

U N C L A S S I F I E D

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROGRAM ASSISTANCE  
APPROVAL DOCUMENT  
(PAAD)  
AMENDMENT 2

PAKISTAN: Agricultural Sector Support  
Program (ASSP) (391-0492)

August 4, 1988

U N C L A S S I F I E D

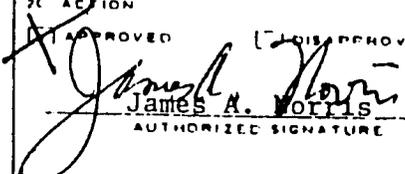
**CLASSIFICATION**

AID 1180-1 (8-88)	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PAAD NO	391-0492
		2. COUNTRY	Pakistan
		3. CATEGORY	Commodity Financing (Standard Procedure) and Sector Grant
		4. DATE	
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT		
	Amendment # 2		
5. TO:		6. OYB CHANGE NO	
The Director, USAID/Pakistan		6. OYB INCREASE	
7. FROM:		TO BE TAKEN FROM	
The Agricultural Development Officer, USAID/Pakistan			
8. APPROVAL REQUESTED FOR COMMITMENT OF:		10. APPROPRIATION - ALLOTMENT	
\$110,000,000		72-118/91037 QES8-88-37391-KG-39	
11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
<input type="checkbox"/> LOAN: <input checked="" type="checkbox"/> GRANT	<input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	June 1988 - Sep. 1993	June 1988
15. COMMODITIES FINANCED			

The items to be financed under this Program are wheat or such other commodities required to meet emergency requirements of Pakistan as agreed to by the GOP and USAID.

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:	60,000,000	U.S.:	60,000,000
Limited F.W.:		Industrialized Countries:	
Free World:		Local:	
Cash:	50,000,000	Other:	50,000,000
Pakistan (Minimum)		Pakistan (Minimum)	

**TITLE: AGRICULTURAL SECTOR SUPPORT PROGRAM (391-0492)**  
 This PAAD authorizes \$ 110.0 million in ESF grant funds, subject to the availability of funds in accordance with the AID OYB/allotment process, to finance the foreign exchange and local costs for sector assistance, and a commodity import program (CIP). Contingent upon the acceptance of policy benchmarks for PFY 1988/89, sector assistance of up to \$ 50.0 million will be included as part of the \$ 110 million. The proposed policy agenda for PFY 1988/89 is attached as Appendix 'A' to this Amendment. This Amendment also describes eligible activities under the TATA component which, inter alia, include: (a) analysis of Corporate Sector Constraints to Agriculture (ACSCA), (b) seminars, study tours, studies in support of corporate enterprise development, the related policy dialogue, and other activities to provide analysis and information to the GOP with regard to trade and investment opportunities in the agriculture sector, and (c) at the request of Government, identification of priorities and activities in the agriculture sector which further policy change and implementation of goals set out by the National Commission on Agriculture and Seventh Five-Year Plan. U.S. is the authorized shipping code. With this amendment the total amount authorized under ASSP will be \$118.9 million.

18. CLEARANCES		DATE		19. ACTION	
ARD: TMolson	(Draft)	05/03/88		<input checked="" type="checkbox"/> APPROVED	<input type="checkbox"/> DISAPPROVED
ARD: RHGoldman	(Draft)	05/09/88		 James A. Morris AUTHORIZED SIGNATURE	
PRO: PDavis		07/02/88			
PDM: RWNachtribe	(Draft)	05/09/88		Aug. 4, 1988 DATE	
RLA: SJSpielman	(Draft)	05/08/88			
FM: ADPratt		7/6/88		Director, USAID/Pakistan TITLE	
DD: JPGuedet		7/6/88			

CLASSIFICATION:

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AGRICULTURAL SECTOR SUPPORT PROGRAM (391-0492)  
PROGRAM SUMMARY AND PFY 1988/89 POLICY BENCHMARKS

A. Goal and Purpose

The broad sector goal of the Agriculture Sector Support Program (ASSP) is to sustain economic growth in Pakistan through increased productivity in the agricultural sector.

The Program purposes are to:

1. provide balance of payments support to the Government of Pakistan (GOP) through commodity imports and sector assistance; and,
2. remove key constraints to increased economic growth in the agricultural sector through policy reform and expanded private sector investment and participation.

B. Program Components

1. Overview

The ASSP combines four basic elements to promote rapid implementation of policy reform in the agricultural sector:

a. Resource Transfer

Resource transfers to the GOP in the form of a Commodity Import Program (CIP) and Sector Assistance (SA) to provide needed balance of payments support and to reinforce progress made to date in restructuring the sector.

b. Policy Dialogue

Policy dialogue/negotiation as an input to policy reform negotiated with the GOP on an annual basis, based on a review of priorities and opportunities in the policy arena.

c. Local Currency Programming

Local currency resources generated by the resource transfers and programmed by the GOP in cooperation with A.I.D. to support implementation of policy and institutional reforms, and the GOP's overall sectoral development programs.

d. Technical Assistance and Training

To strengthen the long-term capacity of the GOP in market-based management of the agricultural sector and to assist the GOP in policy analysis.

The ASSP reflects the continued progress being made by A.I.D. and the GOP toward a mature assistance relationship. Resource transfers have been a central element of the U.S. assistance strategy since its resumption in 1981. Resource transfers have generally taken the form of commodity import programs, such as the Agricultural Commodity and Equipment Program (ACE) in the agricultural sector. No policy conditionality was attached to these programs initially.

Dialogue on policy issues was initiated through the PL-480 Self-Help Measures and expanded under the Food Security Management (FSM) Project, which began in 1984. Over the past four years, policy assistance and resource transfers have progressively been merged by incorporating policy concerns into negotiation of successive tranches of commodity assistance under the ACE and PL-480. The ASSP will consolidate this process, combining commodity assistance, policy discussions, and analytic support activities into a single assistance mechanism. The current separate channels of assistance (FSM and ACE) will be phased out over the first two years of the new program. The effectiveness and flexibility of the ASSP mechanism will be further strengthened by the addition of the sector support grant option and by increased attention to the use of local currency generations to provide broad support to A.I.D. and GOP goals in the sector.

## 2. Resource Transfers Under the ASSP

The resource transfer components of the ASSP will assist the GOP to manage the difficult balance of payments situation and will encourage the adoption of the major policy reforms needed to accelerate agricultural growth. Two types of resource transfer are planned:

### a. Commodity Import Program

Commodity Import Program will finance the importation of basic agricultural inputs (particularly fertilizer), other agricultural commodities needed for local consumption or processing (for example, wheat and cotton), commodities to support agricultural development activities (for instance, grain storage and handling modernization equipment), and inputs needed by the private agribusiness sector (for example, food processing machinery).

### b. Sector Assistance

Sector Assistance will be in support of agreed agricultural policy reforms.

The level and mix of CIP and SSG provided in each of the Program's six years will be determined in negotiation with the GOP, based on progress made in implementing policy reforms during the previous year and on the nature of the policy reforms that the GOP commits itself to carry out during the coming year.

### 3. Policy Dialogue and Negotiation

Within the GOP's basic long-term objectives of i) increasing agricultural productivity, ii) maximizing agricultural exports and iii) maintaining relative stability in agricultural prices the ASSP policy dialogue and negotiation will focus on: (a) removal of any remaining distortions in the pricing of basic inputs and outputs; (b) expanding the role of the private sector in agricultural markets, production of inputs, and processing of outputs; and, (c) reducing subsidies in general and redirecting agricultural subsidies where necessary towards small farmers in less developed areas. Where appropriate, the dialogue will also include identification of ways and means of improving the efficiency and effectiveness of public sector institutions, particularly in the areas of research, education, extension, information and irrigation management. The major areas of policy reforms are:

#### a. Input markets

Gradual elimination of fertilizer subsidies and privatization of distribution; rationalization and liberalization of credit markets; improvement in rules for promotion of the seed industry and a larger role of the private sector in seed production; improvement in budgeting and pricing for water, including utility rates and privatization of tubewells; and liberalization of tariffs and marketing restrictions for feed and other imported inputs.

#### b. Product Markets, Processing, and Agribusiness

Continuation and strengthening of a wheat pricing policy that encourages a significant private sector role in storage, marketing and handling; improved arrangements for marketing of agricultural commodities, including better rural markets and establishing commodity exchanges as appropriate; reopening of commodity exchanges as appropriate; and other institutional reforms; streamlining of procedures on investment in agro industry and services; and privatization of edible oils marketing and processing.

#### c. Agricultural Institutions

Accelerated improvement of data collection and availability; continued institutionalization of economic analysis capacity; and integration of agricultural research and education together with provision of adequate funding.

These subject areas have been discussed by donors and the GOP for some time, and negotiations are continuing. ASSP will not supersede these discussions but supplement and reinforce ongoing dialogue, providing additional resources needed to bring these discussion objectives to fruition.

#### 4. Local Currency Resources

The local currency generated under ASSP will be programmed with the GOP in support of mutually agreed upon designated major items within the Grantee's budget allocations in support of the agriculture sector. Where appropriate, funds may also be programmed to finance the cost of reforms being undertaken, through, for example, replacement of tariff revenues foregone; indirect financing of increased provincial expenditure on research, extension and irrigation O&M; and expanded supplies of agricultural credit. The distribution between these uses will depend in part on the progress of A.I.D.-GOP policy dialogue and in part on the identification of suitable opportunities to program local currencies that do not place an undue management burden on either A.I.D. or the GOP.

#### 5. Training and Technical Assistance

The Training and Technical Assistance component will have two distinct elements: a sectoral training program to build up the research and training capabilities of Pakistani institutions servicing agriculture sector and to expand the pool of skilled personnel available to the national agribusiness sector; and a policy information and management program, which will continue the program of policy analysis, data collection, and institution building, and provide technical support to the ASSP's policy dialogue. The process of policy analysis, data collection, and institution building was begun under the Food Security Management Project. The follow-on activity will be based on a new or revised PC-1 that follows from evaluation of the existing activity.

##### a. The Sectoral Training Program

The development of Pakistan's agricultural sector has created a need for skilled manpower that goes beyond the current capacity of in-country training institutions. While project-based training can meet part of this need, it is by definition limited to a few institutions and sub-sectors. The training requirements of the private sector, in particular, can rarely be met through this mechanism. Although major assistance programs are being directed to specific Pakistani universities, the remaining institutions are not receiving sufficient assistance to enable them to upgrade or, in some cases, even maintain, the skills of their faculty.

While no single program can provide sufficient resources to meet the full need for training in the agriculture sector, the ASSP will be able to make a substantial contribution. By concentrating on long-term training for the faculties of agricultural universities and for private sector agribusiness professionals, the ASSP should lead to a significant increase in the pool of skilled manpower available to support agricultural development in the future. The ASSP training program will have two major components:

- i. Public Sector Training: training in the United States or third countries for university personnel and professionals in institutions supporting the agricultural sector, reinforced by short-term in-country training and visiting professorships for U.S. faculty in Pakistani institutions.
- ii. Private Sector Training: training in the United States or third countries to upgrade the technical, professional, and administrative skills of individuals with a background in Pakistan's private sector agricultural production, processing, and marketing, as well as short courses in-country to reach a wider agribusiness audience.

Training will be offered in a wide range of specialties needed to improve performance in the private and public sectors. While the specific categories will depend on the training needs expressed by local institutions (public and private) and the availability of suitable candidates, it is anticipated that degree training will be offered, inter alia, in agricultural sciences, livestock sciences, food processing, marketing, storage and distribution, business management, public administration, and economics and statistics.

b. Policy Information and Management

The program of analysis, data collection and institution building begun under FSM Project will have a follow-on activity based upon evaluation and a new or revised PC-1 under ASSP. Post-harvest management activities will also be continued though at a smaller scale. The Program will have the following two distinct elements:

- i. Institution Building: Technical assistance, training, and commodities and equipment will be combined to pursue institutional development activities initiated largely under the FSM Project.

These activities under the ASSP will be given particular emphasis to establish a permanent capacity for agriculture policy analysis in the Ministry of Food, Agriculture and Cooperatives and to upgrade the economic policy analysis capabilities of other Pakistani institutions, particularly agricultural universities.

Agricultural data collection improvement will be continued under ASSP. By the end of the existing Project, it is expected that the area sampling frame will have been fully implemented in the pilot areas, but due to a late start, a second phase will be needed to establish the area sampling frame nationwide.

Some of the existing activities for post-harvest management will be a part of ASSP: technical assistance for storage management and training for public and private sector storage managers.

- ii. Analytical Support: Analytical support activities will be directed to the identification and clarification of policy issues and monitoring of progress toward policy benchmarks. These activities will be carried out relying on separate contracting mechanisms. Within this sub-component, the Special Studies Program of IFPRI (if appropriate) will be continued, focusing on issues growing out of IFPRI's current work in the grain market and expansion of the program into related areas.

### C. End of Program Status

By the end of FY 1993, Mission expects that the following overall conditions will prevail with respect to Pakistan's agricultural policies:

1. Prices: Pricing for exportables and import substitutes would be supported at a level close to their export and import parity prices respectively. Support prices would consider costs of production adequately and the pricing of outputs and inputs should be more closely coordinated. For non-traded inputs such as water, prices will cover all maintenance and operating costs.

2. Privatization: Public sector organizations will compete with private sector on an equal (not subsidized) basis. To this end, except for procurement resulting from fluctuations in production trends, the share of the private sector will continue to expand for each major crop. Incremental market volume of inputs and outputs will be handled by the private sector and expansion in processing and manufacturing of agricultural inputs and outputs will emanate from the private sector.

3. Subsidies: The existing GOP policy of gradual reduction of agricultural subsidies will be continued to assure elimination of most subsidies by 1993 and the balance of the GOP's agricultural subsidy program where necessary will be redirected toward small farmers, lagging areas, and introduction of technology for increased production. Total real cost of all subsidies to the agricultural sector (excluding research, extension, education, and other support services) should be one-third less than in PFY 1987.

The above targets may be revised based upon economic conditions and objective justification.

Specific Mission and GOP Targets and End of Project Status (EOPS) are as follows:

1. Input Markets

(a) Fertilizer

(1) Mission Target: Complete removal of all subsidies on N and P fertilizers. GOP EOPS: Complete removal of all subsidies on N and P fertilizers.

(2) Mission Target: Geographic quotas reduced to at most 50 percent of volume. GOP EOPS: Gradual reduction of geographic quotas for imported fertilizers to at most 50 percent of volume.

(3) Mission Target: No expansion of public sector capacity. GOP EOPS: Public sector investment in new fertilizer plants only as a last resort.

(b) Water

(1) Mission Target: O&M expenditures and collection of water fees increased to full technical requirements on gravity systems and 75 percent of technical requirements of tubewells. GOP EOPS: Water charge and drainage assessments and collection increased to cover full O&M irrigation system costs. Removal of subsidies on installation and operation of private freshwater tubewells in irrigated areas.

(2) Mission Target: Removal of subsidy on private tubewells and divestiture of 50 percent of state-owned tubewells. GOP EOPS: Divestiture of state-owned fresh water tubewells.

(c) Seed

Mission Target: Establishment of appropriate rules under the National Seed Law that are geared to promote private sector investment in the seed industry and elimination of public sector subsidies of seed. GOP EOPS: Establishment of appropriate rules under the National Seed Law that are geared to promote private sector investment in the seed industry and elimination of public sector subsidies of seed.

(d) Feed

Mission Target: Elimination of tariffs and other restrictions on imports. GOP EOPS: Elimination of tariffs and other restrictions on import of feed ingredients.

2. Product Markets, Processing, and Agribusiness

Wheat

Mission Target: Reduction in state procurement to less than half of the total marketed surplus; reform of support and release prices so that support price remains between CIF and FOB price and release price

covers 80 percent of Government's handling and storage costs. GOP EOPS: (i) Reform of support and release price so that release price covers a substantial (at least 50 percent) percent of Government's handling and storage costs. This policy of price management is expected to significantly reduce GOP procurement levels. (ii) Gradual improvements in the post harvest system to facilitate improvement of public sector standards for wheat procurement. (iii) Increase in federal budgets and provincial expenditures for storage O&M to at least 90 percent of technical requirement.

### 3. Agricultural Institutions

#### (a) Management Information and Policy Analysis

(1) Mission Target: Institutionalization of Economic Analysis Network (EAN) within the Ministry of Food, Agriculture and Cooperatives (MINFAC). GOP EOPS: Institutionalization of analytical capacity for policy studies within the Ministry of Food, Agriculture and Cooperatives (MINFAC); and increase in the MINFAC budget for Economic and Policy Analysis by 25 percent.

(2) Mission Target: Integration of Agricultural Data Collection under one national institution and increase in the budget for data collection and publication by 25 percent. GOP EOPS: Integration of Agricultural Data Collection under one national institution (Statistics Division); and establishment of Area Frame Sample on a nationwide basis.

(3) Mission Target: Establishment of regular and timely publication of price, marketing, and production data and forecasts. GOP EOPS: Regular, timely, and widely disseminated publication of price, marketing, and production data and forecasts.

#### (b) Research and Education

Mission Target: Restructuring of at least one Province's institutional structure to join these functions in a single institution. GOP EOPS: Agriculture research and education are reorganized in a single institution in at least one Province.

### D. Program Process

The ASSP will continue the process of dialogue and reform begun by the mission through the Agricultural Commodities and Equipment Program (ACE), and the PL-480 self-help measures. This process is characterized by joint exploration of policy issues based on careful analytic work, leading to the identification of desirable policy initiatives and ways in which the U.S. can assist the GOP to implement them.

The central element of the policy dialogue process will be the periodic, not less than semi-annual, negotiation of a set of action benchmarks embodying the policy changes that the GOP agrees to implement during the coming year as well as a set of process benchmarks identifying studies

and other planning exercises to be undertaken in support of analytic activities under ASSP. Starting in the Program's second year, this negotiation will also include an assessment of progress made against the benchmarks. On the basis of this assessment, A.I.D. and the GOP will negotiate the mix and amount of funds to be provided in the next funding period.

## E. First Year Benchmarks

### 1. Proposed Action Benchmarks for PFY 88/89

#### a. Fertilizer

Benchmark: Increase by the end of calendar year 1988 the retail price of DAP fertilizer by 10 percent (Rs.16) over the December, 1987 price (Rs.161 for 50 kg) with a view to eliminate DAP fertilizer subsidy in four years.

Rationale: This reform moves the GOP toward a situation where farmers pay the real cost of fertilizer, lowering the government budget deficit, encouraging efficient use of fertilizer, and helping to make fertilizer available throughout the country on a timely basis.

Benchmark: Allow the private sector inter-provincial movement of 10 percent of their total imported fertilizer allotment by August 1988.

Rationale: The present geographical restrictions on the movement of fertilizer have prevented the private sector from fully distributing their allotted fertilizer quota.

Benchmark: Announce by August 1988 the decision to provide highest priority to private sector expansion of fertilizer capacity and to allow new public sector fertilizer plants only if the private sector does not respond to expanding demand by expanding capacity of existing plants or investing in new plant(s).

Rationale: The private sector is generally able to manufacture fertilizer at a lower cost than the public sector. Any new fertilizer plants in Pakistan should be privately owned.

#### b. Wheat

Benchmark: Increase the wheat release price to approximately 102 percent of the procurement price (net of the cost of bags) by July 1988.

Rationale: The present release price, Rs. 2,000/MT, is equal to the official procurement price. This release (or sales) price is subsidized by some Rs. 600, since the total cost of procurement and marketing is estimated at Rs. 2,600/MT. Implementation of this benchmark will decrease

the wheat subsidy by approximately Rs. 40 MT and will lead the way to further increases in the gap between the procurement and release prices next year which should encourage private sector marketing.

c. Agribusiness

Benchmarks: Eliminate by July 1988 restrictions on who may import poultry feed components.

Rationale: A major constraint to growth in the poultry sector is the difficulty in obtaining high quality feed, due in part to the restrictions on the types of firms that may import feed. Domestic feed manufacturers, traders, and poultry producers should all be allowed to import soybean meal and other high-quality feed components.

Benchmark: With the exception of iqra and import surcharges, eliminate by July 1988 import tariffs on animal feed ingredients such as soybean meal.

Rationale: Another barrier in obtaining high quality animal feed is the present tariff applied to imported feed ingredients. If the commercial livestock and poultry industries are to grow, high quality feed must be available at a reasonable price. Since local high quality feed is simply not available in sufficient quantities, lowering tariffs on imported feeds is the most effective way to overcome this constraint. Note that oilseeds in forms suitable for edible oil processing will have to continue under the current GOP tariff regime.

d. Water:

Benchmark: The completion and adoption of a water charge assessment study to improve collection.

Rationale: This is a first and necessary step toward increasing the general revenues.

Benchmark: Announce by August 1988 that the provinces shall not undertake any future investment in new or replacement tubewells for public operation in fresh ground water areas; and Punjab and Sind shall privatize existing public tubewells in such fresh ground water areas according to a schedule to be negotiated under the Irrigation Systems Management (ISM) Project.

Rationale: Tubewells owned by the private sector are more carefully maintained and operated than public sector wells. A World Bank project is currently looking at ways of divesting public sector tubewells and increasing private sector investment in the tubewell sector. Until the recommendations of the study are known and implemented, there should be no new public sector investment in tubewells.

e. Management Information and Policy Analysis

Benchmark: Agree to budget and release funds, during PFY 1988/89, under the Statistics Division of the Ministry of Finance for the collection and dissemination of basic agricultural data, such as production, area, and prices of basic crops, etc.

Rationale: The establishment and funding of an annual line item for collection of basic agricultural data is an important step towards making reliable data available in a timely manner. This will lead to better analyses for decision making in planning the agricultural economy of Pakistan.

Benchmark: Sanction by December 1988 the establishment of a Directorate of Agricultural Policy in the Ministry of Food, Agriculture and Cooperatives with appropriate number of professional staff and adequate operating budget from PFY 1988/89 onwards.

Rationale: Establishment of a Directorate of Agricultural Policy will accelerate and promote policy responsive economic research.

f. Benchmark: In NWFP establish administration and personnel procedures to effectively institute union of agricultural research and education.

Rationale: This is a prerequisite for making the merger of agricultural research and education a success.

2. Proposed Process Benchmarks for PFY 1988/89

The GOP will agree to participate or initiate studies in areas relevant to the policy reform package. To begin with, A.I.D. suggests studies in the following subject areas: agribusiness, agriculture terms of trade, use of credit and mobilization of savings, bulk storage and forestry. Other studies that may be initiated toward the end of FY 1988 including study of divestiture of ghee plants, and reopening of the commodity exchanges for other crops, and a study of reserve stocking requirements for fertilizer and wheat. The need and scope for these will be determined jointly by USAID and the Advisory Committee on Policy Analysis.