

PD-ABK-701

USAID/PAKISTAN

FEBRUARY 1989 ACTION PLAN

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## I. PROGRAM SETTING

### A. Political Developments

In May, when the last Action Plan was submitted to AID/W, it would have been impossible to predict the rapid unfolding of political events ahead: dissolution of the National Assembly, the death of Zia, national elections--and the installation of a Pakistan People's Party (PPP) government headed by Benazir Bhutto in Islamabad. In terms of stability, a "best case" scenario has prevailed, at least for the time being. Free elections were held. The electoral process was peaceful. The results were widely accepted. There was enough of a mandate for a new government to be formed--but not so much that there are no "checks and balances." Coalition or minority party governments in three of the four provinces ensure some degree of accountability and underscore the need for all parties to work together if this latest "experiment" in democracy is to succeed.

The new government confronts the same set of economic problems faced by the old. The CDSS prepared two years ago remains very valid. By and large, the problems identified and strategies proposed in that document are relevant and track well with the situation now facing Pakistan. Domestic resource mobilization problems in particular severely restrict maneuvering room. By far the largest share of the government current budget--approximately three fourths--must go for debt servicing or defense. Development expenditure is financed totally by borrowing.

Although the new government "inherits" a certain agenda from the past, at least some of the leadership seems aware of how the ground has shifted since the early 1970s when Benazir's father, Zulfikar Ali Bhutto, came to power and centralized economic management and government control over productive resources. If nothing else, "deregulation" in the major controlled economies demonstrates the need for creative approaches to pressing economic growth problems. Initial indications from Benazir Bhutto on how she views working out solutions to the country's economic problems have been encouraging and there is an obvious openness to new ideas. The Mission may be able to take advantage of some of these "windows of opportunity" to attract support for some of the more innovative policy-related activities envisaged under the USAID program.

As the new government organizes, we have been pleased to note the extent to which our own program can complement some of the main themes which the PPP (and, for that matter, most other parties) emphasized in the fall election campaign. Much of the focus was on housing, health, and education. New USAID-supported initiatives under the 1988-1993 program--Child Survival, Primary Education, Special Development Fund (SDF), and the Housing Investment Guarantee (HIG) in particular--are certainly responsive. Others, such as Private Sector Power and perhaps the Agricultural Sector Support Program (ASSP), are designed to address real developmental concerns while, at the same time, confronting resource-mobilization problems head-on.

## B. Afghanistan

Last year's Action Plan highlighted the Geneva Peace Accords, which should result in the departure of all Soviet armed forces from Afghanistan by February 15, 1989. The withdrawal so far is on schedule. Two other key issues--formation of a post-withdrawal government in Kabul and repatriation of more than three million Afghan refugees remain. The coming weeks and months will be critical to both.

Concerns expressed in last year's Action Plan about the need for continued U.S. constancy and support during a possibly difficult transition period remain central. The emergence of a new government in Islamabad which has publicly stated its intention of continuing the policies of the previous regime on Afghanistan (but may be tempted or pressured to modify its position) makes this stand all the more important.

~~This government believes it represents the culmination of a peaceful democratic transition and should be rewarded.~~ There has been talk (among the PPP and by Benazir Bhutto) of an increase in U.S. assistance because of the change. We believe that what is needed is not so much additional assistance as the right GOP policy. We also believe it is unlikely, given the U.S. budgetary situation, that U.S. assistance can be increased beyond the already committed levels. The ability of the U.S. to at least meet its pledge remains important. Further reductions in the annual level of U.S. economic support to Pakistan would send the wrong signal.

## C. Economic Overview

The new government inherits a mixed economic legacy. The high growth rates earlier on in this decade are receding. There is an increasing awareness of Pakistan's poor performance in the social sectors. ~~The relatively high gap between revenues and expenditures has not improved,~~ leading to charges that the new government inherited a "bankrupt" economy. In fact, the budget deficit, which was 5.3 percent of GDP in PFY1981, increased to over 8 percent of GDP in PFY1988. The annual growth in GDP, which had averaged 6.9 percent during the first three years of the Sixth Plan, slowed to 5.2 percent in PFY1988.

Political and financial uncertainties coupled with production losses following riots in Sind and floods in Punjab point to an even lower growth rate for PFY1989--possibly less than 5 percent, the lowest for Pakistan in a decade. The budget deficit is almost certain to be higher than anticipated. At the start of the Pakistan fiscal year in July, the deficit was projected to be 5.3 percent of GDP; revised projections now suggest a more realistic figure of 6.2 percent. Continued declines in worker remittances and a lower exportable surplus of cotton and rice will also likely result in lower than usual export earnings. Though the problems faced by Pakistan are as severe as any in the past decade, some sense of proportion needs to be maintained: many other countries would be pleased to have deal with economic growth rates of "only" 5 percent.

Our own quarterly economic report on the state of the economy emphasizes four main structural problems that the new government confronts: budget deficits, low national savings, trade imbalances, and monetary controls. A subsequent report by the Central Bank also suggests a need for immediate action in these areas. The difficult budgetary situation will not disappear any time soon; over the last four years the deficit has doubled in absolute terms, with non-bank borrowing increasingly being used to finance the deficit. National savings rates, already low in comparison with other countries at a similar stage of development (about 13 percent of GNP), have stagnated and could even decline with the reduced levels of remittances from the Gulf.

The reduction in workers' remittances is also putting increasing stress on Pakistan's balance of payments accounts, which have always been problematic. A "tight" money policy has tended to keep inflation rates to less than 5 percent annually until recently. Now there is evidence that inflationary pressure is increasing, perhaps even exceeding 10 percent. Although the government blames last year's drought for much of the increase, huge deficit financing must be partly responsible. This fall's devastating floods are likely to increase inflationary pressures still further.

The USAID program has been able to respond quickly to some of the unforeseen events in the past couple of years, especially as regards floods and drought. It made available \$200 million to finance about one million metric tons in wheat imports. These purchases should ensure that, for the first time since U.S. assistance to Pakistan recommenced in FY1982, disbursements this year will exceed obligations. Other programs with a cash transfer element such as SDF and ASSP have also helped, especially in meeting foreign exchange shortfalls. Both programs form part of a larger policy dialogue agenda that should have a more lasting impact on Pakistan's economic development.

#### D. Domestic Resource Mobilization

The issue of domestic resource mobilization, highlighted as the main economic issue facing Pakistan in last year's Action Plan, continues to receive high priority. The most significant step from the GOP's perspective was to come to terms with the alarming budget deficit which had been averaging around 8 percent of GDP in the past couple of years; the goal for the current fiscal year is to reduce it to 6.2 percent. It remains to be seen whether the new fiscal policy of making the provinces more disciplined in their financial affairs (in the past, the federal government "covered" their deficits) will in fact be enforced. Other significant measures planned by the GOP include the establishment of six investment banks in the private sector. LOIs have been issued to two; once operational, these banks could mobilize substantial domestic resources, some of which may come from the "unofficial" economy.

Since February 1988, the GOP has been engaged in an ongoing dialogue with the IMF regarding access to a Standby loan and a Structural Adjustment Facility totalling around \$850 million. The initial agreement reached

last summer has been ratified by the newly elected government and the IMF board opened the program in late December. Under its terms, major areas of reform include further action to address the budget deficit and significant cost and price deregulation. The Mission supports the agreement and the reform measures associated with it and believes that in the medium term these will turn out to be beneficial for the continued strong growth of Pakistan's economy.

Some of the main Mission vehicles for addressing the domestic resource mobilization issue have already been highlighted. SDF, ASSP, and the PL 480 program all provide much needed foreign exchange and reduce pressure on the GOP, giving it needed time to put in place a package of reforms boosting the domestic resource mobilization effort. The Mission can take justifiable pride in the imminent establishment of private investment banks; it has been pressing the GOP to take this step for at least three years.

Domestic resource mobilization concerns are also addressed in the context of specific projects. Irrigation Systems Management (ISM) and Rural Electrification (RE), with their emphasis on user charges and efficient pricing policies, are part of this effort. ASSP and the proposed Housing Investment Guarantee (HIG) also aim at policy change in areas related to domestic resource mobilization. Finally, Private Sector Power (PSP) and the HIG are based on mobilizing private sector resources. If successful, PSP could raise enormous amounts of private investment for productive investment. If the GOP accepts the policy package that would come with the HIG program, a private industry providing financing for housing construction and mortgages should begin to emerge.

At the same time, we are well aware that several of our social sector initiatives--Child Survival, Primary Education, and Institutional Excellence in particular--imply an expanded rather than reduced financial commitment on the part of the government. Though several elements in these projects are meant to promote private sector involvement, there are areas in the social sectors in which greater public sector investment is clearly warranted.

## II. SECTORAL CONCERNS

### A. Education

The Mission's new project design schedule this year is defined mainly by our two initiatives in education, Primary Education Development (PED) and the Institutional Excellence Project (IEP). PIDs for both have been approved in AID/W. The Project Papers are now being developed, with Mission and/or AID/W approval anticipated in May/June, PC-1 submission in June/July and agreement signing between A.I.D. and the GOP in July/August.

The window for making these deadlines is tight and we will have to look for close programming support from AID/W this summer as the end of the fiscal year approaches. In particular, we need a definite reading from AID/W on required obligation scenarios for the DA education funds (what percentage needs to be completed by the end of August, what percentage of the Bureau and Agency total does our project represent, etc.). If necessary, we recommend that AID/W begin laying the groundwork now to allow authorization of these funds as late as September.

We believe the timing is right for these two initiatives, which represent both ends of the education spectrum. The Seventh Plan attaches high priority to education, as does the election manifesto of the new government. The share of education expenditures as a proportion of total GNP has risen from 1.6 percent in FY1983 to 2.4 percent in FY1988. During the same period, total education expenditures as a proportion of the government budget increased from 6.2 percent to 9.6 percent. This trend is expected to continue, especially because the PPP has itself set an ambitious target for education expenditures to reach 4.5 percent of total GNP. (The average for all developing countries is 4.4 percent.)

Through policy dialogue with the GOP, the Mission hopes to overcome several basic constraints which have impeded the expansion of Pakistan's primary education system in the past. These include inadequate budgets, lack of teacher incentives in rural schools, and lack of administrative support for primary education. We will seek to negotiate an increase in GOP expenditures for primary education rising from .96 percent to 1.25 percent of the country's GDP.

We also want to work toward institutionalizing a package of incentives to motivate teachers to accept positions in rural schools. This package would include new allowances for housing and transportation for rural teachers on par with those received by their urban counterparts. Finally, we would like to see separate Directorates of Primary Education established in both NWFP and Baluchistan to offer needed administrative support exclusively for primary education.

## B. Population

For obvious reasons, population remains a priority sector within the portfolio. While the history of Pakistan's family planning programs is uneven, the picture is somewhat more encouraging than that presented in the AID/W Action Plan guidance cable. Estimated contraceptive prevalence rates increased from 9.1 percent in 1984-1985 to about 13 percent in 1988. Although below the 18 percent prevalence target set in the Sixth Plan, it does indicate progress.

For this year's April consortium meetings, the World Bank is preparing a major document assessing the impact of Pakistan's high growth rates on the entire economy which should help focus further GOP attention on the problem. The Seventh Plan (1988-1993) presents a sound, comprehensive program for providing family planning services through both the public and private sector; our main concerns are over implementation. The President, in his December address to the new Parliament, emphasized the need to check rapid population growth and urged the newly elected government to motivate people in this area. The PPP election manifesto talked of making family planning an effective part of Pakistan's health care program, a position we have been arguing for some time. The most recent Annual Economic Report of the State Bank of Pakistan underscored the negative impact Pakistan's rapid population growth was having on other sectors of the economy. Official statements on improving the status of women and developing more effective maternal, child health and nutrition programs are also encouraging since many of these factors are related to high fertility.

Family planning activities conducted by NGOs have expanded rapidly since support for them began less than three years ago. NGOs now operate approximately 450 family planning service outlets throughout Pakistan. The private sector Social Marketing of Contraceptives project has met with significant success since it began selling condoms in January 1987 (the product is now available in more than 45,000 outlets). The project has exceeded original expectations, and the external evaluation this fall concluded that it could become one of the most effective social marketing projects in the world.

The Mission is pursuing a number of policy issues. We will continue to press for more rapid implementation of public sector programs, and expansion of innovative efforts to promote private sector social marketing and NGOs. We will intensify efforts to incorporate child spacing concerns in maternal-child health and child survival programs, and to provide family planning services through health facilities. We are considering supporting visits by religious leaders from Islamic countries with successful family planning programs to meet political and religious leaders in Pakistan.

We are also taking several steps to work with the GOP to assess the impact of population growth on other sectors. A demographic and health survey is planned for mid 1989 to update the results of the 1984-1985 contraceptive

prevalence survey. We also plan to review the public sector program (in the context of our Population Welfare Planning Project) later in 1989, building on related work done by the World Bank and UNFPA. Finally, the RAPID presentation, last prepared for Pakistan in 1983, is being updated in 1989. This will provide the basis for further analysis of the impact of population growth on other sectors of the economy and further dialogue with the government on major policy issues related to population.

### C. Energy

A more detailed discussion on our approach to dealing with Pakistan's energy problems is provided in the Energy Strategy forwarded separately. A special area of concern expressed in the Action Plan guidance cable was on pricing and donor coordination. The two issues are closely linked--a common approach on pricing among all major donors is needed to ensure progress on this issue.

The Seventh Plan estimates that the GOP will need to increase electricity tariffs substantially during the next several years if WAPDA is to achieve power and revenue generation targets established in the plan. In July 1988, the GOP increased the basic tariff structure (excluding fuel adjustment charges) by about 18.5 percent. The tariff increases included proportionately higher increases for domestic, commercial, and agriculture consumers than for industrial consumers. The basic rate increase for domestic consumers (26.9 percent) represents an important shift in GOP thinking, because tariff increases for the domestic subsector have often been less than the average rate increases. The long awaited ADB tariff study (by Coopers and Lybrand) has finally commenced and should provide convincing evidence that the rates for agriculture must similarly be increased by larger than average amounts in coming years to reduce and eventually eliminate subsidized electricity rates for agricultural as well as domestic consumers.

The Mission is using its strengthened economics capability to analyze progress realized to date on the level and structure of electricity tariffs. This information will be used in ongoing discussions with major multilateral and bilateral donors, in order to develop multi-donor (and mutually reinforcing) electricity and energy pricing CPs or covenants. Although there have been no recent discussions with the Japanese on this issue, we have requested a meeting with the Japanese Embassy and expect to discuss the matter in detail in early 1989 when Japanese foreign assistance personnel will be visiting Pakistan.

### D. Agriculture

An update of the agricultural sector strategy, provided separately, incorporates information from the Seventh Plan and the National Commission on Agriculture. As requested in the Action Plan guidance, a status report on the agricultural policy agenda is also included. Although formal review meetings have not taken place due to unexpected political events (suspension of parliament in May, the death of President Zia in August,

and elections in November), informal discussions point to progress toward such ASSP objectives as reduced subsidies, price rationalization, and private sector promotion. Examples include the elimination of sanction requirements in edible oils, vegetable ghee, and the beverage industry; establishment of a National Disinvestment Authority; and elimination of budget cover for markup-free agricultural credit programs. Fertilizer price changes may save the GOP up to 300 million rupees in subsidies, while wheat pricing changes could result in a savings of up to another 500 million rupees.

Most remaining funds in the Agricultural Commodities and Equipment (ACE) import program are being used for emergency wheat import shipments, as is all of last year's ASSP CIP program. This should not affect the planned transfer of Economic Analysis Network (EAN) and Agricultural Data Collection (ADC) activities to ASSP from June 1990 onwards. A principal action in this area is the needed revision of relevant GOP planning documents. Funding of FSM training activities under ASSP has already started, with much of the FY1989 training program financed under that program.

The agricultural portfolio addresses the issue of women in agriculture, though the reference in the Action Plan guidance ("maximizing women's role in agriculture") is perhaps not the best formulation of our approach. The recent evaluation of the WID component of the Tribal Areas Development Project criticized one initiative for "creating additional tasks for women without reducing their existing ones, in an environment where women are probably overworked." The immediate program goal is not so much to "maximize" participation as to better understand existing roles and relationships and to eventually improve the quality and efficiency of their already extensive contribution to agricultural development in Pakistan.

Several research activities are coming up with some interesting data on the role of women. The farming systems research initiative, in particular, aims specifically at a better understanding of the part women play in Pakistan's agricultural economy. Other studies--by the Arid Zone Research Institute (AZRI) in Quetta, by the International Food Policy Research Institute (IFPRI), and by the research component of the Irrigation Systems Management (ISM) project--all include or will include gender-disaggregated data collection and analysis. At another level, training of women in agricultural-related professions offers a long-term opportunity for improving the status of women in Pakistan. There are now 33 women enrolled in the agricultural university in Peshawar, an all-time high for Pakistan.

#### E. Housing/Urbanization

Mission views on housing and urbanization were presented in 88 Islamabad 26634 as our response to A.I.D. policy discussions on this issue. As noted in that cable, Pakistan is the most "urbanized" country in South Asia with nearly 30 percent of its population living in cities and towns.

Although overall urban growth patterns in Pakistan are relatively balanced, problems associated with rapid urban growth are especially severe in Karachi which has witnessed ethnic unrest, growing squatter settlements, and diminished social services. The emergence of an urban, Karachi-based party as a "third force" in Pakistani politics in the recent elections has focused more attention on urban problems, especially in Karachi. Partly in response to these concerns, the Mission has reviewed its own portfolio and plans in this area, to better understand how they interact with the larger problems of Karachi.

Urbanization problems are discussed in the CDSS and are considered important insofar as they form part of a program that is designed to be national in scope. Most, if not all, of the ten selected development problems and strategies identified in that document are relevant to urban areas, even if they are not framed to address urban problems exclusively.

We have consciously left major urban infrastructure activity to the multilaterals, which have extensive programs underway in such areas as transport, power, water, and sewage. Most of our own main sectoral initiatives do include activities that address urban problems--Child Survival (immunization and other programs in urban slums); Special Development Fund (the NGO sector is strongest in urban areas such as Karachi); Social Marketing of Contraceptives (aimed entirely at urban and semi-urban areas); and Private Sector Power (urban investors, industrialists, and consumers stand to benefit most), to name some of the most important ones.

In addition, we anticipate that the Housing Investment Guarantee (HIG) will emerge as possibly the most "urban-focused" activity in the portfolio. We welcome the additionality implied by this program. If the GOP accepts the policy package that would come with as much as \$100 million in USG guaranteed commercial funds, a private industry providing financing for housing construction and mortgages should begin to emerge.

The emphasis in the proposed HIG on policy reform, financial markets, and private sector participation reflects an attractive "package" of policy approaches needed to begin solving real urban problems. We want to continue to emphasize in our discussions with the GOP that our support is not so much for "financing" urban improvements but rather for encouraging the kind of policy movement (including sustainability, fiscal integrity, private sector participation, and grassroots community organization) needed to effect change. We believe this can be done within the parameters of the existing portfolio.

#### F. Private Sector

Rather than isolate private sector initiatives in a single "private sector office" or with a solitary "private sector officer," the Mission has sought to ensure that individual projects to the extent possible build on

and promote the private sector in Pakistan. We believe the results are encouraging--a private sector import window in energy and agriculture that is now in high demand; a contraceptives marketing campaign developed by a private Pakistani firm that was described by a recent evaluation team as "world class;" a Private Sector Power project involving several other donors whose ultimate impact could be dramatic; and training programs targetted at the private sector and women that are in high demand.

The common thread in most of these initiatives is that the problems faced by Pakistan are far too great to be left to the government. The serious fiscal crisis in particular is an important reason for recent shifts in GOP thinking. Our goal is to help the government move out of its "control" role into a more appropriate regulatory one. Approval of the private sector power initiative and establishment of private investment banks are two dramatic steps in this direction that would have been considered highly unlikely even a few years ago. Liberalization of controls, a move toward economic pricing of inputs, and a shift in the relative roles of the public and private sectors are all important elements in the development of a more conducive policy environment for the private sector.

While not planning a more "aggressive" role for the Mission in pursuing its already well-known policy dialogue agenda, there are areas in which we anticipate becoming more active: helping to establish financial markets through the HIG program; developing the private NGO sector (and support for it by the local business community) through the GOP's Trust for Voluntary Organizations; expanding the Social Marketing of Contraceptives using the strengths of local marketing firms; and strengthening private agribusiness under ASSP. Although initiatives in primary education and child survival will necessarily involve increased government financial commitment, we are also looking for ways to promote private sector participation. Social marketing programs for child survival products along the lines of what has already been developed for contraceptives is one possibility; community-oriented, grassroots participation in primary education is another.

The strengthening of the Mission's Economic Analysis section (from one USDH and one FSN economist two years ago to two USDH and two FSN economists today) should further sharpen our policy dialogue agenda, including items aimed at promoting the private sector. In consultation with the Embassy, the Mission is also hiring an FSN trade and investment specialist to complement the four-person economic staff. This could lead to some operational trade and investment activities, perhaps associated with the private sector commodity windows or ASSP. ARD will augment its policy analysis staff with a full time senior PSC specifically funded under ASSP.

## OTHER ISSUES

### A. Policy Dialogue and Donor Coordination

Our approach to policy dialogue is reflected throughout this narrative and in the CDSS indicators matrix which follows. Domestic resource mobilization serves as a broad unifying theme for much of the policy agenda, including private sector mobilization and economically rational pricing structures. The multilaterals pursue many of our same policy themes; we in turn seek to reinforce theirs, through our individual projects and by commenting extensively on new World Bank and ADB projects. The next round of high level policy talks with the GOP (probably in March or April), as stipulated under the FY1988-FY1993 program agreement, should also be useful.

At an operational level, donor coordination continues to be important. We meet regularly with visiting design teams and cooperate on sectoral donor coordination forums in areas such as health, population, energy and agriculture. We look forward to the opening of an ADB resident office in Islamabad this July. With Japan having overtaken the United States as the leading bilateral foreign aid donor to Pakistan, special efforts need to be taken to bring it on board. The low-level in-country presence of the Japanese complicates this to some extent, as does their traditional reluctance to engage in serious policy discussions. But the number and quality of such contacts is increasing, and we hope to strengthen our coordination with the Japanese in the coming months when two full-time representatives are sent to open an OECF office here.

### B. PL-480 Title I

In response to Washington's request, the Mission and the GOP signed the FY1989 PL 480 Title I Agreement on very short notice. The agreement, concluded at the end of FY1988, provides for \$80 million in edible oil imports. Self-help measures generally followed those introduced under the FY1982-FY1987 program. One new one was introduced: establishment of a Joint Working Group to review progress under the previous program and to identify an agenda of new measures to support. At the same time, the Mission is commissioning an options paper as the basis for developing a multi-year strategy for future PL 480 programs. Deregulation and private sector promotion in edible oils has been emphasized in recent years. After this study is complete and the new Program Economist arrives, the Mission will decide whether to continue to associate the program with reforms in edible oils or to pursue an entirely new policy agenda.

### C. Funding Levels

The Mission continues to maintain in all its programming documents that the FY1988-FY1993 U.S. economic assistance commitment to Pakistan will be

met. The figure agreed to in March 1986 was \$2.28 billion (\$1.8 billion in grant aid plus \$480 million in PL 480 Title I assistance). Funding levels for the first two years are already \$65 million less than anticipated, although grant funding of the military portion of the aid package in lieu of the planned loan offset in real terms the diminished economic assistance.

FY1990 will be particularly tight, even at the requested level of \$300 million. A.I.D. financing (\$200 million) of a portion of Pakistan's unexpected wheat import requirements has in effect "cleaned out" the pipeline. Hard choices will inevitably have to be made, even without further cuts. If cuts are made, options that will have to be considered include a phased-down ASSP program (with perhaps a slowdown on agriculture policy reform); eliminating the new Awaran-Turbat road portion (this may be the only significant infrastructure activity during FY1988-FY1993 which can match the Guddu power plant in terms of raising the visibility of our program); not coming up with a significant block of funding for Private Sector Power (we may have to respond quickly here if proposals are processed faster than anticipated); or not releasing promised funds for rural electrification (we have taken a strong policy line here, and the GOP may be on the verge of accepting our terms in return for a substantial funding allocation for electrifying villages).

If Congressional cuts continue at the current rate, the total six-year economic assistance package will end up being on the order of \$2 billion, \$1.5 of it in project or program aid. The proposed \$100 million HIG program would not really make up any of the difference because it is loan money at commercial rates. As emphasized earlier, we are concerned that a continued annual "chipping away" of the program sends the wrong signals. Some of the major policy goals the USG set for itself in the region in the early 1980s are clearly attainable--most notably the withdrawal of Soviet forces from Afghanistan and the establishment of a democracy in Pakistan. The coming months are crucial to both. While it is perhaps overly optimistic to expect any of the shortfalls of the first two years ever to be made up, we are concerned that new cuts could contribute to "wresting defeat from the jaws of victory" in what has clearly been one of the major U.S. foreign policy successes of this decade.

#### D. Management Concerns

For at least the next couple of years the Mission should have some respite from the heavy design and evaluation burden it has been carrying. With the successful signing of the remaining two education projects, all major initiatives for the FY1988-FY1993 program will be underway (of course, several project amendments are planned and a couple of relatively small new projects are possible). Virtually the entire project portfolio has been evaluated over the past three years. By necessity, the focus will increasingly be on implementation.

Cutting or capping staff is not easy when the workload associated with the portfolio keeps growing. We have aggressively looked for ways to deal with the work without necessarily involving more expatriates. Increasing reliance is put on local expertise. We actively seek to develop the skills and talents of our FSN staff, many of whom have assumed project officer responsibilities in the place of USDH employees. Other tasks previously performed by short-term consultants from the U.S. are now undertaken by resident hire expatriates. Also, the Mission has in place a set of Indefinite Quantity Contracts openly competed for and awarded to seven Pakistani firms.

USDH staffing levels are holding steady at 42 positions. FSN staffing levels have increased somewhat, from 347 at the end of September 1987 to 358 in September 1988. Some work normally expected of USDH or expatriate TA has been carried out through effective use of the skilled dependent spouse community in Islamabad, the number employed by the Mission having risen from 10 in September 1987 to more than double that today.

Considerable attention has been focused on ensuring that the total number of in-country contractor personnel (including PASAs and "imported" PSCs) does not exceed 100. A basic set of staffing numbers--for individual USAID offices as well as contracting teams--was agreed to in November 1988. Any departures from these numbers requires approval by the Director. The results of this exercise are noteworthy. Staffing projections prepared in late 1985 envisaged long-term technical assistance numbers rising to more than 150 in FY1988. In fact, in September 1987, only 86 individuals were on board; in September 1988 the number was 81. Current projections contemplate a manageable level--93 in September 1989 and 91 in September 1990--largely due to the phaseout of technical assistance teams for old projects while new ones are arriving. In any case, the number is below our self-imposed limit of 100 and we are satisfied that we have our staffing levels under control.

#### E. Evaluation and Monitoring

The MIS TDY conducted with the help of ANE/DP in November and December is helping to focus our attention on the need for improvements in this area, especially on the monitoring side. The report left behind is being examined internally and we expect to take a number of steps in response to various recommendations made. On the evaluation side, the Mission has been averaging about six project evaluations a year. Five of the six evaluations planned for FY1989 have already been completed or are underway, leaving only Primary Health Care to schedule, probably in September. At this point, only one project evaluation is scheduled for FY1990 (several are likely in FY1991, with some such as ASSP and Rural Electrification probably beginning as early as fall 1990). If appropriate, some "cross-cutting" evaluations will also be considered in areas such as sustainability or institution building, possibly as part of the overall MIS review.

ANNEX A:

UPDATED EVALUATION PLAN

A. FY1988 Evaluations (Actual)

Energy Planning and Development\*  
Baluchistan Area Development\*  
Food Security Management\*  
Irrigation Systems Management\*  
Transformation and Integration of Provincial Agricultural  
Network\*  
Overall Review of 1982-1987 Program\*

B. FY1989 (Ongoing)

Irrigation Systems Management (Command Water  
Management Component)\*  
Tribal Areas Development\*  
Development Support Training\*  
Social Marketing of Contraceptives\*  
Management of Agricultural Research and Technology\*  
Primary Health Care

C. FY1990 Evaluation (Planned)

Road Resources Management

\*Evaluation complete or underway

ANNEX B:

UPDATE ON CDSS INDICATORS MATRIX

<u>Indicator</u>	<u>Current Status</u>
1. <u>Balance of Payments Pressure</u>	
-- Foreign exchange reserves averaging two months of imports by 1993.	Foreign exchange reserves now average only two weeks of imports, an indication of the severe crisis Pakistan continues to face in this area.
-- Trade balance narrowing each year.	Performance here is uneven: The deficit in 1987-1988 was \$2,542 million, compared to \$2,284 in 1986-1987 (the base figure was \$3,042 million in 1985-1986).
-- Export growth averaging 8 percent per year by 1993.	Exports have increased 48 percent from a 1985-1986 base figure of \$2,942 million (they were \$3,498 million in 1986-1987 and \$4,341 million in 1986-1987).
2. <u>Inadequate Domestic Resource Mobilization</u>	
-- Budget deficits averaging not more than 4.5 percent of GDP by 1993.	No change since last reporting plan (1988-1989 figure is expected to be 6.2 percent of GDP).
-- Major tax reforms introduced.	Some progress was made inder the June 1988 budget, including "rationalization" of income tax structure; 12 percent sales tax extended to cover an additional 12 items; corporate taxes lowered by 5 percent; agriculture income to be "clubbed" with non-agricultural income for determining tax liability.

-- Inauguration of private investment institutions.

Six private investment banks have been sanctioned, and two of these have been granted LOIs by the GOP and are expected to be in operation by June 1989.

-- Movement of autonomous public sector institutions off the government budget.

WAPDA, which was initially moved off-budget for PFY 1988-1989, has been moved back on budget by the new government, ostensibly in an attempt to speed the pace of rural electrification (in July GOP also approved an increase in WAPDA's basic tariff structure by an average of 18.5 percent).

### 3. Agricultural Productivity

-- Fifty percent increase in maize production by 1993.

(Maize production activity planned when this benchmark was set has been dropped; this benchmark will not be reflected in future reporting documents).

-- Fifty percent increase in marketed dairy production by 1993.

Marketed dairy production increased from 11,508 million metric tons in base year 1985-1986 to 12,897 in 1987-1988, an annual growth rate of 5.08 percent.

-- Fifty percent reduction in the percentage difference between the 1985-1986 average world and Pakistani yields for wheat, rice, cotton and sugarcane by 1993.

Still too early to establish long-term trends. The most recent wheat crop was unusually poor, cotton yields unusually high. Current status (actual baseline gap in 1985-1986; actual gap in 1987-1988; target gap in 1993) are as follows: wheat (19.6%, 23.7%, 9.8%); rice (52.1 percent; 23.7%; 26 percent); cotton (5.4

percent; 7 percent above world yields; 2.7 percent); and sugarcane (39 percent; data not available; 19.5 percent). Note: FAS/USDA data, not the FAO data used last year.

-- Fifty percent decrease in agricultural subsidies by 1993.

Fertilizer subsidy declined from Rs. 2,408 million in 1985-1986 to Rs. 1,860 million in 1986-1987 and Rs. 1,617 million in 1987-1988.

-- Water user charges covering 100 percent of the operations/maintenance of the irrigation system by 1993.

No substantive change since May 1988 Action Plan.

-- Measurable progress in institutional reform and development, including increased expenditures for operational costs relative to salaries, revised personnel procedures in which promotion is based primarily on merit, and improved definition of goals and priorities.

No substantive change since May 1988 Action Plan. Funding continues to be an important concern, with budget cuts often affecting the ability of institutions to carry out the research or training mandates which they have been given.

#### 4. Energy Deficit

-- WAPDA establishment of a revised tariff system which introduces peak load shedding for large industrial consumers.

Long awaited ADB tariff study team (Coopers and Lybrand) finally contracted and has begun work, with completion expected by December 1989 and introduction of revised tariff system including peak load pricing by August 1990. (Progress on the pricing issue is discussed at greater length in the Action Plan narrative).

-- Pakistan increases power generation capacity by 1,500 MW by 1993.

Total capacity now stands at 7,116 MW (four 100 MW oil fired units installed at Kot Addu and USAID's 200 MW at Guddu on line since May). No further increases expected this fiscal year, but 400 MW more anticipated during PFY1989/1990.

-- Creation and staffing of potentially separable distribution wing within WAPDA by 1989.

Delineation of authority and responsibility to eight functional areas within the new distribution wing becoming a reality. Emphasis now is on giving sufficient autonomy to each and ensuring that the wing is treated as a separate cost and revenue center at WAPDA.

-- GOP approval of a Rural Electrification Master Plan which features socio-economic criteria for village selection.

A draft Master Plan based on socio-economic criteria is completed and under review, with approval anticipated in 1989.

-- Energy conservation program results in annual savings of 1.63 million tons of oil equivalent by 1993.

End of year estimates for PFY1987/1988 indicated savings of only 50,000 tons of oil equivalent, not the 120,000 estimated in May. Shortfall due to slower than anticipated adoption of energy conservation measures following energy audits. Savings in PFY1988-1989 should be an additional 50,000 TOE. ENERCON officials indicate the target can be met by 1996.

-- Power transmission and distribution losses reduced from the current level of 26 percent to 22 percent or less by 1993.

66 work orders to reduce losses completed by November 1988; actual losses as of July 1988 were 23.3 percent, with further reductions to 22.7 percent anticipated by July 1989.

-- At least one precedent setting Private Sector Power Project on line by 1993.

-- Double farm fuel production by cooperating farmers with a 50 percent increase in total fuelwood production.

-- GOP approval by 1993 of hydroelectric power project(s) which will generate at least an additional 1,000 MW of electricity.

#### 5. High Population Growth Rates

-- Modern family planning services accessible to an estimated 60 percent of eligible couples of 1993.

World Bank and USAID private power projects approved in June and September respectively. Financing for first LOI (with Habibullah group) not in place and time period extended by 12 months. GOP signed a second LOI for the 1,300 MW fuel oil fired plant at Hub. If subproject agreements are negotiated on schedule, construction could begin in late 1989 or early 1990.

Planting of new acreage of fuelwood trees in USAID-supported forestry activity increased from 4,000 to 5,000 acres in 1987 in spite of severe drought (total of 9,000 acres represents 360,000 cubic meters of fuel wood per year). Planting may increase dramatically next year in view of the large number of private nurseries now functioning.

Debate on Kalabagh continues, but approval looks problematic. Basha and/or Dasu have been mentioned as possible alternatives. Feasibility studies for 1,000 MW hydro facility at Gaza Garhela near Tarbela may begin in 1989.

No survey exists to measure accessibility of contraceptive services to married couples of reproductive age. Informal and unofficial suggests about 20 to 30 percent have easy

access to such services. If an appropriate mechanism for assessing the extent of service availability, this indicator will be dropped from the list.

-- Approximately 15 percent or users of reversible methods supplied by private sector sources.

Private sector now heavily involved in the sale of condoms. This will be extended to include oral contraceptives and the sale outlets expanded to cover all urban, semi-urban and rural areas.

-- Contraceptive use prevalence increased from 10 percent to 20 percent of couples at risk of pregnancy.

Seventh Plan estimates the contraceptive use prevalence at 13 percent during 1987-88. A Demographic Health Survey (DHS) planned for 1989 will also determine current prevalence rate and be repeated at periodic intervals.

-- Total fertility rate lowered from 5.7 to 5.2 live births per woman by 1993.

The DHS planned for 1989 includes this indicator. The 1984-1985 Contraceptive Prevalence survey conducted in collaboration with Westinghouse found total fertility to be 5.95 among interviewed women.

#### 6. High Rates of Infant and Child Mortality

-- Reduce 1987 estimated infant and under five mortality by 25 percent by 1993 to respectively 78/1,000 live births and 120/1,000 live births.

March 1988 WHO-organized survey showed 81 percent of one to two year olds fully immunized; ORS use in over half of all diarrhea cases, and doubling of tetanus toxoid coverage of women since 1986 to 40 percent. Impact on infant mortality, though unmeasured, is likely significant.

-- Reduce annual level of malaria incidence from 1,400 cases to 500 cases per million population by 1993.

Malaria incidence declined from 1,400 cases per million in 1986 to 970 in 1987, a one-third decline due largely to successful malaria control operations, the 1987 drought, and low mosquito density.

7. Low Primary School Enrollment Rates

-- Primary school enrollment rates in NWFP and Baluchistan increased to 75 percent for boys and 50 percent for girls by 1999

To be developed and amplified in context of Primary Education PP

-- Number of primary schools constructed/rehabilitated

Same as above

-- Percentage of primary students receiving free textbooks.

Same as above

-- Number of primary teachers trained to implement revised curriculum.

Same as above

-- Number of middle schools constructed/rehabilitated.

Same as above

-- Management Information System (MIS) for planning instituted.

Same as above

-- Primary Education Directorates established in Baluchistan and NWFP.

Same as above

-- Incentive programs for rural teachers established in Baluchistan and NWFP.

Same as above

## 8. Quality Improvement in Key Institutions

-- Some 7,000 people from a wide range of public and private institutions receive overseas training in management and technical fields, and return to Pakistan.

-- Advanced degree training for 120 as part of program to help upgrade faculty and staff in key higher education institutions in areas reflecting national development priorities.

-- Joint research/linkages to address national science and technology issues established between nine Pakistani university departments or research centers and a corresponding number of U.S. university departments.

-- Increase in GOP expenditures on education, especially primary education.

During FY1988 approximately 1,680 training participants were processed, 104 of which were women.

The FY1989 training plan for ASSP provides for 36 Ph.D scholarships to U.S. universities, with 23 of these 36 scholarships for the agricultural universities at Faisalabad and Tando Jam. Further training slots for key faculty at other institutions are envisaged under Institutional Excellence.

In FY1989 the nine Pakistani university departments will be identified and a the U.S. university counterparts identified.

Education's share of GNP for the Sixth Plan was 1.6 percent; under this Seventh Plan, it was 2.4 percent. The GOP intends to raise that allocation to 4.5 percent in the next several years. The amount allocated for primary education is currently 0.96 percent of GDP and we look for that to increase to 1.25 percent of GDP in the next five years.

## 9. Lagging Areas

-- Overcame isolation by improving/expanding surface transportation network in rural Sind, southern Baluchistan and NWFP (reconstruction of 400 kms paved road, 250 kms new shingle roads, and 2,000 kms new katch roads).

Status of USAID-financed road construction in NWFP includes 48 kms. completed and 119 kms. under construction. In Baluchistan, construction is now underway on the 100 km. Awaran-Turbat road; the design of the 255 km. Awaran Turbat road is complete. Under RRM in Sind,

1160 km. of rural roads will be upgraded and 3,200 km. of limited access katcha roads brought up to a maintainable standard.

-- Access to social services, electricity in lagging areas improved and expanded.

Work on electrification of 14 villages in Gadoon-Amazai nearing completion; electrification of another 88 is planned over the next five years.

-- Agricultural, mineral and other resources that might provide employment and incomes in economically depressed areas identified and developed.

Over 400 small scale infrastructure schemes underway or completed in Gadoon-Amazai; construction of industrial estate near Gandaf underway; 360 agro forestry plots laid out; training provided to 1,600 residents in an effort to improve their marketable skills. Dozens of other small scale infrastructure schemes are also completed or underway in Tribal Areas and Makran Division of Baluchistan under similar area development projects

## 10. Narcotics

-- Elimination of 50 percent of 1986-1987 poppy production levels in provincial tribal areas and to the extent possible in federal tribal areas by 1993.

The 1987-1988 opium poppy crop is actually higher than the previous year. Although effective enforcement has been maintained in Gadoon, poppy cultivation is spreading to tribal areas and other areas along the Afghan frontier.

-- Institutionalization of the national drug awareness program.

USAID funding establishment of a Drug Abuse Prevention Resource Center within the PNCB. Total number of heroin addicts in Pakistan in 1986 survey was estimated at 650,000.

-- Implementation by UNFDAC and other donors of additional poppy substitution area development projects under the Special Development and Enforcement Plan.

Embassy and INM are about to start work on two area development projects in the tribal areas of Mohmand and Bajaur. UNFDAC-sponsored Dir project has been underway since 1985, with about 60 kilometers of road under construction, 107 drinking water schemes completed, and 39 irrigation channels completed. Village electrification activity is underway in two valleys, a twenty bed maternity ward was constructed, 100,000 fruit trees distributed, and 1,000 agricultural demonstration plots established.

## ANNEX C:

### UPDATE ON ASSP AGRICULTURAL POLICY BENCHMARKS

#### I. Fertilizer Subsidies

Benchmark: By the end of calendar year 1988, increase the retail price of DAP fertilizer by ten percent (10%) from the December 1987 price of Pakistani Rs. 161 for 50 kg. This benchmark is to be obtained as part of a longer term plan to eliminate DAP fertilizer subsidies within four years of the date of this agreement.

Progress: In October 1988, the GOP increased the DAP price from Rs 161 to Rs 185 per 50 Kg bag--an increase of about 15 percent. Assuming no drastic changes in DAP import price, rupee-dollar exchange rate and domestic consumption, this price reform could save the GOP around Rs 300 million.

#### II. Fertilizer Distribution

Benchmark: By August 31, 1988, permit private sector inter-provincial movement of not less than 10 percent of the private sector's total imported fertilizer allotment.

Progress: Allocation of imported fertilizer remains unchanged. The matter, however, is under consideration in the Ministry of Food, Agriculture and Cooperatives and a favorable decision is expected in the near future.

#### III. Fertilizer Production

Benchmark: By August 31, 1988, announce the decision to provide highest priority to private sector expansion of fertilizer capacity and to allow new public sector fertilizer plants only upon documentation that the private sector does not respond to existing demand by expanding the private sector capacities of existing plant(s) or investing in new plants.

Progress: Though no formal announcement has been made, the GOP has made known its intention of encouraging private production capacity to the fertilizer industry. Mission will request the GOP to make a formal announcement as well. Mission understands that the GOP has agreed in principle to a major expansion by one private sector fertilizer company and agreed to allow importation of world scale (used) plant.

#### IV. Wheat Prices

Benchmark: By July 31, 1988, increase the wheat release price to not less than 102% of procurement price (net of the cost of bags).

Progress: In April 1988, GOP raised both procurement and release prices to Rs 2,100 and Rs 2,062 per metric ton, respectively. The new release price thus is about 101.8 percent of procurement price. These price changes should save GOP around Rs 500 million on an estimated procurement and release of about 5 million metric tons of domestic wheat.

#### V. Poultry Feed

Benchmark: By July 31, 1988, eliminate restriction on the number and conditions upon which entities may import poultry feed components.

Progress: Current situation on two principal importable feed ingredients --soybean meal and corn--is as follows: for soybean meal the distinction between "commercial" and "industrial" importers no longer exists. Corn imports are once again restricted to public sector after the reported failure of private sector to utilize import permissions made available in 1987. The GOP will be requested to make private sector eligible for corn imports.

#### VI. Animal Feed

Benchmark: By July 31, 1988, eliminate import tariff (with the exception of iqra and import surcharge) on animal feed ingredients including but not limited to soybean meal.

Progress: The benchmark has been achieved. There are no import tariffs (with the exception of iqra and import surcharge) on soybean meal and corn. The quantitative impact, however, cannot be ascertained at present.

#### VII. Water Charges

Benchmark: By May 31, 1989, complete and adopt a water charge assessment study to improve collection.

Progress: RFTPs for the study were received by the World Bank on July 4, 1988 and award has very recently been made.

#### VIII. Tubewell Policy

Benchmark: By August 31, 1988, announce that the provinces shall not undertake any future investments in new or replacement of tubewells for public operation in fresh ground water areas; and that the Punjab and Sind shall privatize existing tubewells in such fresh ground water areas according to schedules to be negotiated under the A.I.D. financed Irrigation Systems Management (ISM) project.

Progress: The GOP signed an agreement with the World Bank whereby, except for on-going or previously committed work, the GOP has agreed not to undertake new investment or replacement of tubewells for public operation in fresh ground water areas. The schedule for proposed privatization of existing tubewells in Punjab and Sind, however, is not yet finalized. Discussions are in progress within GOP to finalize this schedule.

## IX. Agricultural Data Collection

Benchmark: During Pakistan fiscal year 1988/89, agree to budget and release funds from the Statistics Division of the Ministry of Finance for the collection and dissemination of basic agricultural data, such as production, area and prices of basic crops etc.

Progress: The intent of the benchmark has been realized. The development budget of the Statistics Division for Pakistan fiscal year 1988/89 is Rs. 49.7 million of which Rs 29.5 and Rs 11.3 million have been allocated, respectively, to USAID supported Agriculture Data Collection and Computer Modernization activities under the Food Security Management Project. No major issue is outstanding at present relating to release of funds.

## X. Agricultural Policy Research

Benchmark: By December 31, 1988, sanction the establishment of a Directorate of Agricultural Policy in Ministry of Food, Agriculture and Cooperatives with appropriate numbers of professional staff and adequate operating budget from Pakistani fiscal year 1988/89 onwards.

Progress: Discussions are continuing within the Ministry of Food, Agriculture and Cooperatives regarding appropriate organizational structure and functions of the Director of Agriculture Policy.

## XI. NWFP Agricultural Research and Education

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

Progress: The intent of the benchmark has been achieved. The GONWFP on October 29, 1988 issued a notification whereby the responsibility for management of research and education staff has been delegated to the Vice Chancellor.

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