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PROGRAM ASSISTANCE REVIEW DOCUMENT
AGRICULTURE SECTOR SUPPORT PROGRAM

January 15, 1987

3010492



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO PAKISTAN

Cable : USAIDPAK

HEADQUARTERS OFFICE
ISLAMABAD

THE DIRECTOR

January 14, 1987

Mr. Charles W. Greenleaf
Assistant Administrator
Bureau for Asia and Near East
Agency for International Development
Washington, D. C. 20523

Dear Charlie:

I am pleased to transmit a copy of the Program Assistance Review Document (PAR) for the Agricultural Sector Support Program (ASSP). This program will provide balance of payments support to the Government of Pakistan while encouraging institutional and structural policy reforms in the agricultural sector.

ASSP builds on the economic analysis capability being fostered by the Food Security Management (FSM) Project and our successful experience in leveraging policy reform with resource transfers under the Agricultural Commodities and Equipment (ACE) and PL480 programs. ASSP will finance detailed studies in the agricultural sector that identify key policy constraints and spell out the costs, benefits and means of implementing the proposed reforms. These analytical studies will set the stage for policy dialogue leading to policy change and increased private sector participation in the economy.

This is an opportune time for us to be working with the Government of Pakistan on an undertaking such as this. The political and economic outlooks for Pakistan are murky. The balance of payments situation is unstable at best and the analysis contained in this paper suggests that it can swing rather wildly and unpredictably. As the balance of payments and other economic factors deteriorate, it is the natural inclination of governments, particularly those in the subcontinent, to neglect intentionally certain aspects of the economy--particularly the private sector. One can predict with virtual certainty a squeeze on import licenses and the availability of foreign exchange generally for the private sector if the Government is hurting for foreign exchange. Similarly, controls and restrictions grow directly with the maladies of the economy as the Government becomes increasingly concerned and wishes to exert more control over economic activities. While its intentions are well meant, the results are usually not what the Government intends. We believe ASSP, which will offer substantial sums of foreign exchange for continued progress in economic reform, will give Pakistan the backbone it needs to stay on the track of liberalization and rationalization.

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The program responds to the challenge of managing increasing amounts of money with a smaller US presence. As you know, I am committed to reducing the expatriate profile of the AID Mission in Pakistan. This can only be done by putting into place projects and programs which move substantial amounts of money in ways which are not manpower intensive. ASSP fits squarely into this mode. It provides the potential for achieving major policy reforms in the agricultural sector, moving large amounts of money, and doing so with relatively little staff involvement by AID. We expect to require only one USDH, one US PSC and four professional Pakistani assistants to manage this entire effort. At the same time, we will be concluding the On-Farm Water Management Project and the TA intensity of the four remaining projects in ARD will decrease.

The net effect of all of these developments will be a reduction in the size of the Agricultural and Rural Development Office's US contract project staff from 59 to roughly 39 two years from now. At the same time, the overall Agricultural and Rural Development portfolio will go from \$700 million presently to \$1500 million two years hence. Cutting staff while increasing the money to be handled, of course, does involve risks. We will be successful only if the Government truly believes in the policy reforms it and we work to achieve, and if it does not backslide in response to short-sighted political or economic pressures. The alternative, as I see it, to working at this level of objectives is the traditional project approach. Were we to add \$600 million worth of traditional projects, we would need perhaps 50 additional expatriates, direct hire, PSC and institutional contractors to manage that sum effectively and according to AID regulations. I think on balance the approach we propose here is the best.

On a final note, I know you find virtue in brevity. Under normal circumstances we are committed to keeping to the 15 or 20-page limit for PIDs and PID-level documents. I have permitted this one to be somewhat longer than that for several reasons. First, we are proposing a departure from conventional project and non-project assistance and it seems to me that somewhat greater detail on the approach we propose is indicated. Second, the amount of money we are talking about for this effort is a great deal larger than the normal project that either we or the Bureau usually see. We are proposing a \$300 million level at this time but expect ultimately to go as high as \$600 million. I think a longer document is justified under the circumstances.

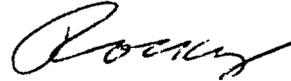
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We look forward to a rigorous review of our proposal by the Bureau and to positive and helpful guidance in further development of the program to the PAAD stage.

Sincerely yours,



Eugene S. Staples

Enclosure
ASSP PARD



CLASSIFICATION:

AID 1120-1	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE REVIEW DOCUMENT	1. PAAD NO. 391-0492	
PARD		2. COUNTRY Pakistan	
		3. CATEGORY Sector Support, Commodity Financing (Standard Procedure) & Cash Transfer	
		4. DATE November 22, 1986	
5 TO:	The Administrator, Agency for International Development	6. OYB CHANGE NO. N/A	
7 FROM:	The Director, USAID Pakistan	8. OYB INCREASE N/A	
		TO BE TAKEN FROM: N/A	
9. APPROVAL REQUESTED FOR COMMITMENT OF:	\$100,000,00	10. APPROPRIATION - ESF	
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input checked="" type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD Jan.1988 - Sep.1993	14. TRANSACTION ELIGIBILITY DATE N/A
15. COMMODITIES FINANCED The major items to be financed under this program are agricultural inputs such as fertilizers, feed and seed; equipment for farm use; and commodity support for public and private sector organizations which provide agricultural or irrigation services.			
16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. and Pakistan: \$75,000,000		U.S.: \$57,000,000	
Limited F.W.:		Industrialized Countries:	
Free World:		Local: \$37,000,000	
Cash: \$25,000,000		Other: T.A. (US) \$ 6,000,000	
18. SUMMARY DESCRIPTION This \$300 million, six-year Agricultural Sector Support Program (ASSP) is designed to provide balance of payments support to the Government of Pakistan while laying the groundwork for sustained development by encouraging policy reforms in the agricultural sector. The program will make financial distributions contingent upon the implementation of policy reforms in the agricultural sector. This PARD proposes the authorization of \$300 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 commodity imports, sector support, technical assistance and training for the implementation of policy reforms. The program will be implemented through public and private sector organizations. This document describes the first tranche of the 1988-93 program. Subject to subsequent A.I.D. approval, availability of funds and the mutual agreement of the Governments of the United States and Pakistan to proceed, \$300 million of additional funds may be authorized for the period 1988-93.			
19. CLEARANCES		20. ACTION	
_____	DATE _____	<input type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED	
_____	_____	M. Peter McPherson	
_____	_____	AUTHORIZED SIGNATURE	DATE
_____	_____	Administrator	_____
_____	_____	TITLE	

CLASSIFICATION:

E

AGRICULTURAL SECTOR SUPPORT PROGRAM (ASSP)

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LIST OF ACRONYMS

ACE	Agricultural Commodities and Equipment Program
ADBP	Agricultural Development Bank of Pakistan
ADC	Agricultural Data Collection
ADP	(GOP) Annual Development Plan
AID/W	Agency for International Development/Washington
ARD	Agriculture and Rural Development
ASSP	Agricultural Sector Support Program
CAN	Calcium Ammonium Nitrate
CCU	Commodity Control Unit
CDSS	Country Development Strategy Statement
CEC	Cotton Export Corporation
CIP	Commodity Import Program
CP	Conditions Precedent
DAP	Di-Ammonium Phosphate
DAP	(EAN) Directorate of Agricultural Policy
EAN	Economic Analysis Network
FDFI	Federal Directorate of Fertilizer Imports
FSM	Food Security Management
GCP	Ghee Corporation of Pakistan
GDP	Gross Domestic Product
GNP	Gross National Product
GOP	Government of Pakistan
IFB	Invitation for Bids
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
L/COM	Letter of Commitment
MINFA	Ministry of Food and Agriculture
NFC	National Fertilizer Corporation
NFDC	National Fertilizer Development Center
NP	Nitrophos
O&M	Operation and Maintenance
OFWM	On-Farm Water Management
PAAD	Program Assistance Approval Document
PARD	Program Assistance Review Document
PASSCO	Pakistan Agricultural Services and Storage Corporation
PHM	Post Harvest Management
PID	Provincial Irrigation Departments
PID	Project Identification Document
PIDE	Pakistan Institute of Development Economics
PSA	Procurement Services Agents
RECP	Rice Export Corporation of Pakistan
SAL	Structural Adjustment Loan
SER/OP/OS	Services/Office of Procurement/Overseas
SOP	Sulphate of Potash
SSG	Sector Support Grant
SSP	Single Super Phosphate
TATA	Technical Assistance, Training, and Analytical Support
TIPAN	Transformation and Integration of Provincial Agricultural Network
TSP	Triple Super Phosphate
WUA	Water User Associations

I. SUMMARY PROGRAM DESCRIPTION

The proposed six-year Agricultural Sector Support Program (ASSP) is designed to provide balance of payments support to the Government of Pakistan while laying the groundwork for sustained development by encouraging institutional and structural policy reforms in the agricultural sector.

ASSP builds on the economic analysis capability being fostered by the Food Security Management (FSM) Project, and the successful experience of leveraging policy reform with resource transfers gained under the Agricultural Commodities and Equipment (ACE) Program and the Mission's PL-480 Program. ASSP will finance detailed studies in the agricultural sector that not only identify key policy constraints, but also spell out the costs, benefits, and means of implementing the proposed reform. These analytical studies will form the basis of policy dialogue, which will include meetings and seminars with public and private sector participants. The planned result of the dialogue is a government decision to effect the policy change.

The social, economic and political costs of a given reform will guide the discussion on selection of an appropriate ASSP incentive. As incentives, ASSP has several different modes of balance of payments support: first, there is a commodity import program, largely in fertilizer; second, is a sector support program. In both programs, the balance of payments may be tied to specific development activities or untied as general sector support. In general, commodity imports will be the preferred mode. However, sector support will be utilized in a tied or untied manner depending on the nature of the problem to be addressed. Once the type of incentive is decided, GOP and USAID will agree on performance benchmarks, achievement of which will qualify for the disbursement of funds at the agreed upon level.

In the early years, disbursements will likely be in sub-sectors in which analytical studies have already been introduced to the GOP. These include fertilizer and edible oils (candidates for commodity incentives) and wheat (a candidate for tied sector grants). At the same time, new analyses of such Five Year Plan target sub-sectors as rice, sugar, cotton, and livestock will be initiated. The Mission also anticipates a significant role for ASSP in providing incentives for reform in the agribusiness sector.

This PARL requests an initial authorization of \$300 million, with a second \$300 million to be authorized at the end of the third year, if justified by early experience.

ASSP will operate in the context of an economy in which structural weaknesses threaten the nation's balance of payments situation, GOP budget finance and its ability to sustain the 1977-86 GNP growth rate of 6.5%. The external sector is characterized by a narrow export base and restrictive trade policies. Measures to increase and broaden government revenue are urgently needed, while government's role in work that could more efficiently be performed by the private sector must be decreased. ASSP is designed to help overcome these major constraints to economic development.

II. BACKGROUND

A. External Sector

1. Conclusions

International trade is relatively important in Pakistan's economy; imports and exports of goods and services were equivalent to 23% and 18% respectively of GNP in 1985. Agriculture makes a large contribution to export earnings. Thus, for the 1983-85 period, raw agricultural commodities -- mainly raw cotton and rice -- and agriculturally-based products, e.g., cotton textiles and yarn, accounted for 56% of total export earnings. While foreign trade is important to Pakistan, the country's balance of payments is structurally weak, due mainly to lack of export diversification, but also to a heavy reliance on remittances from workers abroad.

During the last three years the trend of Pakistan's gross official external reserves was downward; reserves declined by an average of \$116 million (8.6%) per quarter over the 11 quarters ending June 1986. They fell by more than 50% during this period and reached a level equivalent to about 6.4 weeks of imports by the beginning of October 1986, which is one half the normally accepted level of 13 months worth of imports.

There are good reasons to believe that there will be growing pressure on the country's international reserves. One reason is the very real likelihood of a fall of remittances because of the sharply reduced earnings of the Gulf States from their oil exports and the resultant pressures on their foreign reserves. Remittances dropped fourteen percent in the first quarter of PFY 1986-87. It is generally believed that workers who repatriate their foreign savings when returning permanently to Pakistan will help to keep the total for the year from falling drastically, but a ten percent fall in remittances is entirely possible. This level of decline in remittances would amount to over \$250 million.

A second reason is net disbursement of capital to Pakistan is relatively small. While gross disbursements have grown, debt servicing has grown faster and is now in the neighborhood of \$1.1 - \$1.2 billion. Net disbursement of capital, excluding Afghan relief, is running approximately \$200 - \$300 million annually. In the 1980s, the trend of net disbursements in both absolute size and as a percent of gross disbursements has been downward. The GOP has had difficulty in agreeing to conditions for some World Bank sector loans and is not likely to be able to negotiate a program with the IMF in the near term. Estimates of the probable shortfall in World Bank disbursements range between \$178-\$200 million for PFY 86-87. Hence, one can be rather confident that disbursements will not grow as fast as debt servicing. Annual debt repayment on loans from the U.S. government alone will rise from \$250 million in FY86 to over \$500 million by FY93.

Finally, it is generally expected that the market price of oil will eventually rebound. Under current demand levels, every five dollar increase in the per barrel price of crude oil adds some \$210 million to the annual import bill. This will likely far outweigh any potential increases in remittance flows.

Given these various factors, the Mission believes that there will be continuing and increasing pressures on the country's balance of payments position. If remittances fell by 10 percent and the price of oil increased by \$5 per barrel, the total foreign exchange loss would be over \$500 million dollars. This would have a serious impact on foreign exchange and require difficult adjustments in Pakistan's economy.

2. Basis

Trade Balance. For the 1981-86 period there was no tendency for the trade balance to improve (Table I.1). If anything, imports were growing relative to exports, even though import growth was quite slow (for further information, see Annex B).

Workers' Remittances. Workers' remittances make a very important contribution to foreign exchange earnings (Table I.1). These remittances grew by an average of \$333 million annually between 1975 and 1983. In 1983, remittances peaked, reaching \$2.9 billion, and for the first time surpassed commodity export earnings. Remittances have been falling since 1983 and were \$2.6 billion in 1986 (Table I.1).

Services. The deficit in services (e.g., freight and insurance, travel, other transportation, and interest payments) has increased rather rapidly since 1981 (Table I-1). This increase is due in no small part to growth in interest payments on external debt.

Balance of Payments. Over the last six years, from 1981 to 1986, the overall balance of payments was in surplus for two years and in deficit for four (Table I.1). The deficits totaled \$1.66 billion and the surpluses \$0.82 billion, with the net deficit over the period averaging \$140 million annually. There was no evidence of an improving trend in the balance of payments during this period and none can be projected for the next several years.

External Debt Servicing. Actual debt service payments (i.e., after debt relief and including use of Fund credit) rose from \$880 million in 1981 to \$1,178 million in 1985. As a percent of current account receipts, the debt service ratio rose from 14.7% in 1981 to 19.7% in 1985. The ratio is much higher when remittances are excluded, amounting to 35.1% at the end of 1985.

Net Transfer of Resources. Exclusive of relief assistance for Afghan refugees, which amounts to \$150 million-\$200 million annually, gross disbursements of foreign capital averaged \$842 million annually, 1978-82; \$1,083 million, 1983-85; and rose to \$1,357 million in 1986. Such disbursements are expected to increase again in 1987. Debt service payments averaged 67% of gross disbursements for the three years

TABLE I.1

BALANCE OF PAYMENTS SUMMARY TABLE (\$ millions)

	1981	1982	1983	1984	1985	1986
TRADE BALANCE	-2765	-3450	-2989	-3324	-3552	-2992
Exports (fob)	2798	2319	2627	2669	2457	2965
Imports (fob)	-5563	-5769	-5616	-5993	-6009	-5957
INVISIBLES BALANCE, net	1802	1895	2436	2294	1867	1912
Services	-430	-492	-603	-713	-822	-898
Private Transfers	2232	2387	3039	3007	2689	2810
Workers' Remittances	2097	2224	2886	2739	2446	2570
CURRENT ACCOUNT BALANCE	-963	-1555	-553	-1030	-1685	-1080
CAPITAL ACCOUNT BALANCE	939	975	1252	944	718	1197
Long Term Capital (net)	672	912	1194	918	884	1193
Official Transfers	253	421	327	296	360	na
Official Disbursements	719	696	1168	1114	1069	na
Amortization	-383	-288	-389	-557	-632	na
Private (net)	83	83	88	65	87	na
Short Term Capital (net)	217	54	40	-7	18	na
Official Disbursements	492	462	219	111	na	na
Repayments	-333	-471	-452	-220	na	na
Foreign currency Deposit	58	63	273	102	na	na
SDR Allocation	37	0	0	0	0	na
Other					-167	na
Errors/omissions	13	9	18	33	-17	na
BALANCE OF PAYMENTS	-24	-580	699	-86	-967	117
Net Foreign Assets	24	580	-699	86	967	-117
IMF (net)	308	374	426	-15	-82	-243
Change in net reserves (- = increase)	-284	206	-1125	101	1049	126
Memo Items:						
Current Account Deficit as percent of GNP	3.2	4.9	1.8	3.1	4.9	3.0
Reserves as months of imports	2.2	1.7	3.8	3.5	1.4	2.1

Source: World Bank, Pakistan: Economic and Social Development Prospects, Feb. 18, 1986, p. 21 with revisions provided by GOP. Data for 1986 are provisional actual.

from 1984-86. When charges on IMF and short-term borrowing are taken into account, net transfers amounted to only 18.5% of gross disbursements for the 1984-86 period. While gross disbursements were rising, debt servicing was rising faster, and net transfers as a percentage of gross disbursements were falling. For the 1978-86 period, the respective percentages are: 56, 22, 22, 29, 13, 13 and 27. In millions of dollars, the net transfers, 1978-86, were: 482, 186, 177, 322, 129, 148 and 368, respectively (Source: GOP, 1985-86 Economic Survey, p.51). These percentages are not expected to improve over the next several years.

International Reserves. During 1981 through 1983, Pakistan's gross official reserves increased by \$1.15 billion to \$1.98 billion and peaked at over \$2.0 billion at the end of December 1983. Reserves plunged by almost 60% in 1985 to \$739 million. At the end of December 1985, reserves amounted to \$854 million. At the end of June 1983, reserves equivalent to 15.2 weeks of imports (c.i.f.), fell to only 5.2 weeks at the end of June 1985, and rose slightly to about 8 weeks by the end of June 1986 (Annex B, Table B-V).

Pressure on Reserves. Assuming current trends continue, it seems reasonable to expect that remittances will continue to decline as the oil exporting Gulf States adjust to sharply lower export earnings and declining international (monetary) reserves. There has already been a precipitous decline in Pakistan's exports to these countries where prospects for a rapidly growing market were once bright. The historically low world demand for some of Pakistan's major exports (cotton, cotton textiles, and rice) is not likely to revive for some time, and international markets for these commodities are still fiercely competitive. Moreover, external debt servicing is increasing and it is difficult to see net concessional aid growing very rapidly (the trend for the last seven years has been downward). While the country has the capacity to increase its commercial loans, this source of capital has very real limitations. We believe then that there will very likely be continued and increasing pressure on the country's foreign reserves.

In the absence of mitigating measures, such pressure is bound to slow, or even reverse, trade liberalization as actions are taken to stem the outflow of foreign exchange. Yet, the country needs to maintain the level of essential imports to sustain development; and a viable external position is a prerequisite for sustained economic growth. High export growth will be critical, especially of manufactured goods and processed agricultural products. This means exchange rate management will be extremely important, and over the intermediate and longer term, domestic industry will need to become more competitive.

Continued progress toward a more open economy would expose industry to the discipline of foreign competition, as an incentive to keep costs down and to improve product quality. The balance of payments support that ASSP will provide will help make possible continued progress toward a more open economy. The policy-focused Agricultural

Sector Support Program (ASSP) aims almost totally at obtaining a more rational use of the country's resources while increasing the efficiency and productivity of the food, feed, and fiber sector.

B. Public Finance and the Budget Deficit

1. Conclusions

The Government budgetary position has continued to deteriorate during the eighties. Expenditures have been growing at a faster rate than receipts, resulting in a budgetary deficit which is increasing relative to GDP. Current budgetary expenditures are growing twice as fast as the development and capital budgets. To help keep down domestic bank financing of the deficit, the Government successfully offered debt instruments to the non-bank public at very attractive rates. Domestic non-bank debt has increased very rapidly, as has interest cost. The latter, along with defense and subsidies, now accounts for almost 50% of total budgetary expenditures and two-thirds of current expenditures.

The non-bank borrowing mode of "mobilizing domestic resources" has to be considered as a stop-gap measure. Fundamental changes in public finance are required, on both the receipts and expenditures sides. Such reform should, inter alia, include a rationalization of duties, tariffs, and taxes to reduce the protection now accorded to a number of mature industries. Presumably, the tax base also needs to be expanded. The Minister of Finance has recently implied that this will be achieved primarily by a new sales tax. However, attention to the expenditure side is just as important as the revenue side. Budgetary (and economic) performance can be improved by:

- 1) Hastening the denationalization and deregulation process to reduce expenditures, including those for subsidies, and
- 2) Improving economic performance by encouraging the private sector to carry out many functions now being assumed by the public sector. This needs to be coupled with price and market reforms to make possible greater efficiency in these activities.

ASSP will make its greatest contribution to domestic resource mobilization by reducing subsidies to the agricultural sector and encouraging policies that will increase agricultural productivity and private sector participation. ASSP will also provide the GOP with budgetary support to help implement policies of price and market deregulation.

2. Basis

The government's budgetary position deteriorated in the 1980s. Combined expenditures by the federal and provincial governments grew at a faster rate than growth in GDP. Combined receipts -- tax and non-tax revenue and the surplus from public autonomous bodies (State Economic Enterprises) -- grew at the same rate as GDP (See Table I.2). Hence,

TABLE I.2

SUMMARY OF PUBLIC FINANCES IN RS. MILLIONS
(CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENTS)

	1980	1981	1982	1983	1984	1985 (P.A.)	1986 (Revised)	1987 (Budget)
Revenue	38,502	47,002	51,937	59,181	72,290	77,403	90,036	103,334
Tax	32,507	38,846	43,010	49,029	53,646	55,963	61,169	66,655
Non-Tax	5,995	8,156	8,927	10,152	18,644	21,440	28,867	36,719
Surplus of State Autonomous Bodies	1,464	2,019	1,909	2,286	2,565	2,639	3,411	3,724
Expenditures	54,629	63,639	71,013	87,121	100,002	116,819	132,894	153,654
Current	35,547	40,318	46,370	59,686	73,411	85,270	97,767	109,464
Development	19,082	23,321	24,643	27,435	26,591	31,549	35,127	44,190
Overall Deficit	(14,663)	(14,618)	(17,174)	(25,654)	(25,147)	(36,777)	(39,447)	(46,556)
Financing (Net)	14,663	14,618	17,174	25,654	25,147	36,777	39,447	46,556
External (Net)	6,951	6,977	5,345	5,162	5,001	5,169	9,008	15,309
Domestic (Non-bank)	1,407	5,286	6,313	14,368	12,280	12,873	25,682	26,487
Banking System*	6,305	2,355	5,516	6,124	7,866	18,735	4,757	4,760
Memorandum Items:								
Domestic Bank Financing	7,369	6,502	6,576	9,690	6,608	18,024	4,720	7,564
Budgetary Support**	6,305	2,355	5,516	6,124	7,866	18,735	4,757	4,766
Commodity Operations***	1,054	4,147	1,060	3,566	(1,258)	(711)	(37)	2,798
GDP (at current market prices in Rs. billions)	234.5	278.0	321.8	362.2	418.2	469.9	526.5	593.3
As % of GDP at Market Prices								
Tax Revenue	13.9	14.0	13.4	13.5	12.8	11.7	11.6	11.2
Total Revenue	16.4	16.9	16.1	16.3	17.3	16.2	17.1	17.4
Autonomous Bodies	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.6
Expenditures	23.3	22.9	22.1	24.1	23.9	24.4	25.1	25.9
Overall Deficit	6.3	5.3	5.3	7.1	6.0	7.6	7.4	7.8
Domestic Bank Financing	3.1	2.3	2.0	2.7	1.6	3.7	0.8	1.3
of which: Budgetary Support	2.7	0.8	1.7	1.7	1.9	3.9	0.9	0.8
Domestic (Non-Bank)	0.6	1.9	2.0	4.0	2.9	2.7	4.9	4.5
External	3.0	2.5	1.7	1.4	1.2	1.1	1.7	2.6

P.A.-Provisional Actuals

*Different from the standard presentation in that subsidies in the ADP are classified as current rather than development expenditures.

**Differs from monetary statistics due to coverage and timing.

***Falls outside of Government's deficit financing from the banking system.

Source: Pakistan Budgets, 1986-87, GDP, p. 429.

the overall deficit was rising relative to GDP. The deficit was 25% of total expenditures, 1980-81, and 30% in 1986, or about an average growth of one percentage point annually over the last six years.

About 48% of the total deficit was financed from external sources in the early eighties. This proportion fell sharply to 14% in 1985 and then to 23% in 1986. To keep bank financing down, the GOP promoted the sale of debt instruments to the non-bank public at very attractive rates. The promotion was remarkably successful. Consequently, non-bank (domestic) borrowing has been growing very rapidly, financing 10% of the deficit in 1980 but 65% in 1986. Bank financing has been falling, from 43% of the deficit in 1980 to 12% in 1986, after, however, a jump to 51% in 1985.

Current expenditures, in nominal terms, grew at an average annual rate of 18% during 1980-86, while development expenditures grew at a rate of 9%. Falling development expenditures reflect Government policy of relying more and more on the private sector for investment and participation in economic development and the rapid growth in defense and interest costs. The proportions of both defense and interest expenditures to total expenditures were rising, 1980-86, with the increase in interest especially large (see Annex A, Table A-II & A-III). The proportion for subsidies (6.5%) was about constant, 1981-86. In 1986, some two-thirds of the current budget is spent on defense, interest payments, and subsidies, or 48% of total budgetary expenditures. After meeting these claims on government resources, the resources available for provision of badly neglected social services (education and health) are severely limited.

Growth in interest on external debt was substantially lower than growth on domestic debt. Thus, in current rupees, interest on external debt increased from Rs. 2.4 billion in 1980 to Rs. 6.3 billion in 1986, an increase of 163%. Interest on domestic debt increased by about 430%, from Rs. 2.5 billion to Rs. 13.2 billion during the same period.

C. Political Considerations

1. Conclusion

There is an overriding political imperative for the U.S. government to help preserve and promote the economic and political stability of Pakistan. Pakistan is a front-line state which must deal with the multiple domestic impacts of a harsh war across and along its borders waged by the Soviet Union. The Soviet occupation of Afghanistan has forced nearly 3.0 million Afghans to take refuge in Pakistan. They constitute the world's largest refugee influx and place a heavy economic and political burden on Pakistan.

2. Basis

Pakistan consistently has refused to accept a permanent Soviet presence in Afghanistan. Instead, through such multilateral organizations as the United Nations, the Non-Aligned Movement and the Islamic Conference, Pakistan has promoted a negotiated settlement leading to the withdrawal of Soviet troops. Seven years after the invasion, Pakistan remains the key to international efforts to prevent the consolidation of Soviet power in Afghanistan.

As an indication of Pakistan's importance, the unique six-year US commitment to provide military and economic assistance to the GOP, originally formulated in 1981, was renewed for another six years in March 1986. In addition to strengthening Pakistan's position on Afghanistan, the long-term commitment will contribute significantly to Pakistan's stability in other important ways. The long-term economic assistance package has been an important continuing element in helping Pakistan to move away from martial law to a civilian government. It plays a key role in assisting Pakistan in its efforts to control narcotics production and trafficking. Finally, the economic assistance program enhances economic and social development and improves living standards which, by any economic or social measure, remain among the lowest in Asia. Balance of payments support provided by ASSP would be a vital part of this economic assistance.

D. Agriculture and Improved Economic Performance

Agriculture is an essential part of Pakistan's economy. A major benefactor of the Green Revolution, Pakistan has become self-sufficient in almost all major agricultural commodities in most years. At the heart of the agricultural sector is Pakistan's irrigation system. Seventy percent of all cultivated land in the country is irrigated, which accounts for an estimated 85% of the value added in agriculture (excluding livestock). The country's network of 40,000 miles of canals and 750,000 miles of publicly-owned watercourse constitutes the largest contiguous irrigation system in the world. Agriculture accounted for some 25% of the Gross Domestic Product in 1984/85 (see Annex C, Table C-I) and 51% of employment. Of the value added by the agricultural sector, major crops (see Annex Table C-II) make up about 50%, minor crops some 16%, livestock about 31%, and forestry and fishing the remaining 3%.

In real value terms, the agricultural sector's total output has increased every year in the past decade except one. The average annual growth rate for the sector was 3.1% over the period from 1950-1983, which compares favorably to other countries in Asia. Bad harvests in 1984 led to a decrease of agricultural value added of 6.1%, but the sector rebounded strongly in FY85 with a annual growth rate in value added of 9.9%.

Much of this growth has been due to increases in the amount of land cultivated. But some has come from the increased use of inputs such as improved seeds (the high-yielding wheat and rice varieties of the

Green Revolution), fertilizer, and pesticides. The irrigation system was expanded and improved and thousands of tubewells were dug, giving farmers better control of water. Tractors became a common part of operations for farmers large and small.

The agricultural sector accounts for a major portion of Pakistan's total exports.

In FY85, exports of agricultural commodities including cotton, rice, fish, guar gum, and raw wool were worth \$579 million and made up 23.4% of the \$2.48 billion total of goods exported (see Annex Table C-IV). Exports of goods which were made from raw materials provided by the agricultural sector, including leather and cotton yarn and cloth, were worth some \$713.7 million in FY85, or 28.7% of the total value of exports. Agriculture was directly and indirectly responsible for some 52% of Pakistan's exports in FY85, and the percentage has been as high as 70% depending on the year and the definition of agricultural exports.

Given the size of the sector and its importance as a source of employment and foreign exchange revenue, it is clear that agriculture will have a major role to play in improving the balance of payments situation and growing budget deficit. The agricultural sector can help to alleviate these problems by:

- 1) Increasing the export of both raw and processed agricultural commodities.
- 2) Producing enough to satisfy the domestic demand for basic foods such as wheat, rice, fruits, vegetables, meat, etc.
- 3) Reducing the level of subsidization to the agricultural sector. This would help reduce the budget deficit and free-up funds to be used for investment in the neglected physical and social infrastructure of the country. Although the subsidies are intended to help the small farmer, they generally end up benefiting the larger farmers. More effective ways to improve the economic position of small farmers must be found.
- 4) Encouraging the use of private enterprise (agribusiness) to procure, market, and distribute the inputs and outputs of the agricultural sector. If the private sector is allowed to more fully undertake these tasks (which it invariably does more cost-effectively than publicly-owned firms), government resources will be available for other purposes.

All of these measures will require policy changes, which USAID intends to encourage through ASSP and other programs.

E. Past Mission Experience - Agricultural Commodities and Equipment

As described in Section II of this paper, ASSP has a strong orientation of rapid disbursement based on policy reform. In the Agricultural Commodities and Equipment Program (ACE), the Mission in

Pakistan has already had successful experience in handling a similar type of program of commodity import with a strong policy component. ACE, authorized in March of 1982 and then amended annually, was designed to: 1) increase the productivity of the agricultural sector through the provision of imported commodities and equipment; and 2) provide balance of payments support. ACE has also been instrumental in encouraging policy change in the agricultural sector, with a particular emphasis in the fertilizer area.

ACE began with an authorization of \$300 million, which has been extended through FY88 to \$475 million. As of September 1986, \$390 million had been obligated and some \$272 million were expended (see Annex I for detailed figures). This rate of expenditure--70%--is one of the highest levels of disbursement in the Mission. The ACE program has imported fertilizer (DAP and TSP), emergency wheat (after two bad wheat harvests), and cotton. Equipment, including earthmoving and other heavy equipment for irrigation rehabilitation, spare parts, and equipment for repair workshops, has also been imported under ACE. Overall, ACE has been the major instrument of balance of payments support within the Mission.

The ACE program has been one of the more effective instruments of policy change in the agricultural sector. Most of the ACE results have come in the fertilizer sector and accomplishments include:

1. The private sector share in fertilizer distribution has risen to 50% and is expected to increase to 60% soon. At the inception of ACE, the private sector share was only 30%.

2. Production and distribution of nitrogenous fertilizer was deregulated. As a result, the public sector financial subsidy will decrease in FY87 by approximately Rs. 700 million (\$41 million).

3. The subsidy and development surcharge system for domestic manufacturers of nitrogenous fertilizer was eliminated. Some one billion rupees will now be retained by efficient urea producers, mainly in the private sector (see Chemonics International, Pakistan Fertilizer Policy: Review and Analysis, p. 110).

4. The prices of DAP and SOP were increased by 10% and 25% respectively. This will reduce the financial subsidy for fertilizer by another Rs. 200 million (\$12 million).

Analytical work on edible oils, managed by the ACE staff, was used in conjunction with the PL-480 program to deregulate edible oil retail prices and to liberalize edible oil import restrictions. Commodities brought in under ACE have also helped provide the "carrot" for other projects to achieve their policy goals, most noticeably in the irrigation sector. In short, ACE has been successful in achieving needed policy reform while providing balance of payments support and commodities needed in Pakistan. ASSP will replace ACE once it is authorized.

III. PROGRAM DESCRIPTION

A. Goal and Purpose

The broad sector goal of ASSP is to sustain economic growth in Pakistan through increased productivity in the agricultural sector.

The program purpose is to:

(1) Provide balance of payments support to the GOP in the form of commodity imports and sector support grants.

(2) Remove key constraints to increased economic growth in the agricultural sector through policy reform and expanded private sector investment and participation.

B. Program Justification

For projects to be effective, they must operate in the proper policy environment. ASSP is designed to provide incentives for the GOP to make the policy changes needed to encourage increased agricultural production, processing, and marketing by farmers and the private sector. By addressing critical policy reforms in the agricultural sector, ASSP will complement and enhance the present and future project activities of the Mission in the agricultural sector.

As demonstrated by the Agricultural Commodities and Equipment Program (ACE), this type of sector support program can successfully promote policy reform and provide balance of payments support. Furthermore, it can move large amounts of assistance quickly while minimizing the number of Mission staff needed to administer the program.

The ACE experience also clearly shows the crucial need for maximum flexibility in the administration of ASSP. Many of the policy reforms contemplated are complicated and politically sensitive. Their implementation must be carefully timed, often within a narrow window. The Mission must be able to work rapidly and directly with the GOP to assist in the implementation of policy reforms.

It is also necessary for the Mission to be able to shift funds rapidly from one policy area to another to maximize overall policy impact. Rigidity in the implementation schedule of policy reforms and in the amounts allocated to a particular change under a specific component will only decrease the ability of ASSP to achieve meaningful change. However, the preparation of an annual PAAD Amendment will allow the Mission to ensure that sufficient progress towards the goals of market deregulation and privatization has been achieved.

C. Program Elements

1. Sector Support Grant

Under the Sector Support Grant (SSG) component of ASSP, performance-based grant transfers would be made to the GOP when it implements policy benchmarks negotiated with USAID. There would be two modes of sector support grants: tied and untied.

Tied Sector Support Grant - Assistance will be tied to the specific branch of the government directly related to the policy reform exercise. The Mission will track the use of rupee funds. For example, sector support might be leveraged against policy changes required to combine the agricultural research, education, and extension services into a unified whole in the Punjab province. Rupee funds might be used as an addition to the provincial budget to finance new initiatives by the unified service. Another example might be the write off of state bank loans for ghee plants in order to denationalize the Ghee Corporation of Pakistan.

Untied Sector Support Grant - Untied grants would be leveraged against the most politically sensitive policy changes only. In these cases, rupee funds would be used for general budget support, i.e., not tied to any agency or specific sub-sector and their use would not be tracked. Untied sector support will be used to make reform as attractive as possible where there exist very severe obstacles to policy change. An example would be eliminating or simplifying the sanctioning and licensing procedures for private sector investment. Currently, a license to establish a privately-owned plant takes two to four years to obtain and 29 different clearances. Cumbersome, the system is also unresponsive to changing market conditions and complicated by inordinate costs.

A variety of activities will be grant-financed under the SSG, as shown in the policy matrix in Table III.1 (pages 17-19).

2. Commodity Import Program

This component of ASSP would finance fertilizer imports, other agricultural commodity imports such as wheat and cotton, and equipment for projects in agricultural and rural development. As was done under ACE, most commodity financing -- with the possible exception of emergency commodities (natural disasters) -- would be leveraged to bring about policy reform.

A CIP lends itself to policy reform where imported commodities are closely related to policy change. Examples of these include the importation of fertilizer, wheat, cotton or sugar to meet shortages in these respective sub-sectors and consequently leverage policy change. This could also include the importation of equipment to support policy change in irrigation or food grains to support policy reform in the livestock sector. As in the sector support grants, the funds generated by the CIP can be tied or untied.

While a number of different commodities may be imported under the CIP, it is expected that the great bulk of import financing will be for DAP fertilizer. Projections indicate that 5 million tons of DAP would be required to meet the country's phosphatic fertilizer needs over ASSP's six year life. The U.S. is now providing 30-35% of the country's imports of DAP. That proportion (say 30%) of the five million ton 1988-93 import requirement amounts to a total of 1.5 million tons, or an average of 250,000 tons annually. At current prices, the delivered cost to the Karachi port would be about \$65 million annually. We are proposing to finance about \$40 million dollars annually.

3. Technical Assistance, Training, and Analytical Support (TATA)

The TATA component of ASSP will provide long-term training for private and public sector personnel as well technical assistance to undertake for GOP and AID the following types of analyses: 1) Economic analysis of Pakistan's agricultural sector; 2) Policy studies to support regulatory reform; 3) Analysis and support for private sector initiatives; and 4) Study of special topics in agricultural research, production, irrigation, industry, business, and finance.

Analytical Support - This component of TATA will provide the technical assistance to help the ASSP program manager to monitor policy initiatives in areas such as fertilizer, wheat, and edible oil. It will also conduct studies on other topics of importance such as the sugar, rice, cotton, and animal feed sub-sectors, wheat stock/trade management, and the marginal value product of irrigation water.

The different components of the current Food Security Management Project (FSM) will be integrated into ASSP:

Economics Analysis Network - By the time ASSP is operational, EAN plans to have in place three major research programs in economic analysis, price analysis, and farm management (see Annex J for more detail). Three long-term expatriate advisors will continue to work to strengthen the economic expertise of Pakistani economists. Training for both the private and public sector economists will continue, along with the procurement of reference documents and other economic texts to stock and/or update a number of economic research libraries in the country.

Agricultural Data Collection (ADC) - Under FSM, the ADC project component is in the process of modifying the GOP's present agricultural statistics collection system to develop a more accurate and efficient system based on the U.S. area sampling frame concept. While the pilot sampling areas will have been completed by the time ASSP is in operation, a second phase will be needed to implement the area sampling frame nationally. Annex J provides the details of the second phase of ADC needed to undertake this important work.

ADC will also be expanded to improve other types of information collected in Pakistan including prices, cost of production, and statistics on livestock and many other agriculturally-related goods.

Post-Harvest Management (PHM) - The basic goal of PHM is to improve the management of Pakistan's national grain storage system. The current project component of FSM has conducted studies and come to several basic conclusions. First, Pakistan should encourage private sector storage. To do this, the GOP will have to abolish or greatly reduce the wheat rationing system in the country, establish a system of seasonal price supports, and deregulate the movement of grain. These reforms would provide the incentives to increase private storage.

Second, a pilot effort to examine various modern bulk storage for cereal grains is needed. The pilot project in bulk storage would identify the best ways in which to convert the present bag storage system to a more efficient bulk system. This might be a target for financing under ASSP. See Annex F for more details on storage and the wheat sector in general.

Training - Under the training component of TATA, USAID will provide opportunities for Pakistani nationals to study at American universities and/or attend technical training courses offered by private American companies. These scholarships would be for training in a broad range of subjects related to agriculture and agro-industry including food technology and processing, agribusiness administration, agronomy, genetics, soil sciences, and agricultural economics. Participants in the program would be selected from both the private and public sectors. Training programs would also be organized in Pakistan under the auspices of institutions such as the Lahore Business School, Pakistan Institute of Development Economics, Applied Economics Research Center, etc. ASSP training activities will be in accord with the "Intra-Agency Committee on Participant Training, Report to DA/AID," February 13, 1986, endorsed in a cable sent by Deputy Administrator Jay Morris on September 30, 1986 (State 307694).

D. Program Process

Mission experience confirms that successful policy change occurs when issues are studied in detail and a coherent reform program is articulated. Consequently, the first phase of the ASSP process includes the provision of technical assistance to conduct analytical studies of the policy environments of individual sub-sectors. Each study will identify the major policy issues and prioritize key policy reforms. Each will also take into account the social costs and benefits of reform and spell out the steps involved in implementing the policy change. Where appropriate, analyses will identify the financial costs of specific reforms.

The analytical studies will form the basis of dialogue with the GOP and other relevant participants (e.g., Provincial government officials, members of the private sector, university professors) on the value and practicality of reforms. Mission experience suggests that such dialogue often spills over into the press, and thorny issues can spark lively debate. Once there is agreement that reform is appropriate, discussion begins on which type of incentive is the most appropriate - commodity import or sector grant.

The second, formal negotiation phase will begin when the policy agenda is presented for official GOP consideration, backed up by the analysis of the problem, the financial, political, social impacts of the reforms and level of proposed AID financial support for the implementation of the reforms. During this phase, information dissemination will continue, aimed at a wider audience, through public meetings, seminars, and distribution of analytical studies, all of which have been used in the past to good effect.

Final negotiations will establish a mutually acceptable set of performance benchmarks, a timetable for implementation, and the dollar levels for the successful implementation of policy reforms. USAID staff will track the achievement of payment benchmarks, transfer the incentive to the GOP, and monitor the short and long-term effects of the policy decision.

The process described above will govern the majority of ASSP activities. In addition, however, the Mission intends ASSP to be a possible source of commodities and/or sector support that can be tapped to respond to an emergency, such as a wheat shortfall due to poor harvest.

E. Overview of Policy Reform Areas

The matrix on the following pages represents some initial ideas on possible policy reforms in ten policy areas. This list is by no means exhaustive, but illustrative of the potential targets for ASSP activities. The matrix identifies the amount of technical assistance that will be required to achieve the first step of the ASSP process (i.e., the analysis). Reforms which require minimal technical assistance will be candidates for early implementation under ASSP.

A sufficient diversity of policy areas is necessary to meet the Mission's double imperative of requiring policy conditionality while maintaining a low pipeline. With a large number of policy changes from which to choose, the Mission will be able to commit an acceptable level of funds while funding only those items which meet the negotiated level of conditionality. Should a national emergency arise, the Mission can waive conditionality and still achieve the primary purpose of the Program, i.e., balance of payments and budget support.

F. Analysis of Policy Reform Areas

This section discusses in more detail the different policy areas that will be a significant part of ASSP. For further details, please see the appropriate annex.

1. Fertilizer

Pakistan has been highly successful in developing a domestic fertilizer industry. Fertilizer use has increased 1,000 fold since the late 1950's, and commercially produced fertilizer is used by an estimated 75-85% of Pakistan's farmers. The public sector is heavily involved in the production and marketing of fertilizer.

TABLE III.1
SUMMARY TABLE OF POTENTIAL POLICY ACTIONS TO BE IMPLEMENTED AND/OR ANALYZED UNDER ASSP

Policy Area	Problem	Proposed Action	TA Requirements*	ASSP Component**
FERTILIZER	Resource misallocation due to large subsidy on phosphatics.	Phased elimination of subsidy to reduce budgetary burden.	Small. Monitoring only.	CIP
	Administered phosphatic prices cause serious market distortions and inefficient utilization at the farm level.	Decontrol domestic production levels and retail prices to reflect market conditions and transportation costs.	"	"
	Public sector carries excessively large stocks of fertilizer tying up large amounts of operating capital.	Reduce reserve requirement to a small percentage of expected seasonal offtake rather than annual offtake.	Small to moderate. Analysis needed in light of recent increase in offtake	"
	Public sector distribution of imported fertilizer is inefficient and expensive.	Continued phase out of public sector role in fertilizer distribution.	Small. Monitoring only.	"
	Provincial distribution quota system does not allow private sector distributors to respond to changing regional markets.	Eliminate provincial quota system.	"	"
	Inefficient performance of publicly owned fertilizer plants.	Divestiture of public sector plants.	"	SSG
	GOP fertilizer importation is neither timely nor cost effective for private distributors.	Privatization of fertilizer imports.	Moderate. Willingness of private sector to import must be ascertained.	SSG
WHEAT	Public sector role in wheat distribution is inefficient and costly.	Abolish ration shop system and place increased reliance on open market operations.	Small to Moderate. Studies already underway in this area under FSM.	SSG and/or CIP
	Public sector role in wheat procurement/storage faces severe recurrent cost problems.	Introduce seasonal pricing to encourage private sector to procure/store wheat.	"	"
	Inefficiency and unacceptable storage losses in present system of storage and transportation in bags.	Reduce scale of public sector operations and undertake bulk storage pilot project to fully determine feasibility of conversion to bulk system.	Moderate to large. Studies already under Post Harvest Management	SSG

* = To be provided by ASSP TA component or by other USAID and donor projects.

** = Resource Transfer Components of ASSP: SSG = Sector Support Grant, and CIP = Commodity Import Program

SUMMARY TABLE OF POTENTIAL POLICY ACTIONS TO BE IMPLEMENTED AND/OR ANALYZED UNDER ASSP (continued)

Policy Area	Problem	Proposed Action	TA Requirements*	ASSP Component**
RICE	Parastatal monopsony exports of rice has high marketing costs.	Induction of private sector to export rice in progressive stages.	High. Sector study required to develop policy framework	SSG
	Public sector role in rice procurement/storage faces severe recurrent cost problems.	Introduce seasonal pricing to encourage private sector to procure/store rice.	"	"
COTTON	Parastatal monopsony exports of cotton has high marketing costs.	Induction of private sector to export cotton in progressive stages and revive cotton commodity exchange.	Moderate to high. Sector study may be required to develop policy framework.	SSG
	Administered farmgate prices, subsidies to textile mills, and export rebates cause serious market distortions.	Decontrol domestic farmgate prices and remove mill subsidies and export rebates.	"	"
SUGAR	Cost of producing sugar cane and sugar is higher than world market and scarce development resources are being misallocated.	Bring local sugar cane and sugar prices more in line with world levels and improve private sector information & marketing channels.	High. Policy framework will require assessment of Pakistan's comparative advantage in sugar production.	SSG and/or CIP
LIVESTOCK	Lack of producer incentives, high quality feed and modern technology and management resulting in limited commercialization.	Rationalization of import policies for feed grains and new genetic stock.	Moderate. Considerable analysis already available, or soon will be. However, more work needed in feed area.	SSG
AGRIBUSINESS	Inadequate infrastructure, old technology and restrictive public sector control of markets, import/export policies, credit, licensing, etc.	Eliminate licensing system, indigenization processes, credit restrictions, and rationalize export/import policies.	High. Major sector analysis required to develop and justify policy framework.	SSG
INSTITUTIONAL REFORM: Ag. Research & Extension	Inadequate financial resources and suboptimal management resulting in low quality education, research, and outreach.	Increased budgetary allocations and unification of the ag. education, research, and extension systems.	Medium. Analysis for implementation on a province-by-province basis will have to be conducted.	SSG and/or AIDF
Rural Savings Mobilization	Domestic savings rates are low.	Provide banking/credit services to more of the rural population.	Small. Study of rural banking policies/facilities needed.	SSG

* To be provided by ASSP TA component or by other USAID and donor projects

** = Resource Transfer Components of ASSP: SSG = Sector Support Grant, and CIP = Commodity Import Program

SUMMARY TABLE OF POTENTIAL POLICY ACTIONS TO BE IMPLEMENTED AND/OR ANALYZED UNDER ASSP (continued)

Policy Area	Problem	Proposed Action	TA Requirements*	ASSP Component**
Ag. Data Collection	Redundant & poorly coordinated ag. data collection efforts at federal and provincial levels generate statistics which are inaccurate, out of date, and cost ineffective.	Short-term: Integrate the Federal Bureau of Statistics with the Ag. Census. Long-Term: Integrate provincial statistical collection agencies into the federal system.	Small to moderate.	CIP
Management Information Systems	Institutions, such as PASSCO, do not have a feedback system that provides sufficient information to managers.	Improve the management information of institutions through the training of management and computerization.	Small. Provide training & computers to management.	SSG and/or CIP
IRRIGATION/WATER	Deferred system maintenance and poor management due to inadequate budgetary allocations and low cost recovery.	Increase budgetary allocations to cover full O&M costs and phased increases in water charges.	Small. Monitoring only.	SSG and/or CIP
	Dilapidated conditions and poor management of public sector tubewells and failure to exploit available ground water resources.	Divest public tubewells and promote private sector development of groundwater resources.	Medium to high. WB is carrying out pilot project under SCARP.	SSG
EDIBLE OILS	Cheap imported edible oils discourage increased domestic production.			"
	Vegetable ghee industry dominated by parastatal with sub-optimal performance record.	Phased divestiture of publicly owned/controlled ghee plants.		SSG
	Public sector role in edible oil storage faces severe recurrent cost problems and spoilage.	Introduce seasonal pricing to encourage private sector to procure/store edible oils.	Small. Study may be required to develop implementation plan.	SSG and/or CIP

* = To be provided by ASSP TA component or by other USAID and donor projects.

** = Resource Transfer Components: SSG = Sector Support Grant, and CIP = Commodity Import Program

The GOP needs to improve the fertilizer marketing and distribution system. Reducing marketing costs should receive high priority since they account for a large portion of the cost of fertilizer. While the marketing costs of the National Fertilizer Marketing Ltd. and the private sector firms are similar, the provincial distribution agencies incur substantially higher costs, principally because of their failure to curtail administrative and other overhead costs. The private sector should be allowed a greater role in the marketing and distribution of fertilizer as a means of reducing marketing costs and hence the need for subsidies.

The fertilizer industry has been highly regulated. Until recently, the GOP had fixed the sales price of all fertilizer and allocated imported fertilizer between public and private sector distributors. As of early May 1986, the GOP removed price controls on urea and other nitrogenous fertilizers. Distribution of domestically-produced urea was also deregulated, although the distribution of imported urea is still allocated via a set formula. The sales price and distribution of phosphatic fertilizers are still controlled.

Fertilizer subsidies accounted for 58% of the total agricultural development budget during the Fifth Five-Year Plan. The system as it stands discourages new private investment in the industry, and is an enormous burden on the development budget, leaving insufficient funds for other agricultural development purposes. Fertilizer subsidies should be reduced and finally abolished.

Denationalization of publicly-held urea production plants would provide the GOP more funds that could be used as loans to the private sector for the construction of new fertilizer plants that will soon be needed to meet increased fertilizer demand.

In sum, the denationalization of fertilizer plants and the elimination of subsidies would result in greater efficiency in the fertilizer sector and a net budgetary gain for the GOP. This would also create a reinvestable surplus for present fertilizer producers and generate a considerable sum of money that the GOP could loan for new fertilizer plants. Finally, fertilizer prices would only be marginally higher for nitrogenous fertilizers and supportably higher for phosphatic fertilizers (see Annex D for more information).

2. Wheat

Proposed policy change in the wheat sector will be spelled out in greater detail in the PAAD after the full IFPRI results are published. However, the available material gives a clear set of policy directions. In summary, the following policy actions are desirable for the GOP to undertake in the wheat sector:

- 1) the phased elimination or substantial reduction of the ration shop system;

- 2) the establishment of a market stabilization system in which open-market operations for releases of publicly procured and stored grain are made to keep consumer prices at reasonable levels.
- 3) the increase of private sector participation in the grain storage system of the country by revising restrictive marketing and storage regulations; and
- 4) the introduction of a variable wheat pricing system allowing for normal seasonal price fluctuations in order to encourage private sector storage (for more details, see Annex F).

Funds have been set aside for the emergency procurement of commodities such as wheat and perhaps cotton. It is possible to predict with reasonable confidence that there will be at least one serious production shortfall requiring emergency aid.

3. Market Deregulation

There are a number of issues under this category. The GOP has given certain monopoly powers to government-owned corporations in sectors such as rice and cotton. For example, the publicly-owned Rice Export Corporation of Pakistan (RECP) controls the export of Basmati rice. It has been estimated that inefficient handling by the RECP results in procurement and transit losses in the range of 10-12%. Inefficiencies of this kind not only reduce potential export earnings, but also lower returns to farmers who implicitly pay an extra portion of the marketing costs. The GOP should consider denationalization of the RECP and/or ending its monopoly status. The Government also needs to reexamine its policy of subsidizing IRRI rice for export.

Two other sectors, sugar and livestock, are in considerable disarray from a policy standpoint and merit close examination. Pakistan's sugar production is heavily subsidized with support prices about twice the international levels. The GOP needs to carefully examine the long-term comparative advantage of the country in sugar production. It also needs to look at the public sector sugar mills and the government regulations that are needed to keep the mills supplied with sugar cane. In the meantime, the GOP should concentrate on improving yields and allow no further increases in the support price.

The livestock sub-sector accounted for 30 percent of the agricultural sector's contribution to the GDP in FY85, or about 8 percent of the total GDP. There is only minimal large-scale commercialized livestock production because of unattractive returns and the perception of high technical and financial risk. Government controls on meat prices have discouraged banks from lending to would-be entrepreneurs. Lack of good quality feed and management expertise also constrain commercial meat production. Price controls on meat are contributing to the shortage of meat in Pakistan by discouraging investment in modern commercial meat production.

4. Agribusiness

Another area for study is that of agribusiness. A major USAID financed agribusiness sector study will begin shortly. The study will prioritize changes needed to improve the policy climate for private sector agribusiness in Pakistan. A broad range of issues will be studied, including:

- 1) GOP import and export policies restricting agribusiness.
- 2) GOP policies concerning the process of government approval of private sector financed agribusiness projects and government practices and regulations concerning grading, certification, and quality control.
- 3) Price policies, particularly price controls and subsidization of agricultural products that affect the agribusiness sector.
- 4) The power of local authorities to raise local taxes and levy octroi on goods passing through their jurisdiction which can influence the profitability and locale of agribusiness projects.

5. Institutional Reform

The need for institutional reform and improved management practices cuts across almost all institutions in the agricultural sector ranging from research and education to grain storage and irrigation. Rapid growth of the institutional infrastructure has surpassed the country's capacity to manage it. Agricultural institutions often have people with sound technical skills, but have too few people with sufficient skills in leadership, financial management, or long-range planning. As a result, many institutions are unable to effectively utilize the technical skills of their staff members. In addition, institutions in Pakistan often do not follow the kind of personnel policies that are able to retain talented workers on the long run.

USAID has identified a number of institutional reforms in the agricultural sector; some are already being addressed in projects. For example, the TIPAN project is working to overcome the weak linkages and inadequate coordination between research, educational, and extension institutions which undermine their outreach in the Northwest Frontier Province. Too little micro-level research is done by the research institutes and university community. Consequently, extension agents can only make general technical recommendations often not well-suited to specific problem areas. Yet, Pakistan has the technical resources to do more relevant, farmer-oriented research. The obstacle is largely the way the institutions are managed.

Restructuring the agricultural universities and funding more faculty involvement in applied research and development would improve the situation. Through the TIPAN project, USAID is supporting the Agricultural University at Peshawar in an effort to provide a model for integrating university research and extension by encouraging students and professors to conduct their research and educational work with a practical, developmental approach that is tied into the rural community.

It may be possible to expand the policy part of TIPAN to the agricultural universities in the Sind and Punjab under ASSP. Programs--such as training or improved laboratory equipment--could be funded if these universities agree to integrate agricultural research and extension programs in a way similar to those of the University of Peshawar.

Many other institutional changes could be encouraged under ASSP. For example, management reforms in irrigation institutions are a high priority. Also, if the government derations wheat, then the role of the provincial food departments can be dramatically reduced if not eliminated. The remaining public grain storage operations could then be handled by PASSCO. To keep track of these stores of grain, PASSCO would need to develop a better management information system. ADBP and other banks need to encourage domestic savings by providing banking facilities in rural areas.

ASSP will continue to facilitate the institution-building activities of EAN. For example, at the Ministry of Food and Agriculture, EAN will seek to restructure line offices below the Joint Secretary level through computerization, the build-up of specialized library collections, and the improvement of the Ministry's analytic and planning capacity. The analytic studies conducted under ASSP will carefully examine the issues of institutional reform in each area studied. The important institutional reform issues will then be included in the policy benchmarks in the annual PAAD Amendments.

6. Other Areas for Policy Reform

There are several other areas - irrigation and edible oils - in which the Mission has been actively working in recent years. The following discussions summarize the policy issues in each area. ASSP will work in conjunction with the PL-480 program and irrigation projects to bring about policy change. ASSP will intervene only when there is a clear need to encourage a policy reform that might not occur through the other activities.

a. Irrigation

Irrigation System Management - Improving the management of the irrigation system is an important way to increase equity and productivity in the irrigation sector. There are different ways to accomplish this. First, management training is needed for people at all levels of the institutions managing the irrigation system, particularly canal and drain operation and maintenance personnel.

Second, adoption of improved management practices is essential to increased institutional effectiveness. For example, PIDs (Provincial Irrigation Departments) could improve management of rehabilitated irrigation systems through these management techniques: full funding for continuous maintenance, independent inspection of rehabilitated canals, developing appropriate yardsticks to measure performance, and conforming to the system operation and maintenance (O&M) manual. Rehabilitation efforts would be more successful if there were better rehabilitation design, more effective management of rehabilitation

construction, and preparation of system-specific O&M manuals. Increased irrigation system monitoring would help to provide more equitable delivery of water and better canal maintenance.

Third, reform of irrigation institutions is needed, although this is one of the most difficult things to obtain. For example, the PIDs need to adopt personnel policies that would promote technical specialization of PID officers. PID's need better career development and other incentives to improve staff performance. Design offices in the PIDs need to be adequately funded and staffed. Training funds need to be included in the PID budgets. These are the type of improvements being addressed under the USAID Irrigation System Management Project on a long-term basis.

However, other major institutional reforms are needed. The On Farm Water Management (OFWM) Directorates, which help to create and then work with Water User Associations, need to be permanently institutionalized under the Ministry of Agriculture by moving their budget allocation from the Development Budget to the Current Budget. Water User Associations (WUAs) must be empowered to take a much larger role in management, operation, and maintenance of a defined area. While the legal basis for WUAs exists, too few Associations with too little power are in existence. Their federation in Punjab is even discouraged. Hence, institutional reforms and improved management techniques of the type cited above, could merit sector support under the ASSP.

Irrigation System Cost Recovery - Improving cost recovery in the irrigation system must not be seen as a simple matter of increasing water user charges. That is part of the problem, but performance must improve and water control by farmers and Water User Associations must increase before full cost recovery is truly possible. The use of a warimetric system of measuring water (a modified volumetric system without complicated measuring instruments at farmer outlets) would be a desirable change in the short and medium term, worthy of reward. Improved management techniques that make the system more responsive to the needs of its users is also desirable. But it will be the increase in the power and number of the WUAs that will empower farmers to participate more fully in the irrigation system at operational and managerial levels. The PIDs must be more responsive to the WUAs if this is to be accomplished. Farmers will have a vested interest in seeing the system work when there is greater localized control through the WUAs.

In the intermediate term, it would be possible for the ASSP program to reward PIDs for meeting annual targets for irrigation O&M funding. Increasing the level of cost recovery would be a rewardable action, although this should be a flexible policy benchmark to avoid the kind of problems experienced by the World Bank and the GOP.

In the area of groundwater development, public tubewells in areas of good-quality groundwater should continue to be divested to allow the public sector to focus its activities on saline groundwater areas. A World Bank project is working on the best ways of divesting publicly-owned tubewells. The findings of this project may yield policy bench-

marks in this area, although any divestment of public tubewells that takes place now could be a rewardable activity under ASSP. Whenever possible, the future development of groundwater should be by the private sector. Subsidies for private tubewell installation should be eliminated, while increased credit should be made available for small farmers or groups of farmers (such as a Water User Association) wishing to install a tubewell.

b. Edible Oils

Since a number of policy reforms have been undertaken under the Mission's PL-480 and ACE programs (see Annex E), USAID must first monitor and evaluate the policy advances that have already been made and make sure current policy changes are being implemented rapidly and equitably. In particular, continued decontrol of retail prices and the reasonable application of the variable import tariff should be monitored. Continued adherence to these policies is worth rewarding, particularly if it appears that the GOP is tempted to begin subsidizing edible oil again if international prices begin to rise (see Annex E).

The first goal for policy reform should be to increase the participation of the private sector in edible oils. This will come about in different ways. Simplifying the licensing and/or sanctioning procedures for private processors is one way. Continued deregulation of markets is another. The Ghee Corporation of Pakistan (GCP) should also reduce its market share to allow more private sector participation either by a phased program to divest appropriate GCP plants or by reducing operating subsidies to the GCP (which would then presumably have to reduce its operations or lower its costs). A three to five percent annual decrease in market share until the GCP has no more than 30% of the market might be an appropriate rate of change.

A second goal would be to establish a commodity exchange. The GOP should first undertake a serious study of the obstacles -- religious, legal, and financial -- to the establishment of a futures market in Pakistan. If feasible, the GOP can remove regulations inhibiting the establishment of commodity exchange and supporting financial instruments.

A longer term goal is to remove the protective tariff on edible oil once domestic oilseed production and processing become more fully established. Production and processing costs, and long-term trends in international edible oil markets, should be carefully studied.

The ASSP manager would work directly with the Program Office in its administration of PL-480 funds to assure the best use of ASSP funds in pursuit of constructive policy change. Over the next two years, it is expected that the management of the PL-480 program will be shifted to the new office of Food, Agriculture, and Rural Development.

G. Illustrative Example of Benchmarks

The release of funds to the host country will generally be made in distinct tranches. As a basis for these releases, benchmarks will need to be established to measure progress towards achieving policy reforms. Some illustrative benchmarks for the fertilizer sector are presented in the following matrix. For the suggested policy benchmarks of Years Four to Six, please see Annex D on the Fertilizer Sector.

IV. FACTORS AFFECTING PROGRAM SELECTION AND FURTHER DEVELOPMENT

A. Program Implementation

1. Commodity Procurement Plan

a. Fertilizer - In the beginning, the procedure used to import fertilizer under ASSP will essentially be the same one used for ACE fertilizer. This procedure can be summarized as follows:

The GOP, through the Federal Directorate of Fertilizer Imports (FDFI), will be responsible for the procurement of fertilizer with the assistance of SER/OP/OS, AID/Washington, to ensure compliance with AID regulations. Tendering and awards will take place at the Pakistan Embassy in Washington D.C.. In order to expedite the procurement process, the Mission will request SER/OP/OS to review the IFB and Charter Party 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.

As the fertilizer sector becomes more deregulated, it may be possible to begin a new system of commodity importing under ASSP. The contracts for the supply of fertilizer would be let by private Pakistani importers who would pay in rupees to the GOP. The GOP would then be reimbursed for the foreign exchange cost by the Mission. The importers would be assured at the outset of the foreign exchange to purchase the fertilizer from US suppliers.

b. Emergency Procurement - When warranted by serious domestic production shortfalls, commodities such as wheat and possibly cotton, would be imported under the same procedure as fertilizer. Under certain conditions, it may be possible to involve the private sector in the import of these two commodities. This should be investigated in more detail by the PAAD design team.

c. General Commodities (Project and Non-Project) - Under ASSP, commodities needed for normal GOP agency use and GOP emergency requests will be brought into Pakistan. Commodities will be for public sector activities such as flood control, drainage, agricultural research and education. Very minor amounts of funds may be used to support USAID projects, should an unanticipated need for commodities arise during project outyears. Commodities for new projects will not use ASSP funds.

TABLE III.2
ILLUSTRATIVE BENCHMARKS FOR THE FERTILIZER POLICY AREA

POLICY REFORM	YEAR 1	YEAR 2	YEAR 3
1. Phasing out of fertilizer subsidies.	Raise retail price of phosphatic fertilizers by 20% of the difference between CIF and domestic sales price o/a 1 Jan 88 and again by the same amount o/a 1 July 88.*	Raise retail price of phosphatic fertilizers by 33% of the current subsidy but not less than Rs 16/bag by o/a 1 Jan 89 and again by the same amount o/a 1 July 89. Develop plans for reducing subsidy on potassic fertilizer (SOP), etc..	Raise retail price of phosphatic fertilizers by the amount needed to reach import parity price by 1 July 90. Report on progress in reducing subsidy on potassic fertilizers.
2. Reallocating imported fertilizer.	Increase share of private sector fertilizer distribution to 65% and eliminate provincial quotas during next two years.	Appraise new scheme for allocating imported fertilizer; provide report to AID by Oct 89. Report will contain written appraisals from distributors.	Provide status/appraisal reports to AID by end of year; assess feasibility of distributors bidding for fertilizer to port by government, rather than allocating via formula.
3. Fertilizer imports by the private sector.	Announce within a month of PAAD signing, that GOP encourages private sector import of fertilizer; that there are no regulatory impediments to such imports; that foreign exchange will be made available.	Provide status report to AID by July 89. Identify constraints to greater participation by private sector.	Provide status/appraisal report to AID by end of year.
4. Reserve stock management.	Develop by end of year terms of reference for a reserve stock management study. AID will collaborate. Begin implementation of study.	Conduct review with AID of study on reserve stock management by mid-year; finalize study by end of year.	Begin implementation of new stock management scheme by mid-year.
5. Denationalization of fertilizer plants.		Present AID by end of year a plan for phased disinvestment of state-owned plants.	Provide AID a report by end of year on actions taken and progress made of disinvestment.
6. Price deregulation of fertilizer.			As domestic retail price of phosphatic fertilizers near import parity price, deregulate prices of all phosphatic fertilizers. At this time, all fertilizer prices should be deregulated. Monitor prices.

*One 50 Kg. bag of DAP currently retails for Rs 133 and the current subsidy is approximately Rs 70 per bag. Exchange rate is approximately \$ 1 = Rs 17.

Some commodities would be procured under procedures similar to those used for fertilizer, wheat, and cotton. Another procedure could be 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.

2. Policy Studies

ASSP is designed to be an ongoing program to encourage beneficial policy reforms by the GOP. Not all areas of policy analysis have reached the stage of setting benchmarks with the GOP. Consequently, technical assistance will be required to study intensively the rice, cotton, sugar, livestock, and agribusiness sectors over the next several years under the guidance and management of USAID and GOP counterparts. Technical assistance will be procured through AID direct contracting.

B. Administrative and Monitoring Arrangements

The proposed program will be managed in the Mission's Office of Agriculture and Rural Development. Direct responsibility will fall on the Economic, Marketing, and Policy Analysis Section, which is currently managing the Food Security Management (FSM) project and the Agricultural Commodities and Equipment (ACE) program. Both current projects have elements that are forerunners to the proposed program. FSM and ACE activities will be incorporated into ASSP, leaving the program as the umbrella of all work in the section.

The ASSP administrative and monitoring arrangements will follow ACE procedures. Overall program management and monitoring responsibilities will reside in USAID/Pakistan's Office of Agriculture and Rural Development (O/ARD). O/ARD will be assisted in contracting and procurement actions by the Mission's Contracts and Commodities section in the Office of the Regional Legal Advisor. The Office of Project Development and Monitoring will have primary responsibility for administrative matters related to commodity procurement, and the RLA/CC, 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 Director and the Office of Program will assist O/ARD with policy and macroeconomic considerations related to the ASSP Program. The Office of Program will also provide assistance to O/ARD in the area of evaluation.

Administrative Arrangements with GOP - The Ministry of Agriculture will be the implementing agency for ASSP; however, there will be a number of Federal Ministries involved in the implementation of ASSP, as well as Provincial Governments. The ASSP manager will work with each of these agencies for the implementation of the policy reforms. However, because the experience with the Ministry of Agriculture in the implementation of ACE was positive, there should be a full-time

ASSP counterpart located in the Ministry of Agriculture. Past experience with the Ministry, as well as the details of this arrangement, will be provided in the PAAD.

To assist in the implementation of ASSP, one additional long term contractor would be needed for the EAN component (economist), and another one for the ADC portion (statistician).

C. Evaluation Plan

Each year, the Mission will conduct an in-house evaluation of the ASSP in preparation for the writing and signing of the annual PAAD amendment. Performance in meeting benchmarks will be a major concern of these evaluations, and a modified series of benchmarks for each target policy area will be prepared each year to assure that the program meets its policy objectives and moves rapidly to disburse funds.

A formal evaluation, with an external evaluation team, will be conducted in FY 90 to look at progress toward the program's goals achievement, end use of imported commodities, the role of ASSP as an instrument of policy change, programming and use of generated rupees, procurement arrangements, rate of disbursement, adequacy and appropriateness of evaluation and monitoring plans, and other issues. Another formal external evaluation would take place in FY 92 to help the Mission determine if ASSP should be extended during the next program cycle.

D. Estimated Project Costs

Table IV.1 summarizes the estimated cost of the project. This PARD requests an initial authorization of \$300 million, with a second \$300 million to be authorized at the end of the third year, if justified by early experience. Suggested amounts for the different policy reforms and programs will be refined at the PAAD stage. Furthermore, funds under ASSP should be transferable from one line item to another to take advantage of changing policy conditions in Pakistan.

Table IV.1

ILLUSTRATIVE BUDGET (\$ Millions)

PROGRAM COMPONENT	YEAR			
	FY88	FY89	FY90	FY91-93
SECTOR SUPPORT GRANT	53	47	43	143
COMMODITY IMPORT PROGRAM	40	45	45	130
TECHNICAL ASSISTANCE & TRAINING	7	8	12	27
TOTAL	100	100	100	300

E. PAAD Preparation Strategy and Design Schedule

Over the next six months, a two-person design team will be fielded for approximately four to six weeks each to assist in finalizing the PAAD. The team, both senior specialists in agricultural policy and macro economics, will review relevant policy studies conducted to date, further analyze balance of payments issues, refine policy benchmarks for the initial stages of program implementation, identify which components are best suited to leverage different policies, systematize monitoring/evaluation processes, and identify new topics for investigation.

The team will also work with Mission personnel in clarifying any remaining issues related to the public sector commodity import program, address the administrative issues involved in working with different GOP agencies at the federal and provincial levels which are directly or indirectly involved in agricultural policy development, and recommend administrative arrangements to facilitate policy dialogue and maximize the program's overall policy leverage.

Concurrent with the above, USAID/Pakistan's Project Design and Implementation Fund (391-0470) will finance a major assessment of Pakistan's Agribusiness Sector, starting in March 1987. The 18-month study is expected to identify potential areas for AID policy intervention into the agribusiness sector. However, specific recommendations will be generated at the end of the first 12 months for the design and implementation of ASSP's Agribusiness Sector Development component. Assuming that this component is found to be both feasible and desirable, funding would be provided in subsequent PAAD amendments. The Design Schedule for the ASSP PAAD is presented on the next page.

F. Initial Environmental Examination

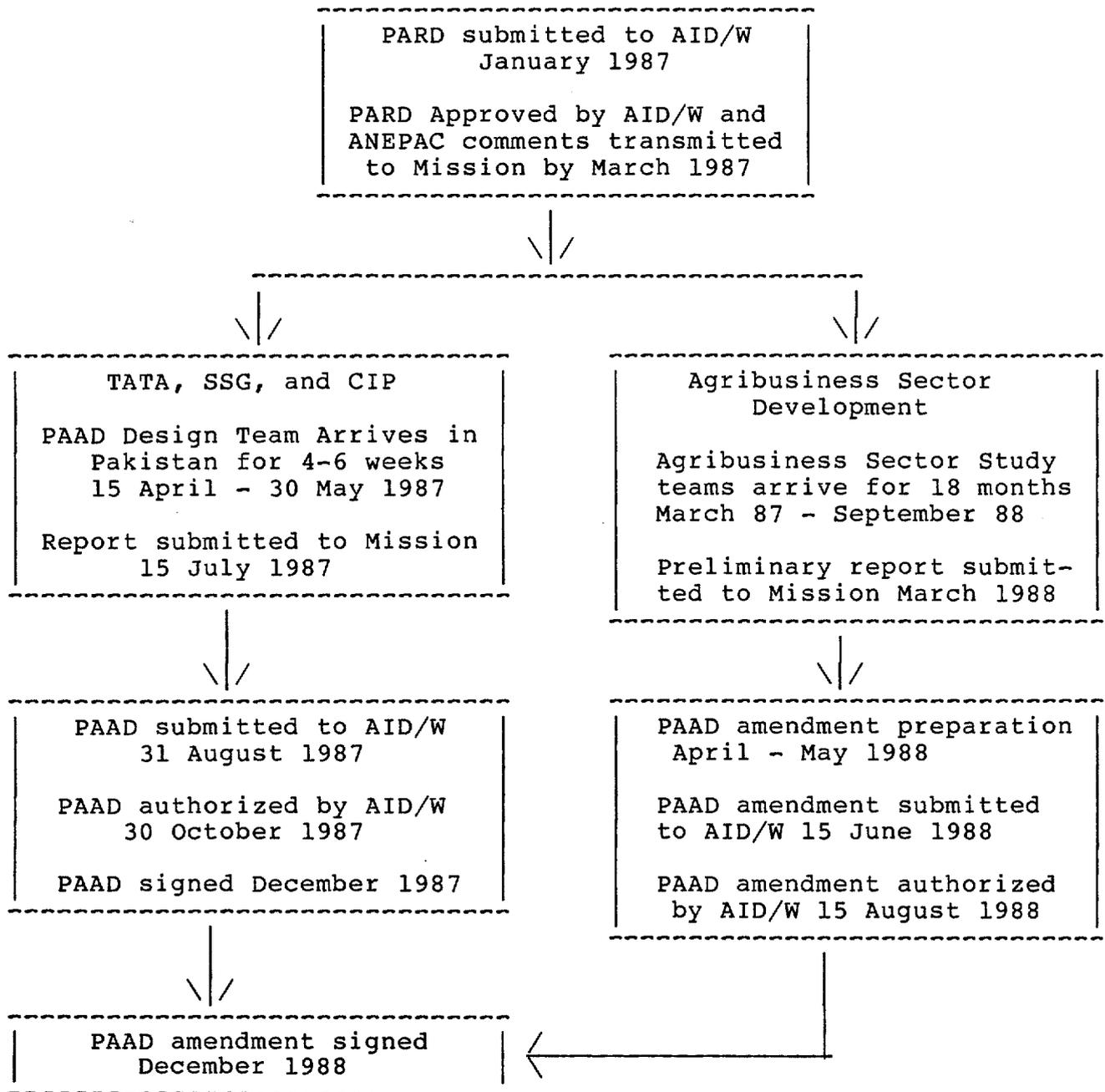
The proposed program will support a series of elements which have been independently reviewed with regard to the provisions of 22 CFR 216, "AID Environmental Procedures." The following text outlines the procedures that will be adopted during implementation to assure the environmental soundness of program funded activities.

1. Sector Support Grant

When specifically identified, activities supported under this element of the program will be reviewed and approved by the Mission Environmental Officer. The environmental concerns associated with most types of interventions proposed for grant funding (rural roads, draining/reclamation activities, improvements to irrigation systems) can be addressed by the use of Environmental Guidelines and/or Design Criteria as described in the AID publication Environmental Design Considerations for Rural Development Projects (1980).

Figure IV. 1

DESIGN SCHEDULE



2. Commodity Import Programs

Commodities procured under this element of the program will be reviewed by the Program Officer to assure that no materials that are potentially environmentally harmful will be considered for funding without review by the Mission Environmental Officer. No pesticides, herbicides, fungicides, rodenticides or other types of toxic/hazardous chemicals may be procured under this Program element without formal clearance from the ANE Bureau Environmental Coordinator and the S&T Bureau Pesticides Management Advisor.

3. Technical Assistance, Training and Analytical Support

This program element is exempt from further environmental review under the "Categorical Exclusion" provisions of 22 CFR 216, "AID Environmental Procedures."

G. Gray Amendment Organization Contracting

Opportunities for contracting with Gray Amendment Organizations including the identification of 8(a) set-asides, prime contracting and sub-contracting possibilities to meet technical assistance and commodity acquisition requirements will be fully outlined at the PAAD stage. Other than the Agribusiness Study, currently an 8(a) set aside, no other specific scopes for work for contracting opportunities have been developed.

V. PROGRAM FACTORS

A. Relationship to Host Country Strategy

The GOP has, in recent years, undertaken a number of economic reforms that indicate its openness to the concepts and activities of the proposed program. The Sixth Five-Year Plan (1983-1987) outlines an ambitious program designed to liberalize the economy and increase private sector participation therein. For example, the government has reduced the subsidies on nitrogenous fertilizer, while taking certain steps towards the deregulation of the fertilizer, sugar, rice, and edible oils markets. This liberalization was spurred by the recommendations of the National Deregulation Commission and the Disinvestment Committee that were set up in June 1985. These groups recommended increased private sector participation in cotton seed procurement, deregulation of edible oil and fertilizer retail prices, and abolition of wheat and flour rationing. The proposed program of ASSP is therefore in conformity with the recipient country strategy as articulated by its recent policy statements and actions.

B. Relationship to AID Strategy

ASSP is centered on the twin concepts of policy dialogue and an enhanced role for the private sector, and as such addresses two of AID's four pillars of development. Indirectly, however, the two other

pillars also will be strengthened. For instance, it is anticipated that several private sector institutions, notably the commodity exchanges, stock market, etc., will be strengthened as a result of the ASSP-supported policy reforms. Similarly, the freer economic environment should encourage private entrepreneurs to invest in appropriate technology transfer and innovation in specific agricultural sub-sectors. Their knowledge of available technologies will be enhanced by the results of the ASSP-sponsored agribusiness sector review and follow-on activities.

The proposed program is fully in line with the policy strategy expressed by the Mission in its 1984 CDSS which called for efforts to have a sustained impact on policies:

- "- to curb new capital spending on public sector production enterprises in sectors where the US is active;
- to limit capacity increases in existing public sector plants in sectors where the US is active;
- to move Pakistan away from the cost-plus approach to regulating returns to private investors, with particular reference to sectors such as fertilizer where the AID program is directly engaged;
- to seek to provide a fair and competitive environment for public, private and international financial institutions in Pakistan;
- to remove inequitable credit access favoring public sector enterprises over private enterprises;
- to properly price capital so as to reflect its opportunity costs;
- to remove administered prices to the maximum extent possible and remove barriers to private entry into industrial sectors;
- to move to the progressive disinvestment of inappropriate public sector assets, especially in the edible oil sector;
- to establish equitable investment rules and tax treatment for private sector productive investments; and
- to enact equitable pricing of inputs to private users designed to enhance private sector resource mobilization."

Finally, the program is fully responsive to the June 1986 AID Policy Determination on Implementing AID Privatization Objectives; in the Post 1987 years, a number of major privatization activities in the fertilizer, wheat, edible oil, rice, and agribusiness will be undertaken through ASSP initiatives.

C. Relationship to Other Donor Programs

Generally, the international donor community has concentrated its resources on the more traditional types of project-based development

assistance. Donors are active in the provision of agricultural commodities as well as in financing infrastructure. A study of total donor assistance to Pakistan from 1980 shows more than \$1.2 billion has been allocated to agricultural sector and development support. Some \$837 million--of which 67% were PL-480 and ACE funds--was in the form of non-project assistance, commodity imports and policy reform. ASSP proposes to take an innovative step in leveraging crucial policy reforms that will pave the way for a more efficient and productive agricultural sector. The successes envisioned by ASSP will have positive impacts on other donor assistance, both in the nature of development assistance and in the implementation of more traditional project assistance.

There are, nonetheless, a number of areas of mutual interest in which AID and other donors have consistently cooperated in the past and will continue to do so under ASSP. ASSP will enhance and strengthen other donor activities in policy areas involving privatization, irrigation, fertilizer, edible oil and agricultural pricing, marketing and distribution. Furthermore, the World Bank, through its balance of payments support, and the Japanese Government and the Asian Development Bank, through their Commodity Import Programs, are seeking ways by which they can encourage the GOP to implement policy reforms, much as ASSP will do.

The World Bank's Structural Adjustment Loan program was reviewed at completion in 1985. The three-year \$140 million program was intended to support a program of structural adjustment, including the continued liberalization of imports, as well as the implementation of a set of reforms in agriculture, energy, and industry. The review highlighted two important concerns in the policy dialogue process that are relevant to the proposed ASSP program:

1. The GOP was hesitant to link progress in one sector with movement in another, i.e., program funding for policy reforms in agriculture contingent on negotiation and implementation of policy reforms in the energy sector. Both the GOP and the World Bank agreed that SAL II would be structured in a set of three separate sectoral credit systems for agriculture, energy, and industry.
2. Good program performance was facilitated by a technical assistance project providing analysis and information on the parameters and ramifications of the proposed policy reform.

VI. PROGRAM ISSUES

1. Can ASSP achieve its policy reform objectives in the current Pakistani context?

In working with the Agricultural Commodities and Equipment Project (ACE), the Mission has had the experience of leveraging policy reform by importing commodities, notably in the fertilizer sub-sector. Deregulation of the edible oil retail price and liberalization of edible

oil importing were achieved as the result of Mission analyses undertaken in conjunction with the PL-480 Program. Other ACE commodities have been successfully used to achieve policy objectives in the irrigation sector.

Handbook 4 and AID's recent policy paper, "Approaches to Policy Dialogue," list the following conditions for using non-project assistance of the type envisaged under ASSP. These are:

- urgency of the balance of payments or budget support situation;
- existence of important U.S. strategic and political foreign policy goals;
- need for speed and flexibility in providing assistance; and
- need to affect macroeconomic policy reforms.

In Pakistan today, all four conditions exist. In addition, the present government, anxious to legitimize itself and strengthen the economy, has shown by its own policy changes (in fertilizer, edible oils, and rice) that it is receptive to the benefits of deregulation and privatization. The Mission believes that the coming years will offer many opportunities in the agricultural sector that can be transformed into meaningful reforms by a flexible, performance-based program.

2. How will specific levels of incentives be attached to proposed reform?

Once the GOP has signaled its readiness to undertake the series of changes involved in effecting a given policy reform, dialogue on the type and level of reward will begin. The nature of the reform will largely dictate the type of incentive selected. Thus, in targeting reforms in the fertilizer sector, fertilizer importation is a highly appropriate reward. In achieving institutional reform in, say, a Provincial Irrigation Department (PID), commodities would likely not be as effective or appropriate as a tied sector grant, where the PID received additional funds (over and above normal budget allocations) to undertake new training, construction or management efforts. Untied sector grants would only be considered for reforms of the highest political sensitivity, such as an increase in water user charges to fully cover O&M costs, or the derationing of wheat.

Once the type of incentive is selected, there will be dialogue on the level to be awarded for specific benchmarks. In arriving at an appropriate amount, negotiators will be guided by analyses of the economic and financial costs of the reform. Theoretically, it is possible to calculate how different segments of the society are affected monetarily by a given policy change. In practice, things are not so clean-cut. ASSP will apply one or more of four ways of establishing the value in calculating the level of incentives for a given policy change: actual cost, estimated cost derived from models, political priority, and precedent.

The first way, the easiest to negotiate, is to have a clear indicator of the value. For example, if a policy change were to bring about a loss of tax revenue to the government, then the amount of the incentive could be for the amount of taxes lost. However, frequently, the cost of the reform is not so readily identifiable.

A second method involves the creation of an econometric model to estimate how the policy change might affect different groups. This type of analysis has already been done for the edible oils study. The model was able to show that while an increase in prices of edible oil would create losses for consumers who would have to pay more for oil, they would be indirectly compensated through greater access to imported goods, better government services, more jobs in the economy, and greater overall food security through stabilized import levels of edible oil. The GOP would save foreign exchange, and gain tax revenue and operating capital. Farmers would gain increased income because marketing would be more efficient. Data requirements for this kind of computer-based modelling exercise are considerable. They could include supply and demand elasticities, marketing margins, prices, trade flows, tax and tariff structures, industry input/output coefficients, etc.

The political value of a reform is also important. Economists can determine the worth of a policy change, but the political environment will also affect the price paid, or the "market value" of the change. A policy change is more expensive if it involves a great deal of bureaucratic change on the part of the GOP. Depending on the size and influence of groups which stand to lose from the reform, the price of the policy change may go up, beyond what would be considered the "fair" cost of compensation calculated by economists. Certain reforms have a particular political value to AID, and the Mission might be willing to pay more for changes which are high up on its policy agenda.

The cost of policy reform might also be determined by precedent. Policy dialogue programs are closely observed. Already, in Pakistan, close record is informally kept of the amounts that various donors have leveraged for different types of policy changes. Thus, a certain precedent is being set which negotiators will factor into the formula used to agree on the worth of policy change. In all cases, the Mission anticipates that the level of incentives for each reform will be determined after lively debate inside and outside USAID.

There will be further discussion on this topic in the PAAD.

3. Why does ASSP incorporate features commonly not included in budgetary support programs?

ASSP includes two features that are unusual for programs of its type. The first feature is institutional and macro-economic policy reforms as program purposes. The second is a technical assistance component, which is most often regarded as a feature of project assistance.

The Mission has decided to include institutional reforms in ASSP, since experience has shown that the inertia, inefficiency and inattention of many government agencies is often the most serious constraint to development in a given agricultural sub-sector. It is anticipated that the possibility of attractive incentives for change will significantly increase the chances for institutional reform at the provincial level.

Technical assistance to prepare the background analytical studies required to initiate policy dialogue in a new sub-sector is a vital and integral element of the ASSP approach. Mission experience has shown that it is the inclusion of step-by-step details on how changes can be effected, and the costs and benefits of each step, that makes the difference in whether the GOP is willing to seriously consider a reform. AID experience in other countries reinforces the value of innovative combinations of technical assistance with commodity imports, sector support grants and performance-based disbursements. Examples are Bangladesh's Rural Finance Project, Niger's Agricultural Sector Development Grant, and Zimbabwe's Agricultural Sector Assistance Program.

4. How will ASSP initiatives dovetail with policy requirements of other donors?

During the implementation of the 1981-1987 US development assistance package, the Mission has developed a close relationship with the other major donors in the agricultural sector, notably the World Bank and the Asian Development Bank. Previous work in agricultural policy reform has been closely coordinated with other donors, and this would continue under ASSP. There is already an identity of views on such issues as fertilizer subsidies and water user rates among major donors; differences are limited to programmatic approaches and timing of initiatives. The Mission envisages the need for concerted donor effort on the thorniest of policy issues, and plans to set up mechanisms whereby all donors agree on the need for a given reform, and act together to withhold or give aid according to performance in achieving appropriate policy benchmarks.

5. Why has the Mission chosen to follow-up on the Food Security Management (FSM) and Agricultural Commodities and Equipment (ACE) projects with a single program? Will the new program give rise to any management problems?

As noted throughout the PARD, the essence of the ASSP approach is detailed analytical study followed by performance-based disbursements. The Mission's experience with ACE and FSM suggests that this is the method that will work in Pakistan today. Without the detailed analytical work, the government will lack the tools to implement reform quickly. FSM has two major components that contribute directly to the nation's capacity to undertake research of the type needed to underlay meaningful reform. When ASSP is in operation therefore,

funding for both the Economic Analysis Network and the Agricultural Data Collection component activities will be transferred to the new program. ACE, which focuses exclusively on commodities, is scheduled for completion in December 1987, about the time that ASSP is expected to be operational.

Since FSM, ACE and ASSP are slated to be managed in the same division of the ARD office, by the same team of professionals, no new management problems are anticipated. An in-house evaluation of the ACE, FSM, and PL-480 activities is on-going. The PAAD will take into account the lessons learned.

6. Are there any potential conflicts with the recent AID policy determination (PD-15, dated 13 Sept. 1986) to not support "the production of agricultural commodities for export by developing countries when the commodities would directly compete with exports of similar U.S. agricultural commodities...."?

Commodities, resource transfers and technical assistance provided under this program will not be used to support production of commodities that will compete on the international market with U.S. exports such as cotton. ASSP policy initiatives will only focus on removing price/market restrictions, eliminating export and production subsidies, expanding private sector participation in the economy, and enhancing the nation's overall food security through increased reliance on open market mechanisms. The removal of production/export subsidies and increased reliance on open market operations would reduce domestic cotton production given the current depressed condition of the international market.

PROGRAM ASSISTANCE REVIEW DOCUMENT
AGRICULTURE SECTOR SUPPORT PROGRAM
ANNEX

ANNEX A - PUBLIC FINANCE

The Growing Budgetary Deficit. During the 1980s, combined expenditures by the federal and provincial governments were growing at a faster rate than growth in GDP. Such expenditures, as shown in Table A-1, amounted to 25.1% of GDP in 1986 with the ratio growing at an average of 0.4 percentage points annually, 1980-86. Combined receipts -- tax and non-tax revenue and the surplus from public autonomous bodies (State Economic Enterprises) -- grew at the same rate as GDP. The overall deficit was thus rising relative to GDP, increasing by an average of 0.4 percentage points annually over the period. The deficit was 25% of total expenditures, 1980-81, and 30% in 1986. This proportion was rising by an average of one percentage point annually, 1980-86.

Financing the Deficit. About 48% of the total deficit was financed from external sources in the early eighties. This proportion fell sharply, to 14% in 1985, (23% in the following year). To keep bank financing down, the GOP promoted the sale of debt instruments to the non-bank public at very attractive rates. The promotion was remarkably successful; sales were large, which increased total internal debt by 227%, 1980-86 (Table A-II). In 1986 alone, such debt increased by Rs 48 billion. Growth in unfunded debt was especially rapid over the period, increasing by 467%, 1980-86. Consequently, non-bank (domestic) borrowing has been growing very rapidly, financing 10% of the deficit in 1980 and 65% in 1986. Bank financing has been falling, from 43% of the deficit in 1980 to 12% in 1986, after a jump of 51% in 1985 (Table A-II).

Current and Development Expenditures. The trend of development expenditures as a share of total budgetary expenditures was falling in the eighties (Table A-I) and that the corresponding trend for current expenditures was rising. The average growth rate in current expenditures over the period was twice as fast as development expenditures. Current expenditures, in nominal terms, grew at an average annual rate of 18% during the eighties, while development expenditures grew at a rate of 9%.

The falling trend of the share of development expenditures reflects in some degree the stated Government policy of relying more and more on the private sector for investment and participation in economic development. It also reflects the rapid growth in defense and interest costs. Note that the proportions of both defense and interest expenditures to total expenditures were rising, 1980-86, with the increase in interest especially large (Table A-III). The proportion for subsidies was about constant, 1981-86. And the three together accounted for a rising share in total expenditures, reaching 48% in 1986, and to about two-thirds of total current expenditures. After meeting these claims on government resources, the resources available for the provision of the badly neglected social services (education and health) are very limited.

Interest Expense. Growth in interest on external debt was substantially lower than such growth on domestic debt. Thus, in current rupees, interest on external debt increased from Rs 2.4 billion in 1980 to Rs 6.3 billion in 1986, an increase of 163%. Interest on domestic debt increased by about 430%, from Rs 2.5 billion to Rs 13.2 billion during the same years (Table A-IV).

TABLE A-I
SUMMARY OF PUBLIC FINANCES IN RS. MILLIONS
(CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENTS)

	1980	1981	1982	1983	1984	1985 (P.A.)	1986 (Revised)	1987 (Budget)
Revenue	38,502	47,002	51,937	59,181	72,290	77,403	90,036	103,334
Tax	32,507	38,846	43,010	49,029	53,646	55,963	61,169	66,655
Non-Tax	5,995	8,156	8,927	10,152	18,644	21,440	28,867	36,719
Surplus of State Autonomous Bodies	1,464	2,019	1,909	2,286	2,565	2,639	3,411	3,724
Expenditures	54,629	63,639	71,013	87,121	100,002	116,819	132,894	153,654
Current	35,547	40,318	46,370	59,686	73,411	85,270	97,767	109,464
Development	19,082	23,321	24,643	27,435	26,591	31,549	35,127	44,190
Overall Deficit	-14,663	-14,618	-17,174	-25,654	-25,147	-36,777	-39,447	-46,556
Financing (Net)	14,663	14,618	17,174	25,654	25,147	36,777	39,447	46,556
External (Net)	6,951	6,977	5,345	5,162	5,001	5,169	9,008	15,309
Domestic (Non-bank)	1,407	5,286	6,313	14,368	12,280	12,873	25,682	26,487
Banking System	6,305	2,355	5,516	6,124	7,866	18,735	4,757	4,760
Memorandum Items:								
Domestic Bank Financing	7,369	6,502	6,576	9,690	6,608	18,024	4,720	7,564
Budgetary Support**	6,305	2,355	5,516	6,124	7,866	18,735	4,757	4,766
Commodity Operations***	1,054	4,147	1,060	3,566	-1,258	-711	-37	2,798
GDP (at current market prices in Rs. billions)	234.5	278.0	321.8	362.2	418.2	469.9	526.5	593.3
As % of GDP at Market Prices								
Tax Revenue	13.9	14.0	13.4	13.5	12.8	11.7	11.6	11.2
Total Revenue	16.4	16.9	16.1	16.3	17.3	16.2	17.1	17.4
Autonomous Bodies	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.6
Expenditures	23.3	22.9	22.1	24.1	23.9	24.4	25.1	25.9
Overall Deficit	6.3	5.3	5.3	7.1	6.0	7.6	7.4	7.8
Domestic Bank Financing	3.1	2.3	2.0	2.7	1.6	3.7	0.8	1.3
of which: Budgetary Support	2.7	0.8	1.7	1.7	1.9	3.9	0.9	0.8
Domestic (Non-Bank)	0.6	1.9	2.0	4.0	2.9	2.7	4.9	4.5
External	3.0	2.5	1.7	1.4	1.2	1.1	1.7	2.6

P.A.—Provisional Actuals

*Different from the standard presentation in that subsidies in the ADP are classified as current rather than development expenditures.

**Differs from monetary statistics due to coverage and timing.

***Falls outside of Government's deficit financing from the banking system.

Source: Pakistan Budgets, 1986-87, GDP, p. 429.

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TABLE A-II
INTERNAL DEBT OUTSTANDING
(END OF PERIOD IN RS MILLIONS)

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
PERMANENT DEBT	20,942	20,995	24,763	31,761	36,018	36,835	56,709
Prize Bonds	1,290	1,576	3,542	9,279	13,538	13,884	16,322
Special National Fund Bonds	-	-	-	-	-	-	13,666
Bearer National Fund Bonds	-	-	-	-	-	-	1,522
Foreign Exchange Bearer Certificate	-	-	-	-	-	-	2,376
Market Loans	18,911	18,682	19,704	20,219	19,513	19,374	18,611
Income Tax Bonds	38	33	31	30	25	24	23
Government Bonds	703	704	703	710	715	716	717
Government Bonds for State Life Insurance Corp.	-	-	766	1,506	2,194	2,786	3,417
Land Reforms Act, 1977	-	-	17	17	33	51	55
FLOATING DEBT	29,998	30,777	40,334	48,395	56,940	72,830	86,996
Ad hoc Treasury Bills for Ways and Means	21,304	21,406	30,426	22,886	32,120	50,636	55,736
Treasury Bills on Tap	5,415	5,966	5,704	20,348	20,144	17,633	26,637
Government Treasury Deposits Receipts	3,279	3,405	3,504	4,530	4,188	4,141	4,273
Ad hoc Treasury Bills for Capital Investment in Pakistan Railways	-	-	700	630	490	420	350
UNFUNDED DEBT SCHEMES	9,542	10,711	13,992	21,571	29,725	40,251	54,070
Defence Saving/National Deposit/Khas Deposit/Premium Savings Certificates	6,107	6,857	9,054	12,971	17,887	24,365	37,837
Khas Deposit Account/National Deposits/Savings Account/Fixed Deposit/Mahana Amdani/Special Savings Account	3,042	3,408	4,422	7,958	11,090	14,881	15,048
Postal Life Insurance	393	446	516	642	748	1,005	1,185
GRAND TOTAL INTERNAL DEBT	60,482	62,483	79,089	101,727	122,683	149,916	197,775

Source: Pakistan Budgets, 1986-87, GOP, September 1986, p. 63.

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TABLE A-III
STRUCTURE OF CONSOLIDATED GOVERNMENT (FEDERAL
AND PROVINCIAL) BUDGET, PFYs 1980-87

Expenditures (Rs billions)

PFY	De- fense	In- terest	Sub- sidies	Sub- Total	Other Current	Current Total	Devel- opment	Total
1980	12.7	4.8	7.0	24.5	11.0	35.5	19.1	54.6
1981	15.3	5.9	5.4	26.6	13.7	40.3	23.3	63.6
1982	18.6	7.7	4.3	30.6	13.9	44.5	26.5	71.0
1983	23.2	11.1	4.8	39.1	18.6	57.7	29.4	87.1
1984	26.8	14.1	6.1	47.0	26.4	73.4	26.6	100.0
1985	31.9	16.5	6.9	55.3	28.5	83.8	33.0	116.8
1986	35.0	20.3	9.1	64.4	30.3	94.7	38.2	132.9
1987	38.6	22.0	9.5	70.1	37.5	107.6	46.1	153.7

Percent of Total Expenditures (%)

PFY	De- fense	In- terest	Sub- sidies	A+B+C	Other Current	Current Total	Devel- opment	Total	A+B+C as % of Current
	A	B	C	D	E	F	G	H	I
1980	23	9	13	45	20	65	35	100	69
1981	24	9	8	42	22	63	37	100	66
1982	26	11	6	43	20	63	37	100	69
1983	27	13	6	45	21	66	34	100	68
1984	27	14	6	47	26	73	27	100	64
1985	27	14	6	47	24	72	28	100	66
1986	26	15	7	48	23	71	29	100	68
1987	25	14	6	46	24	70	30	100	65

Source: Pakistan Budgets, 1986-87, Table 3, p. 58. Subsidies are from Table 4, p. 432. "Other Current" is a residual. Figures for 1985 are provisional actual; 1986 are revised estimates; and 1987 are budget figures.

Subsidies. Subsidies on wheat and sugar, fertilizer, and exports are shown in Table A-V at Rs 3.8, Rs 3.0, and Rs 2.1 billion respectively. These accounted for practically all the "direct" subsidies in 1986. Subsidies on edible oil were Rs 2.25 billion in 1985 but were zero in the following year because the price of edible oil dropped substantially in international markets and the domestic prices of edible oil were decontrolled. The subsidy for wheat and sugar increased sharply in both 1985 and 1986 and a further increase is budgeted for 1987. Due to poor crops in 1984 and 1985, wheat was imported in both years but the record crop in 1986 resulted in record government procurement. Fertilizer subsidies were up sharply in 1986 as offtake moved up rapidly. However, the subsidy is budgeted to fall sharply in 1987 as the price of nitrogenous fertilizer has been deregulated.

TABLE A-IV

DEBT SERVICING IN RS MILLION

	1979	1980	1981	1982	1983	1984	1985 (P.A.)	1986 Revised	1987 Budget
Interest on both Domestic and Foreign Debt	3,834	4,870	5,631	7,260	10,624	13,591	15,930	19,507	21,294
Interest on Domestic Debt	1,826	2,494	3,351	4,490	6,249	8,443	10,067	13,246	14,747
Interest on Foreign Debt	2,007	2,375	2,280	2,770	4,375	5,148	5,863	6,261	6,547
Foreign Loans	1,536	1,703	1,607	1,336	2,197	2,817	3,114	3,758	4,241
IMF Drawings	331	253	253	562	1,295	1,520	1,774	1,768	1,504
Food Credit/Short Term Borrowings	140	419	419	872	883	811	975	734	803
Repayments/Amortization	2,505	5,604	3,633	5,918	8,734	8,618	9,031	11,065	10,637
Foreign Loans	1,479	2,660	2,313	2,432	3,194	4,359	5,237	7,397	8,245
Food Credits	1,026	2,945	1,320	3,486	5,540	4,259	3,794	3,608	2,322
Partition Debt	-	-	-	-	-	-	-	-	70
Total Debt Servicing	6,339	10,474	9,264	13,178	19,357	22,209	24,962	30,572	31,931

TABLE A-V

FEDERAL AND PROVINCIAL GOVERNMENT SUBSIDIES IN RS MILLION

	1977	1978	1979	1980	1981	1982	1983	1984	1985 (P.A.)	1986 Revised	1987 Budget
Wheat and Sugar	1,096	1,636	2,524	1,777	1,135	1,303	1,160	1,282	2,888	3,810	4,064
Edible Oils	-	-	577	884	583	1	-	1,485	2,250	-	-
Fertilizer	381	617	1,692	2,454	2,457	1,794	1,948	1,466	1,501	3,041	1,842
Plant protection, Pesticides & Equipment	485	523	267	218	-	-	-	-	-	-	-
Tubewells	48	20	24	22	20	24	24	-	-	16	18
Export Subsidies	-	-	500	550	705	1,153	1,380	1,694	-	2,143	2,208
Petroleum Products*	4	400	424	480	450	-	-	-	-	-	-
Others**	538	414	94	639	28	28	267	207	222	105	1,321
Total	2,428	3,290	6,030	7,024	5,378	4,333	4,779	6,134	6,861	9,115	9,453
% of Current Expenditures	12.05	12.88	19.77	19.76	13.33	9.34	8.00	8.35	8.05	9.32	8.63
% of GDP	1.62	1.86	3.90	2.99	1.93	1.34	1.31	1.46	1.43	1.73	1.59

*Includes only direct subsidies and excludes refund of surcharges on petroleum products.

**Includes losses of Cotton Export Corporation of Rs 575 million in 1979-80 and Rs 2,208 million in 1986-87.

P.A. - Provisional Actuals

Source: Pakistan Budgets, 1986-87, GDP, September 1986, p. 432.

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Revenue. Customs duties are the largest source of revenue for the GOP, followed by excise taxes. These two sources yielded 49% of total revenue (customs duties, 31%; excise taxes, 18%) in 1986. Along with sales taxes and income/corporation taxes, they accounted for 65% of total revenue. From 1980 to 1986, the yield from custom duties increased 93% and receipts from excise taxes increased 50% (Table A-VI). The excise tax on tobacco is the largest yielder of the excises, accounting for one-third of total excise yield. Sugar is next, then cement and POL products. These four excises accounted for 70% of the total revenue generated by the excise tax in 1986.

Non-tax revenue has been growing substantially faster than tax revenue. The former accounted for 16% of total revenue in 1980 and this increased to 32% in 1986.

TABLE A-VI
SUMMARY, CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENTS
REVENUES BY SOURCE

<u>Revenue Source (Rs billions)</u>						<u>Total Revenue (Rs billions)</u>		
PFY	Customs	Excise	Sales	Income/ Corpor- ation	Sub- Total	Tax	Non-Tax	Total
1980	14.3	10.5	2.4	5.2	32.4	32.5	6.0	38.5
1986	27.6	15.8	5.0	9.7	58.1	61.2	28.9	90.0
1987	29.2	16.8	5.7	11.0	62.7	66.7	36.7	103.4
Increase, 1980-86 (%)	93	50	108	87	79	74	382	134
<u>Percent of Total Tax Revenue (%)</u>								
1980	44	32	7	16	100			
1986	45	26	8	16	95			
1987	44	25	9	16	94			
<u>Percent of Total Revenue (%)</u>								
1980	37	27	6	14	84	84	16	100
1986	31	18	6	11	65	68	32	100
1987	28	16	6	11	61	65	35	100

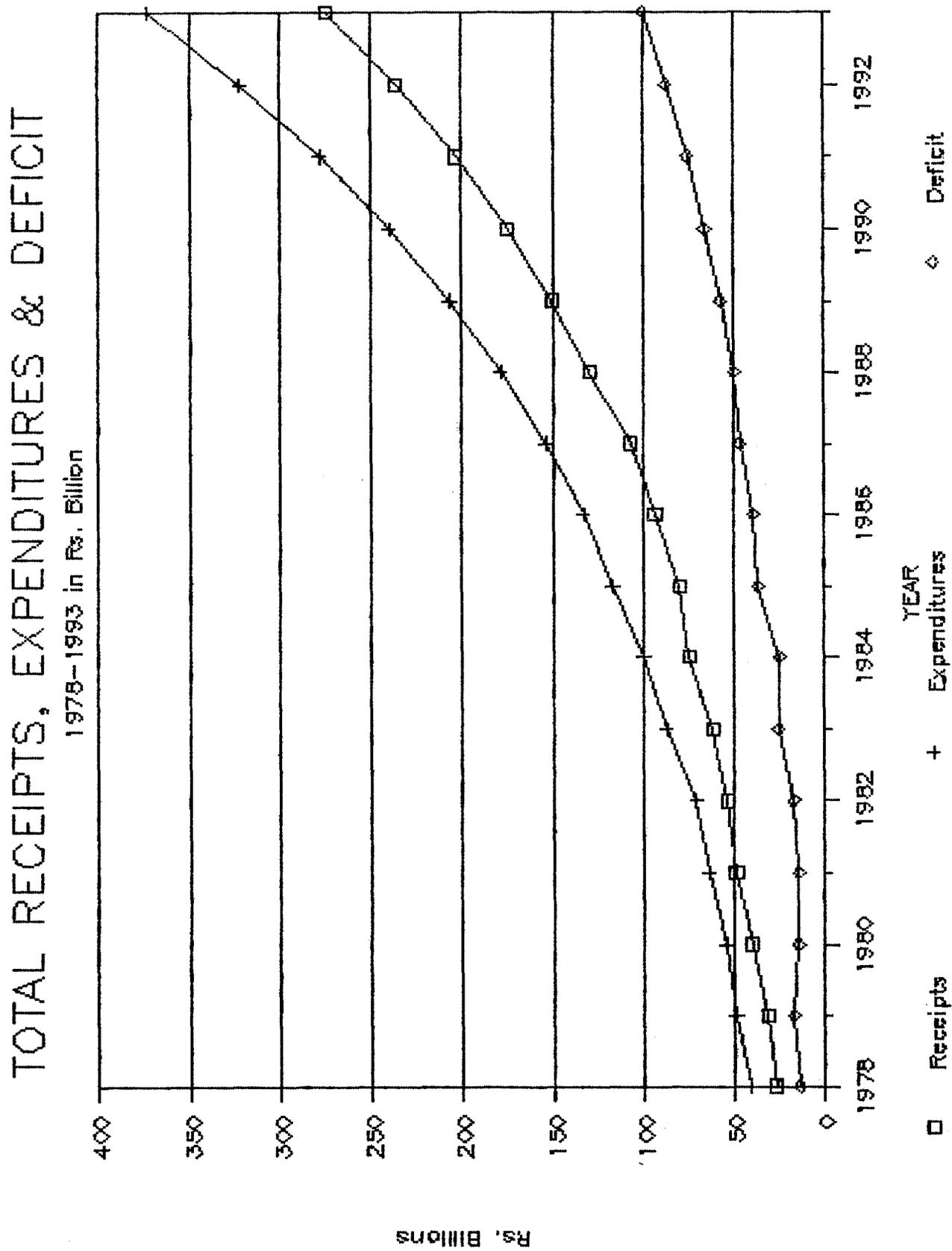
Source: Pakistan Budgets, 1986-87, Table 2, p. 430. Figures for 1987 are budget figures.

Summary and Conclusions. In summary, the Government budgetary position has been deteriorating during the eighties. Expenditures have been growing at a faster rate than receipts, resulting in a budgetary deficit which is increasing relative to GDP. Projections of the budget deficit, assuming historic rates of growth in receipts and expenditures, suggest that the deficit will grow to some 100 billion rupees by 1993 (See Figure A-I). This will increase the debt servicing requirements of the GOP to difficult levels if current trends are not reversed.

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Figure A.1

Total Receipts, Expenditures and Deficit



The current budget is growing twice as fast as the development budget. To help keep down domestic bank financing of the deficit, the Government promoted, by offering very attractive rates, the sale of debt instruments to the non-bank public. Domestic non-bank debt has increased very rapidly as has interest cost. The latter, along with defense and subsidies, now accounts for almost 50% of total budgetary expenditures and two-thirds of current expenditures.

The non-bank borrowing mode of "mobilizing domestic resources" has to be considered as a stop-gap measure. More fundamental changes in the revenue, and expenditure in public finance, on both the receipts and expenditures sides, are required. In his budget address (May 29, 1986), the Federal Finance Minister noted that the newly established National Taxation Reform Commission had just submitted an interim report but not in time to incorporate much of it in the 1986/87 budget. He noted that the Government would study the Commission's recommendations in depth and then initiate basic long-term reform of the taxation system. The Minister has since hinted that a new, broad-based sales tax will be introduced.

The promised reform should include a rationalization of duties/tariffs and taxes to reduce the protection now accorded a number of mature industries. However, attention to the expenditure side is just as important. Budgetary (and economic) performance can be improved by hastening the denationalization and deregulation process to reduce expenditures, including those for subsidies, and to improve economic performance.

ANNEX B - EXTERNAL SECTOR

International trade is relatively important in Pakistan's economy; imports and exports of goods and services were equivalent to 23% and 18% respectively of GNP in 1985. Yet, the country's balance of payments is structurally weak due mainly to a lack of export diversification and a heavy reliance on remittances from Pakistani workers abroad. Two primary commodity exports (cotton and rice) account for a large proportion of export earnings. However, receipts from these two sources are subject to sharp fluctuations, which reflect wide variations in domestic production and the volatility of international prices for these commodities.

A large proportion of manufactured exports consists of cotton-based textiles and yarn, which are also affected by variations in domestic cotton production, international prices for raw cotton, and protectionist measures in some major export markets. While there has been some progress in export diversification, manufactured exports have not contributed to a substantial widening of the export base. This situation is largely a consequence of the protectionist policy historically pursued to promote import substitution. This protectionism shields industries from foreign competition and reduces incentives to keep production costs down and to produce quality products.

The Trade Account. Growth (current dollar value) in both commodity exports and imports was very slow during the 1980s. There was, however, a tendency for export growth to be marginally less than that for imports. Consequently, there was a trend for the trade account deficit to rise. The variability for exports was much greater than for imports. For the 1981-86 period, the deficit in the trade balance averaged \$3.2 billion annually (exports \$2.6 billion and imports, \$5.8 billion) with commodity export earnings amounting to 45% of the commodity import bill (Table B-I). Since annual movements in imports and exports tended to move in the opposite direction, 1981-86, the year-to-year variability in the trade account was greater than the variability of either export receipts or import costs.

Exports are largely agriculturally based. Thus, for the 1983-85 period, exports of cotton (raw, yarn and cloth), rice, carpets, leather, guar and products, wool, fish, and fish preparations yielded 56% of total export earnings. Table B-II shows the proportion of major agricultural exports to total exports on an annual basis, 1980-1985. The share in total export earnings of raw cotton, rice (both basmati and other), rugs and carpets, and raw wool was falling while the share for cotton yarn, cotton cloth, raw wool, fish, and fish preparations rose. Export earnings from raw cotton and rice fluctuated widely. Table B-II shows that while the relative contribution of agricultural exports to total export earnings declined rather rapidly, 1980-1985, the contribution was still very large.

TABLE B-1

BALANCE OF PAYMENTS SUMMARY TABLE (\$ millions)

	1981	1982	1983	1984	1985	1986
TRADE BALANCE	-2765	-3450	-2989	-3324	-3552	-2992
Exports (fob)	2798	2319	2627	2669	2457	2965
Imports (fob)	-5563	-5769	-5616	-5993	-6009	-5957
INVISIBLES BALANCE, net	1802	1895	2436	2294	1867	1912
Services	-430	-492	-603	-713	-822	-898
Private Transfers	2232	2387	3039	3007	2689	2810
Workers' Remittances	2097	2224	2886	2739	2446	2570
CURRENT ACCOUNT BALANCE	-963	-1555	-553	-1030	-1685	-1080
CAPITAL ACCOUNT BALANCE	939	975	1252	944	718	1197
Long Term Capital (net)	672	912	1194	918	884	1193
Official Transfers	253	421	327	296	360	na
Official Disbursements	719	696	1168	1114	1069	na
Amortization	-383	-288	-389	-557	-632	na
Private (net)	83	83	88	65	87	na
Short Term Capital (net)	217	54	40	-7	18	na
Official Disbursements	492	462	219	111	na	na
Repayments	-333	-471	-452	-220	na	na
Foreign currency Deposit	58	63	273	102	na	na
SDR Allocation	37	0	0	0	0	na
Other					-167	na
Errors/omissions	13	9	18	33	-17	na
BALANCE OF PAYMENTS	-24	-580	699	-86	-967	117
Net Foreign Assets	24	580	-699	86	967	-117
IMF (net)	308	374	426	-15	-82	-243
Change in net reserves (== increase)	-284	206	-1125	101	1049	126
Memo Items:						
Current Account Deficit as percent of GNP	3.2	4.9	1.8	3.1	4.9	3.0
Reserves as months of imports	2.2	1.7	3.8	3.5	1.4	2.1

Source: World Bank, Pakistan: Economic and Social Development Prospects, Feb. 18, 1986, p. 21 with revisions provided by GOP. Data for 1986 are provisional actual.

TABLE B-II
MAJOR AGRICULTURAL EXPORTS AS A PERCENT OF
TOTAL EXPORTS, 1980-85
(%)

	1980	1981	1982	1983	1984	1985
Raw Cotton	14.2	17.8	10.6	11.3	4.8	9.6
Basmati Rice	9.5	9.8	7.4	5.5	8.9	4.4
Other Rice	8.3	9.3	8.3	5.2	6.5	4.5
Cotton Yarn	8.7	7.0	7.9	9.1	7.9	10.5
Cotton Cloth	10.3	8.2	11.2	10.4	13.1	12.1
Leather	5.4	3.0	4.4	3.5	5.3	6.1
Carpets	9.4	7.7	6.4	5.6	6.3	5.0
Fish and Prep.	2.3	1.9	3.0	2.6	2.7	3.3
Guar & Prod.	1.4	1.0	1.2	0.8	0.9	0.9
Raw wool	0.4	0.2	0.4	0.5	0.5	0.7
Total Major Agri. Exports	70.0	65.8	60.8	54.4	56.9	57.1

Source: Computed from p. 141, World Bank, Pakistan: Economic and Social Development Prospects, Feb. 18, 1986.

The composition of Pakistan's exports according to economic category has changed substantially over the last decade or so. Exports of manufactured goods contributed about 39% to total export earnings in 1975-76, rising to about 56% in 1984-85 (Table B-III). Primary commodities accounted for approximately 30% of the total, 1984-85, and semi-manufactured goods, about 15%. The relative contribution to export earning of the latter two commodity groups has gradually been declining.

TABLE B-III
ECONOMIC CLASSIFICATION OF EXPORTS AND IMPORTS

FY	% of All Exports			% of All Imports			
	Primary Commodities	Semi-Manufactures	Manu-factured Goods	Industrial Raw Materials for:			
				Capital Goods	Consumer Goods	Capital Goods	Consumer Goods
1972	45	27	28	11	24	42	23
1973	39	30	30	10	31	30	30
1974	39	23	38	7	40	30	24
1975	48	13	39	9	40	29	23
1976	44	18	38	6	28	35	21
1977	41	17	42	6	40	38	16
1978	36	15	50	7	40	34	20
1979	32	21	47	6	42	30	22
1980	42	15	43	6	42	36	16
1981	44	11	45	8	50	28	15
1982	35	13	52	8	48	30	14
1983	30	13	57	6	49	31	14
1984	29	14	57	6	48	32	14
1985	29	17	54	6	46	32	16

Source: 1985-86 Economic Survey, Economic Advisors' Wing, GOP, p. 122-123.

Table B-IV shows, for 1980-81 and 1984-85, the proportion of important import items to total imports. Note that "food" imports (tea, food grains - mainly wheat, and edible oil) constitute a significant portion (14% in 1984-85) of total commodity imports. The growth in edible oil imports reflects in part a very poor cotton crop in 1984 and high international oil prices. It also reflects a rapidly rising import trend since domestic production of oilseeds is growing at a much slower rate than domestic consumption of edible oil. The growth in food grain imports also reflects poor wheat crops in 1984-85. Fertilizer imports peaked in 1979 (1.58 million tons) and since then have been declining as new domestic production capacity has come on-stream.

TABLE B-IV

IMPORTS OF SOME IMPORTANT COMMODITIES AS A PERCENT OF
TOTAL COMMODITY IMPORT COST
(% of total import costs)

	<u>1979/80-80/81</u>	<u>1983/84-84/85</u>
Petroleum & Products	25.8	24.6
Machinery (non-electrical)	11.3	8.1
Transport Equipment	9.6	8.5
Edible Oil	4.9	8.1
Tea	2.1	3.7
Food Grain	1.7	2.2
Fertilizer	3.7	2.0
Chemicals	2.0	6.1

Source: Computed from data in 1985-86 Economic Survey, Government of Pakistan, Economic Advisers' Wing, p. 137.

Capital goods constitute about 30% of total imports and consumer goods about 15% (Table B-III). The long-run trend for these commodity groups as a percentage of total imports is downward. Imports of raw material for consumer goods are slightly less than 50% of total imports and raw materials for capital goods, about 6%. The long-run trend for the share of the former is upward whereas the trend for the latter is flat. The unit value of major imports rose sharply (almost doubled), 1978-82, but has been rather constant for the last 5-6 years.

Although petroleum prices have been down in recent years, it is the general consensus that the market price will eventually rebound. Under current demand levels, every five dollar increase in the per barrel price of crude oil adds some \$210 million to the annual import bill. At the same time, when oil prices increase, workers remittances from Middle Eastern countries may also increase. It is not clearly understood to what extent rising remittances would offset an increasing import bill for petroleum.

The terms of trade index fell sharply 1980-82 but has been rather stable since. It did decline some in 1986, however (with 1975-76=100, the index 1977-85 is as follows: 108.9, 105.3, 126.1, 111.4, 97.0, 89.2, 93.1, 92.0, 92.9 and 88.9. Source: p.121, 1985-86 Economic Survey).

Invisibles. Workers' remittances make a very important contribution to foreign exchange earnings (Table B-I). These remittances grew by an average of \$333 million annually, 1975-83. In that latter year, remittances peaked, reaching \$2.9 billion, and for the first time surpassed commodity export earnings. Remittances have been falling since 1983 and were \$2.6 billion in 1986. As Table B-I shows, the deficit in services is increasing rather sharply, due in no small part to growth in interest payments on external debt.

There is the very real likelihood of a fall of remittances because of the sharply reduced earnings of the Gulf States from their oil exports and the resultant pressures on their foreign reserves. Remittances dropped fourteen percent in the first quarter of PFY 1986-87. It is generally believed that workers who repatriate their foreign savings when returning permanently to Pakistan will help to keep total for the year from falling drastically, but a ten percent fall in remittances is entirely possible. This level of decline in remittances would amount to over \$250 million. This subject is quite important and merits close examination, perhaps by a survey of Pakistani workers and their Middle Eastern employers.

Foreign Capital Inflows. Exclusive of relief assistance for Afghan refugees, which amounts to \$150 million-\$200 million annually, gross disbursements of foreign capital averaged \$842 million annually, 1978-82; to \$1083 million, 1983-85; and rose to \$1357 million in 1986. Such disbursements are expected to increase again in 1987. Debt service payments averaged 67% of gross disbursements for the three years, 1984-86. This is exclusive of charges on IMF and short-term borrowing. When these latter two items are taken into account, net transfers amounted to only 18.5% of gross disbursements for the 1984-86 period. While gross disbursements are rising, debt servicing is rising faster. Net transfers as a percentage of gross disbursements have been falling. For the 1977-78 and 1980-1985/86 period, the respective percentages are: 56, 22, 22, 29, 13, 13 and 27. In millions of dollars, the net transfers for the same years were: 482, 186, 177, 322, 129, 148 and 368. (Source, GOP, 1985-86 Economic Survey, p.51)

Current Account. The current account deficit averaged \$1.14 billion annually, 1981-86. Year-to-year changes were very large. Thus, the deficit rose by 61% in 1982, then fell by 64%, rose by 84%, increased again by 64% and then fell by 36% in 1986. As a percent of GNP, there is no indication that the current account deficit was either increasing or decreasing during the 1981-86 period (see bottom of Table B-I).

The sharp deterioration in the current account balance in 1982 was due to the recession in industrialized countries and a weakening of world cotton and rice prices. Also, Pakistan's external competitiveness was reduced because during most of 1981 the rupee appreciated against most non-US currencies, making Pakistani exports relatively more expensive. In 1985, the fall in export performance, and the sharp deterioration in the current account was due to weakening conditions in world commodity markets and reduced external competitiveness resulting partly from the effective appreciation of the rupee against major European currencies. Cotton exports rose in volume terms by 170% as cotton

output increased dramatically from the very poor crop of the prior year. While cotton prices fell (by 11%) export earnings from cotton increased by about 110%. Rice receipts fell by almost 50%, reflecting mainly a lower export volume. Receipts from manufactured goods fell by about 10%. This was due partly to the above noted appreciation of the rupee but also to quantitative restrictions in some markets and weaker demand in some of the Middle East countries. The share of exports to oil-producing countries increased from 16% in 1981 to 27% in 1984 but fell sharply to about 11% in 1985.

Overall Balance of Payments. Over the last six years, 1981-86, the overall balance of payments was in surplus for two years and in deficit for four (See Figure B.I). The deficits totaled \$1.66 billion and the surpluses \$0.82 billion, with the net deficit over the period averaging \$140 million annually.

Looking at the 1981-86 period, there was a small deficit in the balance of payments in 1981. The deficit increased sharply in 1982 as export earnings fell abruptly. Had it not been for the debt rescheduling in 1981, the deficits would presumably have been substantially larger. The debt relief was sizeable for those two years, amounting to \$161 million in 1981 (\$133 million principal and \$28 million interest) and to \$258 million in 1982 (\$204 million principal and \$54 million interest).

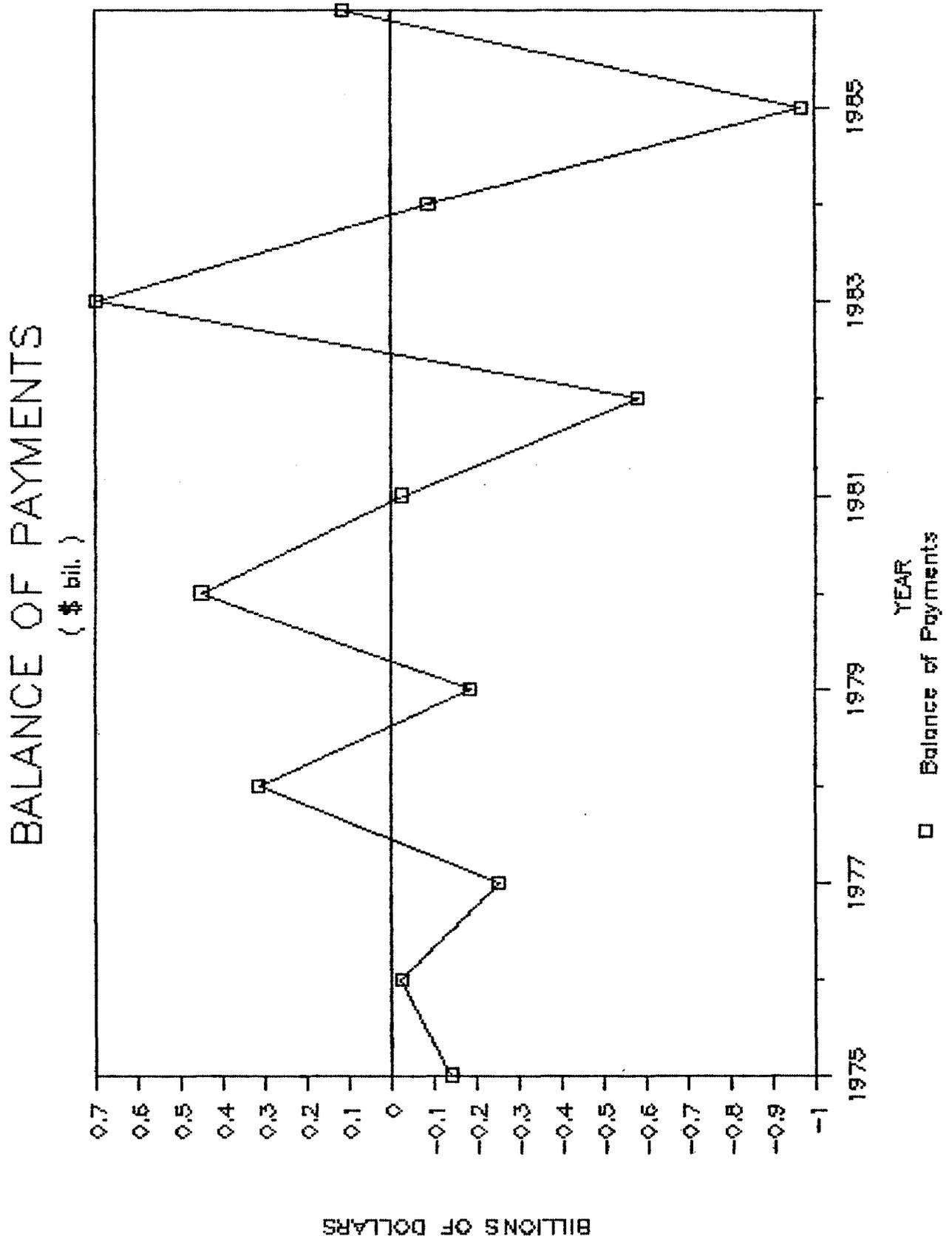
In 1983, there was a sizeable surplus in the balance of payments as export earnings and remittances both rose markedly while imports fell. This resulted in a very modest current account deficit. Also in that year, the capital account surplus was larger than for any of the six years, 1981-86. Net reserves increased by over a billion dollars and gross official reserves more than doubled, reaching almost \$2 billion at the end of FY 83. The following year experienced a modest deficit in the payments balance but there was a severe deterioration in the external account in 1985. In that year both exports and remittances fell, the latter rather sharply, and the current account deficit rose by over 60%. The capital account surplus also fell abruptly and the deficit in the balance of payments was almost \$1 billion. Net reserves fell by more than \$1 billion as did foreign exchange, with gross reserves being equal to about 5-6 weeks of imports.

There was an improvement in 1986, with earnings from exports growing strongly and imports declining some, leading to a greatly improved trade balance. Workers' remittances recovered some from the prior year and the deficit in the current account balance declined by 36%. The capital account balance also increased sharply. The overall surplus in the balance of payments is now estimated at \$117 million. Of interest is the fact that during 1981-83, the GOP was making substantial use of Fund credit, which increased from \$308 million in 1981 to \$426 million in 1983. However, repurchases have been greater than purchases for each of the three years, 1984-86.

Foreign Reserves. During 1981-83 Pakistan's gross official reserves (including about 1.8 million ounces of gold valued at SDR 35 per fine ounce) increased by \$1.15 billion to \$1.98 billion, equivalent to some

Figure B.I

BALANCE OF PAYMENTS



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15 weeks of imports (Table B-V). This result reflected a cumulative overall balance of payments surplus of \$95 million, net purchases from the Fund of \$1.01 billion and rollovers of deposits by oil producing countries at the State Bank. Gross official reserves peaked at over \$2.0 billion at the end of December, 1983 and declined somewhat in 1984 before plunging by almost 60% in 1985 to \$739 million. At the end of December, 1985, reserves amounted to \$854. Gross official reserves (foreign exchange, SDR's, reserve position in the Fund and gold) increased rather rapidly in CYs 1980-83, but fell sharply in CYs 1984-85. At the end of June 1983, these reserves were equivalent to 15.2 weeks of imports (c.i.f.) but fell to 5.2 weeks at the end of June 1985. In October, 1986, Pakistan's official reserves stood at \$737 million, or about 6.4 weeks of imports.

TABLE B-V

GROSS OFFICIAL RESERVES (\$ millions)

End of Month	Reserve Position in Fund	SDRs	FX	Sub-Total	Gold	Total
6/79	0	58	328	386	80	466
6/80	0	54	694	748	84	832
6/81	0	85	973	1058	74	1132
6/82	47	44	718	809	71	880
6/83	63	29	1819	1911	70	1981
6/84	91	36	1604	1732	67	1799
6/85	89	3	581	673	66	739
12/85	0	1	780	781	73	854
3/86	0	1	924	925	76	1001
5/86	0	4	915	919	76	995

Source: IMF, International Financial Statistics. Gold is valued at SDR 35 per fine ounce and converted to dollars at end-month SDR/\$ rates.

External Public Debt/Debt Servicing. Total external debt, disbursed and outstanding, rose from \$10.9 billion at end of 1981 to \$12.7 billion at the end of 1985. The largest increase was in 1983, mainly as a result of a large use of Fund credit. The ratio of total debt to GNP rose from 36% to 38%. While relatively low compared to GNP, it is quite sizeable relative to the balance of payments current account receipts. The latter ratio rose from 183% in 1981 to 212% in 1985.

The medium and long term external debt amounted to \$12.0 billion at the end of 1985. This does not include military and non-guaranteed private debt. Short term debt is estimated to have been \$0.75 billion at the end of 1985. Short term debt fell by about 25% over the 5-year period, due entirely to a sharp decline in government short term debt to foreign financial institutions, in particular commercial banks, following the lengthening of maturities in the 1982-84 period. Debt servicing amounts to about 2.3% of GNP.

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Annual debt repayment on loans from the U.S. Government will rise from \$250 million in FY87 to over \$500 million by FY93 (Table B.VI).

TABLE B-VI

ESTIMATED DEBT REPAYMENT ON US GOVERNMENT LOANS
1986-1993
(\$ mil.)

	YEAR							
	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93
AMOUNT	192	250	400	436	475	493	499	531

Source: Mission Estimates

N.B. This debt repayments have been included as part of the "Foreign Loans" line item in Annex Table A.IV.

Actual debt service payments (i.e., after debt relief and including use of Fund credit) rose from \$880 million in 1981 to \$1178 million in 1985. As a percent of current account receipts, the debt service ratio rose from 14.7% in 1981 to 19.7% in 1985. The ratio is much higher when remittances are excluded, amounting to 35.1% at the end of 1985. These ratios do not take into account repayment of short term debt, but include interest on such debt. The comparatively low debt service ratios for Pakistan, notwithstanding the relatively high ratio of external debt to exports of goods and services, is a reflection of the favorable terms of borrowing, on average. The average interest rate on disbursed debt outstanding (excluding deposits of monetary authorities with the State Bank and foreign liabilities of commercial banks) rose from 3.2% to 3.8% over the period. (The source for this section, External Public Debt/Debt Servicing, is IMF, Pakistan: Recent Economic Developments, March 10, 1985, pp 78-80.)

Exchange Rate Management. Between February 16, 1973 and January 7, 1982, the rupee was pegged to the U.S. dollar at the rate of Rs. 9.90 = US \$ 1.00. In a move aimed at restoring the country's rapidly deteriorating external competitiveness, on January 8, 1982 the rupee was delinked from the dollar and a managed floating rate system based on a trade-weighted basket was introduced. Since September 1985 the rate has been managed on the basis of several currency baskets including, inter alia, the trade weighted basket, an industrial countries weighted basket, and developments in certain bilateral rates.

The current rate of about Rs. 17 = US \$1 represents a depreciation of the rupee against the dollar by about 40% since the introduction of the managed floating system in 1982.

Trade Regime/The Quest for Reserves. Prior to 1984, Pakistan relied on an import system that specified permitted imports. The 1983/84 Import Policy Order introduced a negative/restricted list of import system in its place. However, the restrictive list is extensive and import procedures generally remain complex. The country has a long history of promoting import substitution by protecting domestic industry with tariff barriers. The high degree of protection is an obstacle to improvements in efficiency and in product quality in many existing industries. On July 1983, a study of the effective protection accorded to the industrial sector was undertaken. This study was intended to be used as the basis of a comprehensive tariff reform. While there has not been a tariff reform, a large number of tariff adjustments have been made aimed at reducing anomalies and adjusting levels of protection.

The GOP has provided a number of incentives to promote exports and to earn additional foreign exchange. Such incentives include export subsidies, import duty/sales tax (paid on raw materials required for production of exports of manufactured goods) rebates, income tax rebates, and concessional export financing. However, the system of export incentives still leaves production for the (protected) domestic market considerably more profitable than for the export market.

In addition to the export incentives, foreign exchange bearer certificates were introduced on August 1, 1985 as a means of increasing foreign exchange reserves. These certificates may be purchased by foreigners as well as Pakistanis. The certificates must be purchased in foreign exchange and are available in denominations ranging from Rs 500 to Rs 100,000. If purchased in Pakistan, the payment has to be made either from a foreign currency account, by travelers' check, or through remittances from abroad. The certificates are tax-exempt, and bearer in character. They can be freely taken in and out of the country, and can be encashed at any time in rupees or in foreign exchange at the exchange rate prevailing at the time of the encashment. The amount payable in terms of Pakistani Rupees is 14.5% higher than the certificate's face value one year after issuance, 31% after two years, and 52% after three years. The certificates may be used by residents to undertake any current and capital exchange transactions.

The GOP has also taken other measures to encourage the repatriation of foreign exchange by nationals. The seriousness of the problem of foreign exchange shortages as perceived by the GOP is perhaps best exemplified by one of the Ministry of Industries' many criteria for sanctioning: the import requirements of the proposed project and "the overriding consideration of the net effect on foreign reserves." To bolster their international reserves, the Government recently signed (October 1986) a \$100 million loan agreement in London with a group of fourteen international banks. The Government also announced that it was negotiating with the IMF for a \$50 million loan from the Fund's Structural Adjustment Facility.

Summary/Conclusions. It seems reasonable to expect that workers' remittances will continue to decline as the oil exporting Gulf States adjust to lower oil prices and sharply lower earnings from oil exports. As noted, there has already been a marked decline in Pakistan's exports to those countries where prospects for a rapidly growing market were once so bright. Neither is the weak world demand for some of Pakistan's major exports (cotton and rice) likely to revive for some time. Moreover, it is difficult to see net concessional aid growing very rapidly; as noted, the trend for the last seven years has been downward. While the country has the capacity to increase its commercial loans, there is clearly a limit.

Given these various factors, we believe that there will be continuing and increasing pressures on the country's balance of payments position. If remittances fell by 10 percent, the price of oil increased by \$5 per barrel, donor disbursements declined, and foreign debt servicing scheduling remained the same, the total would be over \$500 million dollars of foreign exchange lost. This would have a serious impact on foreign exchange and require difficult adjustments in Pakistan's economy.

Yet, for the country to maintain a relatively high rate of economic growth, imports will also have to grow. To earn the foreign exchange to help finance these imports, it is critical that the country promote exports and expand its capacity to successfully compete in the world markets for both raw and especially manufactured goods. This means that exchange rate management will be especially important. It also means that over the intermediate and longer term, domestic industries will need to become more competitive, to be more exposed to the discipline of foreign competition as an incentive to keep costs down and to improve product quality. It will thus require a liberalization in import policy.

ANNEX - C
AGRICULTURAL SECTOR- ACHIEVEMENTS, CHALLENGES, AND POLICIES

Achievements. In many ways, the success of Pakistan's agricultural sector has been remarkable. A major benefactor of the Green Revolution, Pakistan has become self-sufficient in almost all major agricultural commodities in most years. Agriculture accounted for some 25% of the Gross Domestic Product (GDP) in 1984/85 (Table C-I). Although the share of agriculture in the GDP has fallen, this simply reflects faster growth in the industrial and service sectors of the economy. Of the value added by the agricultural sector, major crops (Table C-II) make up about 50%, minor crops some 16%, livestock about 31%, and forestry and fishing the remaining 3%.

In real value terms, the agricultural sector's total output has increased every year in the past decade except one. The average annual growth rate for the sector was 3.1% over the period from 1950-1983, which compares favorably to other countries in Asia. Bad harvests in 1984 led to a decrease of agricultural value added of 6.1%, but the sector rebounded strongly in 1985 with an annual growth rate in value added of 9.9%.

Much of this growth has been due to increases in the amount of land cultivated. But some has come from the increased use of inputs such as improved seeds (the high-yielding wheat and rice varieties of the Green Revolution), fertilizer, and pesticides. The irrigation system, already one of the largest in the world, was expanded and improved and thousands of tubewells were dug, giving farmers better control of water. Tractors became a normal part of operations for farmers large and small, creating more opportunities for labor than were taken away according to some estimates.

The agricultural sector provides employment for an estimated 14.5 million people, some 50% of the economically active population in Pakistan. The 1980 Agriculture Census data show that there are 4.07 million farms, of which some 51% are smaller than 3 hectares. Owner operated farms comprise some 55% of the total number of private farms, while the other 45% are operated all or in part by tenant farmers (see Asian Development Bank, 1985, p. 160). Farms over 5 hectares in size account for 67% of the land farmed but are only 25% of the total number of private farms (Table C-III).

The agricultural sector accounts for a major portion of the Pakistan's total exports. Pakistan is the world's third largest exporter of rice after the United States and Thailand, and may be the world's largest exporter of cotton in 1986. In FY85, exports of agricultural commodities including cotton, rice, fish, guar gum, and raw wool were worth US\$579 million and made up 23.4% of the US\$2.48 billion total of goods exported (Table C-IV). Exports of goods which were made from raw materials provided by the agricultural sector, including cotton yarn and cloth and leather, were worth US\$713.7 million in FY85, or 28.7% of the total value of exports. Hence, agriculture was directly and indirectly responsible for some 52% of Pakistan's exports in FY85, and the percentage has been as high as 70%, depending on the year and the definition of agricultural exports.

TABLE C-I

GROSS DOMESTIC PRODUCT AT CONSTANT FACTOR COST, 1974/75-1985/86 /a
(million 1959/60 rupees)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Agriculture	13,074	13,659	14,002	14,368	14,854	15,836	16,422	17,010	17,609	16,527	18,158	19,127
Major crops	7,455	7,833	7,944	8,115	8,315	9,105	9,463	9,836	10,213	8,766	10,009	-
Minor crops	1,679	1,839	1,920	1,962	2,023	2,086	2,125	2,189	2,251	2,332	2,414	-
Livestock	3,799	3,875	3,997	4,133	4,274	4,418	4,574	4,742	4,902	5,172	5,458	5,758
Fishing	82	86	96	100	148	137	170	172	179	198	210	-
Forestry	59	26	45	58	94	90	90	71	64	59	67	-
Mining and quarrying	181	175	206	212	221	250	283	306	319	326	374	408
Manufacturing	6,136	6,231	6,350	6,996	7,557	8,330	9,212	10,476	11,445	12,366	13,426	14,593
Large scale	4,509	4,486	4,477	4,966	5,356	5,944	6,626	7,673	8,407	9,073	9,856	10,723
Small scale	1,627	1,745	1,873	2,030	2,201	2,386	2,586	2,803	3,038	3,293	3,570	3,870
Construction	1,754	2,094	2,076	2,248	2,371	2,644	2,755	2,842	2,863	3,097	3,249	3,460
Electricity, gas and water	949	985	1,143	1,244	1,366	1,531	1,698	1,777	1,916	2,249	2,408	2,540
Transport, storage & communications	2,575	2,605	2,650	3,025	3,271	3,490	3,770	4,036	4,351	4,621	4,861	5,143
Commerce	5,622	5,724	5,706	6,260	6,665	7,155	7,635	8,480	9,079	9,429	10,390	11,138
Financial institutions and insurance	1,006	1,039	1,124	1,256	1,337	1,312	1,302	1,400	1,708	2,019	2,145	2,274
Ownership of dwellings	1,321	1,369	1,418	1,469	1,522	1,577	1,634	1,693	1,754	1,817	1,883	1,950
Public administration & defense	3,972	3,854	4,135	4,657	4,906	5,209	5,761	5,844	6,169	6,633	7,299	7,737
Services	2,803	2,964	3,060	3,319	3,510	3,711	3,924	4,149	4,387	4,639	4,905	5,185
GDP at factor cost	39,393	40,699	41,870	45,054	47,580	51,045	54,396	58,013	61,600	63,723	69,098	73,555
Indirect taxes less subsidies	2,640	3,302	3,856	4,345	3,798	5,400	6,424	5,466	6,250	7,095	7,498	8,079
GDP at market prices	42,033	44,001	45,726	49,399	51,378	56,445	60,820	63,479	67,850	70,818	76,596	81,634

/a Figures for 1983/84 are revised, for 1984/85 are provisional, and for 1985/86 are targets.

Source: Planning and Development Division.

World Bank, 1986, p. 126.

TABLE C-II
AGRICULTURAL PRODUCTION, 1974/75-1984/85 /a
(thousand metric tons)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85
Foodgrain cereals											
Rice	2,314	2,618	2,737	2,950	3,272	3,216	3,123	3,430	3,445	3,340	3,457
Wheat	7,674	8,691	9,144	8,367	9,950	10,857	11,475	11,304	12,414	10,882	11,500
Bajra (millet)	266	308	311	318	317	277	214	272	222	256	284
Jowar (sorghum)	266	281	261	284	252	249	230	225	222	222	230
Maize	747	803	764	821	799	875	970	930	1,005	1,014	1,027
Barley	137	130	124	121	129	118	176	158	185	140	-
Pulses											
Gram	550	601	649	614	538	313	337	294	491	522	519
Mash	26	30	25	27	25	33	34	33	36	40	48
Masoor	27	26	31	34	36	34	30	31	30	22	28
Mung	29	32	30	31	30	33	32	32	40	42	45
Other pulses	85	92	108	107	104	95	93	99	97	175	110
Oilseeds											
Rape and mustard	248	267	296	235	248	247	253	238	240	217	231
Sesamum	8	11	12	13	19	19	18	17	11	-	-
Cottonseed	1,267	1,027	870	1,149	946	1,456	1,428	1,496	1,648	-	-
Groundnuts	57	62	64	72	46	50	57	72	84	88	69
Cash crops											
Cotton (lint)	634	514	435	575	473	728	715	748	824	495	1,003
Sugarcane	21,242	25,547	29,523	30,077	27,326	27,498	32,359	36,580	32,534	34,287	32,948
Tobacco	77	58	75	74	68	78	67	69	65	80	-
Condiments and spices											
Onions	303	323	325	390	434	448	452	452	475	503	-
Garlic	25	17	18	32	38	39	37	42	51	-	-
Chillies	52	79	78	81	98	109	106	100	104	-	-
Vegetables											
Potatoes	290	321	318	294	392	449	394	477	518	510	534
Other vegetables	1,701	1,524	1,325	1,461	1,587	1,433	1,549	1,616	1,803	1,918	-

/a 1984/85 data are provisional. Source: Ministry of Food, Agriculture and Cooperatives.
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TABLE C-III
NUMBER AND AREA OF FARMS BY SIZE OF FARMS
(1980)

Size of Farm (ha)	FARMS		FARM AREA	
	Number	%	Total (ha)	%
All farms	4,069,611	na	19,108,965	na
Government farms	192	na	49,995	na
Private farms	4,069,419	100	19,058,970	100
under 0.5	327,091	8	94,509	0
0.5 to under 1.0	374,289	9	276,131	1
1.0 to under 2.0	685,014	17	972,766	5
2.0 to under 3.0	684,557	17	1,626,579	9
3.0 to under 5.0	917,508	23	3,566,356	19
5.0 to under 10.0	706,395	17	4,703,818	25
10.0 to under 20.0	263,989	6	3,392,721	18
20.0 to under 60.0	96,495	2	2,802,516	15
60.0 and above	14,081	0	1,623,574	9

na - not applicable

0 - percentage less than 0.5

Source: Census of Agriculture, 1980, Vol. 1
Table 1.1 (Lahore, 1983)

TABLE C-IV

VOLUME, VALUE AND UNIT VALUE OF MAJOR EXPORTS, 1976/77-1984/85 /a

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85
Raw Cotton									
Volume (M.Kg)	18.00	101.00	55.00	251.00	325.00	231.30	254.92	98.22	259.59
Value	29.50	110.10	66.20	335.30	525.60	264.00	305.62	131.44	238.95
Price (\$/Kg)	1.64	1.09	1.20	1.34	1.62	1.14	1.20	1.34	0.92
Basmati Rice									
Volume (000 MT)	500.00	280.00	180.00	320.00	410.00	261.81	237.74	405.93	174.06
Value	173.00	124.00	135.40	225.50	290.00	185.42	148.24	243.84	108.66
Price (\$/MT)	346.00	442.86	752.22	704.69	707.32	708.22	623.54	600.69	624.27
Other Rice									
Volume (000 MT)	450.00	600.00	830.00	770.00	830.00	689.22	667.10	859.10	544.63
Value	77.30	119.30	206.00	196.70	275.80	205.85	141.49	178.14	111.50
Price (\$/MT)	171.80	198.83	248.17	255.45	332.29	298.67	212.10	207.36	204.73
Cotton Yarn									
Volume (M.Kg)	66.60	60.00	97.90	99.90	95.20	95.60	134.10	101.81	125.13
Value	118.40	107.00	197.60	205.90	207.00	196.67	247.51	217.42	260.45
Price (\$/Kg)	1.78	1.78	2.02	2.06	2.17	2.06	1.85	2.14	2.08
Cotton Cloth									
Volume (M.Sq.Mtr)	416.60	453.50	531.80	545.80	500.90	584.30	605.33	664.38	677.76
Value	162.00	175.70	215.70	244.20	241.40	279.50	281.59	360.24	301.12
Price (\$/Sq.Mtr)	0.39	0.39	0.41	0.45	0.48	0.48	0.40	0.54	0.44
Leather									
Volume (M.Sq.Mtr)	8.50	8.70	12.70	10.20	8.80	11.01	10.74	16.64	15.45
Value	65.40	64.30	124.00	127.70	90.10	109.21	94.02	146.27	152.12
Price (\$/Sq.Mtr)	7.69	7.39	9.76	12.52	10.24	9.92	8.75	8.79	9.85
Carpets									
Volume (M.Sq.Mtr)	2.10	1.90	2.50	2.70	2.50	1.93	2.23	4.69	1.82
Value	91.40	118.30	174.80	222.10	226.60	159.10	150.50	172.31	123.64
Price (\$/Sq.Mtr)	43.52	62.26	69.92	82.26	90.64	82.44	67.49	36.74	67.93
Fish and Preparations									
Volume (M.Kgs)	14.30	13.40	13.60	13.20	19.70	17.60	16.58	27.63	36.29
Value	38.50	34.50	14.70	53.60	56.50	74.87	70.58	74.71	80.86
Price (\$/Kg)	2.69	2.57	1.08	4.06	2.87	4.25	4.26	2.70	2.23
Guar & Products									
Volume (MT)	80.00	90.00	110.00	90.00	50.00	60.00	60.00	70.00	66.47
Value	18.30	20.50	27.50	33.60	28.90	28.90	21.90	25.91	22.12
Price (\$/MT)	0.23	0.23	0.25	0.37	0.58	0.48	0.37	0.37	0.33
Readymade Garments									
Volume (M. Doz)	2.68	1.93	2.54	3.78	4.51	4.89	5.70	9.13	6.95
Value	42.20	29.80	38.10	53.90	75.30	94.20	117.83	160.58	129.64
Price (\$/Doz)	15.75	15.44	15.00	14.26	16.70	19.26	20.67	17.59	18.65
Synth. Tex. Fab.									
Volume (M.Sq.Mtr)	9.20	31.30	10.30	5.10	90.80	12.30	140.24	66.14	27.89
Value	3.64	15.55	6.56	5.45	128.48	23.50	220.12	107.70	40.62
Price (\$/Sq.Mtr)	0.40	0.50	0.64	1.07	1.41	1.91	1.57	1.63	1.46
Raw Wool									
Volume (M.Sq.Mtr)	4.20	4.90	5.30	4.20	2.70	5.80	7.14	8.24	10.86
Value	7.60	7.37	10.10	9.59	5.05	10.62	12.50	12.71	17.04
Price (\$/Kg)	1.81	1.50	1.91	2.28	1.87	1.83	1.75	1.54	1.60
Others									
Value	313.56	384.58	492.94	651.16	806.77	843.70	896.95	916.29	893.60
Total Exports									
Value	<u>1,140.80</u>	<u>1,311.00</u>	<u>1,709.60</u>	<u>2,364.70</u>	<u>2,957.50</u>	<u>2,490.04</u>	<u>2,709.81</u>	<u>2,747.56</u>	<u>2,480.32</u>

/a Values in million US dollars.

Source: Planning and Development Division.

World Bank, 1986, p. 141.

In the area of nutrition, increases in the production of foodgrains have generally enabled Pakistan to claim food self-sufficiency. The Sixth Plan (p.5) states that daily per capita caloric intake in 1983 was 2,464 calories (99% of the recommended level) and that there was little incidence of malnutrition. While some studies (Lambert, 1983-1984) suggest that this statement may be overly optimistic, it is clear that the agricultural sector has kept up with population growth and generally provides sufficient quantities of food to the population of Pakistan. Problems of malnutrition are due more directly to poverty, poor education, and deficient health practices.

While the major credit for the success of Pakistani agriculture must go to the farmers, the Government has made considerable progress towards creating a policy environment conducive to the long-term growth of agriculture. Support prices for most crops have been adjusted to reflect prices in international markets (parity prices). The supply of water and other inputs was increased while subsidies on pesticides and fertilizers were reduced. Allocations for the rehabilitation and maintenance of the irrigation system were raised and supporting agricultural services were emphasized. Widespread disbursement of agricultural credit has been a high priority of the GOP.

Challenges & Policies. In spite of this success, the agricultural sector will have to confront many new challenges in the next decade. Faced with a rapidly growing population that must be fed and employed, growing budget deficits, and the need to expand and diversify exports, the agricultural sector will have to: 1) increase low crop yields; 2) improve the system of agricultural research and extension; 3) make the marketing, processing, and distributing of agricultural inputs and outputs more effective; 4) diversify and expand exports; and 5) help to develop the private sector, particularly agribusiness. Policy issues contributing to these challenges are included in the analysis that follows.

1. Increasing Crop Yields

It is generally conceded that crop yields in Pakistan are low, especially in comparison with other Asian countries (Table C-V). Several

TABLE C-V
COMPARATIVE AGRICULTURAL YIELDS, 1983
(Kg. Per Hectare)

COUNTRY	WHEAT	PADDY	SEED COTTON	SUGARCANE
Pakistan	1,678	2,518	728	35,679
India	1,836	2,122	501	56,200
Korea	3,348	6,193	897	-
Thailand	-	1,972	1,152	40,600
Turkey	1,855	4,667	2,541	-
Egypt	3,621	5,810	2,883	87,500
Asia Average	2,049	3,134	747	76,500
World Average	2,150	3,048	1,413	71,000

Source: Ministry of Food, Agriculture and Cooperatives, and FAO.

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comments can be made about this phenomenon. First, recent work by CIMMYT researchers in Pakistan suggests that "farmers are quite rationally choosing to plant wheat late to maximize productivity of the total cropping patterns. Simple economic calculations show that the returns to one additional cotton picking are more than double the value of wheat lost due to delayed planting." (Byerlee and Hobbs, 1986, p. 20) Hence, higher yields may not always be the appropriate way of measuring the productivity and success of a farming system. Second, in historical perspective, yields have risen in Pakistan for many crops. The high-yielding varieties introduced in the late 1960's, improved water control, and the increased use of pesticides and fertilizers have increased yields substantially for wheat, rice, and cotton (Table C-VI).

It is clear, however, that improvements in yields began to slow in the 1970's and that yields will have to improve in the 1980's and 1990's to meet the export needs of Pakistan and the basic food needs of its rapidly growing population. Byerlee and Hobbs predict, at least for wheat, that "the next spurt in productivity increases will come about through improvements in management practices for the production of wheat to exploit the genetic potential of currently available varieties" (Byerlee and Hobbs, 1986, p. 50). Under the heading of management come many categories, including expansion and better control of water supplies; more effective production, distribution, and application of agricultural inputs such as fertilizer, pesticides, mechanized farm implements; and the increased local production and distribution of high quality seeds. There is also a critical need for an improved system of agricultural research, extension, and education capable of conducting relevant local research and disseminating their findings to the farming community.

Irrigation. Water losses in the irrigation system are as high as 50% in some areas and farmers at the end of the system receive insufficient quantities of water. In addition, inadequate drainage, leading to salinity and waterlogging, is a serious problem in Pakistan.

Policy issues in irrigation can be classified into two categories: (1) improving management of the irrigation system, and (2) how to pay for the irrigation system's capital, operational, and maintenance costs. Total irrigation subsidies for the period from 1981-1985 were some 3.78 billion rupees. To improve the overall technical efficiency and distributional fairness of the irrigation system, the GOP must collect enough funds from users of the system to pay for operation and maintenance. This would encourage the conservation of water by users and generate sufficient funds to end irrigation subsidies. At the same time, the GOP will have to improve the delivery of services to the users of water before it is realistic to increase water user charges by any significant percentage. (See Annex G for more information).

TABLE C-VI
Yield Per Hectare of Major Crops
 (1949/50 to 1982/83)
 (kg/ha)

	Total Wheat	HYV Wheat	Total Rice	HYV Rice	Cotton (lint)	Maize	Sugar- cane	Rape/ Mustard
1949/50	938	N.A.	862	N.A.	198	1,014	35,840	395
1959/60	801	N.A.	826	N.A.	217	1,026	26,856	426
1960/61	822	N.A.	872	N.A.	232	914	30,002	428
1961/62	817	N.A.	1,010	N.A.	232	1,031	32,335	454
1962/63	830	N.A.	923	N.A.	266	1,065	34,725	520
1963/64	829	N.A.	926	N.A.	284	1,052	33,836	444
1964/65	863	N.A.	995	N.A.	257	1,086	37,113	438
1965/66	759	N.A.	945	N.A.	265	996	37,368	411
1966/67	811	N.A.	968	N.A.	285	1,059	33,870	441
1967/68	1,072	2,333 <u>a/</u>	1,056	N.A.	290	1,302	37,023	505
1968/69	1,074	1,660 <u>a/</u>	1,306	2,121 <u>a/</u>	302	1,016	40,611	518
1969/70	1,170	1,771 <u>a/</u>	1,480	2,057 <u>a/</u>	305	1,030	42,532	532
1970/71	1,083	1,530 <u>a/</u>	1,463	1,928 <u>a/</u>	312	1,121	36,426	527
1971/72	1,188	1,604 <u>a/</u>	1,553	1,937 <u>a/</u>	361	1,113	36,164	535
1972/73	1,245	1,651	1,577	1,946 <u>a/</u>	349	1,094	37,424	537
1973/74	1,245	1,651	1,623	1,909 <u>a/</u>	357	1,213	37,071	544
1974/75	1,319	1,642	1,439	1,725 <u>a/</u>	312	1,216	31,563	549
1975/76	1,420	1,734	1,531	1,937	277	1,295	36,495	568
1976/77	1,431	1,719	1,565	1,942	233	1,224	37,465	570
1977/78	1,316	1,517	1,553	1,961	311	1,251	36,590	572
1978/79	1,488	1,675	1,615	1,919	250	1,229	36,337	572
1979/80	1,568	1,715	1,581	2,031	349	1,248	38,298	603
1980/81	1,643	1,798	1,616	2,136	324	1,230	39,223	606
1981/82	1,567	N.A.	1,736	2,315	337	1,258	38,627	616
1982/83	1,695	N.A.	1,724	N.A.	361	1,311	37,611	N.A.

a/ Based on World Bank, April 1980, op cit, page 17.

Source: Asian Development Bank, 1985, p. 705

Fertilizer. Pakistan has been highly successful in developing a domestic fertilizer industry. Fertilizer use has increased 1,000 fold since the late 1950's, and commercially produced fertilizer is used by an estimated 75-85% of Pakistan's farmers. The public sector is heavily involved in the production and marketing of fertilizer.

The GOP needs to improve the fertilizer marketing and distribution system. Reducing marketing costs should receive high priority since they account for a large portion of the cost of fertilizer. While the marketing costs of the National Fertilizer Marketing Ltd. and the private sector firms are similar, the provincial distribution agencies incur substantially higher costs, principally because of their failure to curtail administrative and other overhead costs. The private sector should be allowed a greater role in the marketing and distribution of fertilizer as a means of reducing marketing costs and hence the need for subsidies.

The fertilizer industry has been highly regulated. Until recently, the GOP had fixed the sales price of all fertilizer and allocated imported fertilizer between public and private sector distributors. As of early May 1986, the GOP removed price controls on urea and other nitrogenous fertilizers. Distribution of domestically-produced urea was also deregulated, although the distribution of imported urea is still allocated via a set formula. The sales price and distribution of phosphatic fertilizers are still controlled.

Fertilizer subsidies accounted for 58% of the total agricultural development budget during the Fifth Five-Year Plan. The system as it stands discourages new private investment in the industry, and is an enormous burden on the development budget, leaving insufficient funds for other agricultural development purposes. Fertilizer subsidies should be reduced and finally abolished.

Denationalization of publicly-held urea production plants would provide the GOP more funds that could be used as loans to the private sector for the construction of new fertilizer plants that will soon be needed to meet increased fertilizer demand.

In sum, the denationalization of fertilizer plants and the elimination of subsidies would result in greater efficiency in the fertilizer sector and a net budgetary gain for the GOP. This would also create a reinvestable surplus for present fertilizer producers and generate a considerable sum of money that the GOP could loan for new fertilizer plants. Finally, fertilizer prices would only be marginally higher for nitrogenous fertilizers and supportably higher for phosphatic fertilizers (see Annex D for more information).

Improved seeds. There has been a marked deterioration in the quality of the HYV seed used by Pakistan's farmers. The GOP needs to provide the necessary framework to encourage the establishment of a viable commercial seed industry. Several positive incentives have recently been introduced, but the regulatory environment is still not entirely conducive to the establishment of seed companies.

2. Agricultural Extension, Education, and Research

It is generally recognized that Pakistani farmers are poorly served by an undertrained and poorly-financed extension service. Weak linkages with research and educational institutions and inadequate coordination among agencies further undermine the effectiveness of the extension services. Too little micro-level research is done, resulting in general technical package recommendations by extension agents which are not well suited to specific areas. USAID is actively engaged with the GOP in strengthening the agricultural education and research system through the TIPAN and MART projects.

3. Pricing, Marketing, and Processing

The GOP prescribes support prices for all major crops, setting price levels that reflect international trends as well as production costs and net returns to farmers. The marketing and processing problems associated with the major crops can be summarized as follows:

Wheat. Poor harvests in 1983-84 forced the GOP to import grain in 1984 and 1985. The present support price has been set some 120% above international levels to encourage production. CIMMYT agronomists have warned, however, that Pakistan is vulnerable to a rust epidemic which could seriously affect grain production unless measures are taken to introduce different rust-resistant varieties.

The GOP operates a procurement system whereby farmers may choose to sell to either private agents at the open market or to government centers at the support price. The procurement system serves as both a means to support prices and a way of procuring wheat for the ration shops. The goal of the ration shop system is to provide low cost wheat to the poor. However, recent studies show that the ration shop system is reaching a relatively small number of the poor and at a relatively high price. Part of the reason the cost is high is because large amounts of grain meant for the ration shops are diverted out of the system. The ration shop system needs to be fundamentally altered. Also, measures should be taken to involve the private sector in wheat procurement and storage (see Annex F for more information).

Rice. The GOP is trying to encourage higher production of IRRI-6 rice, so its procurement price is set approximately 18-21 percent higher than international prices. The price of basmati rice remains substantially below its export parity price. As a result, the publicly-owned Rice Export Corporation of Pakistan (RECP) buys the basmati from farmers at almost 50% below world market prices and very profitably sells the rice, largely to markets in the Middle East. Private traders have recently been allowed to procure Basmati rice, although the RECP still holds the monopoly right to export.

The GOP should consider denationalization of the RECP to improve marketing efficiency through increased private sector participation and greater competition.

Edible Oils. During the past decade, domestic production of edible oils stagnated due largely to domestic price controls while consumption nearly doubled. This led to a foreign exchange problem, since Pakistan now imports four-fifths of its edible oil at a cost of \$500 million in foreign exchange. In addition, the GOP spent Rs 2.25 billion (\$140 million) in FY85 subsidizing the price of edible oil. This year, the GOP reduced the level of subsidy to zero, since the price of oil on the international market fell well below the fixed price of oil domestically.

The GOP has recognized the need for change in the edible oil sector. In August, 1985, the GOP took a step in the direction of deregulation by abolishing the monopsonistic purchase of cotton seed oil by the state-owned Ghee Corporation of Pakistan. In May 1986, domestic wholesale and retail prices were decontrolled. Traders and processors were also allowed to import oil directly from international sources. The GOP has agreed in principle to divest its unprofitable ghee plants and restrict any further expansion of government-owned processing capacity (see Annex E for more information).

Cotton. The monopoly enjoyed by the Cotton Export Corporation (CEC) in exporting and domestic procurement increases marketing costs. Allowing private sector involvement in cotton marketing would lower marketing costs through competition.

Sugar. The GOP subsidizes sugar production with support prices at twice international levels. The GOP should concentrate on improving yields and allow no further increases in the support price.

Livestock. Government controls on the price of meat have discouraged investment in modern, commercial meat production, as have the lack of good quality feed and management expertise. Yet, in the proper policy environment, there is considerable scope for an expanded livestock industry to meet the requirements of the rapidly growing population.

The poultry industry has been growing at a rate of 15-16% per annum over the last five years. However, difficulties in obtaining properly mixed feed rations have slowed the growth of the industry. Increased efforts are needed to improve the quality of feed, as well as the availability of disease control measure.

4. Agribusiness

Agribusiness projects in Pakistan face numerous obstacles to successful implementation. Many of the problems are endemic to countries at the same level of development as Pakistan. There are, however, a number of policy issues that are constraining the

development of agribusiness and could be changed. These include:

- 1) GOP import and export policies restricting agribusiness.
- 2) GOP policy concerning the process of government approval of agribusiness projects and government practices and regulations concerning grading, certification, and quality control.
- 3) Price policies, particularly price controls and subsidization of agricultural products that affect the agribusiness sector.
- 4) The power of local authorities to raise local taxes and levy octroi on goods passing through their jurisdiction which can influence the profitability and locale of agribusiness projects.

ANNEX D - FERTILIZER

Consumption. Growth in consumption of fertilizer during the last half of the seventies was very rapid, averaging 19% annually 1975-80, increasing from 425 thousand nutrient tons (nt) to 1.04 million (Table D-I). However, during the first half of the eighties, growth was slow as the retail price of fertilizer was increased sharply to slow the burgeoning growth in fertilizer subsidies (Table A-IV).

TABLE D-I

ANNUAL FERTILIZER OFFTAKE (1000 nutrient tons)

Year	N	P2O5	K2O	Total
1970	274.0	36.6	1.34	311.9
1971	251.5	30.5	1.24	283.2
1972	344.0	37.2	0.74	381.9
1973	386.4	48.7	1.38	436.5
1974	341.9	58.1	2.67	402.7
1975	362.8	60.6	2.09	425.5
1976	441.6	103.6	2.91	548.1
1977	511.0	117.9	2.36	631.3
1978	549.9	156.3	5.98	712.2
1979	684.3	188.0	7.58	879.9
1980	806.0	228.5	9.60	1044.1
1981	842.9	226.9	9.63	1079.4
1982	830.7	225.3	21.78	1077.8
1983	952.7	265.3	25.64	1243.6
1984	914.3	259.8	28.50	1202.6
1985	934.8	293.8	24.67	1253.3
1986	1128.4	350.1	33.30	1511.8

Source: NFDC, Pakistan Fertilizer Statistics, April 1986, p.15

The average growth rate in consumption was 4% annually 1980-85, increasing from 1.04 million nt to 1.25 million. From their 1979 levels, the retail prices of almost all fertilizers were doubled during 1980-83 (Table D-II). The growth rate in the procurement prices of crops was much slower (Table D-III). However, since mid-1983 the retail price of fertilizers has not been changed while the procurement price of most crops has been increased for an improving crop/fertilizer price ratio and a greater incentive for farmers to use fertilizer (Table D-IV).

TABLE D-II

RETAIL SALE PRICE OF FERTILIZERS
(Rs/50-kg bag)

Date	Urea	AN/CAN	AS	NP	SSP	DAP	TSP	SOP
	46% N	26% N	21% N	23:23	18% P	18:46	46% P	50% K
10/17/78	63	36.5	29	46.5	17	67	43	27
01/01/79	63	36.5	29	46.5		67	43	27
02/25/80	93	50	42	78	25	100	43	30
04/13/80	93	50	42	78	25	100	43	30
10/27/81	93	50	42	78	25	100	43	30
03/15/82	103	55	47	84	25	105	43	30
10/06/82	118	58	54	97	29	121	43	35
06/11/83	128	60	59	110	40	133	43	40
12/08/83	128	60	59	110	40	133	95	40
1984/85	128	60	59	110	40	133	95	40
1985/86	128	60	59	110	40	133	95	40
1986/87	128	60	59	110	40	133	95	40

Source: MFDC, Pakistan Fertilizer Statistics, GOP, April, 1986, p. 37.

AN/CAN: ammonium nitrate/calcium ammonium nitrate
AS: ammonium sulphate
NP: nitrophos
SSP: single superphosphate
TSP: triple superphosphate
DAP: diammonium phosphate
SOP: sulphate of potash

Table D-III

PROCUREMENT PRICES OF MAJOR AGRICULTURAL COMMODITIES
(Rs/40kgs)

Year	Wheat	Rice		Sugarcane			Seed Cotton	
		Basmati	Irri-6	NMFP	Punjab	Sind	Desi	Delta-pine
1976/77	39.65	108.80	57.87	5.89	6.16	6.32	128.60	155.40
1977/78	39.65	108.80	49.30	5.89	6.16	6.32	141.46	171.47
1978/79	48.23	117.89	52.51	5.89	6.16	6.32	143.61	171.47
1979/80	58.00	117.89	52.57	7.23	7.50	7.66	143.61	171.47
1980/81	58.00	137.00	63.00	9.38	9.65	9.81	156.00	182.00
1981/82	58.00	150.00	72.50	9.38	9.65	9.81	166.00	192.00
1982/83	64.00	154.00	80.00	9.38	9.65	9.81	168.00	197.00
1983/84	64.00	157.00	83.00	9.38	9.65	9.81	169.50	200.00
1984/85	70.00	160.00	83.00	9.38	9.65	9.81	169.50	203.00
1985/86	80.00	166.00	86.00	9.38	9.65	9.81	173.50	207.00
1986/87	80.00	204.00	102.00				173.50	207.00

Source: 1985-86 Economic Survey, GOP, May 1986, p.46.

TABLE D-IV

CROP-FERTILIZER PRICE RATIOS*

<u>Year</u>	<u>Wheat</u>	<u>Basmati Rice</u>	<u>Sugarcane (Punjab)</u>
1975	0.33	0.80	0.05
1976	0.33	0.81	0.05
1977	0.36	0.99	0.05
1978	0.37	1.01	0.06
1979	0.47	1.16	0.06
1980	0.46	1.08	0.07
1981	0.39	0.92	0.06
1982	0.39	1.00	0.06
1983	0.36	0.86	0.05
1984	0.32	0.80	0.05
1985	0.35	0.80	0.05

*Crop procurement prices per ton divided by weighted average fertilizer prices per ton of nutrient.

Source: NFDC, Pakistan Fertilizer Statistics, GOP, April 1986, p. 51.

The retail price of nitrogenous fertilizer was decontrolled in May 1986. Field observations indicate that this has had a negligible impact on retail prices. In addition to higher (relative) prices for fertilizers in the early 1980s, there were two poor crop years which discouraged fertilizer use. However, in 1986, offtake increased sharply, by 21% over the prior year, and this rate is being maintained thus far in 1987.

Production. Domestic production of fertilizer increased rapidly in the early 1980s, from, for example, 389 thousand nutrient tons of nitrogenous fertilizer in 1980 to 1.00 million tons in 1983 and from 27 thousand nutrient tons of phosphatic fertilizer in 1979 to 92 thousand in 1984 (Table D-V). With the sharp growth in production and slow growth in consumption, output of nitrogenous fertilizer exceeded offtake in 1983-85 and 900 thousand tons of urea were exported in those three years. However, consumption growth has been faster than projected over the past 12 months or so and the Government expects to import 200,000 tons of urea during the last months of CY86. Deficits in nitrogenous fertilizer will likely reappear in the fall of CY87 and certainly in the following years.

Domestic production of phosphatic fertilizer currently meets only 30% of consumption requirements. The country produces no potassic fertilizer and not much is used, an average of about 27 thousand nt annually over the last five years, 1982-86. The country's fertilizer plants are identified below (Table D-VI) and their current capacities are shown.

TABLE D-VI

FERTILIZER PLANTS AND PRODUCTION CAPACITY
(1000 mt)

<u>UREA</u>		<u>Present Capacity</u>	<u>FY85 Output</u>
	<u>Factory</u>		
	Dawood Hercules	348	273
	Exxon	265	248
	Pak-Saudi	557	587
	Pak-Arab	59	47
	Pak-China	96	75
	Fauji Fertilizer	570	582
	Total	1,895	1,812
<u>CAN</u>	Pak-Arab	450	406
<u>AS</u>	Pak-American	90	79
<u>N:P</u>	Pak-Arab	305	308
<u>SSP</u>	Lyallpur	100	106

Source: NFDC.

Urea (46%N)

CAN- Calcium ammonium nitrate (26%N)

AS- Ammonium Sulfate (21%N)

NP- Nitrophos (23%N; 23%P₂O₅)

SSP- Single superphosphate (18%P₂O₅)

TSP- Triple superphosphate (46%P₂O₅)

DAP- Diammonium phosphate (18%N; 46%P₂O₅)

Import Requirements. To obtain an order of magnitude of import requirements, 1988-93, projections were made of annual domestic production and consumption of N and P₂O₅. Annual domestic production of N and P₂O₅ are projected at 1040 thousand and 93 thousand tons respectively. Projections of the production deficit/import requirement are shown below. No account is taken of reserve requirements. Declining rates of growth (from the current high levels) in consumption are projected on the assumption that retail fertilizer prices will rise as a policy of phasing out fertilizer subsidies is pursued. Currently, urea can be purchased abroad at less than \$70 (bulk, f.o.b.) per ton. One can reasonably expect this price to rise some and there are now subsidies on (imported) phosphatic fertilizer. The projections are shown in Table D-V.

On the assumption that the phosphate deficit will be met by importing DAP and the nitrogen deficit by importing urea, projected imports of DAP for 1988-91 would total 3.2 million tons, an average of 800,000 tons annually. Projected urea imports over the same period would total 2.7 million tons, or 675,000 tons annually. The import bill would perhaps average \$215 million annually. New production capacity may begin to appear in the early 1990s.

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TABLE D-V

DOMESTIC PRODUCTION, CONSUMPTION AND DEFICIT FOR NITROGENOUS AND PHOSPHATIC FERTILIZER (1000 nutrient tons)

PFY	N			P ₂ O ₅		
	Output	Offtake	Deficit	Output	Offtake	Deficit
<u>Actual</u>						
1979	334	684	350	27	188	161
1980	389	806	417	50	228	178
1981	581	843	262	58	226	168
1982	701	831	130	67	225	158
1983	1003	953	-50	73	265	192
1984	1015	914	-101	92	260	168
1985	1029	935	-94	90	294	204
1986	1016	1128	112	93	350	257
<u>Projected</u>						
1987	1040	1275	235	93	403	310
1988	1040	1364	324	93	431	338
1989	1040	1459	419	93	452	359
1990	1040	1547	507	93	470	377
1991	1040	1624	584	93	489	396
1992	n/a	1705	n/a	93	509	416
1993	n/a	1790	n/a	93	530	437

Source: NFDC for actual. There may be new capacity in nitrogen fertilizer production by the early 1990's.

By the late 1980s, the domestic market will be able to absorb the output of another urea plant of the size of Fauji or Pak-Saudi. Also by that time, the deficit in domestic production of phosphatic fertilizer is projected to be in the neighborhood of 350,000 nt (760,000 tons of DAP or TSP). Our information is that interest in constructing new plants for the manufacture of DAP fertilizer has been expressed by at least three private groups/firms and sanctions have been applied for. However, the projects' feasibility studies indicated that they were not feasible in the absence of protection from imports. As yet, the Government has not been willing to provide such protection. Since most of the raw material would have to be imported, it may be very difficult to profitably manufacture phosphatic fertilizer in Pakistan without protection. However, new private sector urea manufacturing plants should be able to compete with urea imports. While there do not seem to be any firm plans for the construction of new urea capacity in the country, it seems reasonable to expect that there will be such new capacity, certainly by the the early nineties.

Policy Issues

Fertilizer Price Deregulation/Phasing out of Subsidies. The Government recently deregulated the price of nitrogen fertilizer. The prices of phosphatic and potassic fertilizers, for which subsidies have been relatively larger, are still controlled. The Pakistan Fertilizer Policy study notes that deregulation of phosphatic fertilizers would likely be very disruptive to the market, and that a workable approach would include first raising the domestic prices of these fertilizers to their world market price equivalent over a two year period at which time prices could be deregulated. We agree with this. We note, however, that for imported DAP, prices could be partially deregulated at any time. Prices could be set and the subsidy calculated and paid either ex-export or on delivery to main distribution centers, with retail prices decontrolled.

DAP, all imported, is by far Pakistan's largest source of phosphatic fertilizer and will continue to be so in the foreseeable future. Some single superphosphate is produced locally; however, production costs are high and an industrial subsidy would have to be made to the plant for it to be able to continue production if its output was sold at import parity prices.

Using the bagging, distribution and marketing costs as set forth in the Fertilizer Policy study (ocean freight, \$30/MT; bagging, \$10/MT; and internal distribution and marketing costs of \$60/MT) and current international DAP prices (\$140/MT, bulk, f.o.b., U.S. Gulf) gives a retail price of \$240/MT, or Rs 4080/MT at the current exchange rate of Rs 17/\$1. The controlled retail price is Rs 2660/mt (Rs 133/50-kg bag). The retail price would have to be increased by 53% to eliminate subsidies at current prices. We note that the estimated cost of internal distribution and marketing (\$60/MT) by the policy study is \$10-\$20/MT higher than is estimated by the World Bank and by GOP officials with whom we have talked. However, costs are generally underestimated so the \$60 figure is likely more realistic.

We do not know what will happen to world prices of DAP. However, at the International Fertilizer Association's raw materials meeting in California recently, the consensus was that the price outlook was dim, for the next few years anyway, with "oversupplies" and low prices seen for P and K. Yet, even if the nominal world price of DAP does not rise, as noted earlier, the Pakistani rupee is likely to continue a slow depreciation against the dollar and there will very likely be some domestic inflation. The price increase would have to be larger than 53% -- say 60% -- to eliminate subsidies in the post 87 period. Such an increase spread over 2-3 years in 4-6 roughly equal increments should be tolerable. (Such is implied in the Fertilizer Policy study. Also, in Fertilizer Pricing and Subsidy Removal, Working Paper, 12/12/85, p. 6, the World Bank notes that the cost structure of the main crops--in two project areas for which the Bank was providing assistance--was remarkably similar and that fertilizer cost per acre was in all cases between

10% and 15% of gross revenue. Thus, a 1% increase in output price would suffice to offset a 10-7% increase in fertilizer price; or a 6% increase in output price would suffice to offset a 60-40% increase in fertilizer price. The price increase in fertilizer might need to be accompanied by some increase in output prices. In any case, the impact of the price increase in fertilizer should be closely monitored.

In the absence of subsidies, the high cost provincial distributors could not continue to stay in business.

Thus far we have said nothing about phasing out the subsidy on potassic fertilizer. All such fertilizer is imported, almost altogether sulfate of potash (SOP, 50%K₂O). Consumption of potash is very small relative to total fertilizer consumption. Thus, of total nutrient tons of offtake of N, P₂O₅ and K₂O, the latter amounted to only 2%, 1983-85. However, the unit subsidy is very large for SOP. NFDC financial data (Pakistan Fertilizer Data, April, 1986, p. 65) show that the unit cost of delivering SOP to farmers was Rs 4109/ton (import cost, Rs 3413; marketing/distribution cost, Rs 696) in 1985. The sales proceeds (i.e., fixed retail price) were Rs 800/ton. Thus, the retail price of SOP would have to be increased by over 300%, from Rs 800/ton to Rs 3309/ton to remove the subsidy. And while consumption of potash was relatively very small, NFDC data show that the subsidy on SOP accounted for 15% of the total fertilizer subsidy in 1985. The low price for SOP has been rationalized as a means to encourage farmers to use a fertilizer with which they are not familiar. While we believe that the price of SOP should be gradually increased, the analytical basis of how much is not available. There is, for example, no analysis of this fertilizer in the Fertilizer Policy study.

The country produces no TSP and very little is imported or used. The controlled retail price for TSP is Rs 95/50-kg bag (Rs. 1900/ton). At current world prices the domestic retail price of TSP would have to be increased by 91% to eliminate the subsidy on that product (f.o.b. bulk, US Gulf price is \$114/ton; ocean freight, bagging and internal marketing cost is estimated at \$100/ton; \$214 x Rs 17/\$1 = Rs 3638/ton vs Rs 1900/ton current retail price, Table D-VII).

Privatization of Fertilizer Imports. An objective of ASSP is to expand the role of the private sector in the fertilizer subsector. For example, it will attempt to encourage private sector fertilizer imports. While we are told that there are now no restrictions on private sector imports of fertilizer, things are not always what they seem. Consequently, a CP would be included in the PAAD requiring the GOP to issue a public statement that the GOP encourages the private sector to import fertilizer and that the foreign exchange would be available once financing arrangements had been made. Since nitrogenous fertilizer is now decontrolled, importers should be able to compete with Government imports of urea and perhaps nitrophos.

TABLE D-VII

IMPORT OF FERTILIZER PRODUCTS (1,000 PRODUCT TONS)

Year	CAN	Urea	NP	NPK	DAP	TSP	SOP	Other	Total
1968	0.0	192.2	16.6	0.0	0.0	100.0	0.0	45.9	354.7
1969	0.0	205.2	20.0	0.0	57.3	3.5	11.4	34.0	331.4
1970	0.0	610.5	7.8	0.0	21.0	0.0	0.0	22.3	661.6
1971	0.0	193.8	21.9	0.0	72.9	0.0	10.0	1.9	300.5
1972	0.0	157.7	0.0	0.0	0.0	0.0	0.0	1.0	158.7
1973	0.0	179.1	35.7	0.0	138.9	0.0	0.0	0.0	353.7
1974	36.7	361.2	41.9	5.5	204.0	0.0	11.0	9.9	670.2
1975	23.7	185.8	48.8	5.0	10.5	11.0	0.0	8.8	293.6
1976	0.0	59.9	29.1	0.0	211.4	0.0	0.0	10.9	311.3
1977	0.0	120.9	191.8	0.0	209.3	0.0	5.0	0.0	527.0
1978	0.0	435.7	437.8	0.0	226.3	0.0	4.2	0.0	1103.9
1979	0.0	653.5	447.9	4.5	221.0	0.0	18.0	0.0	1344.8
1980	0.0	726.3	363.9	0.0	125.2	0.0	26.0	5.4	1246.8
1981	0.0	496.2	286.3	0.0	514.1	0.0	44.1	0.0	1340.7
1982	0.0	132.6	100.0	38.6	0.0	0.0	15.0	0.0	286.1
1983	0.0	0.0	201.2	102.7	410.8	0.0	0.0	0.0	714.7
1984	0.0	0.0	27.5	28.3	366.1	104.5	42.9	0.0	475.3
1985	0.0	0.0	28.3	0.0	446.3	47.0	42.6	0.0	564.1

Source: NFDC, Pakistan Fertilizer Statistics, GOP, April, 1986.

Since there is still a subsidy on phosphatic fertilizers (both locally produced and imported), private importers could not compete in the importation of, say, DAP or TSP (unless they were paid a subsidy). Once the subsidy is removed, they could compete. While studies indicate that FDFI is an efficient importer of fertilizer, this is a function that the private sector could perform, thereby reducing the growing demands on a Government which is experiencing rising budgetary problems. FDFI may have to continue to do the importing for government-to-government assistance programs.

Change in Formula for Allocating Imported Fertilizers. Currently, the FDFI imports and delivers at port and/or to main distribution centers operated by the fertilizer producers or by the provincial input distribution agencies. These "wholesalers" receive supplies according to an allocation formula rather than in response to their demands. For a more rational and efficient allocation, A.I.D. should propose that the allocation of imported fertilizer among the country's eight distributors, viz, FFC, DH, Exxon, NFML, ADA, PADSC, SASO and BDAG, be based on their retail sales and their respective shares in total offtake. This could be based on a 2-year moving average. The individual distributors should be allowed, for any individual shipment, to adjust their shares among themselves if mutually agreeable to the distributors involved. The importation by distributors themselves would complicate such an allocation but an arrangement could be worked out where, for example, the imports made

by the distributors would count toward the overall allocation of imports.

There are two alternative approaches which the PAAD design team should consider. One, domestic distributors would bid for fertilizer imported by FDFI ex-port. The Government would presumably insist on maintaining a reservation price, i.e., a price below which it would not sell. The other alternative would be that of setting quotas as between the private distributors and the public, with the share going to the private sector increasing over time.

Denationalization: Disinvestiture of Public Manufacturing Plants.

The Exxon, Fauji and Dawood Hercules (urea) fertilizer manufacturing plants are privately owned. The remaining factories are state plants. Of the latter, Pak-Saudi and Pak-China produce urea; Pak-Arab produces urea, CAN and NP; Pak-America produces AS and Lyallpur Chemical and Fertilizer has two small plants that produce SSP. The AS and SSP plants are very small and very old. The Pak-China plant is also small. While the plant is relatively new, its technology is obsolete. Production costs for these plants are very high and industrial subsidies would have to be made to the plants for them to be able to continue production if output was sold at import parity prices. There is likely to be little private interest in acquiring these plants. However, Pak-Saudi and Pak-Arab are apparently viable and denationalization of them provides the GOP the opportunity to more vigorously pursue its objective of promoting greater investment and participation by the private sector in the country's economic development.

According to the fertilizer policy study, the equity of Pak-Arab amounts to roughly \$65 million and Pak-Saudi equity is roughly \$115 million based on current market value. Individual investors would be required to provide the equity capital and refinancing of private loans. Loans for Pak-Arab are now with the World Bank, the Asian Development Bank, and the OPEC Fund. Loans for Pak-Saudi are with the Asian Development Bank, the Saudi Government, and the Saudi Fund for Development. The total equity of \$180 million represents a potential capital recovery by the Government of Pakistan that could be redirected to make loans for new fertilizer production facilities or into other development investments.

Pak-Saudi should be attractive to investors because it is a relatively modern, technically-efficient, low-cost production plant. Since it is a modern plant, it could be cost competitive for a number of years. Pak-Arab may be attractive to investors because of its basic ammonia facility and the ability to produce combination nitrogen/phosphorous/potash fertilizers.

There are a number of approaches to transferring the facilities from the government to local investors, including contract sales by the GOP and sale of stock by the GOP to reduce equity. The plants could be sold by contract with the current loan obligation transferred to the new owners. The Government of Pakistan could also underwrite and sell stock on the Karachi or Lahore stock exchanges to lower its equity in the facilities being sold. It is also possible that indi

viduals or an investment syndicate from Pakistan and Saudi Arabia could raise capital in much the same way (for legal implications, see the Fertilizer Policy study).

Although these two plants are reasonably efficient under public ownership, and although NFML, the marketing arm, also appears to be efficient, increased efficiency through an enhanced "bottom line" discipline can be expected if denationalized.

Cash transfers might be granted to the GOP to the extent that it did not recover its equity, or to the extent that costs were incurred (e.g., in paying off loans). The benchmark for performance payment could be the execution of the transaction (e.g., the sale of stock). Technical assistance would be highly desirable.

Management of Reserve Stock. Maintaining excessive reserve stock of fertilizer is very costly. So are fertilizer shortages, since the latter impacts adversely on production when farmers do not get the amount and kind of fertilizer when needed. Stock management is complicated by the fact that demand is highly seasonal and also dependent on weather conditions. It is time for the Government to once again closely examine its reserve stock policy, and its management of reserve stocks, to determine what changes it should make to reduce the cost of maintaining fertilizer reserve stocks.

Fertilizer Efficiency. That the productivity of fertilizer in Pakistan is relatively low has been of concern for some time. There are at this time at least three comparatively large studies underway which are investigating the reasons for this phenomenon. We do not suggest any new studies but do recommend that the ASSP provide technical assistance for such studies if requests are made. The task is that of identifying the determinants of the problem in highly specific and quantified terms. Broad generalizations void of any practical operational content are of dubious utility.

Benchmarks

ASSP will utilize to the extent possible performance-based disbursement with performance measured by the progress being made toward achieving policy reforms. Release of funds to the host country will generally be made in distinct tranches. As a basis for these releases, benchmarks will need to be established to measure progress towards achieving policy reforms. Some illustrative benchmarks for the CIP component of ASSP are presented below, although similar benchmarks would be proposed under the SSG component of the program as well. They relate to the policy reforms that imports of fertilizer (DAP) are expected to generate. Such benchmarks would be incorporated into the PAAD, and the yearly amended PAADs, as agreements, covenants, and CPs.

First Year of the Fertilizer Program.

Policy Reform

Benchmark

- | | |
|---|---|
| 1. Phasing out of fertilizer subsidies | Raise retail price of phosphatic fertilizers by 20% of the difference between CIF and domestic sales price o/a January 1, 1988 and again by the same percentage o/a July 1, 1988.* |
| 2. Reallocating imported fertilizer | Increase share of private sector fertilizer distribution to 65% and eliminate provincial quotas during next two years. |
| 3. Fertilizer imports by the private sector | Announce, within a month of the PAAD signing, that Government encourages private sector import of fertilizer; that there are no regulatory impediments to such imports; and that foreign exchange will be made available. |
| 4. Reserve stock management | Develop by end of year terms of reference for a reserve stock management study. A.I.D. will collaborate. Begin implementation of study. |

Second Year

A.I.D. will agree to release funds for importing fertilizer during the second year if the benchmarks negotiated and agreed to for the first year have been met and another set of benchmarks, to be achieved in the second year, has been agreed to and incorporated into the amended PAAD.

- | | |
|---|--|
| 1. Phasing out of fertilizer subsidy | Raise retail price of phosphatic fertilizers by 33% of the value of the current subsidy but not less than Rs 16/bag by o/a January 1, 1989 and again by the same amount o/a July 1, 1989. Develop plans for reducing subsidy on potassic fertilizer (SOP, etc.). |
| 2. Reallocating imported fertilizer | Make appraisal of new scheme for allocating imported fertilizer; provide report to A.I.D. by October, 1989. Report will contain, written appraisals provided by each distributor. |
| 3. Fertilizer imports by private sector | Provide status report to A.I.D. by July, 1989. Identify constraints to greater participation by private sector. |

* One 50 kg. bag of DAP currently retails for 146 rs. and the current subsidy is approximately 55 rs. per bag. \$1 US = 17 rupees, approx.

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|---|--|
| 4. Reserve stock management | Conduct review with A.I.D of study on reserve stock management by mid year; finalize study by end of year. |
| 5. Denationalization of fertilizer plants | Present to A.I.D. by end of year a plan for a phased disinvestment of State-owned plants. |

Third Year

A.I.D. will release funds for importing fertilizer during the third year of the program life if the benchmarks negotiated and agreed to during the second year have been met and another set of benchmarks to be achieved in the third year has been agreed to and incorporated into the amended PAAD.

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|---|---|
| 1. Phasing out fertilizer subsidy | Raise retail price of phosphatic fertilizers by the amount needed to reach import parity price by July 1, 1990. Report on progress in reducing subsidy on potassic fertilizers. |
| 2. Price deregulation of fertilizer | As domestic retail prices of phosphatic fertilizers near import parity price, deregulate prices of all phosphatic fertilizers. At this time, all fertilizer prices should be deregulated. Monitor prices. |
| 3. Reallocation of imported fertilizer | Provide status/appraisal reports to A.I.D. by end of year; assess feasibility of distributors' forward bidding system for fertilizer rather than allocating via formula. |
| 4. Fertilizer imports by private sector | Provide status/appraisal report to A.I.D. by end of year. |
| 5. Reserve stock management | Begin implementation of new stock management scheme by mid-year. |
| 6. Denationalization of fertilizer plants | Provide A.I.D. a report by end of year on actions taken and progress made in disinvestment of fertilizer plants. |

Fourth Year

Disbursement of funds conditionality same as for third year except that adjustments for dates have to be made.

- | | |
|----------------------------------|---|
| 1. Fertilizer price deregulation | Prices on all fertilizers except potassic fertilizers remain deregulated. |
|----------------------------------|---|

2. Fertilizer imports by private sector No restrictions on private sector imports of fertilizer; except for SOP, no sales by Government of imported fertilizers below costs; identical treatment of private and government importers with respect to duties/taxes on imports.

Fifth Year

Disbursement of funds conditionality same as for fourth year.

1. Phasing out of fertilizer subsidies Progress being made on increasing retail price of SOP, according to schedule determined in Year Two of the program.

2. Fertilizer price deregulation Deregulated fertilizer prices maintained on all fertilizers except SOP.

3. Fertilizer imports by private sector Conditions regarding private sector fertilizer importation maintained.

4. Government fertilizer imports Joint GOP - A.I.D. study undertaken to investigate feasibility of Government meeting its fertilizer import requirements through competitively let contracts to private domestic companies, including fertilizer manufacturers and distributors.

5. Denationalization of fertilizer plants Disinvestment of State-owned fertilizer plants proceeding.

6. Policy reform program assessment Develop jointly with A.I.D. by end of year terms of reference for a comprehensive review to assess impact of policy reform program.

Sixth Year

Disbursement of funds conditionality same as for fourth year.

1. Policy reform program assessment Complete study by April 1993 to assess impact of deregulation of fertilizer industry; will be financed with ASSP funds.

2. Phasing out fertilizer subsidies Subsidy on SOP reduced by half to two thirds of 1988 level.

3. Government fertilizer imports If study indicated that it was feasible for government to import its fertilizer through competitively-let private sector contracts, government will generally adopt this mode of importing.

4. Denationalization of fertilizer plants Both Pak-Saudi and Pak-Arab denationalized by end of program life.

ANNEX E - EDIBLE OIL

Background

Edible oil has traditionally been produced in Pakistan from cotton, mustard, and rape seed. During the last fifteen years, local production stagnated while consumption nearly tripled. To meet this increasing demand, imports of edible oil into Pakistan have increased at an average rate of 17.7% over the past 15 years (Table E-I), becoming a serious drain on the country's foreign exchange reserves. In 1984, \$448 million of foreign exchange were spent to import soybean oil and palm oil. In 1985, while total imports were up, the import bill was down to \$373 million since international edible oil prices were down.

Table E-I

PAKISTAN'S EDIBLE OIL Market, 1971-1985

Year	Production -----000 mt-----	Demand	Imports	Value of Imports (\$ mil.)	Edible Oil as % of Total Import Bill
1971	234	250	46	9	n/a
1972	238	284	65	23	n/a
1973	221	333	175	83	n/a
1974	209	356	197	137	6.5%
1975	174	373	268	106	5.1%
1976	162	438	285	149	6.4%
1977	198	473	310	157	5.6%
1978	160	531	392	299	8.1%
1979	213	580	416	232	4.9%
1980	211	617	467	265	4.9%
1981	216	770	624	264	5.8%
1982	229	848	657	271	5.4%
1983	162	863	721	465	8.5%
1984	n/a	n/a	652	448	7.7%
1985	n/a	n/a	815	373	7.6%
Annual Growth					
Rate (%)	-1.1%	10.4%	17.7%	16.8%	(1972-85)

Notes:

1. Source: Table 2-1, p. 6 of "Pakistan Edible Oils Stock & Trade Management"
2. Figures for 1984 and 1985 from Ministry of Finance & State Bank of Pakistan.
3. Last column computed from p. 137 of GOP's "Economic Survey, 1985/86."
4. Annual growth rates estimated by the semi-log regression method.

In addition to its foreign exchange expenditure for edible oils, the GOP spent in 1984/85 approximately Rs 2.25 billion (\$140 million) in subsidies to maintain the domestic price of oil (Table A-V). When international prices have been higher than the domestic Pakistani

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price, the GOP has subsidized the importation of the oil to keep domestic prices down. This policy of fixing domestic retail prices has been one of the major reasons for the decline in oilseed production and stagnation in the oil processing sector. A recent study estimated that if recent trends continued, Pakistan could be importing 2.6 million tons of edible oils within a decade, at an estimated annual foreign exchange cost of three billion dollars.

Concerned with the rising import bill for edible oil, the GOP and USAID commissioned several studies to examine the problems of the industry. The first study, Pakistan's Edible Oilseeds Industry (1984), analyzed the oilseed production and processing industries. The second study, Pakistan Edible Oils Stock and Trade Management (1985), analyzed the edible oil market, with particular emphasis on the role of imports in developing domestic production. These studies provided the GOP with a great deal of useful background information. Indeed, a number of the policy recommendations made in the study have been implemented to varying degrees.

Policy Reforms

Deregulation of the edible oils market was one of the major recommendations of the study. In August, 1985, the GOP took a step in the direction of deregulation by abolishing the monopsonistic purchase of cotton seed oil by the Ghee Corporation of Pakistan (GCP). In April, 1986, traders and processors were also allowed to import oil directly from international sources. Domestic wholesale and retail prices were decontrolled. This decontrol of retail prices has had a limited effect on the market since edible oil prices on the international market have fallen sharply. Hence, retail prices have not risen. At the same time, GCP still has over 40% of the market share and fixes its retail prices. This has a strong stabilizing effect on the market.

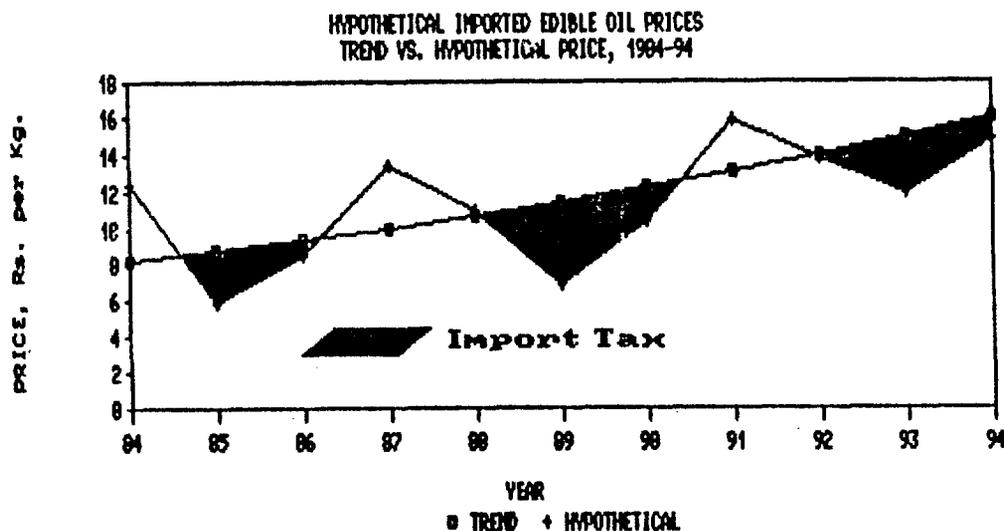
Divestment in the Ghee Corporation of Pakistan was another recommendation of the studies. There has been some movement in this area, but not as much as desirable. The GOP did agree to restrict any expansion of government-owned processing plants. It also agreed in principle to divest its unprofitable ghee plants. However, no plants have been divested so far.

The establishment of a uniform variable import tariff was another recommendation of the studies. This would set an import price floor equal to the long-run trend in imported oil prices (Figure E-1). The rationale behind this policy is essentially one of protecting an infant industry. Once the domestic oilseeds industry was more fully established, the tariff would be removed and local producers and processors would have to compete with international market prices.

A variable import tariff was instituted by the GOP in the spring of 1986. Edible oil prices on the international market had fallen below fixed domestic prices. The tariff was set at Rs. 2,350/ton, with the variable rate set every three weeks according to international market prices. The GOP announced the tariff enough in advance that importers were rushing to beat the deadline for the imposition of the tariff.

In September, 1986, the GOP increased the tariff to Rs. 6,000/ton with a 3,000 rupee rebate to manufacturers of vegetable ghee. This was intended to remove the commercial advantage of those importers who were bringing in palm oil and selling it as vegetable ghee without incurring the processing costs (solidified palm oil looks like vegetable ghee and was being sold as such). However, it is not clear if the rebate is actually being paid. If it is, this would have the net result of nullifying the protective effect of the variable import tariff.

Figure E-1



Source: Morgan and Perwaiz, "Building An Effective Edible Oil Industry," p.4

A final recommendation of the study was abolition of the oilseed price support program. Cottonseed prices were never supported because the GCP was the monopsonistic buyer of cottonseed until the 1985 liberalization. Support prices for other oilseeds are still maintained in theory. In practice, however, these price supports are not effective because the GCP, acting as the GOP's agent, does not have enough budgetary resources to purchase the majority of the non-traditional oilseeds that could be produced. The GCP has shown relatively little interest in the procurement of domestic oilseed and hence has not put many resources into this area. Some of the domestic oil is needed in the local manufacture of ghee, so there remains a viable if stagnant market for Pakistani oilseed.

Analysis

While the GOP has taken positive steps towards creating the climate necessary for increasing domestic oilseed production and processing, much remains to be done. The long-term objective in the oilseed sector should be to create an industry that can produce oilseed to process into edible oil at world market prices. Studies indicate that Pakistani farmers should be able to produce oilseed competitively and private Pakistani industry should be able to process

edible oil competitively. Assuming this, Pakistan should be able to have a policy climate that excludes subsidies to either farmers or processors. Furthermore, consumer demand has been distorted by lower-than-market retail prices, encouraging excessive consumption of hydrogenated vegetable oil which is not good for health reasons. Allowing retail prices to vary without subsidies would be less expensive for the GOP and could improve health in Pakistan.

In the area of deregulation, decontrol of prices during a period of low international prices is relatively easy. The major question is will the GOP let retail prices increase when world prices increase? With the private sector now involved in importing edible oils, the GOP would have a number of options. The first option would be to let retail prices rise with world prices. In the short-run, this would decrease demand for edible oil. But in the long-run, increased domestic prices would encourage the local production and processing of oilseed, presumably by the private sector. This assumes that the GCP would not be able to fix its retail price below world market prices. A second option would be to subsidize the GCP and the private sector to keep retail prices below the world price. This policy would be very expensive and would do nothing to encourage domestic industry. A third option would be to simply subsidize the GCP, in which case the private sector would stop importing oil and leave the import market to the GCP, which accounts for 80% of the edible oil sold. It is conceivable that the private sector would seek out domestic sources in this case, but only if the fixed GCP price were at a level that gave a reasonable return to local producers and processors using domestic raw materials. This policy would again be expensive and probably do little to encourage farmers or the private sector. Hence, the GOP's price decontrol policies should be carefully monitored, especially when international edible oil prices begin to increase. It is at that time that the GOP must avoid the temptation of trying to fix retail prices at current levels through subsidies provided to the GCP.

Another issue in deregulation is the complicated sanctioning procedures of the GOP for new projects. This is often mentioned by Pakistani entrepreneurs as a serious difficulty in getting new projects off the ground. This problem will be studied in detail under the agribusiness sector study, with recommendations for improvement in the sanctioning procedures.

In the area of divestment, the GOP needs to make more progress in reducing the role of the GCP in the market. Preferential treatment for the GCP on transportation, imported oil, and canning costs and the absence of profit incentives to the GCP have reduced the level of competition in the oil processing industry and eliminated adequate incentives for the industry to minimize production costs and invest in modern processing technology. The size of GCP's market share heavily influences the market's ability to react to changing economic conditions. Until the market share of the GCP is reduced, deregulation will not fully produce the intended economic benefits.

Hence, the GOP must take steps to reduce the GCP's market share. The easiest way politically might be for the GOP to stick to its agreement not to increase the present capacity of the GCP. As the overall

market grew, the GCP's market share would decline. Another way would be to divest certain ghee plants, beginning with the unprofitable ones. However, if the GOP uses this method, it should do more than agree in principle to the divestment of unprofitable ghee plants. It should set a schedule for divestment of those plants. Increased private sector participation in the market with a reduced role for the GCP is therefore a reasonable goal. When the GCP must actively compete with the private sector, it will have to become more efficient or go out of business.

The difficulties of establishing a variable tariff system equitable to the different actors in the edible oil sector is evident from the rapidly changing policies presently being instituted. The theoretical need for such policy is clear. Finding the correct way to practically apply the policy is another matter. Trying to get a better handle on domestic costs of production and processing and the longterm international price of edible oils is important, as is establishing and implementing a consistent tariff policy. Finally, the removal of the tariff once the industry is established is essential. If Pakistan cannot produce edible oil at internationally competitive prices, it would probably be better off importing its oil.

There are several other issues in the edible oils sector. First, the USAID studies found that edible oil import costs have been unnecessarily high because there is no futures market in the country and the GCP is prohibited from buying forward contracts to hedge against international price fluctuations. The establishment of a futures market in Karachi was recommended. However, GOP officials have suggested that such a market in forward contracts is considered to be prohibited under Islamic law concerning gambling. While it is true that there are necessarily speculators in a futures market, they are only speculating that prices will move in a certain direction. Futures markets help to remove price risk from the hedgers in the market, which is one of the most positive aspects of the futures market. Furthermore, the price risk exists regardless of the existence of futures markets. This is very different from gambling, which creates risk that would not exist if the game were not being played. Since creating something that is thought of as unIslamic could be a sensitive issue in Pakistan, USAID should suggest that a study of the futures market from the Islamic point of view be undertaken. Since insurance and profitsharing (in lieu of interest) exist in Pakistan, it may be possible to find an accommodation in Islamic law for futures markets.

A second issue in edible oils is the PL-480 program in Pakistan. In recent years, the program has imported some \$50 million of edible oil each year on a concessional loan basis. As shown in Table E-II, the amount of oil has varied widely since the price of oil has changed each year, changing the amount of oil that can be purchased for \$50 million.

Table E-II
EDIBLE OIL IMPORTS UNDER PL-480
1981-1986

Year	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Amount (ooo mt.) (est.)	95.3	109.4	135.9	37.4	83.9	130.0
% Imports	15.3	16.7	18.8	5.7	10.3	n/a

Source: U.S. Agricultural Attache, Islamabad

While the percentage of PL-480 imports has not been higher than 18.8% of total edible oil imports in one year, the program must be carefully monitored to make sure that in the future it is not a disincentive to the private sector's importing of oil. The program must continue to be used to encourage the creation of the policy conditions conducive to the growth of local production and processing. The estimated gains and losses (exclusive of import subsidy savings) of a deregulated and denationalized edible oil policy are summarized in Table E-III. The major benefits are in foreign exchange savings, GOP

Table E-III
SUMMARY OF ESTIMATED EFFECTS OF NEW EDIBLE OILS POLICY

	G A I N S				-LOSSES-		Net Gain
	Foreign Exchange	GOP Oper. Capital	Import Tax	Market Costs	Farm Income	Consumer Surplus	
	-----Million Dollars-----						
1984	12	64	57	36	5	26	148
1985	27	78	67	43	10	60	165
1986	48	95	79	52	16	108	183
1987	74	115	94	63	24	171	198
1988	108	139	111	77	34	255	213
1989	150	168	131	93	43	366	219
1990	203	203	154	112	55	510	217
1991	271	244	182	135	70	697	206
1992	353	294	216	163	85	937	175
1993	459	354	254	197	105	1,246	123
1994	588	426	300	238	126	1,642	37
TOTAL	2,295	2,180	1,645	1,210	573	6,019	1,884

Note: Totals may not sum properly due to rounding.

Source: Morgan, "An Overview of the GOP/USAID Edible Oils Studies," p.13.

operating capital savings, import taxes, and oilseed income to the farmers. The major loss is the consumer's loss of low oil prices, an important political consideration. However, the benefits do outweigh the losses and would lead to a net gain for society. "The State Bank of Pakistan and the Ministry of Finance would receive benefits of

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about \$6.1 billion in foreign exchange savings, operating capital savings, and new import taxes. Edible oil processors would realize about \$1.2 billions in reduced marketing cost, part of which would be passed on to consumers. Finally, oilseed farmers would gain about \$600 million of additional income." (Morgan, 1985, p. 12).

Proposed Policy Benchmarks

The first goal for policy reform should be to increase the participation of the private sector in edible oils. This will come about in different ways. Simplifying the licensing and/or sanctioning procedures for private processors is one way. Continued deregulation of markets is another. It will also be necessary to reduce the size of the market share of the GCP. A phased program to divest the appropriate GCP plants would be one way of doing this. There may be other ways that are more acceptable to the GOP such as reducing operating subsidies to the GCP (which would then presumably have to reduce its operations or lower its costs). The point here is that GCP should reduce its market share to allow more private sector participation. A three to five percent annual decrease in market share until the GCP has no more than 30% of the market might be an appropriate rate of change.

A second goal would be to establish a commodity exchange. The GOP should first undertake a serious study of the obstacles -- religious, legal, and financial -- to the establishment of a futures market in Pakistan. If it is deemed feasible, the GOP can then proceed with the removal of regulations inhibiting the establishment of commodity exchange and supporting financial instruments.

A longer term goal is to remove the protective tariff on edible oil once domestic oilseed production and processing has become more fully established. Included in this should be careful study of production and processing costs, as well as long-term trends in international edible oil markets.

The ASSP project manager would work directly with the Program Office in its administration of the PL-480 program to ensure the best use of ASSP funds in pursuit of constructive policy change. The suggested budget for edible oil policy change is part of the \$65 million budgeted for market deregulation. Over the next two years, it is expected that the management of the PL-480 program will be shifted to the new office of Food, Agriculture, and Rural Development.

ANNEX F - WHEAT

Wheat is one of the major crops produced and consumed in Pakistan. As shown in Table F-I, wheat production grew an average of 4.3% per annum in Pakistan over the last ten years. Yields increased by 1.9% annually while the area cropped grew at an average rate of 2.4% each year.

Table F-I

WHEAT PRODUCTION IN PAKISTAN

YEAR	PAKISTAN		Pakistan	PUNJAB	SIND	NWFP	Baluchistan
	Area '000 h.	Yield kg./h.					
1974/75	5,813	1,320	7,674	5,786	1,144	613	131
1975/76	6,111	1,422	8,691	6,572	1,321	660	138
1976/77	6,390	1,431	9,145	6,808	1,479	712	146
1977/78	6,360	1,316	8,367	6,090	1,427	689	161
1978/79	6,688	1,488	9,951	7,324	1,680	738	209
1979/80	6,925	1,568	10,857	7,914	1,849	863	231
1980/81	6,983	1,643	11,475	8,350	1,946	941	238
1981/82	7,222	1,565	11,304	7,962	2,062	962	318
1982/83	7,399	1,678	12,414	8,935	2,067	998	414
1983/84	7,343	1,482	10,882	7,623	1,946	860	453
1984/85	7,303	1,619	11,820	8,315	2,151	896	458
Growth Rate (%)	2.4%	1.9%	4.3%	3.5%	6.0%	4.4%	14.2%

Source: Price Commission Statistics, GOP

After reaching self-sufficiency in wheat in the late 1970's and early 1980's, poor harvests in 1983-84 forced the GOP to import grain in 1984 and 1985. Good harvests this year have returned Pakistan to self-sufficiency in wheat and even to the point of having small quantities of wheat to export. Support prices were set higher in 1985-86 to encourage production (Table F-II). At this level of support price, Pakistani wheat will have difficulty competing in world markets. Pakistani agricultural officials have voiced their

Table F-II

Wheat Procurement Prices- 1976/77-1985/86

Year	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	85/86
Support Price	39	39	48	58	58	58	64	64	70	80

Source: Economic Survey, 1985-86, p.45

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concern over the need to lower wheat production costs through measures such as the provision of seed of late varieties, better research and extension on the optimum sowing time, improvements in fertilizer use efficiency, better weed control, and more reliable supply of water at critical periods in the growth cycle of wheat. There is also critical need, agronomists at CIMMYT warn, to make different varieties of wheat available to farmers because the country is quite vulnerable to a rust epidemic.

Issues in Wheat Policy

According to a recent study done for the World Bank, Foodgrain Storage and Processing Study, (Agroprogress Kienbaum International GmbH and Indus Associated Consultants Ltd, 1986), the wheat policies of the GOP are presently guided by the following objectives:

- to ensure that market or farmgate prices do not drop below the announced support price;
- to make wheat or wheat flour (atta) available at low (subsidized) prices to customers of the rationing system;
- to procure the required quantities for the public distribution system (ration shop system); and
- to stabilize open market prices during the off-season.

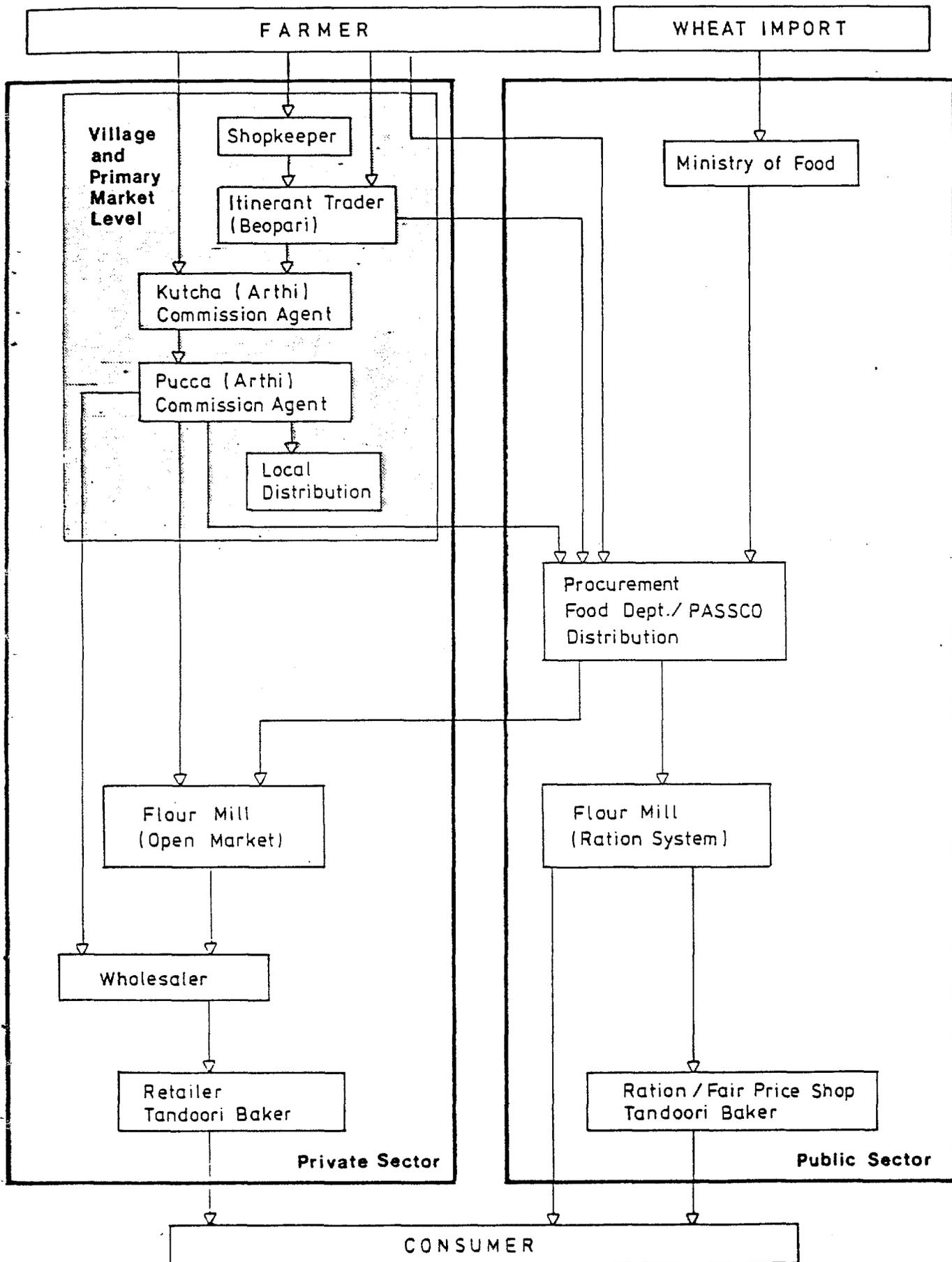
Procurement

To guarantee announced support prices and to procure wheat for the ration shops, the GOP has built up a network of procurement centers under the management of Provincial Food Departments and Pakistan Agricultural Storage and Service Corporation (PASSCO). Farmers have the alternative to sell directly to the Government via these procurement centers or to traders and commission agents of the local market subsystem (Figure F-1). The German study estimates that farmers sell on average about 45% of their marketable surplus directly to the GOP (Table F-III). However, the local market subsystem again sells a significant portion of its grain to the GOP, bringing the total share of procurement on average to about 60-70 % of the marketed surplus. Of the wheat not purchased directly or indirectly by the GOP, an estimated 65% is purchased by private mills and 35% by consumers directly without processing.

Wheat purchased by the government procurement centers is mainly sold to mills working to supply the ration shop system. However, both the German study and IFPRI's preliminary results from its Ration Shop Study, funded under the Food Security Management Project, suggest that major portions of the wheat put into the ration shop system is in fact diverted to the open market. The IFPRI study says that the large difference between the officially reported drawdown figures (2.9 million tons) against those reported by the households (500,000 tons) indicates a substantial leakage in the system. IFPRI concludes that some "80% of the amount released to the mills are not drawn by consumers from the ration depots."

FIGURE F-1. WHEAT MARKETING SYSTEM (Commercial)

Main Channel Structure



Source: Foodgrain Storage and Processing Study, Vol. 1, p. 20

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TABLE F-III

Wheat Marketing Outlets for Farmers
(Per Cent of Marketed Surplus)

Province/Division	Sales to Local Market	Sales to Procurement Centres
N.W.F.P.	94.3	5.7
Peshawar	95.6	4.4
Malakand	98.2	1.8
Hazara	99.7	0.3
Kohat	99.1	0.9
D.I. Khan	87.5	12.5
Punjab	54.4	45.6
Rawalpindi	99.5	0.5
Sargodha	72.1	27.9
Faisalabad	56.2	43.8
Gujranwala	52.8	47.2
Lahore	67.8	32.2
Multan	35.2	64.8
D.G. Khan	56.2	43.8
Bahawalpur	43.9	56.2
Sind	34.7	56.4
Sukkur	43.6	56.4
Hyderabad	43.7	56.3
Karachi	100.0	-
Baluchistan	88.3	11.7
Quetta	100.0	.
Kalat	99.2	0.8
Sibi	81.7	18.3
Mekran	100.0	-
F.A.T.A.	100.0	-
Pakistan	56.3	44.7

Source: Model: based on estimated marketed surplus, actual procurements, assuming that 70% of total procurements stem directly from farmers

*Foodgrain Storage and Processing Study, Vol. 1, p. 21.

There are other problems with the present system of procurement and storage. Public grain storage losses are considerable; an estimated 5.1 percent for wheat which is above the acceptable industry standard of 1.0 to 1.5 percent loss per year. Public sector marketing costs for milled wheat were estimated to be 11 percent higher than those of the private sector (World Bank, 1986, p. 80).

In order to meet its public grain procurement targets, the GOP has had to impose a set of restricting regulations on traders and millers, grain movements, and private storage. For example, only commissioned agents and licensed buyers (mills) are legally allowed to operate within a specified market area. Although general grain movement restrictions on wheat have been lifted, restrictions are re-imposed in specific districts if considered necessary to achieve government procurement targets. This creates extra risk and uncertainty for private grain traders, which tends to lower their level of participation in the system.

Storage

Almost all of the large-scale grain storage in Pakistan is publicly owned, a part of the grain procurement system aimed at supplying the ration shops and stabilizing prices. Public sector wheat storage capacity is estimated as follows:

Table F-IV

Grain Storage Capacity in Pakistan

Permanent public storage capacity	4.30 million mt
Reserve (plinths, hired godowns, etc.)	<u>.75</u> million mt
Total storage capacity	5.05 million mt

Source: Foodgrain Storage and Processing Study, Vol. I, p. 44

Private storage is strongly discouraged. According to the regulations, private storage is permitted for license holders on the condition that stocks are reported to the Licensing Authority (District Food Controller) who is authorized to direct the sale of these stocks at a specified price to specified persons or agencies. Similarly, uniform procurement and distribution prices throughout the year (there are no sliding-scale prices) do not provide any incentive for private storage, on-farm or off. Private sector foodgrain storage in Pakistan exists mainly at farm level for the farming families own consumption and at the market level for intermediate periods by private traders. There is almost no private commercial grain storage on a larger scale. Some private foodgrain godowns are, however, rented out to the public sector.

The GOP says it is moving toward providing the private sector with a larger role in grain marketing by providing partial financing for private construction of storage facilities to be rented to the public sector storage authorities. Yet it appears unlikely that the private

sector will seriously take part in the program because businessmen say there is insufficient financial incentive to do so. The set of regulations governing trade and storage, along with the procurement and ration shop system, needs to be changed before the private sector will get involved in storage in any serious way.

Ration Shop System

In theory, the purpose of the ration shop system is to provide wheat and wheat flour (atta) to the poor of Pakistan. In practice, the system does accomplish this to a certain extent, although with a number of unintended side effects and at a considerable price. An IFPRI survey of households shows that approximately 1.2 million households (about 7.6 million people) in Pakistan receive ration atta. The seasonally-adjusted annual ration atta utilization rate is estimated at 7.8% of the entire Pakistan population.

Several comments about these survey results are in order. First, a 7.8% utilization is a much lower number than might be expected. Many of the poor do not use the system because ration-shop prices are not much below open market prices, ration-shop wheat is generally considered to be of inferior quality, or the shops are not conveniently located. Second, the survey results showed that some of the people using the system were not eligible to buy wheat. There is considerable abuse of the ration cards and just about anyone who wants to can purchase subsidized wheat flour.

According to IFPRI, the annual drawdown is estimated at 500,000 tons nationwide based on a 45 kilogram consumption per family per month and 20 kilogram consumption in rural areas. Based on an average subsidy of .50 rupees per kilogram, the average subsidy per family per year in urban areas is 270 rupees and 120 rupees in rural areas. The subsidy to consumers nationwide is some 250 million rupees annually. However, this is far below the the Ministry of Finance report of 1,664 million rupees for 1985-86. Clearly, the program costs are grossly inflated, with large amounts of grain intended for the ration shop system leaking out into the open market. IFPRI concludes, "the objective of providing food security to the poor in this program is pursued in an inefficient and costly manner."

Policy Reforms

Clearly, there is need for change in the wheat procurement and distribution system. The present system is based largely on needs of the ration shop system that was set up with the goal of providing subsidized wheat to a large number of the poor. It is clear, however, that the ration shop has been unable to fulfill its original mandate; its high costs and inferior quality do not justify what it has been able to accomplish. Hence, the first thing to change in the overall wheat system is the ration shop system. Increased private sector participation in marketing and storage would follow this first step.

The ration shop system needs to be abolished or substantially reduced. At the same time, while nationwide utilization of the system is low, some poor do use the system. Hence, ways to serve the poor

need to be found. According to IFPRI, there are a number of different ways of doing this:

1. A strictly limited system of shops in the poor areas (geographic targeting).
2. Increased reliance on the Zakat system.
3. Open-market operations by the GOP that act to stabilize prices by buying or selling wheat in the open market.
4. Wage and cost-of-living allowance indexation.
5. Expanded maternal child health centers.

The IFPRI study recommends that a "system that uses government releases into a competitive market to act as a price stabilizer, coupled with a limited network of fair price low-margin outlets in low-income neighborhoods alongside an expanded, improved, and targeted maternal and child health care program, may effectively achieve both the nutritional and food security objectives at a much lesser cost to the GOP."

In the system proposed by IFPRI, consumers and farmers would be protected from excessive price fluctuations by government market interventions (open market sales or purchases). A 15-20% market share is usually assumed sufficient to achieve price stabilization objectives, if consumers prices are not heavily subsidized and if there is a developed private sector possessing its own storage facilities. This reduction in government procurement (by as much as 50%) would reduce the present level of government subsidy considerably and create the basic conditions for increased private sector procurement and storage.

There is a need for several other policy changes to encourage private storage. The restrictive regulations concerning grain movement and private storage should be revised. This should be relatively simple once the GOP's procurement targets have been lowered. Then, the establishment of a variable price support system would also be necessary to encourage storage. This system would operate on the following basis: Once a base level support price was determined, adjustments would be made monthly, for example, to take into account carrying and storage costs. The same thing could be accomplished by completely deregulating the market, although this does not seem feasible politically.

In summary, the following policy actions are desirable for the GOP to undertake:

- 1) the phased elimination or substantial reduction of the ration shop system;
- 2) the instauration of a market stabilization system in which open-market operations for releases of publicly procured and stored grain are made to keep consumer prices within a specified band;

- 3) increased private sector participation in the grain storage system of the country by revising restrictive regulations; and
- 4) introduction of a variable wheat pricing system allowing for normal seasonal price fluctuations in order to encourage private sector storage.

Possible Activity in Grain Marketing Sector

Pakistan has a growing need for rapid, efficient handling of ocean-borne imports and exports of grain, oilseeds, grain meals, and other grain products.

A bulk storage pilot activity could be financed under ASSP. The goal of this activity would be to build a pilot bulk storage system and carefully calculate the costs and benefits of a bulk system for Pakistan as a whole based on this pilot costs. A preliminary estimate suggests that this could cost as much as \$20-25 million if undertaken on the proposed scale. If the pilot activity were successful, the public sector post harvest system would be subsequently converted from sack to bulk.

ANNEX G - IRRIGATION

Seventy percent of all cultivated land in Pakistan is irrigated. The country's network of 40,000 miles of canals and 750,000 miles of publicly-owned watercourses constitutes the largest contiguous irrigation system in the world. Administrative responsibility for the irrigation system is divided among the Ministry of Water and Power, the Ministry of Food and Agriculture, and the public-sector Water and Power Development Authority (WAPDA) at the federal level and the Department of Irrigation and the Department of Agriculture at the provincial level. At the local level, Water User Associations in some areas have a number of responsibilities for the operation and maintenance of individual watercourses. Not surprisingly, one of the most difficult problems faced by the irrigation sector is how to reconcile the different demands placed on the water system by each of these groups. Water is not always needed for irrigation when there is a need to generate power. Water losses are as high as 50% in some areas, and farmers at the end of the system receive insufficient quantities of water.

In addition, inadequate drainage, leading to salinity and waterlogging, is a serious problem in Pakistan. Each year, rich farmlands numbering in the thousands of acres are subject to salinity and waterlogging. The GOP recognized this problem and the first salinity control and reclamation project (SCARP) was initiated in 1950, with the purpose of installing tubewells and drainage systems to combat salinity. Surveys completed by the WAPDA Master Planning Division in 1979 showed that there had been substantial improvements in the 21 million acres surveyed. The following table shows partial results from the survey.

Table G-I

Overall Salinity Status of Survey Area (21 mil. acres)
(percentage)

<u>Surface Salinity</u>	<u>Salt Free</u>	<u>Slightly Saline</u>	<u>Moderately Saline</u>	<u>Strongly Saline</u>	<u>Other</u>
1960	53	18	11	16	2
1976-78	67	12	8	10	3

Source: WAPDA Master Planning & Review Division

Despite the improvements made, waterlogging and salinity are still serious problems. Water agencies and farmers must continue to make determined efforts to guard against these two problems.

Groundwater Development

One thing that has helped improve the salinity situation is the installation of a great number of tubewells over the last twenty years. About 36 million acre-feet, or 36% of the total annual supply of irrigation water, are pumped annually by 181,000 private

tubewells and 14,000 public tubewells. Since 1960, the rapid expansion in the development of groundwater at an average annual increase of 14.3% has provided more than 67% of the increase in irrigation water available at the farmgate. However, there is still some uncertainty about the legal status of groundwater which needs to be resolved for the continued investment by the private sector in groundwater development. For example, where groundwater is plentiful, some argue that canal rights could be transferred to areas where groundwater is scarce. Also, the legal basis for tubewell ownership needs to be clearly established.

Subsidies

There are a number of subsidies in the irrigation system, including portions of irrigation operation and maintenance costs, private tubewell installation, watercourse lining, and drainage systems. The GOP now has a stated policy of reaching full cost recovery of O&M expenditures in the early 1990's. During the 1970's, inadequacy of O&M funds caused a serious deterioration of the entire irrigation system. During the period 1979-1982, all provinces increased water-user charges by about 95%. Even with this increase, however, the GOP did not make the necessary increases in water charges to reach its full cost recovery goal. Water charges covered 57% of irrigation O&M in FY82 but only 48% in FY85. Total irrigation subsidies for the period 1981-1985 were some 3.78 billion rupees which is equal to 1.3% of current non-development expenditures for the same period.

Unlike fertilizer, irrigation water is a relatively minor cost of production. The World Bank estimates that water charges represent about six percent of the per acre income of crops. This works out to about Rs. 30 per acre per annum or about Rs. 60 under full cost recovery. Byerlee and Hobbs estimated the cost of water delivered from a tubewell as 10 times more expensive. They state, "Efficient allocation of scarce canal water is not promoted by the low pricing of canal water.... Farmers with better access to canal water may be applying more than the economic optimum, while other farmers depend entirely on tubewell water." (Byerlee and Hobbs, 1986, p. 38)

Hence, the subsidies provided for irrigation are not only a drain on scarce public resources, but encourage the inefficient use of water by farmers at the head of the system, leaving less water for those at the tail end. A necessary (although not sufficient) step for improving the overall technical efficiency and distributional fairness of the irrigation system would be to collect enough funds from users of the system to pay for operation and maintenance. Users should also pay at least a share of the capital costs for much needed improvements, such as installation of drainage canals and the rehabilitation of irrigation canals.

Increasing water-user charges appears to be a sensitive political issue in Pakistan. Although the GOP sees the need to increase these charges, it is very careful about the rate of increase. The recent stalemate with the World Bank on the issue is a good example. It may be necessary to make the water delivery system more reliable before it is possible to increase water user rates very much. The present

system of charging for water tends to penalize efficient water use by farmers and reinforces pressure to keep rates low. Water charges levied on individual farmers currently have only an indirect relationship to the amount of water actually delivered to him during any particular season. Moreover, under current operating conditions, there is little flexibility in adjusting irrigation water supplies to meet crop water requirements. Water supplies through the entire system fluctuate in response to variation in river flows and are subject to extreme curtailment or cut-off of services when there is a canal breach due to poor maintenance, or there is a need to close for emergency repair. Under such circumstances, water rates have serious limitations as instruments for optimizing water utilization.

Introduction of a volumetric (also known as "warimetric") system could help to remove the inequities of the current water charges system. The warimetric system is based on the fact that under the warabandi rotation, each farmer receives water for a specified period of time at a designated flow rate during each turn for water. Under the warimetric system, each farm would pay for water according to the length of time he actually receives water, or more simply, according to the number of irrigation he receives. Because each irrigation is for a fixed time and flow, this amounts to payment according to the volume of water. This system would have the advantage of allowing farmers to more effectively utilize the water resources available to him, which should in turn make it less difficult for the farmer to pay higher water-user charges.

Increasing the farmer's participation in the management of the irrigation system, effectively giving him greater control over the available water resources, is important if the government's goal of full cost recovery is to be reached. Water User Associations (WUAs) presently confine their activities largely to the lining and rehabilitation of public watercourses. Yet it would be possible for the scope of WUAs to be enlarged to include the management, operation, and maintenance of a given command area, basically along the lines of the water district in the United States. This would require a certain amount of institutional reform, in particular at the level of the Provincial Irrigation and Agricultural Departments. In general, it seems clear that improved performance of the irrigation system should go hand-in-hand with increases in water user charges.

Policy Issues in Irrigation

Pakistan's irrigation system is at the heart of the success in the agricultural sector. At the same time, the inefficiencies of the system have slowed improvements in the productivity of agriculture. The unpredictability of water supply at the farmgate has constrained increased production by causing farmers to use lower levels of complementary inputs than they would if there were better water control. Increasing the efficiency of the irrigation sector through water-course improvements, canal rehabilitation, and better institutional and on-farm management complemented by rational groundwater development is of critical importance for Pakistan.

The policy issues in the irrigation sector are complicated but can

be classified into two general categories:

- 1) Improving the management of the irrigation system by various institutions and increasing participation of farmer groups in the system's management at the local level, and
- 2) How to pay for the irrigation system's capital, operation, and maintenance costs.

Irrigation System Management - Improving the management system of the irrigation system is generally considered one of the most important ways of increasing the productivity of the irrigation sector. There are a number of different ways this can be accomplished. First, management training is needed for people at all levels of the institutions managing the irrigation system, particularly the people responsible for canal and drain operation and maintenance.

Second, adoption of improved management practices is essential to increased institutional effectiveness. For example, PIDs (Provincial Irrigation Departments) could improve their management of rehabilitated irrigation systems through the adoption of management concepts such as full funding for continuous maintenance, independent inspection of rehabilitated canals, appropriate yardsticks to measure performance, and conformance to the system operation and maintenance (O&M) manual. Rehabilitation efforts would be more successful if there were better rehabilitation design, more effective management of rehabilitation construction, and preparation of system-specific O&M manuals. Increasing the level of monitoring of the irrigation system would help to provide more equitable delivery of water to farmers and better maintenance of the canals.

Third, reform of irrigation institutions is needed, although this is one of the most difficult goals to obtain. For example, the PIDs need to adopt personnel policies that would promote technical specialization of PID officers. PID's need better career development and other incentives to improve the performance of its staff. Design offices in the PIDs need to be funded and staffed. Training needs to be included in the PID budgets. These are the types of improvements being addressed under the USAID Irrigation System Management project on a long-term basis.

There are other major types of institutional reform needed. The OFWM Directorates, which help to create and then work with Water User Associations, need to be permanently institutionalized under the Ministry of Agriculture by moving their budget allocation from the Development Budget to the Current Budget. Water User Associations must be empowered to take a much larger role in the management, operation, and maintenance of a defined area. While the legal basis for WUAs exists, too few Associations with too little power are in existence. Their federation in Punjab is even discouraged.

Hence, there are a number of institutional reforms, as well as the adoption of improved management techniques of the type cited above, that could merit sector grants under the ASSP.

Irrigation System Cost Recovery

Improving the cost recovery in the irrigation system must not be seen as a simple matter of increasing water user charges. That is part of the problem, but the performance of the irrigation system must improve and the control of water by farmers and Water User Associations must increase before full cost recovery is truly possible. The use of a volumetric system of measuring water would be a desirable change in the short and medium term, worthy of reward. The adoption of improved management techniques that make the system more responsive to the needs of its users is also worthy of reward. But it will be the increase in the power and number of the WUAs that will empower farmers to more fully participate in the irrigation system at operational and managerial levels. Farmers have found it economic to pay for tubewell water at prices ten times higher than canal water. They are willing to pay this because they can control when and how much water goes to their fields. Although the surface irrigation system will never provide much flexibility in delivery, farmers should be provided with a reliable, equitable, predictable supply. The PIDs must be more responsive to the WUAs if this is to be accomplished. Farmers will have a vested interest in seeing the system work when there is a greater degree of localized control through the WUAs.

In the intermediate term, it would be possible for the ASSP program to reward PIDs for meeting annual targets for irrigation O&M. Setting of the targets at levels closer to full cost recovery would be a rewardable action, although this should be a flexible policy benchmark to avoid the kind of problems experienced by the World Bank and the GOP.

In the area of groundwater development, public tubewells in areas of good-quality groundwater should continue to be divested to allow the public sector to focus its activities on saline groundwater areas. The World Bank presently has a project working on the best ways of divestment of publicly-owned tubewells. The findings of this project may serve as the basis for benchmarks in this area; allowing a divestment to take place now could be a rewardable activity. Whenever possible, the future development of groundwater should be by the private sector. Tubewells have demonstrated their profitability and can be run more efficiently by the private sector. Subsidies for private tubewell installation should be phased out, while increased amounts of credit is made available for small farmers or groups of farmers (such as a Water User Association) wishing to install a tubewell.

ANNEX H - POULTRY

Pakistan's poultry industry is growing rapidly.* In 1985, 95,000 MT of poultry meat and over four billion eggs were produced. Increasing by 15-16 percent annually, both meat and egg production roughly doubled during the last five years. Most of the growth took place in commercial production. The Government has encouraged growth in the industry through the provision of a number of producer incentives.

The industry is still faced with high production costs. Inferior feed quality, insufficient disease control measures, high mortality rates (about 15 percent), and management problems contribute to these costs. Despite these problems, it is anticipated that in the next 4-5 years the poultry industry will continue to grow at an annual rate of between 10 and 15 percent. Growth in the industry is expected to play a vital role in meeting the protein needs of Pakistan's rapidly growing population.

The feed industry has also grown at a rapid pace; more than tripling in capacity in the past ten years. Total production in 1985 was 675,000 MT. Rapid expansion has not resulted in an improvement in the quality of feed, however. The feed produced from locally available grains and protein sources contains high levels of aflatoxins and salt. This poor quality feed decreases the efficiency of the poultry industry. In order to improve feed quality, the Punjab government is contemplating the introduction of feed quality control regulations. In addition to government efforts, the American Soybean Association is disseminating technical information to feed mills in an effort to improve poultry feed quality through the production of balanced feed using the optimal amount of soybean meal.

The Poultry Industry study notes that a constraint to commercial broiler production is the availability of grains that provide energy feed and meals that provide protein feed. Recently established industries which extract fructose from broken rice and process maize into oil, starch and glucose compete with the poultry feed industry. About 70-80% of total production costs are associated with feed.

The Poultry Industry study used a linear programming model to develop least cost rations. It is noted in the study that federal import policy has a major effect on the competitive position of the components and cost of balanced rations, and consequently on the industry. To illustrate, the study assumed that the current full fat soya (FFS) price includes a 42.5% import duty (5% development surcharge, 5% USHR; 20% import duty and 12.5% sales tax). If this duty were removed, the new FFS price (of Rs 3604) would lead to a least cost ration as follows:

- a 49% increase in the FFS share in the broiler starter ration (from 66 kgs/MT to 98 kgs) and a 15% drop in the cost of the ration;

*Note: the section on poultry is from or based on the study, The Pakistan Poultry Industry: A Policy Analysis Framework, draft, August 1986.

- a 48% increase in the FFS share in the broiler finishing ration (from 87 kgs/MT to 129 kgs) and 14% drop in the cost of the ration; and
- a 20% share (compared to none formerly) in the layer ration and a 9% drop in the cost of the ration.

Thus, the magnitudes are quite significant. While the 5% development surcharge and the 5% USHR tax cannot likely be removed, it may be that the Government would be willing to remove the remaining two which amount to 32.5% on an ad valorem basis.

The quality of the soybean meal produced in Pakistan is very poor. Experimental work is being done to determine cost effectiveness of using imported high quality meal in rations. It may also be beneficial for producers to import maize. Thus, the poultry industry may wish to avail itself of the CIP facility. The initial annual amount of imports would not be large. Reportedly, several firms in Karachi are in the process of importing equipment (extruders) to produce FFS domestically, which would require the importation of soybeans. Experimental work is continuing on least cost balanced rations.

Thus, it is very difficult to quantify the imports that the poultry industry may wish to make under the PSCIP. A very rough estimate of the poultry industry's utilization of the PSCIP is \$10 million over the life of ASSP, although the amount could be much larger or much smaller. The Mission will continue to encourage experimental work and collaborate with trade associations' endeavors to remove constraints to a more viable industry.

SUMMARY DESCRIPTION

PURPOSE The Program is designed to: (1) increase the productivity of the agricultural sector through the provision of imported commodities and equipment; and (2) provide balance of payment support.

OUTPUTS

(a) Importation of:

- fertilizer;
- equipment related to AID funded Projects; and
- commodities in emergency situations.

(b) Private CIP

(c) Policy dialogue

SCHEDULE

Date of Original Agreement	13-Apr-82
Original PACD	13-Oct-84
Revised PACD	14-Jan-91
Last Evaluation	Dec-82
Project Evaluation Summary	NA
Next Evaluation	Oct-87

COUNTERPART AGENCIES (a) Food and Agriculture Division; (b) Finance Division; (c) Federal Flood Control Commission; and (d) Provincial Irrigation Departments.

CONTRACTORS Connel Brothers (PSA); AEGIS International (PSA); Other suppliers

BUDGET Life of Project Funding (\$ 000's)

	Loan	Grant	Total
USAID Authorized	213,000	262,000	475,000
Cooperating Country			
Other Donors			
TOTAL	213,000	262,000	475,000

PIPELINE

Obligations	192,000	198,000	390,000
Accrued Expenditures	123,918	147,656	271,574
PIPELINE	68,082	50,344	118,426

Current Planning Document: Fifth PAAD Amendment

 Project Officer: Abdul Wasay
 Office Chief: Allen C. Hankins

ASSESSMENT OF OUTPUTS

Sep-8

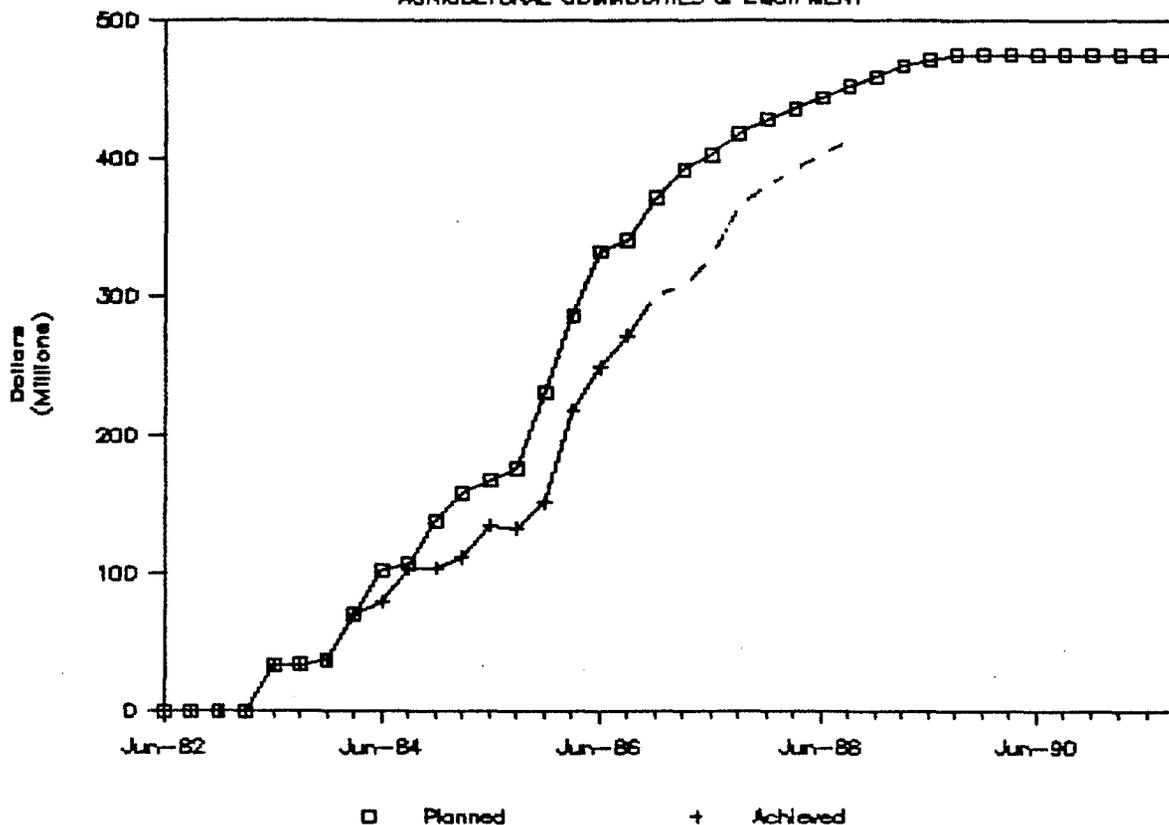
AGRICULTURAL COMMODITIES AND EQUIPMENT (391-0468)

OUTPUT ELEMENTS	PROGRESS	PROBLEMS	ACTION PLANNED
FERTILIZER	Awards for 250,000 MT (+/- 20%) of DAP fertilizer were made in the third week of August. Shipments have started and will be completed by the end of November.	None.	Offer loan/grant monies for procurement of urea fertilizer. GOP has recently tendered for 100,000 MT urea from Middle East. Another 200,000 MT of urea will have to be produced over the next few months. If we offer grant funds to cover cost differential, GOP may be willing to procure urea from US.
EQUIPMENT	Procurement of Project related equipment has continued normally. Bid evaluation for a major procurement for MART Project has been just completed. Awards will be made by the second week of November.	None.	Continue procurement.
WHEAT	Shipments were completed.	None.	None.
COTTON	Not applicable.	None.	None.
PRIVATE SECTOR CIP	ADB and two American banks were added to the approved applicants list. GOP waived credit and foreign exchange ceilings for this Program. A beginning has been made with the opening of an L/C amounting to \$ 50,000 by URL.	<ul style="list-style-type: none"> - The interest rate (14%) is high. - High collateral requirements (100-150%) by banks. - High cost of U.S. commodities. 	The GOP is being asked to eliminate FX risk coverage requirements. It is further recommended that the two remaining banks be added to the approved applicants list.
POLICY DIALOGUE	CP regarding fertilizer distribution was met.	Private sector sources have indicated that GOP has not yet implemented the commitment to increase private sector's share in imported fertilizer distribution to 60 percent.	(a) Ask GOP to implement CP before fertilizer arrives in-country. (b) Start negotiations with GOP to allow private sector imports of urea and phosphatic fertilizers.

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PLANNED VS. ACTUAL EXPENDITURES

AGRICULTURAL COMMODITIES & EQUIPMENT



OVERALL PROJECT ASSESSMENT

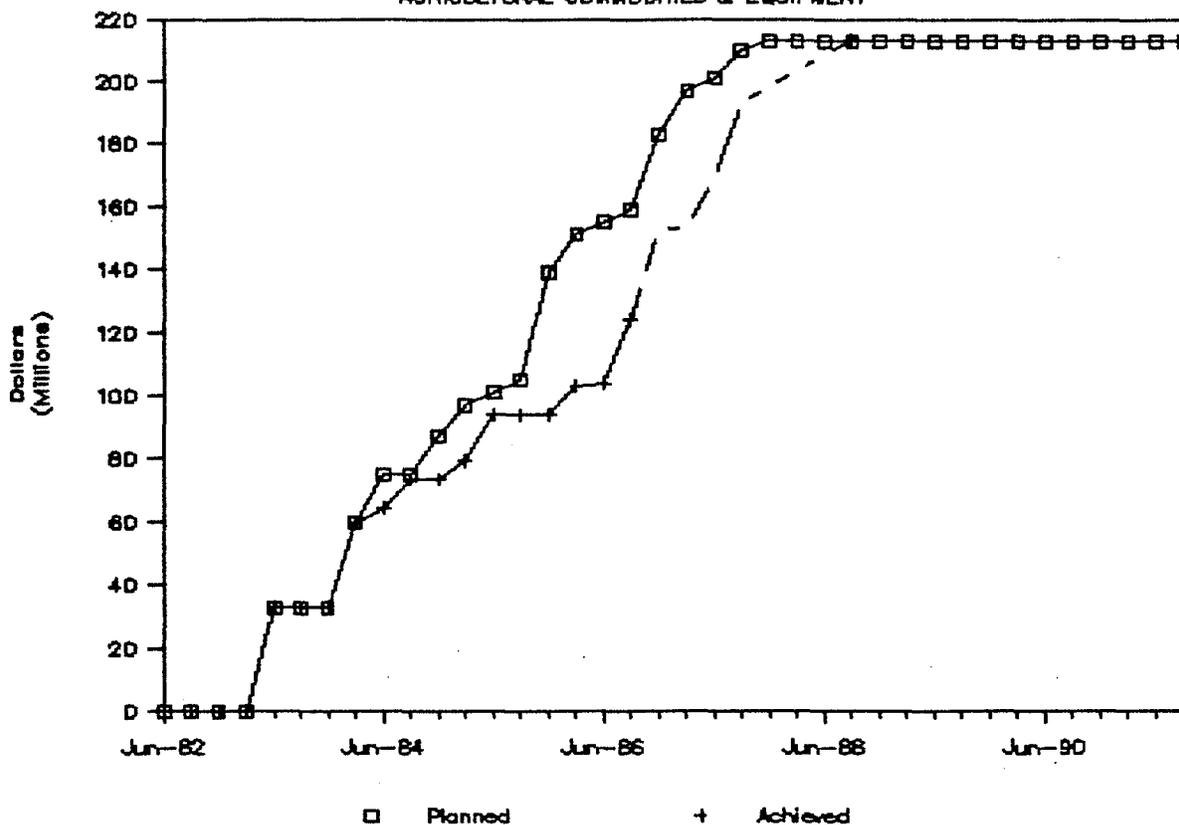
The ACE Program is moving satisfactorily and the pipeline is expected to be reduced by \$35 million over the next six months. Wheat procurement is complete. Shipment of DAP fertilizer have started with a completion schedule in November 1986. Procurement of project-related equipment is going on satisfactorily. The Agricultural Development Bank of Pakistan and two American banks have been added to the approved list under Private Sector CIP.

Problem

Private sector distributors have indicated that the Government has not yet implemented its commitment to increase private sector share in imported fertilizer distribution to 60%.

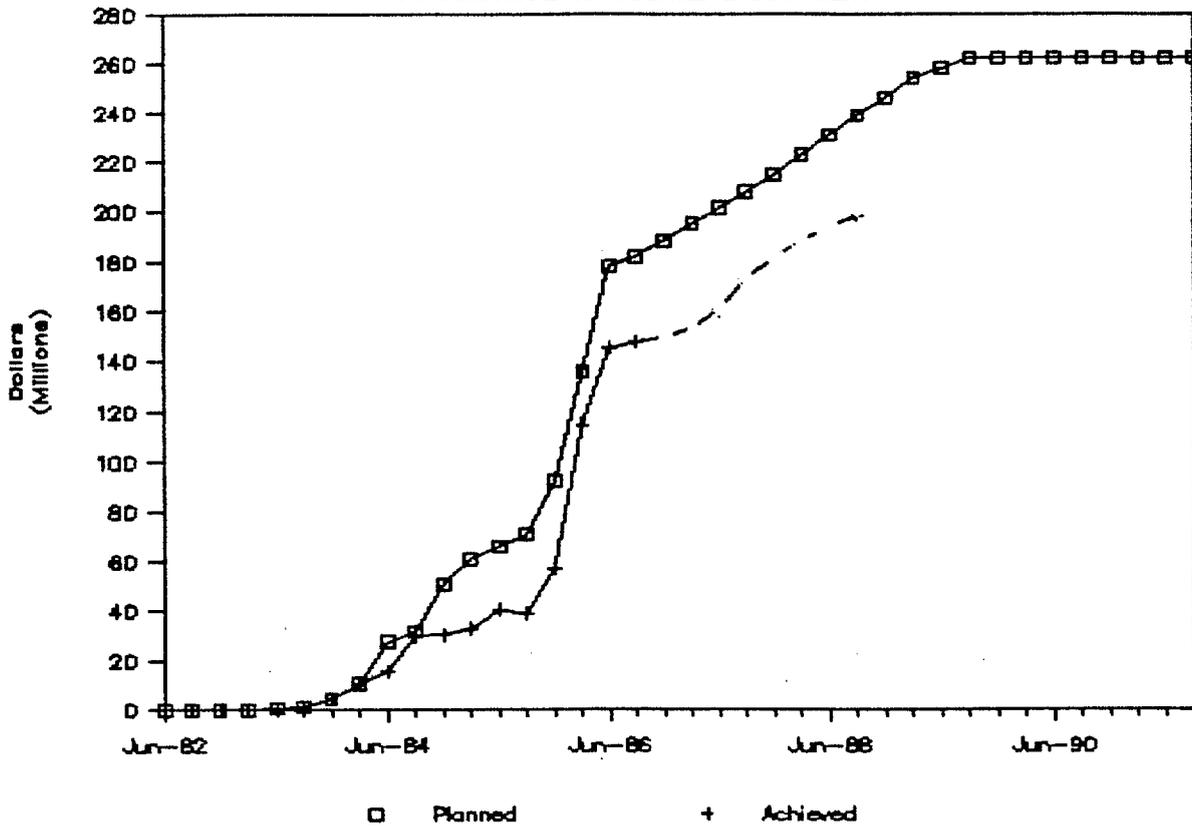
LOAN

AGRICULTURAL COMMODITIES & EQUIPMENT



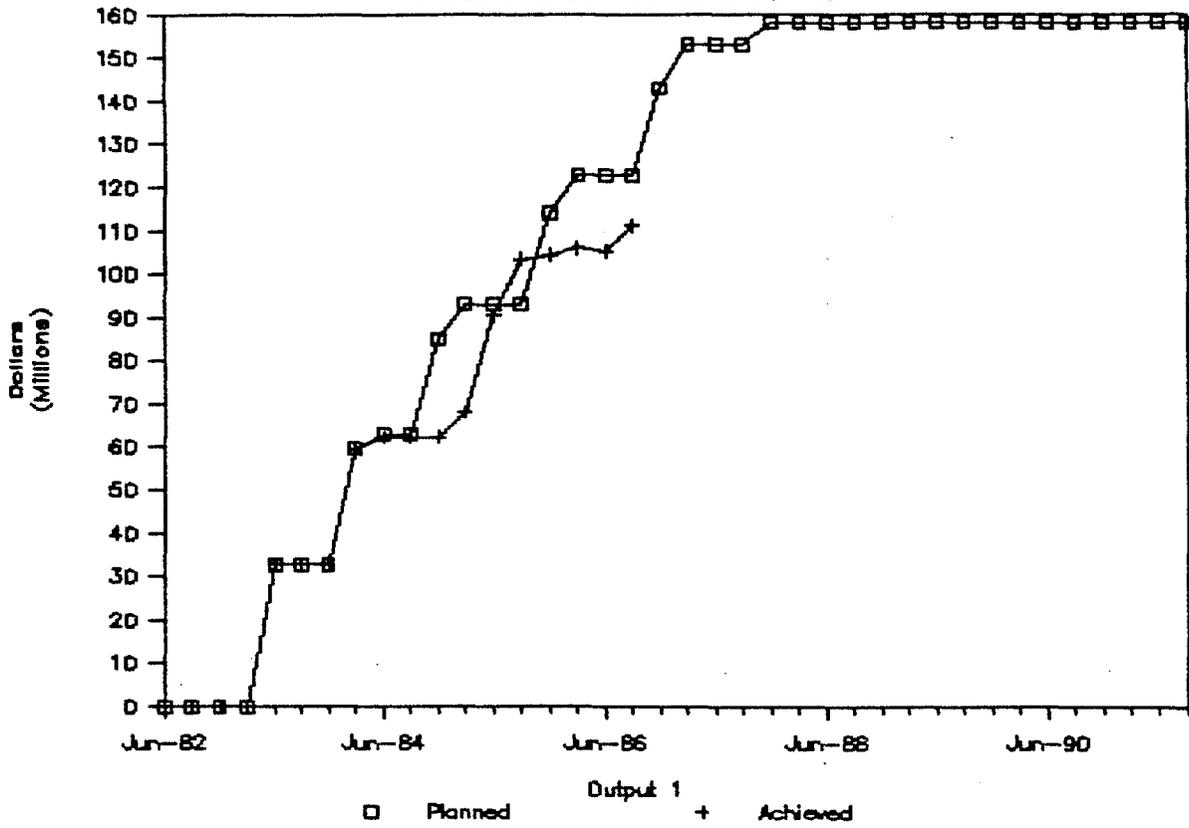
GRANT

AGRICULTURAL COMMODITIES & EQUIPMENT



FERTILIZER

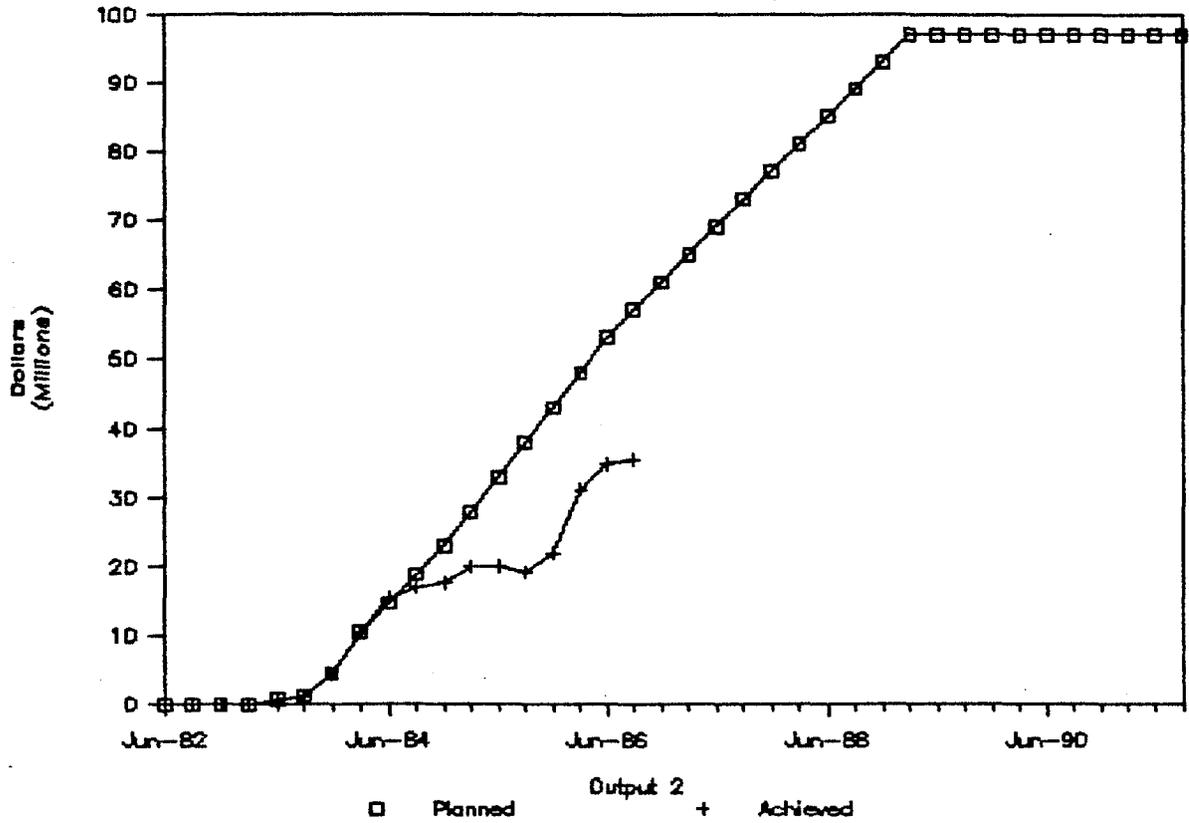
AGRICULTURAL COMMODITIES & EQUIPMENT



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EQUIPMENT

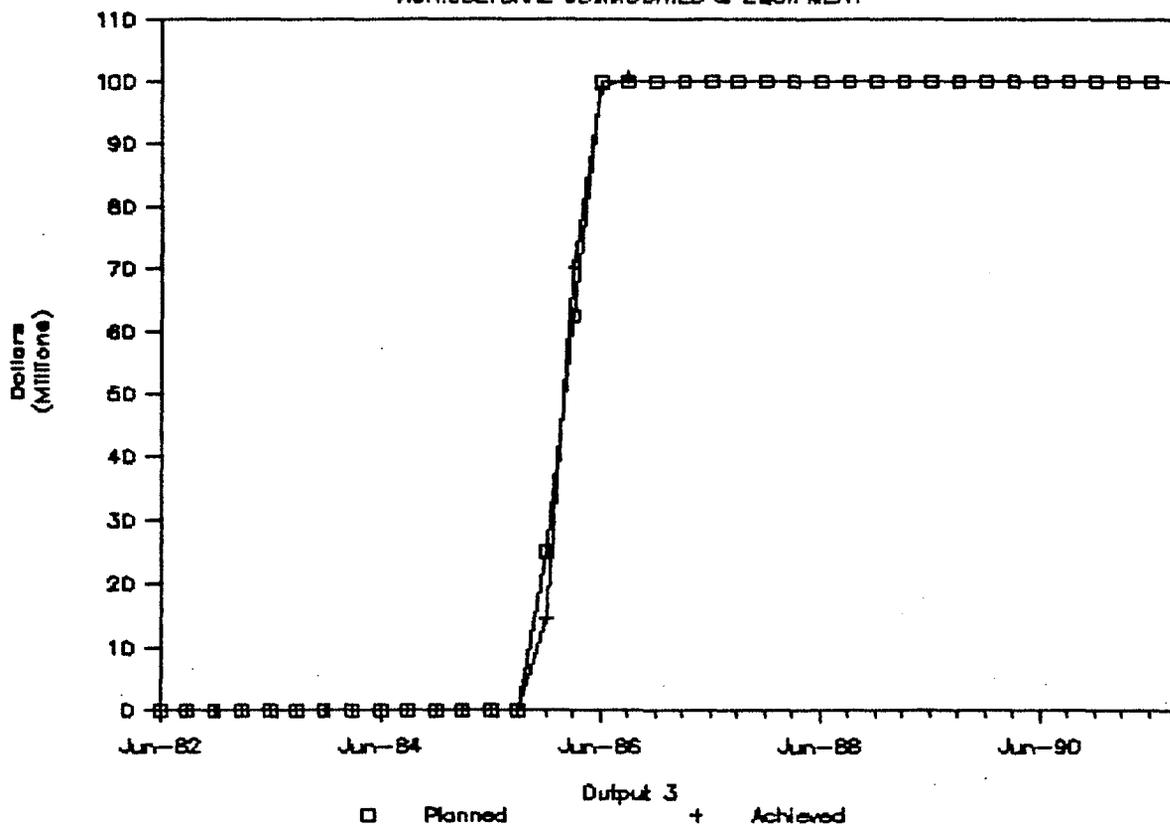
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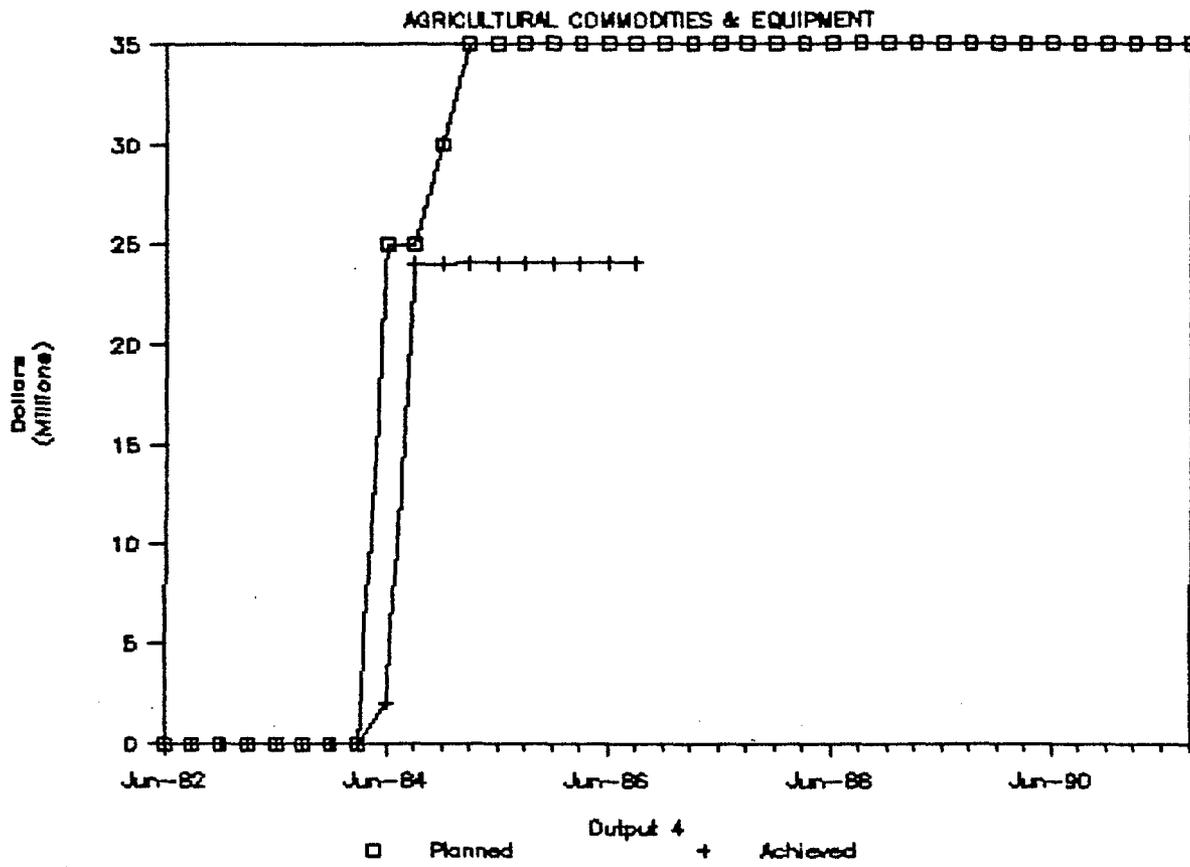
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Wheat

AGRICULTURAL COMMODITIES & EQUIPMENT

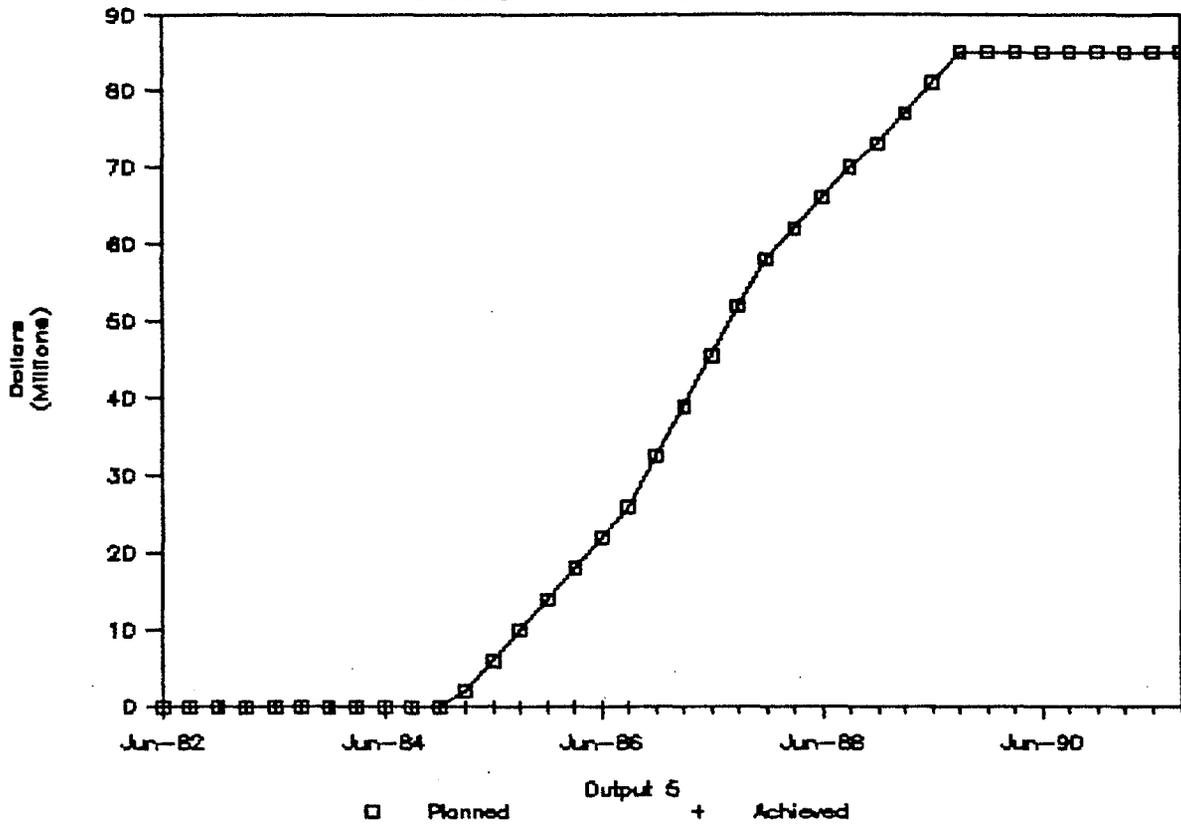


Cotton



Private CIP

AGRICULTURAL COMMODITIES & EQUIPMENT



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PROMIS WORKSHEET: OUTPUT 1

FERTILIZER
 AGRICULTURAL COMMODITIES AND EQUIPMENT (391-0463)

(\$ 000's)

	Planned		GRANT Achieved		Disbursed		Planned		LOAN Achieved		Disbursed		PHYSICAL Planned Achieved	
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC		
TOTAL	22,000	0	8,415	0	8,415	0	136,000	0	102,839	0	82,921	0	0	0
Jun-82														
Sep-82														
Dec-82														
Mar-83														
Jun-83							32,784		32,784		32,784			
Sep-83							20		20		20			
Dec-83							21		21		21			
Mar-84							26,870		26,870		20,552			
Jun-84							3,305		2,585		8,903			
Sep-84									77		77			
Dec-84	15,000						7,000							
Mar-85	5,000						3,000		5,751		5,751			
Jun-85			7,491		3,786				14,813		14,813			
Sep-85			(908)		2,798				14,076					
Dec-85	1,000		908				20,000							
Mar-86	1,000		1,697		1,808		8,000							
Jun-86			(797)											
Sep-86			24		24				5,842					
Dec-86							20,000							
Mar-87							10,000							
Jun-87														
Sep-87														
Dec-87							5,000							
Mar-88														
Jun-88														
Sep-88														
Dec-88														
Mar-89														
Jun-89														
Sep-89														
Dec-89														
Mar-90														
Jun-90														
Sep-90														
Dec-90														
Mar-91														
Jun-91														
Sep-91														

PROGRESS Awards for 250,000 MT (+/- 20%) of DAP fertilizer were made in the third week of August. Shipments have started and will be completed by the end of November.

PROBLEMS None.

ACTION Offer loan/grant monies for procurement of urea fertilizer. GOP
 PLANNED has recently tendered for 100,000 MT urea from Middle East. Another 200,000 MT of urea will have to be procured over the next few months. If we offer grant funds to cover cost differential, GOP may be willing to procure urea from US.

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PROMIS WORKSHEET: OUTPUT 2

EQUIPMENT
 AGRICULTURAL COMMODITIES AND EQUIPMENT (391-0468)

(\$ 000's)

	Planned		GRANT Achieved		Disbursed		Planned		LOAN Achieved		Disbursed		PHYSICAL	
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	Planned	Achieved
TOTAL	97,000	0	35,577	0	31,920	0	0	0	0	0	0	0	0	0
Jun-82														
Sep-82														
Dec-82														
Mar-83														
Jun-83	637		637		637									
Sep-83	522		522		16									
Dec-83	3,302		3,302		3,769									
Mar-84	5,977		5,977		6,010									
Jun-84	4,187		4,947		4,184									
Sep-84	4,187		1,517		2,254									
Dec-84	4,188		691		723									
Sep-82	5,000		2,357		649									
Dec-82	5,000		31		213									
Mar-83	5,000		(756)		770									
Jun-83	5,000		2,719		15									
Sep-83	5,000		9,180		4,413									
Dec-83	5,000		3,695		81									
Mar-84	4,000		758		8,187									
Jun-84	4,000													
Sep-84	4,000													
Dec-84	4,000													
Mar-85	4,000													
Jun-85	4,000													
Sep-85	4,000													
Dec-85	4,000													
Mar-86	4,000													
Jun-86	4,000													
Sep-86	4,000													
Dec-86														
Mar-87														
Jun-87														
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Dec-88														
Mar-89														
Jun-89														
Sep-89														
Dec-89														
Mar-90														
Jun-90														
Sep-90														
Dec-90														
Mar-91														

PROGRESS Procurement of Project related equipment has continued normally. Bid evaluation for a major procurement for MART Project has been just completed. Awards will be made by the second week of November.

PROBLEMS None.

ACTION Continue procurement.
 PLANNED

PROMIS WORKSHEET: OUTPUT 3

WHEAT
 AGRICULTURAL COMMODITIES AND EQUIPMENT (391-0468)

(\$ 000's)

	Planned		GRANT Achieved		Disbursed		Planned		LOAN Achieved		Disbursed		PHYSICAL Planned Achieved	
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC		
TOTAL	90,000	0	90,661	0	77,765	0	10,000	0	10,000	0	10,000	0	0	0
Jun-82														
Sep-82														
Dec-82														
Mar-83														
Jun-83														
Sep-83														
Dec-83														
Mar-84														
Jun-84														
Sep-84														
Dec-84														
Mar-85														
Jun-85														
Sep-85														
Dec-85	15,000		14,688				10,000							
Mar-86	37,500		46,795		21,344				8,938		8,938			
Jun-86	37,500		27,606		10,892				1,043		1,043			
Sep-86			1,653		37,529				20		20			
Dec-86														
Mar-87														
Jun-87														
Sep-87														
Dec-87														
Mar-88														
Jun-88														
Sep-88														
Dec-88														
Mar-89														
Jun-89														
Sep-89														
Dec-89														
Mar-90														
Jun-90														
Sep-90														
Dec-90														
Mar-91														
Jun-91														
Sep-91														

PROGRESS Shipments were completed.

PROBLEMS None.

ACTION None.
 PLANNED

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COMMODITIES AND EQUIPMENT (391-0468)

Planned		GRANT Achieved		Disbursed		Planned		LDAN Achieved		Disbursed		PHYSICAL Planned Achieved	
FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC		
13,000	0	13,003	0	13,003	0	22,000	0	11,079	0	11,079	0	0	0
13,000		12,988		12,988		12,000		2,032 9,047		2,032 9,047			
		15		15		5,000 5,000		1 (1)		1 (1)			

not applicable.

none.

none.

PROMIS WORKSHEET: OUTPUT 5

PRIVATE SECTOR CIP
 AGRICULTURAL COMMODITIES AND EQUIPMENT (391-0468)

(\$ 000's)

	GRANT						LOAN				PHYSICAL		
	Planned		Achieved		Disbursed		Planned		Achieved		Planned	Achieved	
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC			
TOTAL	40,000	0	0	0	0	0	45,000	0	0	0	0	0	0
Jun-82													
Sep-82													
Dec-82													
Mar-83													
Jun-83													
Sep-83													
Dec-83													
Mar-84													
Jun-84													
Sep-84													
Dec-84													
Mar-85							2,000						
Jun-85							4,000						
Sep-85							4,000						
Dec-85							4,000						
Mar-86							4,000						
Jun-86							4,000						
Sep-86							4,000						
Dec-86	2,500						4,000						
Mar-87	2,500						4,000						
Jun-87	2,500						4,000						
Sep-87	2,500						4,000						
Dec-87	3,000						3,000						
Mar-88	4,000												
Jun-88	4,000												
Sep-88	4,000												
Dec-88	3,000												
Mar-89	4,000												
Jun-89	4,000												
Sep-89	4,000												
Dec-89													
Mar-90													
Jun-90													
Sep-90													
Dec-90													
Mar-91													
Jun-91													
Sep-91													

PROGRESS ADBP and two American banks were added to the approved applicants list. GOP waived credit and foreign exchange ceilings for this Program. A beginning has been made with the opening of an L/C amounting to \$ 58,000 by UBL.

- PROBLEMS
- The interest rate (14%) is high.
 - High collateral requirements (100-150%) by banks.
 - High cost of U.S. commodities.

ACTION PLANNED The GOP is being asked to eliminate FX risk coverage requirements. It is further recommended that the two remaining banks be added to the approved applicants list.

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PROMIS WORKSHEET: OUTPUT 6

POLICY DIALOGUE
 AGRICULTURAL COMMODITIES AND EQUIPMENT (391-0468)

(\$ 000' s)

	Planned		GRANT Achieved		Disbursed		Planned		LOAN Achieved		Disbursed		PHYSICAL	
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	Planned	Achieved
TOTAL	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Jun-82														
Sep-82														
Dec-82														
Mar-83														
Jun-83														
Sep-83														
Dec-83														
Mar-84														
Jun-84														
Sep-84														
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Dec-90														
Mar-91														
Jun-91														
Sep-91														

PROGRESS CP regarding fertilizer distribution was met.

PROBLEMS Private sector sources have indicated that GOP has not yet implemented the commitment to increase private sector's share in imported fertilizer distribution to 60 percent.

ACTION (a) Ask GOP to implement CP before US fertilizer arrives in-country. (b) Start negotiations with GOP to allow private sector imports of urea and phosphatic fertilizers.

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ANNEX J - ASSP COMPONENT: TATA

Post-1987 Economic Assistance Requirements for Economic Analysis Network (EAN) Project

The proposed strategy for the EAN Project after 1989 is based on the following assumptions:

1. By 1990, the Directorate of Agricultural Policy (DAP) will employ a staff of at least 15, of whom at least 7 are staff economists or directors;
2. By 1990, at least one-half of the DAP staff are in the GOP civil service;
3. By 1990, at least 5 major sector-level policy analyses are completed under the EAN research program;
4. Local economics training through applied economic analysis workshops and seminars will continue to be more effective than overseas academic training; and
5. MINFA will increasingly recognize the value of the DAP and rely on the DAP for most of its policy analysis needs.

By 1990, the DAP will have evolved to become MINFA's primary supplier of relevant, credible economic and policy analyses. During the next three years, the DAP will develop three major research programs: economic analysis, price analysis, and farm management. These programs will be developed through support from the EAN PLA and concentrated technical assistance from a long term expatriate DAP Advisor, who will be fielded in the summer of 1987. During 1986-89, the EAN will continue to be strengthened through a series of applied economic analysis workshops and financial and technical assistance to EAN studies conducted by cooperating EAN institutions.

The accomplishments of the EAN Project through 1989 will set the stage for the maturation of the DAP and the EAN during 1990-1995. Much of the research to be conducted after 1989 will use data collected by the ADC on agricultural prices, inputs, market linkages, labor, machinery, costs of production, and trade. Most economics training will be implemented through local applied economic analysis workshops and seminars because of continuing difficulty in placing participants in overseas academic programs. When necessary, EAN studies will supplement ADC data with rigorous, narrowly defined economic surveys of agricultural producers, households, processors, and marketers. The analytical capability of the DAP and the EAN will be further strengthened by an additional 80 advanced microcomputer systems and five economic research libraries. In recognition of the premier role of the DAP as MINFA's policy advisor, a permanent DAP office complex will be constructed for the GOP. Three long-term expatriate advisors will assist MINFA in strengthening the DAP's staff economic capability, providing technical assistance to EAN institutions and EAN research projects, and coordinating local training programs for workshops and seminars. About 60 man-months of short-term expatriate technical assistance will be supplied to assist the EAN

and the DAP to implement specific studies, most of the technical short-term consultancies, and 1,800 man-months of research support. The estimated cost of the donor assistance required for these activities is summarized in Table I.I

TABLE J-I

EAN PROJECT DONOR ASSISTANCE NEEDS FOR 1989-1995

COMPONENT	AMOUNT	COST
I. Technical Assistance		\$ 4,860,000
A. Long Term Expatriate Advisors	18 Man-Years	2,700,000
B. Economic Studies	30 Studies	2,660,000
1. Local Consultants	300 Man-Months	600,000
2. Short-term Expatriate Advisors	60 Man-Months	660,000
3. Local Staff Support	1,800 Man-Months	900,000
4. Local Indirect Costs		500,000
II. Training		2,000,000
A. Workshops	30 (600 Participants)	600,000
B. Seminars	12 (600 Participants)	120,000
C. Local Instructors	4 Man-Years	80,000
D. Overseas Study Tours	100 Man-Months	1,200,000
III. Commodities		4,150,000
A. Computers/Software	80 Systems	960,000
B. Photocopiers	10	90,000
C. DAP Office Construction		60,000
D. Economic Research Libraries	5 (3,000 vol. @)	2,500,000
TOTAL COST		\$ 11,510,000

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Agricultural Data Collection (ADC) Project, 1986-89

Objectives:

1. Completion of the area sampling frame for the original seven pilot districts (as revised; based on MOD restrictions) and one district in NWFP and Baluchistan (conditional upon the acquisition of aerial photography).
2. Complete at least one area survey for major crops in the pilot districts.
3. Initiate a demonstration objective yield survey for three major crops in at least one pilot district.

Due to the late start of the project and the delays caused by difficulties in obtaining access to aerial photography, the original goal of the ADC will not be realized by 1989. Recommend that unused funds be rolled into the Agriculture Sector Support Program.

Agriculture Sector Support Program, 1989-1995

The ADC should continue under the same organizational structure as the 1985-89 project because substantial work will remain to complete the national area sampling frame. The primary objective of ADC will continue to be the collection and publication of basic statistics on agriculture. The area sampling frame will be used as the sampling base for production statistics and other major agricultural surveys, however, the project should begin using several other methodologies in the collection of related basic agricultural statistics. All data generated by ADC will be made available on a timely basis to all users throughout the country for planning and decision making.

The outline below shows the proposed structure of ADC for the Agriculture Sector Support Program.

I. Production Statistics

- A. Complete national area frame
- B. Initiate yield estimates for major crops
- C. Investigate alternate methods for estimates on area and yield of minor crops
- D. Explore methods for providing interim livestock statistics between census, and livestock products data, i.e., milk production and slaughter.

II. Economic Statistics

- A. Prices; farm, wholesale, retail
- B. Price of index series
- C. Cost of production and production inputs
- D. Agriculture labor; including labor force, cost and migration effects on labor supply
- E. Land tenure

- F. Farm credit, cost use availability, sources
- G. Cold storage
- H. On-farm grain stocks
- I. Marketing
 - a. Agriculture market structure
 - b. Market channels
 - c. Marketing costs
 - d. Losses in the market
 - e. Transportation
 - f. Export-Import trade (monitoring of international markets)

III. Training

- A. Foreign degree training
- B. Foreign short-term training
- C. In-country training
- D. Statistical training institute

IV. Technical Assistance

- A. Long-term technical assistance
- B. Short-term technical assistance

V. Commodities

- A. Vehicles
- B. Computers, 100 microcomputers, 1 mainframe
- C. Miscellaneous: textbooks, training equipment, office equipment (typewriters, photocopiers, etc.)

VI. Aerial Photography

- A. Photographic lab equipment
- B. Nationwide aerial photography

VII. Cost

A. Commodities		\$ 13,970,000
1. Vehicles	970,000	
2. Computers	2,500,000	
3. Miscellaneous	500,000	
4. Aerial Photography	10,000,000	
B. Technical Assistance		5,000,000
1. Long-Term	2,500,000	
2. Short-term	2,500,000	
C. Training		2,500,000
1. Institute	1,000,000	
2. Foreign	1,000,000	
3. In-country	500,000	
TOTAL COST		\$ 21,470,000

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ACTION AID INFO AMB DCM ECON ARFP

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ANNEX L

ACTION: PRO *100* ATTACHMENT 1

PP RUEHIL

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TAGS: N/A

SUBJECT: NEW PROJECT DESCRIPTIONS

ISLAMABAD
JUN 27 10 30 AM '86
AID/CCR

DURING ANE BUREAU DISCUSSION OF POST 87 STRATEGY DOCUMENT ON 6/13/86, NEW PROJECT DESCRIPTIONS WERE REVIEWED. BUREAU COMMENTS FOLLOW.

ACTION	
Dir Date:	7/3
Action	
Takes:	
Date:	
In: all:	

1. EDUCATIONAL DEVELOPMENT: INFORMATION PRESENTED IS QUITE PRELIMINARY, AND MISSION DIRECTOR INDICATED MISSION HAS NOT YET FORMULATED A STRATEGY FOR A PID. PROBLEMS IN THE SECTOR ARE SEVERE, AND CAREFUL STUDY IS NEEDED TO RELATE AID SUPPORT TO GOP COMMITMENTS TO BASII REFORM. DIRECTOR INDICATED THAT AFTER THE SECTOR ASSESSMENT HAS BEEN COMPLETED AND THOROUGHLY REVIEWED AT POST, A CONCEPT PAPER WOULD BE PREPARED.

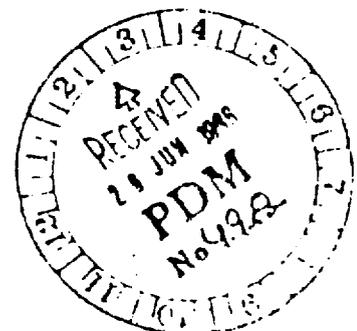
2. REGIONAL INFRASTRUCTURE: DIRECTOR INDICATED THAT LIST OF POSSIBLE PROJECTS WILL BE NARROWED DOWN AND A CONCEPT PAPER DEVELOPED. IN ADDITION TO THE OBJECTIVE OF VISIBILITY, PROJECTS SELECTED SHOULD HAVE CREDIBLE DEVELOPMENT IMPACTS.

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3. AGR. SECTOR SUPPORT PROJECT: THIS CONCEPT PAPER WAS MORE DEVELOPED, AND MANY OF ITS ELEMENTS FOLLOW ON FROM EXISTING ACTIVITIES. BUREAU AGREED THAT MISSION SHOULD AS NEXT STEP PREPARE A PID.

4. HEALTHY CHILD: THIS CONCEPT ALSO APPEARS SUFFICIENTLY DEVELOPED THAT A PID SHOULD BE MISSION'S NEXT STEP. CONSIDERING AGENCY'S INTEREST IN PROCEEDING WITH CHILD SURVIVAL, MISSION SHOULD CONSIDER WHETHER PROJECT COULD BE INITIATED IN FY 87. REPORTING SYSTEM SHOULD BE GIVEN CAREFUL ATTENTION. CONCERN WAS EXPRESSED ABOUT THE NATURE AND BREADTH OF SOME OF THE PROPOSED ACTIVITIES. IT APPEARS TO US THAT THERE MAY BE SOME MERIT IN CONSIDERING SEPARATE PROJECTS: ONE TO ADDRESS THE IMMEDIATE AND HIGH PRIORITY CHILD SURVIVAL NEEDS AND ANOTHER TO ADDRESS LONGER-TERM NEEDS TO STRENGTHEN INSTITUTIONS (E.G., IMPROVING HEALTH PLANNING AND REFORMING MEDICAL EDUCATION).



ACTION TO: R.M.

5. PRIVATE SECTOR POWER: MISSION DIRECTOR INDICATED

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MISSION'S INTEREST IN DEVELOPING A SET OF OPPORTUNITIES FOR GENERATION AND MANAGEMENT OF DISTRIBUTION WHICH WOULD INVOLVE PRIVATE RESOURCES. AID CONTRIBUTION LIKELY TO BE FINANCING OF FEASIBILITY WORK, COMMODITIES AND INFRASTRUCTURE DEVELOPMENT. STRATEGY FOR DEVELOPING CONCEPT PAPER AND PID WILL BE WORKED OUT WITH MOSELEY DURING JULY MEETINGS AT WORLD BANK.

6. SPECIAL DEVELOPMENT FUND: DIRECTOR INDICATED OBJECTIVE IS TO HAVE A MECHANISM TO ADDRESS OPPORTUNITIES FOR WID AND NGO ACTIVITIES AS THEY ARISE. CONCEPT PAPER SHOULD BE DEVELOPED WHICH WOULD LOOK AT THE PVC UNIVERSE AND ITS CAPABILITIES, AND CONSIDER MISSION MANAGEMENT REQUIREMENTS. BROAD DIFFUSION OF ACTIVITIES COULD BE QUITE LABOR INTENSIVE FOR THE MISSION. FOR THIS REASON, MISSION MAY WANT TO CONSIDER LEAVING TRAINING OBJECTIVES TO THE DEVELOPMENT SUPPORT TRAINING PROJECT.

7. INSTITUTIONAL EXCELLENCE: BUREAU AGREED THAT PID DEVELOPMENT SHOULD BE NEXT STEP. IN SELECTING INSTITUTIONS TO BE ASSISTED, MISSION SHOULD ASSURE ITSELF THAT PROJECT WILL DO MORE THAN PROVIDE BUDGET SUPPORT FOR ORGANIZATIONS WHICH HAVE HAD INSUFFICIENT RECURRENT COST FINANCING, AND CONSIDER HOW THE ORGANIZATIONS WILL BE SUPPORTED AFTER AID SUPPORT ENDS. MISSION SHOULD DEVELOP CRITERIA FOR SELECTION OF INSTITUTIONS WHICH WOULD AVOID SECTORAL PROLIFERATION AND MINIMIZE MISSION MANAGEMENT BURDEN.

8. BUREAU AND MISSION DIRECTOR AGREED THAT PIDS AND CONCEPT PAPERS WOULD BE SUBMITTED TO WASHINGTON FOR APPROVAL. DIRECTOR INDICATED THAT CONCEPT PAPERS COULD BE SUBMITTED BY ABOUT OCTOBER 1. THIS WILL ENABLE AID/W TO INCLUDE THE ACTIVITIES IN THE CONGRESSIONAL PRESENTATION. PLEASE ADVISE IF THIS DATE IS INFEASIBLE. ARMACOST

BT
2083

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