase commodities from their principals, as authorized under Paragraph 201.23(e)(i), the distributor does not have to solicit offers from other than his principals. Compliance with Regulation I Pricing Regulation will be monitored by SER/COM, AID/Washington.

Participating banks will be provided with copies of A.I.D. Regulation I, A.I.D. Commodity Eligibility Listing, and A.I.D. Commodity Procurement Instructions (CPI). A seminar will be arranged by USAID/Pakistan for participating bank officials to explain the responsibilities of the Banks in regard to the CPI and reporting requirements.

There will be a maximum of $500,000 per transaction and a minimum of $25,000 except for spare parts for existing equipment. USAID can approve exceptions.

Procurement of commodities and commodity-related services will be restricted to U.S. source and origin as defined in A.I.D. Regulation 1. The 50/50 shipping requirements will only apply to the aggregate of shipping under the entire ACE Program. Only U.S. flag and Pakistani flag shipping will be authorized for A.I.D. financing under this private sector CIP program.

4. Procedures

The Economic Affairs Division of the Ministry of Finance and Economic Affairs will designate by name those participating banks in Pakistan which will be authorized applicants for ACE Program funds. Unless otherwise agreed to in writing by the GOP and A.I.D., each of the participating banks will be able to apply to the State Bank of Pakistan for the funds on a first-come, first-served basis. USAID/Pakistan will then issue a countersigned Project Implementation Letter (PIL) to the Economic Affairs Division, which will elaborate on all pertinent A.I.D. requirements covered in the Program Agreement Amendment and the agreed upon particulars of the private sector CIP. Attached to this PIL will be the Commodity Procurement Instruction (CPI); a copy of A.I.D. Regulation No. 1; and, Schedule 6, A.I.D. Commodity Eligibility Listing.

The Economic Affairs Division will sign and submit to USAID/Pakistan Financing Requests, naming each of the participating banks as designated applicants. Based on these Financing Requests, FM/AID/Washington will establish a Letter of Commitment(s) at the corresponding banks designated by the participating banks in Pakistan.

When the participating bank in Pakistan opens a Letter of Credit to a supplier, the corresponding bank in the U.S. will confirm this Letter of Credit and pay the U.S. supplier at sight against presentation of the required documentation. The bank in the U.S. will then submit a voucher to FM/AID/Washington for reimbursement out of program funds reserved for the Letter of Commitment.

A typical import transaction will proceed as follows:

The importer will solicit offers from a reasonable number of U.S. suppliers. He will select the offer best suited for his needs. He or his bank will then file an application with the Chief Controller of Imports and Exports for an import permit under this Program. He will submit all offers he received together with his permit to the participating bank in Pakistan with a request for the bank to open a Letter of Credit in favor of the selected supplier. The margin of deposit in local currency at the time of opening the Letter of Credit will be the same as required by the State Bank of Pakistan. At present, for capital goods and equipment, the margin is NIL. The participating bank will open a Letter of Credit to the selected supplier and will have it confirmed by its corresponding bank in the U.S. The U.S. bank will pay the supplier and request reimbursement from A.I.D. Documents will be sent to the Pakistani bank by the U.S. bank with copies to the USAID/Pakistan Controller. The importer will receive the documents from the participating bank in Pakistan and clear the goods through customs by paying the prescribed import duties. The importer will pay the local bank counterpart funds at predetermined intervals.

The participating banks will be responsible for determining the amount of local currencies equivalent to the dollar purchase price of ordered machinery and equipment at the time of opening of Letters of Credit. Local currencies paid by the borrower will be deposited by the participating banks in the State Bank of Pakistan. Such collections and deposits will be made at predetermined intervals over a period of 18 months to three years, depending on the type of goods or equipment financed, i.e. intermediate goods or capital equipment.

C. Implementation Schedule

Implementation of the FY 1984 ACE Program will take place over a period of about two years. While it is envisioned that about $50 million of the $70 million obligated in FY 1984 should be fully disbursed by July 1985, it is likely that the remaining $20 million worth of project commodities will not be fully disbursed until July 1986. This schedule takes into account possible delays in developing firm project commodity lists and specifications and in obtaining, as appropriate, required Federal and Provincial approvals of these lists, and the probable need for retendering for some of the items. An illustrative implementation schedule for each component of the FY 1984 Program is summarized below and is based on the assumption that the Program Agreement Amendment will be signed no later than July 15, 1984. A provisional schedule is also provided for FY 1985 project commodities.

1. Fertilizer and Cotton

On the assumption that the Conditions Precedent are met by August 1, 1984, the Mission will request that SER/COM work with the Pakistan Embassy in Washington, D.C. to procure cotton and fertilizer simultaneously, beginning with the issuance of tenders for each commodity on August 15, 1984. This would mean that bids should be received by September 1, awards made by September 15, freight and commodity L/COMs issued by October 1, and the first deliveries of both cotton and fertilizer arriving at the Karchi port about December 1, with the final deliveries completed by January 1, 1985.

2. Private Sector CIP

It is anticipated that by October 30, 1984, participating banks in Pakistan will have been identified, particulars of the program agreed to and documented in a countersigned Project Implementation Letter (PIL), Commodity Procurement Instructions (CPI) issued, a seminar for participating bank officials held, advertisements placed in the local newspaper regarding the availability of this credit program, and a list of potential suppliers and the items they are likely to import sent to SER/COM, AID/Washington for publication in the A.I.D. Export Opportunities Bulletin. L/COMs in corresponding banks in the U.S. should have been issued by December 31, 1984. If demand meets expectations, it is anticipated that all of the $10 million allocated for this program should be fully disbursed by July 1985.

3. Project Commodities

a. MART Project

On the assumption that firm lists of commodities and specifications have been finalized and agreed to by September 30, 1984, it is anticipated that preparation of the tender document(s) should be completed by November 30, the tenders issued by December 15, awards made by March 31, 1985, and that all commodities will have arrived in-country by September 30, 1985.

b. TIPAN Project

For the $1 million worth of commodities to be procured under the FY 1984 Program, it is anticipated that firm lists of commodities and specifications should be prepared by July 30, 1984, that funds will be added to the University of Illinois' existing FRLC in August, and that all commodities should arrive in-country by March 1, 1985. Firm lists of commodities to be procured under the FY 1985 Program should be available by March 1985, and all of these commodities should arrive in-country by December 1985.

c. Water Sector Commodities

Specifications for the irrigation pumps for the NWFP PID and the drilling rigs for the Sind PID should be sent to SER/COM, AID/Washington by August 30, 1984, with the issuance of tenders by the Pakistan Embassy in Washington, D.C. scheduled to occur by October 15, 1984. Awards should be made by January 1985, and the items should be in-country by June 1985.

At the present time, the Mission plans to procure the excavating machinery for the Sind and Punjab PIDs, the flood protection equipment for the Punjab PID, and the construction machinery for the Baluchistan PID, totalling $8 million, through a PSA, selected competitively, and hired under a host country contract, with A.I.D. acting as agent of the GOP. (See below.)

Firms lists of equipment and specifications for the research equipment for the ISM Project to be procured under the FY 1985 ACE Program are not expected to be available and agreed to before March 1985. These commodities will either be procured by the University selected to both design and implement the research program or by a PSA competitively selected and hired under a host country contract.

d. FPD and BALAD Projects

Specifications for the $1.7 million of earthmoving, land clearing, and heavy nursery equipment for the FPD project will be sent to SER/COM, AID/Washington by September 30, 1984, with the issuance of tenders by the Pakistan Embassy in Washington, D.C. scheduled to occur by November 15, 1984. Awards should be made by February 1985 and the items should be in-country by July 1985.

The remaining $300,000 worth of FPD commodities, the $3.2 million of BALAD commodities, and the $8 million worth of water sector commodities described in paragraph c. above will more than likely be procured by a PSA. It is anticipated that the Request for Proposals (RFP) for the PSA procurement will be issued by USAID/Pakistan in September 1984 and a contract executed by December 1984. Given the large number and diversity of items involved, all commodities are expected to arrive in-country by December 1985.

e. Remaining Commodities for FY 1985

It is likely that the $3 million worth of Rural Roads Project commodities and the additional $2 million worth of flood protection equipment for the Punjab PID will be procured by a PSA. It is projected that a PSA will be contracted by December 1985, and the commodities should arrive in-country by September 1986.

D. Policy Studies

1. Fertilizer Sector Study

The closing date for receipt of proposals by the Mission for this study is May 15, 1984. A contract is expected to be executed in late June, and field work should begin shortly thereafter. Results of this comprehensive study, which will be financed under the Project Design Fund (391-0470), should be available for discussion with the GOP by December 1984/January 1985.

2. Edible Oil Stock and Trade Management Study

A scope of work for a 4-5 person team to undertake this study was cabled to Washington in March 1984. USDA/OICD is currently in the process of identifying and recruiting 4 members of the team, and the Private Enterprise Bureau (PRE) in AID/Washington has been asked to help recruit a suitable candidate to serve as the financial marketing analyst on the team. If the team is fielded by June 1984 as anticipated, the results of this study, which will also be financed under the Project Design Fund, should be available for discussion with the GOP by October 1984.

3. Food Grain Modeling and Ration Shop Studies

These two studies will be implemented as part of the Special Studies Program under the Economic and Policy Analysis Component of the recently approved Food Security Management Project (391-0491). Both studies will be undertaken by the International Food Policy Research Institute (IFPRI), and each will require about two years to complete. These studies are not scheduled to begin before January 1985, which means that the final results of the studies would not be available before January/February 1987.

4. Agricultural Date Collection System Analysis

This study, which is a pre-implementation activity of the Food Security Management Project, will be undertaken by a 2 person team from the USDA/Statistical Reporting Services (SRS) for about six weeks beginning in May 1984. Results of the study, which will be financed under the Project Design Fund, should be available by August 1984.

E. 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. Overall project monitoring responsibility resides in USAID/Pakistan's Office of Agriculture and Rural Development (O/ARD). The Office of Project Development and Monitoring will have primary responsibility for the procurement of all commodities, and the Executive Office, through its Commodity Control Unit (CCU), will be responsible for commodity arrival accounting, in cooperation with the Mission's Regional Affairs Office in Karachi. The Office of Financial Management will be responsible for undertaking end use audits on a periodic basis, and the Office of the Director and the Office of Program will assist O/ARD with policy and macroeconomic considerations related to the ACE Program. The Office of Program will also provide assistance to O/ARD in the area of evaluation.

It is anticipated that SER/COM, AID/Washington will continue to play a major role in assisting the Mission implement the ACE 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. USAID/Pakistan will also continue to seek SER/COM advice and assistance in the implementation of the private sector CIP.

USAID/Pakistan's responsibilities with respect to the implementation of the private sector CIP will be as follows:

1. Provide all participating banks with copies of A.I.D. Regulation 1, A.I.D. Commodity Eligibility List, and A.I.D. Commodity Procurement Instructions (CPI);

2. Arrange a seminar for participating bank officials to explain the responsibilities of the banks in regard to the CPI and the reporting requirements;

3. Place advertisements in newspapers to publicize the program;

4. Obtain list of potential importers and likely imports and transmit this information to SER/COM, AID/Washington for publication in the A.I.D. Export Opportunities Bulletin;

5. Spot-check individual transactions except where USAID/Pakistan approvals are required as indicated previously. The burden of compliance with applicable regulations will be left to the participating banks;

6. Arrange for Financing Requests (FRs) to be sent to AID/Washington;

7. Ensure that arrival accounting procedures in accordance with USAID/Pakistan Manual Order No. PAK-754.1 dated October 26, 1983 are followed; and,

8. Ensure compliance with the cargo preference provision, which requires that at least 50 percent of the total value of commodities procured under the ACE Program be shipped on U.S. flag ships.

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 undertaken. 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.

F. Evaluation Plan

The first comprehensive external evaluation of the ACE Program was conducted in November/December 1982. The evaluation covered, inter alia: procurement procedures for fertilizer and equipment; progress made toward planning, developing and executing policy studies; monitoring and evaluation of Program performance and impact; and generation and use of sales proceeds. The findings and recommendations of this evaluation were incorporated into the design of the FY 1983 PAAD Amendment and have also been taken into account in the design of this FY 1984 - FY 1986 PAAD Amendment.

The next formal external evaluation is planned for the first quarter of FY 1987. The major objective of this evaluation will be to identify lessons learned and areas for continued funding, including specific procurement arrangements and financial mechanisms. The evaluation will serve as the basis for the preparation of a possible ACE PAAD Amendment, covering the period FY 1987 - FY 1990. By November/December 1986, all of the commodities imported under the Program, up to and including the FY 1985 tranche, will have reached their ultimate destination in the provinces; many if not all of the key policy studies will have been completed or nearing completion; and, implementation of other major A.I.D.-financed agricultural sector projects will be well along. 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 arrival accounting and end use 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).

In addition to the formal external evaluation described above, the Mission plans to annually assess two specific elements of the Program during the life of the PAAD Amendment. As discussed previously, prior to the obligation of each annual increment of funding, the Mission will cable to AID/Washington, for its review, an assessment of progress to date in policy implementation performance and our negotiation strategy for the next year's program. Also, prior to the obligation of funds in FY 1985, the Mission will undertake an evaluation of the private sector CIP component of the Program, with the assistance of either a SER/COM representative or an appropriate USDH from USAID/Cairo who is involved in the implementation of the private sector CIP in Egypt. This evaluation will be designed to assist the Mission to determine whether to continue funding the private sector CIP program and at what levels, and to identify the need for changes, if any, in eligibility criteria, lending terms, interest rates, and other characteristics of the program. In order to enable the Mission to make these decisions prior to the obligation of FY 1985 funds, this evaluation will have to take place in January 1985, after only six months of actual implementation experience. The evaluation will focus on the following factors:

1. Rapidity of disbursements;

2. Assessment of the nature of commodities imported and the likely overall impact on the agricultural sector;

3. Examination of those loan applications which were turned down, including an analysis of the nature of the commodities requested, the loan applicant, and the reasons for the loans being refused;

4. Analysis of program beneficiaries;

5. Adequacy of administrative and financial procedures;

6. End-use of commodities; and,

7. Performance of banks in terms of compliance with GOP and A.I.D. requirements.

VIII. FINANCIAL PLAN

A. Program Allocations

Tables 15 and 16 summarize the provisional funding allocations for the FY 1984 Program and the FY 1984 - FY 1986 period by loan/grant split, respectively. As discussed previously, depending on progress on the policy front and the private CIP, the Mission's approach in the outyears will be to allocate an increasing proportion of the program to the private sector CIP component and to maintain approximately the same level of fertilizer imports, while at the same time recognizing the need to remain sufficiently felxible to respond to balance of payments requirements and the possible need for additional project commodities over the next three years.

B. Obligation and Disbursement Schedules

The Mission proposes to obligate $70 million, $60 million, and $50 million for the ACE Program in FY 1984, FY 1985, and FY 1986, respectively. For the FY 1984 program, if the Program Agreement Amendment is signed no later than July 15, 1984, it is anticipated that fertilizer and cotton commodity and freight Letters of Commitment (L/COMs) will be issued by October 1, 1984, that fertilizer and cotton deliveries will begin to arrive at the Karachi port by December 1, 1984, and that fertilizer and cotton shipments to Karachi will be completed by January 1, 1985 and disbursements of approximately $40 million made by February 1, 1985.

For the private sector CIP component, it is anticipated that L/COMs will be established by December 31, 1984 at the corresponding U.S. banks designated by the participating banks in Pakistan. When the participating bank in Pakistan opens a Letter of Credit (L/C) in favor of a supplier, the corresponding bank in the U.S. will confirm this L/C and pay the U.S. supplier at sight against presentation of the required documentation. The bank in the U.S. will then submit a voucher to FM/AID/Washington for reimbursement out of program funds reserved for the L/COM. If demand for these funds meets expectations, disbursement of the entire $10 million programmed for the private sector CIP should be completed by July 1985.

TABLE 15

PROVISIONAL FUNDING ALLOCATIONS FOR THE FY 1984 ACE PROGRAM

(In $ Million)

Category of Commodity	Loan	Grant
1. Fertilizer	10.0	20.0
2. Cotton	10.0	-
3. Private Sector CIP	10.0	-
4. Water Sector Commodities		
a. Excavating Machinery for the Sind and Punjab Irrigation Departments a/	-	3.5
b. Flood Protection Equipment for the Punjab Irrigation Department a/	-	3.3
c. Irrigation Pumps for the NWFP Irrigation Department a/	-	1.0
d. Construction Machinery for the Baluchistan Irrigation Department	-	1.2
e. Water Drilling Rigs for the Sind Agricultural Engineering Department a/	-	1.2
5. Other Project Commodities		
a. Forestry Planning and Development a/	-	2.0
b. Management of Agricultural Research and Technology	-	2.5
c. Transformation and Integration of the Provincial Agricultural Network	-	[illegible]
d. Baluchistan Area Development	-	3.2
6. Other Costs (including, but not limited to, PSA fees, inland transportation, and other allowable costs)	-	1.1
TOTALS:	30.0	40.0

a/ Procurement of these commodities was originally contemplated using FY 1983 funds but was deferred to FY 1984 to allow the Mission to procure cotton with FY 1983 funds.

TABLE 16

PROVISIONAL FUNDING ALLOCATIONS FOR THE ACE PROGRAM
BY FISCAL YEAR AND LOAN/GRANT SPLIT

(In $ Million)

Program Component	Fiscal Year							
	1984		1985		1986		Total	
	Loan	Grant	Loan	Grant	Loan	Grant	Loan	Grant
Fertilizer	10.0	20.0	28.0	2.0	30.0	-	68.0	22.0
Cotton	10.0	-	-	-	-	-	10.0	-
Private CIP	10.0	-	15.0	-	20.0	-	45.0	-
Water Sector Commodities	-	10.2	-	2.0	-	-	-	12.2
ISM Project	-	-	-	6.0	-	-	-	6.0
FPD Project	-	2.0	-	-	-	-	-	2.0
MART Project	-	2.5	-	-	-	-	-	2.5
TIPAN Project	-	1.0	-	4.0	-	-	-	5.0
BALAD Project	-	3.2	-	-	-	-	-	3.2
Rural Roads Project	-	-	-	3.0	-	-	-	3.0
Other Costs	-	1.1	-	-	-	-	-	1.1
Total	30.0	40.0	43.0	17.0	50.0	-	123.0	57.0

Based on the implementation schedule provided in Section VII.C., L/COMs should be issued in favor of suppliers for the drilling rigs and irrigation pumps and in favor of the selected PSA(s) to cover their fees by January 1985. For the commodities to be procured with the assistance of PSAs, all L/COMs should be issued in favor of suppliers by August 1985 and all commodities should arrive in-country by December 1985. It is anticipated that all deliveries will have been completed and all disbursements of FY 1984 program funds made by July 1986.

The disbursement schedule for the outyears will depend on the commodity mix and the implementation approach. Funds for commodities such as fertilizer are likely to be fully disbursed within six months after the initiation of the procurement process; those for the private sector CIP within one year; and those for project commodities between 18 and 24 months.

C. Local Cost Financing

A minimal amount of dollar financing provided under this Program will continue to be used to finance local costs such as inland transportation of equipment from the Karachi port to appropriate sites in the Provinces. While this has not been found to be necessary for such items as fertilizer and cotton, A.I.D. financing of inland transportation for project commodities to be used in the provinces has proven instrumental in expediting the delivery of these commodities and in eliminating unnecessary and burdensome administrative and management procedures. As necessary and appropriate, therefore, A.I.D. will continue to finance inland transportation of imported commodities under this Program and other selected allowable costs for commodity-related services.

D. Local Currency Generations

Section 609 of the Foreign Assistance Act (FAA) requires that the recipient country establish a Special Account for commodities to be furnished with Economic Support Funds (ESF) on a grant basis under arrangements which result in the accrual of proceeds to the recipient country from the sale of such imported commodities. Under the FY 1984 Program, of the $40 million in ESF grant financing, only the $20 million allocated for fertilizer falls within this legislative requirement. No sale or accrual of proceeds, as contemplated under FAA Section 609, will occur for irrigation/water sector equipment and other project commodities imported under the program since the GOP does not "sell" these commodities to the provinces nor is there an "accrual of proceeds" to the GOP from the transfer of these commodities to the provinces. Based on negotiations with the GOP, the Mission has also concluded that, in contrast to the FY 1982 and FY 1983 Programs, rupee generations from ESF loan-financed commodities will not be included in the Special Account.

Accordingly,only rupee proceeds from the sale of FY 1984 ESF grant-financed fertilizer will be deposited in a Special Account. The GOP and A.I.D. will meet not less than every six months to review the uses to which these rupees from the Special Account are being or will be put. The first meeting will be held within three months after the generation of rupees from A.I.D. grant-financed fertilizer in FY 1984. As long as a balance remains in the Special Account, the GOP will provide semi-annual reports on how the proceeds have been used. The first report covering deposits and withdrawals through March 31, 1985 will be submitted to USAID/Pakistan no later than September 1, 1985, with subsequent reports due at six month intervals.

Under the FY 1985 and FY 1986 ACE Programs, only rupees accruing from the sale of imported grant-financed commodities will be deposited in a Special Account.

E. Methods of Implementation and Financing

The use of direct L/COMs to suppliers (and direct reimbursement for local cost financing) is contemplated for most financial transactions under this Program, (See Table 17), which is consistent with the preferred methods of financing as contained in AID's Payment Verification Policy Implementation Guidance dated December 30, 1983. Procurement of TIPAN Project commodities will be undertaken by the University of Illinois under its existing FRLC. As shown in Table 17, if PSA(s) are used (see items 4 - 7 in Table 17), direct L/COMs will be issued for the PSA's fees while bank L/COMs will be used to finance the commodity costs. Bank L/COMs and L/Cs will be utilized for the private sector CIP because of the anticipated large volume of individual transactions. This is consistent with Policy Statement No. 4 on page 3 of the Guidance which reads:

> "As part of the assessments under 1. above, a justification is to be provided whenever the Mission proposes use of the bank letter of commitment rather than the direct letter of commitment except for CIP and project commodity financing for which the Mission anticipates a proliferation of invoices."

In accordance with Policy Statement No. 15 of the Guidance, a commodity arrival accounting system has been developed at USAID/Pakistan and was published in the form of a Mission Manual Order in October 1983. A Commodity Control Unit (CCU) has been established in the Mission's Office of Management (O/EXO) to implement this system. Based on experience over the last six months, the Mission is satisfied that the procedures being employed are adequate to ensure that A.I.D.-financed commodities are properly accounted for. In addition, the Mission's Office of Financial Management (O/FM), with the assistance of the Mission's Regional Affairs Officers and Liaison Officers in all four provinces has instituted a program of end-use checks which will be undertaken on a periodic basis throughout the life of the Program.

TABLE 17

METHODS OF IMPLEMENTATION AND FINANCING

Category of Commodity	Method of Implementation	Method of Financing	Approximate Amount (In $ Million) Loan	Grant	Total
1. Fertilizer	Host Country	Direct L/COM	68.0	22.0	90.0
2. Cotton	Host Country	Direct L/COM	10.0	-	10.0
3. Water Sector[a/]	Host Country	Direct L/COM or Bank L/COM if PSA used	-	12.2	12.2
4. ISM Project	Host Country	Direct L/COM or Bank L/COM if PSA used	-	6.0	6.0
5. FPD Project	Host Country	Direct L/COM or Bank L/COM if PSA used	-	2.0	2.0
6. BALAD Project	Host Country	Direct L/COM or Bank L/COM if PSA used	-	3.2	3.2
7. Rural Roads Project	Host Country	Direct L/COM or Bank L/COM if PSA used	-	3.0	3.0
8. TIPAN Project	AID Proc.(under Univ. of Illinois)	FRLC	-	5.0	5.0
9. Private Sector CIP	Host Country	Bank L/COM or Direct L/COM	45.0	-	45.0
10. MART Project	Host Country (PARC)	Direct L/COM or Direct Payment	-	2.5	2.5
11. Other Costs	-	Direct Payment	-	1.1	1.1
		TOTAL	123.0	57.0	180.0

a/ The water research equipment to be procured under the FY 1985 Program may be procured either by a PSA or by the University contractor selected to design and implement the research program under the ISM Project. If the latter method of implementation is used, the method of financing will be through the University's FRLC.

IX. CONDITIONS, COVENANTS, AND NEGOTIATING STATUS

A. Conditions Precedent

1. Conditions Precedent to First Disbursement Under the Second Amendatory Agreement

Prior to the first disbursement under the Second Amendatory Grant and Loan Agreement, or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Borrower/Grantee shall, 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 Second Amendatory Agreement:

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

b. except for fertilizer, cotton, forestry commodities, and irrigation equipment for the Provincial Irrigation Departments, a statement of the name and title of the 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.

2. Conditions Precedent to Disbursement for Fertilizer under Second Amendatory Agreement

Prior to any disbursement under the Second Amendatory Grant and Loan Agreement for fertilizer or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Borrower/Grantee shall, 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 Second Amendatory Agreement, documentation providing assurances that:

(a) no less than 50 percent of all phosphatic fertilizers imported in Pakistani Fiscal Year 1984/85 will be allocated to private sector distributors and further providing that specific allocations among private sector distributors will be made in accordance with each distributor's share of production of nitrogenous fertilizers. The National Fertilizer Marketing Ltd./National Fertilizer Corporation (NFML/NFC) shall not be included as a private sector distributor for purposes of these calculations but shall receive its allocation as part of the percentage allocated to the public sector;

(b) Uniform incidentals will be allowed for all distributors of imported fertilizers, be they public or private sector; and,

(c) The Borrower/Grantee will take into account the requirements of private sector distributors in the Borrower/Grantee's plans for the importation of fertilizers.

3. Condition Precedent to Disbursement for the Private Sector Commodity Import Program (CIP)

Prior to the disbursement of funds under the Second Amendatory Grant and Loan Agreement for the private sector CIP component or to the issuance by A.I.D. of documentation pursuant to which such 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 sixty (60) days after the date of signing of this Second Amendatory Agreement, the names of participating banks in Pakistan and the written concurrence of the Borrower/Grantee to all the specifics of the private sector CIP component as they relate to interest rates and lending terms, credit ceilings, eligible commodities and importers, payback periods, and procedures to be followed by the Borrower/Grantee in making allocations to participating banks.

B. Covenants

1. Use of Sale Proceeds

Except as A.I.D. may otherwise agree in writing, all local currency proceeds accruing to the Borrower/Grantee generated from the sale of grant-financed commodities under this Second Amendatory Agreement will be credited to the Federal Consolidated Fund of the Borrower/Grantee. The Borrower/Grantee agrees to credit these proceeds to a special subsidiary account to be named "USAID Programme for US FY 1984".

Funds in the special subsidiary account may be used for development purposes in such areas as agriculture, rural development, water resources, energy, population, education, health and, where appropriate, may also be used to reduce opium poppy production. The rupees deposited in the special subsidiary account may also be used to pay U.S. administrative costs in Pakistan.

2. Reporting

a. Special Subsidiary Account

As long as balances remain in the special subsidiary account, the Borrower/Grantee shall provide to A.I.D. 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 March 31, 1985 to be provided by September 15, 1985.

b. Shipment and Distribution of Commodities

Except as A.I.D. may otherwise agree in writing, the Borrower/Grantee shall furnish or have furnished to A.I.D. quarterly reports as to the shipment and distribution of Borrower/Grantee procured commodities, including but not limited to fertilizer and cotton. Said reports shall contain, at a minimum, the following information:

i. Shipment: Name of Vessel, Description of Cargo, Manifested Quantity of Cargo, Actual Date of Arrival of Vessel, Quantity of Cargo Discharged, Quantity of Cargo Despatched, Shortage or Excess of Quantity Discharged and/or Despatched.

ii. Distribution: Name of Private or Public Entity to which Commodity has been Despatched, Quantity of Commodity Despatched and Date of Despatch of Commodity.

C. Negotiating Status

The Mission has held numerous discussions with GOP officials on the particulars of the private sector CIP component but has not yet received official GOP concurrence with several of the characteristics of the proposed program. For example, the GOP has not yet provided the Mission with its decision on participating banks, eligible importers, the proposed payback periods for borrowers, the likelihood of increasing the credit ceilings of participating banks, and the procedures for making allocations to the banks. All other particulars of the program have been approved in principle by the GOP. We anticipate reaching agreement with the GOP on these outstanding issues by the time of Program Agreement Amendment negotiations and will document the agreed upon particulars of the program, in a countersigned PIL, prior to the disbursement of funds for the program.

Similarly, the Mission has been actively pursuing discussions with the GOP regarding its performance on agreed upon policy actions relating to the privatization of fertilizer marketing under the FY 1983 Program and is in the process of negotiating a set of policy implementation actions in this area for the FY 1984 Program. While we expect to reach substantial agreement with the GOP on these matters prior to the signing of the Program Agreement Amendment, a Condition Precedent to disbursement for fertilizer procurement will be included in the Program Agreement Amendment which will require that the GOP provide written assurance that the agreed upon policy measures under the FY 1984 Program will be implemented in PFY 1984/1985.

The remaining elements of the FY 1984 ACE Program and the above Conditions Precedent and Covenants have been discussed with and agreed to by the GOP. During Program Agreement Amendment negotiations, USAID/Pakistan will incorporate into the Agreement Amendment appropriate language to cover these terms and conditions.

AMENDMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

PAKISTAN

AGRICULTURAL COMMODITIES AND EQUIPMENT

391-0468

X. ANNEXES

O 122311Z MAR 82
FM SECSTATE WASHDC
TO AMEMBASSY ISLAMABAD IMMEDIATE 6691
BT
UNCLAS STATE 066566

AIDAC

E.O. 12065: N/A
TAGS:
SUBJECT: APAC REVIEW, AGRICULTURAL COMMODITIES AND EQUIPMENT PAAD (391-0468)

APAC REVIEWED PAAD MARCH 10, 1982, AND AGREED TO RECOMMEND APPROVAL BY A/AID. 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. FOLLOWING 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 QTE EXPECTED UNQTE ADDED BEFORE QTE ALLOCATIONS FOR THE FY 1982 PROGRAM . . . UNQTE.

2. POLICY DIALOGUE: ASIA BUREAU AND PPC HAVE HD RECENT EXCHANGES REGARDING THE DEGREE TO WHICH POLICY CONSIDERATIONS 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 ANOPPORTUNITY-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 N INFORMATION CABLE ON THESE MATTERS. WEWOULD HOPE THAT BY DECEMBER MISSION WILL HAVE DELINEATED SPECIFIC-ARES WHERE CHANGES IN POLICY DEFINITION AND-IMPLEMENTATION MAY BE WARRANTED. YOUR CABLE, 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.

3. FURTHER TO THE POLICY DIALOGUE, M. SCHIAVO-CAMPO REPORTED TO APAC. BASED ON HIS RECENT TDY, THAT IN HIS JUDGMENT PROGRAM FITS PAKISTAN'S CURRENT MACRO ECONOMIC NEEDS AND THAT MISSION'S APPROACH TO POLICY-DILOGUE 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 STTUS OF PROPOSED IBRD AND AID PROJECTS WAS DISCUSSED. APAC UNDERSTANDS THAT MAJOR ISSUES CONCERNINGWATER 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 PAAD SHOULD ENHANCE MISSION'S POSITION-IN INFLUENCING THESE AREAS.

5. EQUIPMENT PROCUREMENT MECHANISM: AN AID/W CLRIFYING CABLE ON THE MEANS OF EFFECTING HOST COUNTRYCONTRACTS - 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 BURDEN OF THIS PROJECT WAS NOTED, BOTH AS REGARDS PROCUREMENT OF EQUIPMENT ND 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 ENCOURAGE-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 B-AWARE OF NEED AT THAT TIME FOR HOST COUNTRY CONTRIBUT;O; OF 25 PERCENT OF DA COSTS.

8. COUNTERPART GENERATIONS: SHOULD THE MISSION/GOP WISH TO DO SO, UNDER SEC. 609 (FAA), ESF GRANT GENERATED RUPEES 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.)

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 935 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 PAAD FACESHEET WILL BE CONDITIONED S FOLLOWS QTE 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 PPTIES TO PROCE-" UNQTE. HAIG
BT

92

P 0802477 DEC 81
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 15329, B. STATE 317541

1. PARAGRAPH 3 OF REFTEL B ADVISED THAT SOURCE FOR PROCUREMENT OF COMMODITIES SHOULD BE CODE 000. IT THEREFORE FOLLOWS, PER SEC 7B OF SUPPLEMENT B OF HANDBOOK 1 THAT THE SOURCE OF OCEAN TRANSPORTATION SERVICES FOR THE DELIVERY OF THE COMMODITIES MUST NORMALLY BE CODE 000, I.E., ONLY U.S. FLAG VESSELS.

2. SER/COM IS CONCERNED THAT THIS SHIPPING LIMITATION COULD HAVE A SERIOUS ADVERSE IMPACT ON THE 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 000.

5.
ADDITIONALLY, THIS DETERMINATION DOES NOT ALTER THE USUAL OBLIGATION AS EXPRESSED IN 10A6 OF SUPPLEMENT B HANDBOOK 1 TO COMPLY WITH CARGO PREFERENCE REQUIREMENTS. HAIG
BT
#3974

Government of Pakistan
Ministry of Finance & Economic Affairs
(Economic Affairs Division)
*****

No.1(4)SO(DR)/82. Islamabad, the 2nd September,82.

OFFICE MEMORANDUM

Subject:- MODIFICATION OF RELENDING INTEREST RATES OF FOREIGN LOANS AND CREDITS.

The undersigned is directed to invite attention to this Division's O.M. noted in the margin on the subject noted above and to state that the relending interest rates of foreign loans and credits have been modified as under :-

Letters No. and Date.
No.3(1030(DR)/74-II dated 24-9-1975.
No.1(5)SO(DR)/75-II.dated 11-11-1980.

1) Foreign loans relent to the Departments of Federal or Provincial Governments for which no commercial accounts are maintained.	Foreign loans obtained by the Federal Government and relent to the Provincial Governments would continue to be passed on the same terms at which these have been borrowed.
2) Foreign loans relent to the Departments of Federal or Provincial Governments for which commercial accounts are maintained.	11% p.a. inclusive of exchange risk charge
3) Foreign loans relent to Autonomous Bodies/Corporations of the Federal and Provincial Governments:	
a) Projects of public utilities.	11% p.a. inclusive of foreign exchange risk charge ..
b) Projects other than public utilities.	14% p.a. inclusive of exchange risk charge .
4) Foreign loans relent to Financial Institutions (IDBP, PICIC, NDFC and Bankers Equity Limited).	11% p.a. inclusive of exchange risk charge .. The relending rate to the final borrower will be 14% p.a. inclusive of exchange risk charge. If as a result of higher spread demanded by the creditors, the interest rate to the final borrower exceeds 14% p.a., the excess will be passed on to the final borrower.

LOG # 507

94

Direct borrowings inclusive of Suppliers Credits/Guaranteed Loans.	An option would be given to the borrower either to bear exchange risk or pay 3% commission to the Government for taking over exchange risk. The guarantee commission of ½% of 1% would continue to be charged by the Federal Government as at present.

2. The revised relending terms would be effective from 10th May, 1982 on new sanctions(allocations) and the loans relent earlier or old sanctions would continue to be regulated by orders already in force The concerned provisions embodied in O.Ms. noted in the margin would be deemed to have been amended accordingly.

3. The requests for exemption would be put up to E.C.C. of the Cabinet.

2/4/82
(Makhdoom H. Chaudhri)
Deputy Secretary
Tel; 26459.

1. Finance Division(Mr.Mohammad Iqbal Hussain, Deputy Secretary)External Finance Wing,Islamabad.
2. Finance Division(Mr.Ahmad Hussain Qureshi, Deputy Secretary) Budget Wing, Islamabad.
3. Finance Division(Mr. Khizar Ahmad Jan, Deputy Secretary),Investment Wing, Islamabad.
4. Planning Division, Islamabad.
5. Industries Division, Islamabad.
6. Production Division, Islamabad,
7. Auditor General of Pakistan, Lahore.
8. Chairman, A.D.B.P. , Islamabad.
9. Chairman, PICIC, Karachi.
10. Chairman, IDBP, Karachi.
11. Chairman, NDFC, Karachi.
12. Financial Advisors of the Ministries & Divisions of Federal Government and Finance Member of Autonomous Bodies/Corporations.
13. A.G.P.R. Islamabad.
14. All Divisions of the Government of Pakistan. (not mentioned above).
15. State Bank of Pakistan, Central Directorate, (Foreign Exchange Department), KARACHI.
16. Cabinet Division, Rawalpindi.
17. Joint Secretary(BK),Economic Affairs Division, Islamabad.
18. Joint Secretary(CM),Economic Affairs Division, Islamabad
19. Joint Secretary(IC & NC) E.A.D., Islamabad.
20. DS(CM), EAD, Islamabad
21. DS(BK), EAD, Islamabad

ZNR UUUUU ZZ-
O 1906272 OCT 82
FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC IMMEDIATE 7815
INFO RUMJRV/AMEMBASSY RANGOON 0286
RUMTBK/AMEMBASSY BANGKOK 4611
BT
UNCLAS ISLAMABAD 15313

AIDAC

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

E.O.12356 N/A
SUBJECT: AGRICULTURAL COMMODITIES & EQUIPMENT PROGRAM
\- (391-0468) : U.S. FLAG VESSEL FREIGHT COSTS

REF: (A) RANGOON 3883 (B) ISLAMABAD 14076
\- (C) ISLAMABAD 14129 (D) STATE 271490

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 ROGRAM 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 60 MILLIO DOLLARS 34 MILLION IN LOAN FUNDS WERE EARMARKED FOR FERTILIZER AND THE REMAINING DOLLARS 26 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. 5.10 OF OUR AGREEMENT DATED

APRIL 13, 1982 FOR AGRI LTURAL COMMODITIES AND EQ PMENT, 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
-		65,000	
NON-U.S. FLAG VESSELS			
4.	WORLD AGAMEMNON	25,000	22.22
5.	ETEONS	20,000	22.50
6.	K.Z. MICHALSO	20,000	23.87
		65,000	

- (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 EXHORBITANT RATES WE HAVE TO PAY AS MUCH AS DOLLARS 5.24 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 THOUGH 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 23,000 TO 25,000 M/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 THA 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 BOP 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 USG AND THE GOP.

(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

BT
#5313

3/3 UNCLAS ISLAMABAD 15313

AID10 INFO AMB DCM ECON AGRIC CHRON

VZCZCIIO814
PP RUEHIL
DE RUEHC #1056 2890718
ZNR UUUUU ZZH
P 160407Z OCT 82
FM SECSTATE WASHDC
TO RUEHIL/AMEMBASSY ISLAMABAD PRIORITY 2327
INFO RUMJRV/AMEMBASSY RANGOON PRIORITY 9145
RUMTBK/AMEMBASSY BANGKOK 6770
BT
UNCLAS STATE 291056

AIDAC, INFO RCMO BANGKOK

E.O. 12356: N/A
TAGS:
SUBJECT: AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM 391-0468, 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 10 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 640C. THIS WILL NOT BE RETROACTIVE, BUT THE MECHANISM MAY BE IN PLACE

101

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 UNDISBURSED 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.

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
BT
#1056

VZCZCILI *
PP RUEHC
DE RUEHIL #6678/01 307 **
ZNR UUUUU ZZH
P 030614Z NOV 82
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC PRIORITY 8537
BT
UNCLAS ISLAMABAD 16678

AIDAC

PASS TO ASST GC/KEN FRIERS
ASST GC/HERBERT MORRIS

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

REF: (A) ISLAMABAD 15513 (B) STATE 291056

1. MISSION REQUESTS EARLY ADVICE AND ASSISTANCE OF GENERAL COUNSEL'S OFFICE TO (A) DETERMINE AVAILABILITY OF SHIPPING DIFFERENTIAL GRANT, PROVIDED FOR IN FAA SECTION 640C, TO PAY THE DIFFERENTIAL BETWEEN UNITED STATES AND THE FOREIGN FLAG VESSEL FREIGHT RATES INCURRED BY THE GOVERNMENT OF PAKISTAN UNDER THE LOAN PORTION OF THE FY82 AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM AGREEMENT, AND (B) IDENTIFY APPROPRIATE MECHANISM AND PROCEDURE (E.G. PROVISIONS IN PLANNED FY83 AGREEMENT OR AMENDMENT, ADMINISTRATOR'S ACTION, AND/OR PIL) TO AUTHORIZE SHIPPING DIFFERENTIAL GRANT FOR FREIGHT DIFFERENTIAL IN FUTURE LOANS UNDER THIS AGREEMENT.

2. IN PRIOR CABLES (REF A), MISSION STRONGLY URGED AID/W TO FAVORABLY ACT UPON THE GOP CONCERN THAT THE US/FOREIGN FLAG SHIPPING DIFFERENTIALS UNDER THE LOAN PORTION OF THE FY82 AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM WERE OF SUCH MAGNITUDE AS TO SERIOUSLY IMPAIR THE OBJECTIVES OF THE AID PROGRAM IN PAKISTAN. THE AID/W RESPONSE (REF B) INDICATES THAT AID/W SHARED THIS REAL CONCERN BUT, AT THE SAME TIME, PROVIDED NO PRESENT RELIEF. SINCE GC HAS A LONG INVOLVEMENT WITH THIS ISSUE, MISSION CONSIDERS IT APPROPRIATE TO REQUEST GC ASSISTANCE TO RESOLVE THIS IMPORTANT ISSUE.

3. FAA SECTION 640C, ENACTED IN 1973, APPEARS TO PROVIDE THE NECESSARY LEGISLATIVE MECHANISM TO PROVIDE SOME MODICUM OF RELIEF FOR FREIGHT DIFFERENTIALS UNDER CIRCUMSTANCES AS NOW EXIST IN PAKISTAN. IT IS PROVIDED THEREIN THAT QUOTE... FUNDS MADE AVAILABLE FOR THE PURPOSES OF ... CHAPTER 4 OF PART II (ESF) MAY BE USED TO MAKE GRANTS TO RECIPIENTS TO PAY ALL OR ANY PORTION OF SUCH DIFFERENTIAL AS IS DETERMINED ... TO EXIST BETWEEN U.S. AND FOREIGN-FLAG VESSEL CHARTER OR FREIGHT RATES UNQUOTE.

4. G.C. OPINIONS, DATING AS FAR BACK AS TO A FEBRUARY 7,

103

1974 MEMORANDUM FROM GC/PNT TO SER/COM/RP, 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.

5. 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

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 AID HANDBOOK HAS BEEN DEVELOPED, NOR GUIDANCE PROVIDED TO THIS MISSION AT THE APAC REVIEW OF THE SUBJECT PROGRAM IN AID/W IN FEBRUARY 1982 OR SUBSEQUENTLY AS TO POSSIBLE MECHANISMS TO IMPLEMENT THE LEGISLATIVE MANDATE OF 640C.

8. 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.

9. 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
BT
#6678

VZCZCILI *
RR RUEHC
DE RUEHIL #4368 070 **
ZNR UUUUU ZZH
R 110522Z MAR 83
FM AMEMBASSY ISLAMABAD
TO SECSTATE WASHDC 2089
BT
UNCLAS ISLAMABAD 04368

AIDAC

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

REFERENCE: (A) ISLAMABAD 16678 (B) STATE 291056
- (C) ISLAMABAD 15313

1. REFTEL (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
BT
#4368

JAN 14 1983

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

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.

107

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.

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
M/SER/COM:WCSchmeisser WCS 12-01-82
LEG:DDenning 12/9
M/DAA/SER:JFOwens 1/13/83 M/FM: ESOwens ESO 1-13-83
GC/CCM:KEFries:sep:9/22/82/revised:11/30/82:X21170

109

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

MISSION TO PAKISTAN

Cable : USAIDPAK

HEADQUARTERS OFFICE
ISLAMABAD

THE DIRECTOR

April 9, 1984

Rear Admiral M. Fazil Janjua
Minister for Food, Agriculture and Cooperatives
Pakistan Secretariat, Block 'B'
Islamabad

Dear Mr. Minister:

As promised, the following represents my understanding of the results of our discussions held on April 5th in your office. Please let me know if your understanding and mine coincide.

With respect to the NFML/NFC issue I believe it is now understood that it is a public sector organization by dint of its beneficial ownership being held 100 percent by the Government. Accordingly, we have concluded that, for purposes of allocation of imported phosphatic fertilizers, NFML/NFC will receive its allocation as part of the percentage allotted to the public sector.

With respect to the allocation of fertilizer delivered under the 1983 Agricultural Commodities and Equipment Agreement, it is my understanding that, as a result of our meeting, an attempt will be made to allocate larger quantities to the private sector firms, i.e., EXXON, Dawood Hercules, and Fauji, in order to come as close as possible to if not to achieve at least the agreed 50-50 public, private split.

Regarding future allocations of imported phosphatic fertilizers, I understand that the policy will include a fairly rapid decrease in allocations to provincial public agencies, increased allocations above the 50 percent level to the private sector distributors, and a percentage to NFML that is consistent with its Urea production share, taking into account its phosphatic fertilizer production capacity. It is recognized that it is necessary and feasible to reduce provincial public distributors down to 10 to 20 percent of imported phosphatic fertilizers over three or four years. By 1986/87 it was agreed that your officers would try to work out an approach which provided for at least 40-60, public-private split.

110

Although we did not discuss it, I hope that we can work out targets for the intervening years and that we can also set goals for the years after 1986/87.

I concluded from our discussions that, with respect to the application of incidentals, these would immediately be equalized for all public and private sector distributors, including provincial distribution agencies. Specific allocation among private sector firms would be roughly on the basis of market share related to their share of production of nitrogenous fertilizers. Private sector distributors will lift their share of imported fertilizer directly from the dock in Karachi without reference to provincial authorities.

Recognizing the significance of two specific benchmarks in the recent 1984 PL 480 Agreement, we provided suggested suggestions as to the measures that the Ministry of Food and Agriculture might take or might seek to have others take with respect to the benchmark requiring the GCP to purchase non-traditional oil at the GCP mill at a price equivalent to the price of cottonseed oil, and with respect to the benchmark encouraging the Ministry of Industries to increase the sanctioned capacity of private sector Ghee mills based on their use of domestic non-traditional oilseeds or non-subsidized imported vegetable oil. We believe these are two benchmarks of particular concern to the Ministry of Food and Agriculture, as the Government of Pakistan's agency responsible for increasing agricultural production. We recognize that the Ministry of Food and Agriculture cannot act independently on these matters but that it could encourage others to act.

Thank you again for the very enjoyable and most useful opportunity you provided Jimmie Stone and me to discuss these matters. You made it possible for us to move forward so that we can achieve the GOP-USG targets with respect to this year's Agricultural Commodities and Equipment Program.

Best personal regards.

Sincerely,
Original Signed by:

Donor M. Lion

cc: Mr. Ejaz Ahmad Naik, Secretary General
Economic Affairs Division
Government of Pakistan
Islamabad

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

MISSION TO PAKISTAN

Cable : USAIDPAK

HEADQUARTERS OFFICE
ISLAMABAD

March 18, 1984

Mr. Ejaz A. Naik
Secretary General
Economic Affairs Division
Ministry of Finance and
Economic Affairs
Government of Pakistan
Block C, Room 302
Pakistan Secretariat
Islamabad

Subject: Agricultural Commodities & Equipment Program(391-0468)
Program Assistance Approval Document (PAAD)
Amendment for FY 84

Dear Mr. Secretary General:

I wish to share with you A.I.D.'s thoughts on a proposed schedule for making additional funds available to the Government of Pakistan in U.S. fiscal year 1984 for the subject Program and the policy framework within which funds will be obligated.

Current plans call for the completion of a PAAD amendment by the end of April for AID/Washington's review and authorization in May, with a signing of the Amendatory Agreement in June 1984.

We expect that the signing of an Amendatory Agreement by June 1984 can be met only through our joint efforts. However, prior to the completion of a final PAAD amendment, several AID concerns should be addressed with respect to the policy environment within which fertilizer and cotton procurement will occur. The following is our present thinking on these matters:

1. Fertilizer

• The two principal issues concerning fertilizer relate to the role of the private sector in the distribution/marketing of the commodity and the application of uniform incidentals.

112

a. Private Sector Role

Based on earlier correspondence between USAID and the Ministry of Food, Agriculture and Cooperatives, the GOP agreed that at least 50 percent of the fertilizer imports would be distributed through Pakistani private sector channels. In this connection, a portion of the fertilizer procurement using FY 83 funds was marketed through the National Fertilizer Marketing Ltd. (NFML). We understand, however, that the NFML is a subsidiary of the National Fertilizer Corporation (NFC), a Government-owned corporation and, if such is the case, would not qualify for inclusion in the 50 percent private sector allocation. We are working with Ministry of Food, Agriculture and Cooperatives officials to further clarify the status of NFML. As a further step towards increasing the role of the private sector, we propose that the share of private distributors (excluding NFML) be increased to 60 percent.

b. Uniform Incidentals

We are working closely with Ministry of Agriculture officials to ensure that a uniform standard of incidentals is applied be it distributed by public or private sector organizations. A decision to this effect was made a year ago but has not been implemented to date.

2. Cotton

As we consider the use of FY 84 funds for additional cotton procurement, we would request that you consider the following:

i. Participation of the Pakistani private sector in cotton importing (using FY 84 funds) consistent with the Sixth Five-Year Plan's overall emphasis in giving the private sector a greater role in development in Pakistan.

ii. A procurement price structure that reflects the relative market values of both lint and cotton seed, and widespread dissemination of information on price changes.

iii. Issuance of a public notice that (a) ginners are required to pay farmers a mutually agreed upon price for cotton seed or return the seed to the farmer after ginning and (b) all oilseed crushing plants are permitted to sell cotton seed oil to the highest bidder, regardless of whether the buyer is a public or private sector firm. To better moniter iii (a) above, establish a comprehensive directory of all cotton ginners.

I look forward to meeting with you at your earliest convenience to discuss these issues.

Sincerely,

Original Signed by:

Jimmie M. Stone
Acting Director

cc: Mr. Manzur Ahmad
Additional Secretary
Ministry of Food, Agriculture and Cooperatives
Government of Pakistan

بسم الله الرحمن الرحيم

Telephone No. 20316

Telegram: AGRIDIV

D.O. No. F.3-10/82-Fert.

GOVERNMENT OF PAKISTAN
MINISTRY OF FOOD, AGRICULTURE
AND COOPERATIVES
(Food & Agriculture Division)

Islamabad, the 5th January, 1984.

MANZUR AHMAD
ADDITIONAL SECRETARY

Subject:- AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM (391-0468) PRIVATIZATION OF FERTILIZER MARKETING.

Dear Mr.

Please refer to your letter dated 4th December, 1983, on the subject cited above.

2. Replies to the three points raised in your letter are as follows:-

(1) <u>50% of imported fertilizer to be marked through private sector distributors.</u>

I would like once again to extend the assurance that at least 50% of imported fertilizer will be marketed through the private sector distributors (including NFC) from January, 1984, irrespective of whether the fertilizer is purchased under US AID Loan or other sources. We have already consulted all the distributors and have assigned definite share to each one of them.

(2) <u>Uniform incidentals to all private distributors for marketing imported fertilizer.</u>

There is no doubt that we have decided in principle to allow uniform incidentals to all private sector distributors for maketing imported fertilizer. Implementation of this decision will, however, take some time because a number of legal issues are involved.

(3) <u>Incorporation of requirements of private sector distributors in the Government's plans for import of fertilizer.</u>

The association of private distributors in the determination of import requirements is already assured that the annual budget of fertilizer are

Contd......P/2

115

placed for review and comments before the Executive Committee of the Fertilizer Planning Committee in which the private distributors are fully represented.

With best regards,

Yours sincerely,

(Manzur Ahmad)

Mr. Donor M. Lion,
Director,
US AID Mission in Pakistan,
Headquarters Office,
Islamabad.

FINANCIAL MANAGEMENT REPORT
as of 03/31/84
PROJECT NO./TITLE: 391-0468 AGRICULTURAL COMMODITIES/EQUIPMENT
AID/W FUNDED PROJECT (IN $000)

Project Start Date: 4/13/82
No. of Revisions : 1
PACD : 10/13/84

SUMMARY TRANSACTIONS

Grant/Loan	Budget Code	Obligated	Earmarked	Committed	EXPENDITURES Disbursed (1)	Accrued	Total	Pipeline	Un earmarked	Un committed
G	HESA-82-37391-KG 32	26000	25857	25723	10432	6	10438	15562	143	134
G	HESA-83-37391-KG 32	20000	742	672			0	20000	19258	70
	TOTAL GRANT	46000	26599	26395	10432	6	10438	33562	19401	204
L	HESA-82-37391-KL 32	34000	34000	34000	34000		34000	0	0	
L	HESA-83-37391-KL 32	40000	28917	28917	19377	6318	25695	14305	11083	0
	TOTAL LOAN	74000	62917	62917	53377	6318	59695	14305	11083	0
	TOTAL G & L	120000	89516	89312	63809	6324	70133	49867	30484	204

(1) Disbursements through 1/31/84 reported by AID/W

FINANCIAL MANAGEMENT REPORT
as of 03/31/84
PROJECT NO./TITLE: 391-0468 AGRICULTURAL COMMODITIES/EQUIPMENT
GRANT (IN $000)

Element	Obligated	Earmarked	Committed	EXPENDITURES Disbursed (1)	Accrued	Total	Pipeline	Un earmarked	Un committed
HESA-82-37391-KG 32									
01 COMMODITIES	26000	25857	25723	10432	6	10438	15562	143	134
L/COM 391-K-60201 CONNELL BROS.		17935	17935	9179		9179	8756		0
L/COM 391-K-60202 CONNELL BROS.		950	950	855		855	95		0
L/COM 391-K-60203 AEGIS		6000	6000	39		39	5961		0
L/COM 391-K-60204 AEGIS		575	575	288		288	287		0
L/COM 391-K-60205 DRA		70	70			0	70		0
L/COM 391-K-60208 DRA		200	78	71	6	77	123		122
L/COM 391-K-60209 DRA		127	115				127		12
UNEARMARKED						0	143	143	0
BPC TOTAL	26000	25857	25723	10432	6	10438	15562	143	134
HESA-83-37391-KG 32									
01 COMMODITIES	20000	742					20000	19258	70
PIO/C 30293 (DRA-391-K-60301)		742	672				742		70
UNEARMARKED							19258	19258	
BPC TOTAL	20000	742	672	0	0	0	20000	19258	70
PROJECT TOTAL - GRANT	46000	26599	26395	10432	6	10438	35562	19401	204

(1) Disbursements through 01/31/84 reported by AID/W & USAID/Islamabad through 3/31/84.

FINANCIAL MANAGEMENT REPORT
as of 03/31/84
PROJECT NO./TITLE: 391-0468 AGRICULTURAL COMMODITIES/EQUIPMENT
LOAN (IN $000)

Element	Obligated	Earmarked	Committed	EXPENDITURES Disbursed (1)	Accrued	Total	Pipeline	Un earmarked	Un committed
HESA-82-37391-KL 32									
01 COMMODITIES	34000	34000	34000	34000	0	34000	0	0	0
L/COM 391-K-18701		9883	9883	9883		9883	0		0
L/COM 391-K-18702		10168	10168	10168		10168	0		
L/COM 391-K-18703		4769	4769	4769		4769	0		
L/COM 391-K-18704		462	462	462		462	0		
L/COM 391-K-18705		1956	1956	1956		1956	0		
L/COM 391-K-18706		3225	3225	3225		3225	0		
L/COM 391-K-18707		9	9	9		9	0		
L/COM 391-K-18708		470	470	470		470	0		
L/COM 391-K-18709		531	531	531		531	0		
L/COM 391-K-18710		1352	1352	1352		1352	0		
L/COM 391-18711		1175	1175	1175		1175	0		
BPC TOTAL	34000	34000	34000	34000	0	34000	0	0	0
HESA-83-37391-KL 32									0
COMMODITIES	40000	28917	28917	19377	6318	25695	14305	11083	0
PIL NO. 7									
L/COM 391-K-187A01		1059	1059	1058		1058	1		0
L/COM 391-K-187A02		2254	2254	2249		2249	5		0
L/COM 391-K-187A03		2252	2252	2251		2251	1		0
L/COM 391-K-187A04		13857	13857	8012	5713	13725	132		0
L/COM 391-K-187A05		2257	2257	2235		2235	22		0
L/COM 391-K-187A06		1133	1133	1079		1079	54		0
L/COM 391-K-187A07		2065	2065			0	2065		0
L/COM 391-K-187A08		584	584			0	584		0
L/COM 391-K-187A09		2772	2772	2493		2493	279		0
L/COM 391-K-187A10		677	677		598	598	79		0
L/COM 391-K-187A11		7	7		7	7	0		0
UNEARMARKED							11083	11083	
BPC TOTAL	40000	28917	28917	19377	6318	25695	14305	11083	0
PROJECT TOTAL	74000	62917	62917	53377	6318	59695	14305	11083	0

(1) Disbursements through 01/31/84 reported by AID/W

FERTILIZER SUPPLY AND DEMAND BALANCE

('000 NMT)

	Crop Year 1982/83											
	Rabi				Kharif				Total			
	N	P	K	Total	N	P	K	Total	N	P	K	Total
Supply	902	304	31	1237	901	228	23	1152	1445	399	42	1886
Opening Inventory	335	138	15	488	358	133	12	503	335	138	15	488
Indigenous Production	498	41		539	514	37		551	1012	78	0	1090
Imports	69	125	16	210	29	58	11	98	98	183	27	308
Demand	730	273	45	1048	633	185	33	851	1177	356	52	1585
Offtake	523	171	19	713	405	83	7	495	928	254	26	1208
Exports	21			21	42			42	63	0	0	63
Reserves Required	186	102	26	314	186	102	26	314	186	102	26	314
Surplus (+)/Deficit (-)	172	31	-14	189	268	43	-10	301	268	43	-10	301

Crop Year: October-September
Rabi: October-March
Kharif: April-September
Reserves Required: 20, 40, and 100 percent of annual offtake for nitrogen, phosphorous, and potash respectively.

SOURCE: FDFI

FERTILIZER SUPPLY AND DEMAND PROJECTIONS
HIGH OFFTAKE SCENARIO

('000 NMT)

	Crop Year 1983/84											
	Rabi				Kharif				Total			
	N	P	K	Total	N	P	K	Total	N	P	K	Total
Supply	1040	359	35	1434	875	214	36	1125	1555	399	54	2008
Opening Inventory	454	145	16	615	360	174	17	551	454	145	16	615
Indigenous Production	516	41		557	515	40		555	1031	81		1112
Imports	70	173	19	262			19	19	70	173	38	281
Demand	882	296	45	1223	631	204	36	871	1311	389	54	1754
Offtake	580	185	18	783	429	93	9	531	1009	278	27	1314
Exports	100			100					100			100
Reserves Required	202	111	27	340	202	111	27	340	202	111	27	340
Surplus (+)/Deficit (-)	158	63	-10	211	244	10	0	254	244	10	0	254

Crop Year: October-September
Rabi: October-March
Kharif: April-September
Imports: Actuals upto March 1984.
Reserves Required: 20, 40, and 100 percent of annual offtake for nitrogen, phosphorous, and potash respectively.

SOURCE: FDFI and USAID Staff estimates

124

FERTILIZER SUPPLY AND DEMAND PROJECTIONS
HIGH OFFTAKE SCENARIO

('000 NMT)

	Crop Year 1984/85											
	Rabi				Kharif				Total			
	N	P	K	Total	N	P	K	Total	N	P	K	Total
Supply	967	328	58	1353	837	226	47	1110	1487	431	70	1988
Opening Inventory	446	121	27	594	317	123	35	475	446	121	27	594
Indigenous Production	521	40		561	520	39		559	1041	79		1120
Imports		167	31	198		64	12	76		231	43	274
Demand	864	328	58	1250	703	226	47	976	1353	431	70	1854
Offtake	615	205	23	843	454	103	12	569	1069	308	35	1412
Exports	35			35	35			35	70			70
Reserves Required	214	123	35	372	214	123	35	372	214	123	35	372
Surplus (+)/Deficit (-)	103	0	0	103	134	0	0	134	134	0	0	134

Crop Year: October-September
Rabi: October-March
Kharif: April-September
Reserves Required: 20, 40, and 100 percent of annual offtake for nitrogen, phosphorous, and potash respectively.

SOURCE: FDFI and USAID Staff estimates

122

FERTILIZER SUPPLY AND DEMAND PROJECTIONS
HIGH OFFTAKE SCENARIO

('000 NMT)

	Crop Year 1985/86											
	Rabi				Kharif				Total			
	N	P	K	Total	N	P	K	Total	N	P	K	Total
Supply	900	365	75	1340	800	251	60	1111	1452	479	90	2021
Opening Inventory	348	123	35	506	248	137	45	430	348	123	35	506
Indigenous Production	552	40		592	552	39		591	1104	79		1183
Imports		202	40	242		75	15	90		277	55	332
Demand	879	365	75	1319	709	251	60	1020	1361	479	90	1930
Offtake	652	228	30	910	482	114	15	611	1134	342	45	1521
Exports												
Reserves Required	227	137	45	409	227	137	45	409	227	137	45	409
Surplus (+)/Deficit (-)	21	0	0	21	91	0	0	91	91	0	0	91

Crop Year: October-September
Rabi: October-March
Kharif: April-September
Reserves Required: 20, 40, and 100 percent of annual offtake for nitrogen, phosphorous, and potash respectively.

SOURCE: FDFI and USAID Staff estimates

FERTILIZER SUPPLY AND DEMAND PROJECTIONS
HIGH OFFTAKE SCENARIO

('000 NMT)

	Crop Year 1986/87											
	Rabi				Kharif				Total			
	N	P	K	Total	N	P	K	Total	N	P	K	Total
Supply	931	405	93	1429	774	279	75	1128	1465	532	112	2109
Opening Inventory	318	137	45	500	240	152	56	448	318	137	45	500
Indigenous Production	535	40		575	534	39		573	1069	79		1148
Imports	78	228	48	354		88	19	107	78	316	67	461
Demand	931	405	93	1429	751	279	75	1105	1442	532	112	2086
Offtake	691	253	37	981	511	127	19	657	1202	380	56	1638
Exports												
Reserves Required	240	152	56	448	240	152	56	448	240	152	56	448
Surplus (+)/Deficit (-)	0	0	0	0	23	0	0	23	23	0	0	23

Crop Year: October-September
Rabi: October-March
Kharif: April-September/
Reserves Required: 20, 40, and 100 percent of annual offtake for nitrogen, phosphorous, and potash respectively.

SOURCE: FDFI and USAID Staff estimates

FERTILIZER SUPPLY AND DEMAND PROJECTIONS
LOW OFFTAKE SCENARIO

('000 NMT)

	Crop Year 1983/84											
	Rabi				Kharif				Total			
	N	P	K	Total	N	P	K	Total	N	P	K	Total
Supply	1040	359	35	1434	875	214	36	1125	1555	399	54	2008
Opening Inventory	454	145	16	615	360	174	17	551	454	145	16	615
Indigenous Production	516	41		557	515	40		555	1031	81		1112
Imports	70	173	19	262			19	19	70	173	38	281
Demand	879	295	45	1219	616	200	36	852	1296	385	54	1735
Offtake	580	185	18	783	417	90	9	516	997	275	27	1299
Exports	100			100					100			100
Reserves Required	199	110	27	336	199	110	27	336	199	110	27	336
Surplus (+)/Deficit (-)	161	64	-10	215	259	14	0	273	259	14	0	273

Crop Year: October-September
Rabi: October-March
Kharif: April-September
Imports: Actuals upto March 1984.
Reserves Required: 20, 40, and 100 percent of annual offtake for nitrogen, phosphorous, and potash respectively.

Source: FDFI and USAID estimates

125

FERTILIZER SUPPLY AND DEMAND PROJECTIONS
LOW OFFTAKE SCENARIO

('000 NMT)

	Crop Year 1984/85											
	Rabi				Kharif				Total			
	N	P	K	Total	N	P	K	Total	N	P	K	Total
Supply	979	319	57	1355	867	216	45	1128	1499	416	68	1983
Opening Inventory	458	124	27	609	347	119	34	500	458	124	27	609
Indigenous Production	521	40		561	520	39		559	1041	79		1120
Imports		155	30	185		58	11	69		213	41	254
Demand	837	319	57	1213	669	216	45	930	1301	416	68	1785
Offtake	597	200	23	820	429	97	11	537	1026	297	34	1357
Exports	35			35	35			35	70			70
Reserves Required	205	119	34	358	205	119	34	358	205	119	34	358
Surplus (+)/Deficit (-)	142	0	0	142	198	0	0	198	198	0	0	198

Crop Year: October-September
Rabi: October-March
Kharif: April-September
Reserves Required: 20, 40, and 100 percent of annual offtake for nitrogen, phosphorous, and potash respectively.

Source: FDFI and USAID estimates

FERTILIZER SUPPLY AND DEMAND PROJECTIONS
LOW OFFTAKE SCENARIO

('000 NMT)

	Crop Year 1985/86											
	Rabi				Kharif				Total			
	N	P	K	Total	N	P	K	Total	N	P	K	Total
Supply	955	344	70	1369	892	233	56	1181	1507	449	84	2040
Opening Inventory	403	119	34	556	340	128	42	510	403	119	34	556
Indigenous Production	552	40		592	552	39		591	1104	79		1183
Imports		185	36	221		66	14	80		251	50	301
Demand	826	344	70	1240	653	233	56	942	1268	449	84	1801
Offtake	615	216	28	859	442	105	14	561	1057	321	42	1420
Exports												
Reserves Required	211	128	42	381	211	128	42	381	211	128	42	381
Surplus (+)/Deficit (-)	129	0	0	129	239	0	0	239	239	0	0	239

Crop Year: October-September
Rabi: October-March
Kharif: April-September
Reserves Required: 20, 40, and 100 percent of annual offtake for nitrogen, phosphorous, and potash respectively.

Source: FDFI and USAID estimates

127

FERTILIZER SUPPLY AND DEMAND PROJECTIONS
LOW OFFTAKE SCENARIO

('000 NMT)

	Crop Year 1986/87											
	Rabi				Kharif				Total			
	N	P	K	Total	N	P	K	Total	N	P	K	Total
Supply	985	371	88	1444	885	251	71	1207	1519	484	106	2109
Opening Inventory	450	128	42	[illegible]	351	138	53	542	450	128	42	620
Indigenous Production	535	40		575	534	39		573	1069	79		1148
Imports		203	46	249		74	18	92		277	64	341
Demand	852	371	88	1311	673	251	71	995	1307	484	106	1897
Offtake	634	233	35	902	455	113	18	586	1089	346	53	1488
Exports												
Reserves Required	218	138	53	409	218	138	53	409	218	138	53	409
Surplus (+)/Deficit (-)	133	0	0	133	212	0	0	212	212	0	0	212

Crop Year: October-September
Rabi: October-March
Kharif: April-September
Reserves Required: 20, 40, and 100 percent of annual offtake for nitrogen, phosphorous, and potash respectively.

Source: FDFI and USAID estimates

128

FERTILIZER PRODUCT PRICES

(Rs/50 Kg bag)

Product		a/ 1980/81	b/ 1981/82	c/ 1982/83	d/ 1983/84
Urea	(46:00:00)	93	103	118	128
DAP	(18:46:00)	100	105	121	133
AS	(21:00:00)	42	47	54	59
NP	(23:23:00)	78	84	97	110
NPK	(10:20:20)	63	65	75	82
NPK	(13:13:21)	60	63	72	79
CAN	(26:00:00)	50	55	58	60
SSP	(00:18:00)	25	25	29	40
SOP	(00:00:50)	30	30	35	40
TSP	(00:46:00)	-	-	-	95

a/ Effective February 24, 1980
b/ Effective March 15, 1982
c/ Effective October 6, 1982
d/ Effective June 11, 1983
e/ Effective December 8, 1983

SOURCE: NFDC

129

FERTILIZER NUTRIENT PRICES

(Rs/Nutrient Kg)

Product		Nitrogen			Phosphorous			Potash		
		1981/82	1982/83	1983/84	1981/82	1982/83	1983/84	1981/82	1982/83	1983/84
Urea	(46:00:00)	4.48	5.13	5.57	-	-	-	-	-	-
DAP	(18:46:00)	4.48	5.13	5.57	2.81	3.25	3.60	-	-	-
AS	(21:00:00)	4.48	5.14	5.62	-	-	-	-	-	-
NP	(23:23:00)	4.48	5.13	5.57	2.83	3.30	4.00	-	-	-
NPK	(10:20:20)	4.48	5.13	5.57	2.83	3.30	4.00	1.43	1.63	1.42
NPK	(13:13:21)	4.48	5.13	5.57	2.83	3.30	4.00	1.48	1.64	1.60
CAN	(26:00:00)	5.23	4.46	4.62	-	-	-	-	-	-
SSP	(00:18:00)	-	-	-	2.78	3.22	4.44	-	-	-
SOP	(00:00:50)	-	-	-	-	-	-	1.20	1.40	1.60
TSP	(00:46:00)	-	-	-	-	-	4.13	-	-	-

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

ILLUSTRATIVE LIST OF WATER SECTOR COMMODITIES

1. Excavating Machinery for the Sind and Punjab PIDs ($3,500,000)

Item No.	Description	Estimated Number of Units Required
Punjab Irrigation Department		
1.	Low Bearing Pressure Excavators	2
2.	Dragline, 1 cu. yd.	6
3.	Hydraulic Excavators, 3/4 cu. yd.	2
4.	Spare Parts	
Sind Irrigation Department		
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	

---

2. Flood Protection Equipment for the Punjab PID ($5,300,000)

Item No.	Description
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, 2-1/2 cu. yd.
9.	Side Boom Crane
10.	Pumping Set Diesel
11.	Spare Parts

3. Irrigation Pumps (5) for the NWFP PID ($1,000,000)

131

4. Construction Machinery for the Baluchistan PID ($1,200,000)

Equipment	No. of Units	Estimated Unit CIF Cost	Total Estimated CIF Cost
	(In $ 000)		
1. Mobile Crane (35 tons)	1	198	198
2. Lowbed Tractor Trailer (35 tons)	2	114	228
3. Water Truck (2500 USG)	4	53	212
4. Lubricating Truck	2	52	104
5. Generating Set (50 kw)	4	19	76
6. Compactor (4 ton self-propelled)	2	15	30
7. Portable Submersible Pump	10	5	50
8. Grouting and Guniting Machine	2	25	50
9. Trencher	4	25	100
Sub-Total			1048
Plus spare parts			152
Total			1200

5. Water Drilling Rigs (6) for the Sind Agricultural Engineering Department ($1,200,000)

6. Water Research Equipment in Support of the Irrigation Systems Management Project ($6,000,000)

ITEM NO.	DESCRIPTION

I. PUNJAB IRRIGATION RESEARCH INSTITUTE

A. New Research Equipment

1. Strip Chart Recorder
2. Single Trace and Double Trace Strip Chart Recorder, Heath-Kit Type
3. X-Y Recorder
4. Chart Paper Rolls
5. Perspex Poliots
6. Perspex MN Cement Tunnel
7. Depth Recorder
8. Field Strength Meter
9. I.T. 3121 Curve Tracer
10. I.U. 2202 Portable Digital Multimeter
11. Heath-Kit Type I.C. Tester I.T. 7400
12. A. Ott Type C-2 Current Meter for Small Hydraulic Models, with all Accessories
13. Transducer Indicator
14. Pressure Transducer
15. Pressure Transducer, Flush Mounted, Strain Gauge Type 0-50 PSI, Carrier and Demodulator/ Indicating Equipment, 10 Channels.
16. Automatic Curve Reading Apparatus
17. Automatic Level Transmitter with Recorder
18. Engraving Machine, Pantograph, with all Accessories
19. I.C. Tester
20. Dual Channel Storage Oscilloscope D.C. - 15 HZ
21. (a) C.C.T.V. Video Tape Recorder and 2 Nos. Video Cameras with all Accessories
    (b) Underwater Video Camera for use in Tubewells to match the above recorder
22. S.E. Carrier Equipment with Rack, with 3 pressure and 3 Nos. wave recorders
23. S.E.L. Light Beam Recorder, 8-Channels, with 8 Nos. galvanometer: 0-50 c/s Plus two Dummy galvanometers
24. Automatic Velocity Plotting apparatus
25. SR-4 Strain gauge with indicator and power supply
26. Band Saw (for Metal & Plastics)
27. Metal Working Shaper, 12 inch
28. Machine Tools
29. Electronic Test Instruments

ITEM NO.	DESCRIPTION
30.	Sunshine Recorder
31.	Micro-Current Meter with Recorder
32.	Public Address System Complete with cord type and cordless microphones
33.	Epidiascope with all accessories including stand
34.	Cassette recorder/player with quartz or glass head; amplifier for stereophonic recording, with equilizer microphones speakers and all other accessories
35.	Cassette to Cassette Printer
36.	Plastic Laminating Machine
37.	Machines for making Transparencies
38.	Calibrating Tank for Miniature current meters with spare motor gears and indicator
39.	Point Gauges A/S
40.	Pitol tubes
41.	Manometer with 1-meter Scale
42.	Moisture Gauge with all Accessories
43.	Pressure Meter Testing Equipment for Soil Investigation
44.	Magnetic/Optic 16 mm Film Sound Projector
45.	Muffle Furnace
46.	Water Still
47.	Ultrasonic Distance Meter
48.	Hydraulic Press, 5 tons
49.	Logitudinal Dividing Machine, Kessel Type L-12, with all standard and special accessories
50.	Logitudinal Dividing Machine, Kessel Type L-4, with all standard and special accessories
51.	Color Pattern Generator for Pal System
52.	Digital Memory Scope
53.	Curve Tracer Leader
54.	Survey Levels
55.	16 mm Movie Camera
56.	Electric Point Gauges
57.	Bed Contour Recorder
58.	Surface Polarimeter
59.	Benzyl Tube
60.	Boring Equipment for installing lateral tubewells, with all attachments, accessories and parts
61.	Portable pH Meter, Model 101 and spare parts
62.	Wheat Stone Bridge, Doran, Portable
63.	Soil Moisture Tensiometer
64.	Power Earth Auger
65.	Soil Moisture Bouyoucos Bridge
66.	Soil Moistures Bouyoucos Soil Blocks
67.	Sample Extruder
68.	Fall Cone Liquid Limit Tester

ITEM NO.	DESCRIPTION

69. Magnetic Stirrer
70. Maruto Large Electric Oven
71. Portable Direct Shear Apparatus
72. Portable Unconfined Compression Test
73. Automatic Pore Pressure Apparatus
74. Triaxial Apparatus
75. High Capacity Triaxial Apparatus
76. Three Dimensional Consolidation Apparatus
77. Eley Volumeter with Speedy Moisture Tester
78. Auger Soil Sampling Apparatus (Truck Mounted)
79. Soil Moisture and Temperature Meter
80. C.B.R. Apparatus
81. Mobile Soil Laboratory (Truck Mounted with Utility Equipment)
82. Sieve 200 Mesh
83. Soil Test Permeameter
84. Visutal Accumulative Tube
85. New Speedy Calibrator
86. Triaxial Latex Membranes
87. Hyvac Oil
88. Aclytic Plastic Sheets
89. Spare Parts and Accessories for Multichannel Oscillograph Reaches
90. Spare Parts for Strip Chart Reaches
91. Spare Parts for Current Meter
92. Spare Parts for Pressure and Wave Measuring Equipment
93. Spare Parts for Other Electronic Measuring and Test Instruments
94. Spare Parts for Lath, Meters, and other Electronic Machines and Equipment
95. Electronic Components and parts
96. Spare Parts for Radioisotope Equipment
97. Spare Parts for Printing Machines

B. Photographic Laboratory Equipment and Spare Parts

1. METOFORM P22 for Color Processing
2. METOCHROME 31/P22
3. a. METORETTE 110
   b. Roll Film Holder
   c. Miniature Film Holder
   d. Paper Holder, 8x10
4. METOTEMP 1
5. a. Chemical Tank with Bubble Distribution and Automatic Temperature Control
   b. Miniature Film Tensioning
   c. Frame
   d. Tank Bar
6. METOFORM 45
7. a. METOBOX 406
   b. Drip Protector Tray

135

ITEM NO.	DESCRIPTION

8. METODRY 65 with Stand
9. METOROLL 135 Cutting Machine
10. Technorama Camera with Accessories
11. Color Enlarger 5x7 with Accessories
12. Color Enlarger 45 with Accessories
13. Durst M705 and M705 Color Enlarger
14. Rollei-flex camera SL 66 with all Accessories
15. Draun Hobby Flash gun (Heavy duty) with Spare Batteries Tube
16. Dark-room lights, wall type, with extra filters
17. Camera, Asahi Pantex Electro, with three interchangable lenses
18. 16 mm Movie Camera with Accessories
19. Slide Projector, P-360 Rollei
20. Projection Screen, Automatic
21. Spare Parts for Photographic Equipment

C. Publication Equipment and Spare Parts

1. IBM Electric Composer
2. Offset Process Camera
3. IBM Selectric Typewriter
4. High Pressure Mercury Lamp
5. Spare Parts of A.B. Dick Offset Printing Machine
6. IBM Plain Paper Copier
7. Air Conditioner for Process Lab
8. Steel Cabinets
9. Spare Parts for Publication Equipment

D. Spare Parts for Equipment Out of Service

1. Spare Parts and Accessories for use with Gould Brush Light Beam Oscillograph Mark 2300

   a. Fotolyser Lamp
   b. Time Line Generator
   c. Signal Limiter
   d. Record Timer
   e. Amplitude Grid Masks
   f. Galvanometers
   g. 100 M.A. Plugin Fuse
   h. 10 M.A. Plugin Fuse
   i. Remote Control Unit
   j. D.C. to A.C. Inverter
   k. Low Gain Amplifier

ITEM NO.	DESCRIPTION

2. Spare Parts and Accessories for Hewlett Packard Strip Chart Recorder

   a. Accessory Box
   b. Chart Paper
   c. Ink Cartridge (various colors)
   d. Chart Drive Motor
   e. Servomotor for Pen Drive
   f. Spare Pens
   g. Chart Speed Reduction Gear
   h. Lubricating Oil
   i. Drive Chain
   j. Spare Resistance Capacitors, Transistors, Diodes and other components and parts
3. Spare Parts and Accessories for Engraving Machines
4. Spare Parts for U.V. Recorder
5. Galvanometers for U.V. Recorder
6. Time Line Generator for U.V. Recorder
7. Spare Parts and Accessories for S.E. Carrier Amplifier for Transducer and Wave Recorders
8. Spare Parts and Accessories for Echo Sounding Equipment
9. Counters for A. Ott Current Meters A/S
10. Spare Parts for A. Ott Current Meter
11. Electronic Parts and Components and Other Consummable Material
12. Spare Parts for Neyrpic and Gurley Current Meters
13. Spare Parts for Rustrak Recorders

E. Spare Parts for Equipment in Service

1. Spare Parts for Logan 3' Lathe
2. Spare Parts for Atlas Milling Machine
3. Cutters for Milling Machines
4. Thread Cutter for Milling Machines
5. Spare Parts for A. Ott Current Meters A/S
6. Electronic Components and Parts
7. Spare Parts for Pressure Transducers and Wave Measuring Equipment
8. Spare Parts for Bell & Howell/16mm Film Projector

II. LOWER INDUS WATER MANAGEMENT AND RESEARCH PROJECT

A. Laboratory Equipment

1. Solubridge R.D.26
2. pH Meter
3. Weighing Balance (Mettler Type)
4. Weighing Balance (Top Loading)

131

ITEM NO.	DESCRIPTION

5. Flame Photometer with Accessories
6. Spectrophotometer with Accessories
7. Centrifuge
8. Dispersion Apparatus for Soils Mechanical Analysis
9. Microkjeldhal Apparatus
10. Vacuum Pump
11. Oven, Electric (0-200^{o}C)
12. Water Still
13. Water Bath, Eletric, Thermostatically Controlled
14. Shaker
15. Calculators, Scientific
16. Laboratory Reagents

B. Field Equipment

1. Soil Sampling Tubes
2. Measuring Tapes
3. Weighing Balance (String)
4. Infiltration Rings with Covers
5. Galvanometer
6. Jetting Unit
7. Neutron Soil Moisture Probe and Counter with Access Tube
8. Manometer Tube Tensiometer
9. Water Stage Recorders
10. Plant Protection Equipment
11. Overhead Projector
12. 35mm Cameras
13. 35mm Slide Projector (Trays & Case)
14. Portable Screens
15. Recording Equipment
16. Soil Augurs
17. Soil Sampling Hammers
18. Spades
19. Slokles
20. Khurpas (Digging Device)
21. Kasolas
22. Field Chains (Iron)
23. Wooden Box for 24 Water Samples
24. Tarpaulin (20' x 20' sheet)
25. Watertable Depth Pipe

C. Farming Equipment

1. Tractor, 47 HP
2. Scraper, 6 feet
3. Land Leveller
4. Front-end Loader
5. Plough, 3 bottom

133

ITEM NO.	DESCRIPTION

6. Disc Harrow
7. Seed Drill
8. Utility Trailer
9. Cultivator
10. Equipment for Mechanical Workshop

D. Office Furniture and Equipment

1. Tables and Chairs
2. Steel Cabinets
3. Steel Bookcases
4. Racks
5. Benches
6. Stools (Cushioned)
7. Confidential Boxes
8. Clocks
9. Typewriters
10. Duplicating Machine
11. Calculators
12. Air Conditioner
13. Drawing Instruments (L.S.)

III. CENTRAL MONITORING ORGANIZATION, WAPDA

A. Tubewell Rehabilitation Research

1. CC TV Camera
2. Gamma Logger
3. Velocity Logger
4. Temperature Logger
5. Caleper Logger
6. Acoust Logger
7. Compressors
8. D & T Units
9. Pumping Sets
10. Water Jetting Sets
11. Welding and Generating Sets

B. Analog and Digital Modeling

1. Dual Trace Oscilloscopes
2. Pulse Generators
3. Waveform Synthesizers with Programmers
4. Stabilizers
5. Analog Analyzers
6. Current Probes
7. Operational Amplifiers
8. Power Supply Units

ITEM NO.	DESCRIPTION

9. Waveform Generators
10. Digital Measuring Systems with Flug-ins
11. Califration Fixture
12. D.C. Power Supply Units (Regulated)
13. AVO Meters

C. Water Quality, Soil Monitoring and Agriculture Studies

1. Atomic Absorpotion Spectrophotometer
2. Apectrol Sources (Hollow Cathode Lamps)
3. Membrane Air Compressor
4. Flame Photometers
5. Spectrophotometers
6. pH Meters
7. Ceramic Plate Extractor
8. Manifold Soil Moisture Equipment
9. Soil Moisture Equipment
10. Rotaps (Sieve Shakers)
11. Conductivity Meters
12. Water Distilling Apparatus
13. Analytical Balances
14. International Centrifuge Machines

IV. HYDROLOGY AND SYSTEMS ANALYSIS ORGANIZATION, WAPDA

Computer Accessories

1. Control Unit
2. Device Adaptor
3. Display Stations
4. Audible Alarms
5. 78 Key Keyboards
6. Printer
7. Direct Access Storage Unit
8. Model Upgrade HO 2 to HG 2 Unit
9. 4K Control Storage Unit
10. Related Software Packages

V. MONA RECLAMATION AND RESEARCH PROJECT

To be identified

VI. SIND HYDRAULIC RESEARCH STATION

To be identified

ILLUSTRATIVE LIST OF COMMODITIES FOR THE FORESTRY PLANNING AND DEVELOPMENT PROJECT

Summary Budget

Cagetory of Equipment	Estimated CIF Cost a/
1. Research and Analytical Equipment	200
2. Earth Moving and Land Clearing	800
3. Nursery:	
Heavy	880
Light	60
4. Mensuration Items	20
5. Watering	40
Total	2000

a/ Including spare parts.

DETAILED COSTS AND QUANTITIES OF FORESTRY EQUIPMENT

Category of Equipment	Quantity	Unit Cost (US $)	Total Cost (US $)
1. Research & Analytical Equipment			
Programmable Calculators	15	200	3,000
Micro computers	10	5,000	50,000
Weighing rain guage	5	800	4,000
Anemometer w/recorder	4	350	1,400
Thermohydrograph	5	400	2,000
Computer Mini Desk Type	1	8,000	8,000
Soil sieves	3	50	150
Green house	1	10,000	10,000
pH meters	12	300	3,600
Atomic Absorption Spectrophotometer	1	20,000	20,000
Flame Photometer	1	5,000	5,000
Microhjeldhal Apparatus	2	4,000	8,000
Soil augers	5	250	1,250
Lab reagents	1 set	3,000	3,000
Sample bottles & Containers		2,000	2,000
Soil moisture & Temperature meter	1	500	500
Microscope	6	1,000	6,000
Dissecting Microscope	6	500	3,000
Visual Accumulation Tubes for particle size analysis w/accessories	2 sets	500	1,000
Portable marker brand	5	NA)	
Overhead Projection	1	NA)	
Transparency Sheets	1000	NA)	
Acetatic Reel Transparency Kit	1	NA) 1500	1,500
Soil Colan Charts	4	NA) (Est)	
Soil Sall Meter	4	NA)	
Sub-Total			133,400

DETAILED COSTS AND QUANTITIES OF FORESTRY EQUIPMENT (Continued)

Category of Equipment	Quantity	Unit Cost (US $)	Total Cost (US $)
2. Earthmoving & Land Clearing			
Bulldozer	3	10,000	300,000
Drum-chopper	3	5,000	15,000
Tractor	6	20,000	120,000
Disc plough	6	1,500	9,000
Disc Harrow	6	1,500	9,000
Scraper	6	1,000	6,000
Sub-Total			459,000
3. Nursery			
Seed Storage and cabinets w/ and w/o temperature control	5	1,000	5,000
Hand Pruning Shears	50	20	1,000
Seed balances	5	200	1,000
Tractors (medium)	21	20,000	420,000
Mouldboard plow/offset disc harrow	21	5,000	105,000
Sectional ladders w/safety belts	10	250	2,500
Seed Timbler	1	500	500
Seed Dewinger	1	500	500
Seed Blower	21	500	10,500
Cleaning/Grading Vibrating Table	21	500	10,500
Cold Storage chamber	1	4,000	4,000
Sub-Total			560,500

DETAILED COSTS AND QUANTITIES OF FORESTRY EQUIPMENT (Continued)

Category of Equipment	Quantity	Unit Cost (US $)	Total Cost (US $)
4. Mensuration Equipment			
Relaskop	8	650	5,200
Altimeter (Haja)	10	200	2,000
Sunto Jucrement (bores)	12 sets	150	1,800
Aluminium Calipers (102 cm)	25	20	1,000
Templates	-		1,000
Sub-Total			11,000
5. Watering Equipment			
Submersible electric pumps	25	800	20,000
Hand pumps	25	200	5,000
Sub-Total			25,000
TOTAL			1,188,900
+ Spare Parts, Freight and Insurance (Est.)			811,100
GRAND TOTAL			2,000,000

DETAILED LISTING OF FORESTRY EQUIPMENT

	Pakistan Forestry Institute	Punjab	NWFP	Baluchistan	Inspector General of Forests	Sind	Total
Earthmoving & Land Clearing							
1. Bulldozer	-	-	-	-	-	1	1
2. Flatbed Trailer w/cab	-	-	-	-	-	1	1
3. Drum-chopper	-	-	-	-	-	1	1
4. Tractor	-	-	-	-	-	2	2
5. Disc plough	-	-	-	-	-	2	2
6. Disc Harrow	-	-	-	-	-	2	2
7. Scraper	-	-	-	-	-	2	2
Nursery							
1. Seed storage & cabinets w/ and w/o temperature control	1	1	1	1	-	1	5
2. Seed balances	1	1	1	1	-	1	5
3. Tractor (medium)	4	11	3	3	-	-	21
4. Mouldboard plow/offset disc harrow	4	11	3	3	-	-	21
5. Sectional ladders w/safety belts	2	2	2	2	-	2	10
6. Hand Pruning sheers	10	10	10	10	-	10	50
7. Seed Tumbler	1	-	-	-	-	-	1

	Pakistan Forestry Institute	Punjab	NWFP	Baluchistan	Inspector General of Forests	Sind	Total
8. Seed Dewinger	1	-	-	-	-	-	1
9. Seed Blower	5	4	4	4	-	4	21
10. Cleaning/Carding Vibrating Table	5	4	4	4	-	4	21
11. Cold Storage Chambers	1	-	-	-	-	-	1
<u>Research & Analytical Equipment</u>							
1. Programmable Calculators	15	-	-	-	5	-	20
2. Micro Computers	10	-	-	-	-	-	10
3. Computer Mini Desk type with all accessories	1	-	-	-	-	-	1
4. Weighing Rain Guage	5	-	-	-	-	-	5
5. Anemometer w/recorder	4	-	-	-	-	-	4
6. Thermohydrograph	5	-	-	-	-	-	5
7. Soil Sieves	3	-	-	-	-	-	3
8. Greenhouse	1	-	-	-	-	-	1
9. PH Meters	12	-	-	-	-	-	12
10. Atomic Absorption Spectrophotometer	1	-	-	-	-	-	1

	Pakistan Forestry Institute	Punjab	NWFP	Baluchistan	Inspector General of Forests	Sind	Total
11. Flame Photometer	1	-	-	-	-	-	1
12. Microhjeldhal Apparatus	2	-	-	-	-	-	2
13. Soil Augers	5	-	-	-	-	-	5
14. Lab Reagents							
15. Sample bottles & containers							
16. Soil Moisture & Temperature Meter	2	-	-	-	-	-	2
17. Microscope	6	-	-	-	-	-	6
18. Dissecting Microscope	6	-	-	-	-	-	6
19. Visual Accumulation Tubes for particle size analysis w/accessories	2 sets	-	-	-	-	-	2 sets
20. Portable Marker Brand	5	-	-	-	-	-	5
21. Overhead Projector	1	-	-	-	-	-	1
22. Transperancy sheets	1000	-	-	-	-	-	1000
23. Acetalireel Transparency kit	1	-	-	-	-	-	1
24. Soil colan chasts	4	-	-	-	-	-	4
25. Soil Sall meter	4	-	-	-	-	-	4

	Pakistan Forestry Institute	Punjab	NWFP	Baluchistan	Inspector General of Forests	Sind	Total
Watering							
1. Submersible Electric/ Diesel pumps	5	5	5	5	-	5	25
2. Hand Pumps	5	5	5	5	-	5	25

ILLUSTRATIVE LIST OF COMMODITIES FOR THE TRANSFORMATION AND INTEGRATION OF THE PROVINCIAL AGRICULTURAL NETWORK PROJECT

Summary Budget a/

A. FY 1984 Procurement

1.	Farm Machinery	160
2.	Instructional Resources	20
3.	Extension Directorate	180
4.	Office of the Vice Chancellor	40
5.	Horticulture Department	5
6.	Agronomy	10
7.	Weed Science	45
8.	Computer Lab	75
9.	Telecommunications System - Phase I	250
10.	Other Commodities	215
	TOTAL	1,000

B. FY 1985 Procurement

1.	Agronomy	200
2.	Horticulture	200
3.	Soil Science	300
4.	Plant Breeding and Genetics	150
5.	Plant Protection	400
6.	Agricultural Mechanization	100
7.	Food Technology	750
8.	Animal Husbandry	300
9.	Agricultural Chemistry	325
10.	Rural Social Sciences	20
11.	Communications - Teaching	15
12.	Learning Resources Center	500
13.	Communication Sciences	300
14.	Computer Laboratory	140
15.	Continuing Education Center	50
16.	Telecommunications System - Phases II - VII	250
	TOTAL	4,000

---

a/ Detailed lists are on file at USAID/Pakistan

ILLUSTRATIVE LIST OF COMMODITIES FOR THE BALUCHISTAN AREA DEVELOPMENT PROJECT

	Equipment	Estimated CIF Cost ($ 000s)
1.	Miscellaneous hydrologic and engineering equipment	70
2.	6 Bulldozers	1530
3.	3 Lube Trucks	300
4.	10 Water and Fuel Tankers	200
5.	Heavy Equipment Spares	900
6.	Mechanics Tools	50
6.	Two 125 KW Generators	150
	Total	3,200

ILLUSTRATIVE LIST OF COMMODITIES FOR THE MANAGEMENT OF AGRICULTURAL RESEARCH AND TECHNOLOGY PROJECT

Summary Budget
($ 000)

Project Component	Commodities		
Research Management and Administration	Miscellaneous Equipment		1300
Training	Audio-Visual Equipment	24	
	Agricultural Equipment and Materials	32	
	Office Equipment	69	
	Bus (35 passenger, U.S.)	35	160
Arid Zone Development	Research Support	262	
	Agronomy	72	
	Meteorological Equipment	30	
	Animal Range Equipment	73	
	Analytical Laboratory	28	465
Wheat and Maize Programs	Seed Cleaner	8	
	Herbicide Spraying Equipment	10	
	Miscellaneous Demonstration and Research Equipment	50	
	Barani Seed Dril	7	75
Total			2000
Freight and Insurance			500
Grand Total			2500

Detailed Listing

COMPONENT 1. RESEARCH MANAGEMENT AND ADMINISTRATION ($1,300,000)

Miscellaneous vehicles and equipment required to upgrade programs, laboratories, etc., in provinces. List to be developed through needs survey

COMPONENT 2. AGRICULTURAL TRAINING INSTITUTES (Illustrative List) ($160,000)

1. Audio-Visual Equipment

Description of Commodity	Units	Cost
Portable flipchart/chalkboard/tripod	12	1,020
Small bulletin board	25	625
35mm camera with accessories	4	5,100
Slide mounter/viewer	6	3,000
16mm projectors	6	7,650
Transformers	12	1,500
Basic graphics kit/drawing table	5	5,000
		(23,895)

2. Agricultural Equipment and Materials

Description of Commodity	Units	Cost
Knapsack sprayers	30	$ 2,250
Mist blowers	6	1,800
Hand seeders	45	2,025
Soil testing kit	45	2,700
Sighting level	45	3,375
100m tape measure	6	300
Basic implement kit/pruning shears, saws, castrating knives, other tools	45	6,750
Addition to book library	1	8,000
Scales and measuring sets	6	330
Other equipment	1	5,000
		(32,530)

152

3. Office Equipment

Description of Commodity	Units	Cost
Typewriter/printers/microcomputer word processors	6	$ 18,000
Stencil cutters	5	14,250
Mimeograph machines	6	8,400
Thermofax copiers	6	4,200
Film storage boxes	8	600
4-drawer file cabinets	22	5,500
Large metal/lockable storage cabinets	22	6,380
Calculators	12	360
Desks/chairs/lamp sets	16	6,000
Other equipment	1	5,000
		(68,690)

4. Vehicles

Description of Commodity	Units	Cost
Bus--35 passenger	1	$ (35,000)

COMPONENT 3. ARID ZONE RESEARCH ($465,000)

1. Research Support

Description of Commodity	Units	Cost
Tractor--small	1	$ 10,000
Tractor--medium	1	25,000
Tillage equipment		20,000
Experimental plot planters, cone type	3	36,000
Experimental plot combines	2	48,000
Threshers	6	18,000
Ovens (various)		23,000
Scales and balances		14,000
Laboratory equipment (small)		11,000
Typewriters	3	3,000
Calculators	7	2,000
Office Furniture	16	48,000
Photocopiers	2	4,000
		(262,000)

2. Agronomy

Description of Commodity	Units	Cost
Trailers	2	$ 12,000
Augers	2	4,000
Neutron probes	3	9,000
Pressure plate apparatus	1	3,000
Soil shakers	2	2,000
Seed counters	2	5,000
Green area measurers	2	10,000
Microscopes	2	2,000
Plant soil grinders	2	2,400
Sample refrigerators	2	2,900
Harrows spike	1	500
Rotovators	2	1,500
Sprayers (backpack motorized)	4	1,500
Forage harvester	1	2,500
Plant water status console	1	3,500
Compressor	1	1,000
Tune solarimeters	10	2,000
Integrators	10	1,000
Diffusion borometers	2	6,000
Infrared thermometer	1	500
		(72,300)

3. Meteorological Equipment

Description of Commodity	Units	Cost
Hygro thermographs	7	$ 3,500
Anemometer	6	3,000
Pyranometer	8	10,000
Stevenson Screens	6	3,000
Thermographs 3 point	6	7,000
Class A pans	6	300
Rain guages	50	2,500
Assman psychometer	1	500
		(29,800)

4. Animal Range Equipment

Description of Commodity	Units	Cost
Tripods and crates for weighting sheep	2	$ 1,000
Spring balances 0-100 kg, 0.5 kg divisions	3	400
Spring balances 0-25 kg, 0.1 kg divisions	3	400
Platform balances, 0-100 kg, 0.5 kg divisions	3	2,000
Eartags and applicators	1000/3	1,000
Injecting equipment		500
Fencing, sheep proof netting, post, gates	20 km	25,000
Metal digestibility crates	8	3,200
Balances 0-4000 g, 0.01 g divisions	3	6,000
Drying ovens, 2000 liters	3	10,000
Hammer mill for feed grinding	2	10,000
Deep freezers, 2000 liters	3	10,000
Micro Keldahl	2	1,200
Van Soest equipment	1	300
Sorhlet apparatus	1	500
Herbarium and plant collection equipment		2,000
		(73,500)

5. Analytical Laboratory

Description of Commodity	Units	Cost
PH meter and electrodes	1	$ 1,500
EL meter and cells	1	1,500
Spectrophotometer	1	6,000
Emission spectrophotometer	1	3,800
Muffle furnace	1	1,700
Chemical balances (electronic)	2	3,000
Glassware		5,000
Sieves (graded set)		600
Chemicals		4,500
		(27,600)

COMPONENT 4. WHEAT AND MAIZE COORDINATED PROGRAM ($75,000)

Description of Commodity	Units	Cost
Seed cleaner (M2B)	4	$ 8,000
Herbicide spraying equipment		10,000
Miscellaneous Demonstration and Research Equipment		50,000
Barani seed drill	1	$ 7,000
		(75,000)

ILLUSTRATIVE LIST OF COMMODITIES FOR THE RURAL ROADS PROJECT

	Equipment	Estimated CIF Cost ($ 000s)
1.	Engineering Equipment	100
2.	Mechanics Tools	50
3.	18 Graders	2150
4.	Heavy Equipment Spares	500
5.	10 Water and Fuel Tankers	200
		3,000