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USAID/PAKISTAN
PROGRAM WEEK

APRIL 1987 ACTION PLAN

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ACRONYMS USED

NGO	Non Governmental Organizations
ASSP	Agricultural Sector Support Program
CHIPS	Commercial Health Initiatives in the Private Sector
SPAP	Supporting Provincial Agricultural Production
WAPDA	Water and Power Development Authority
USPSC	Personal Service Contract (U.S.)
ECC	Economic Coordination Committee
UMR	Usual Marketing Requirement
O&M	Operations and Maintenance
ENERCON	Energy Conservation Unit (GOP)
ORS	Oral Rehydration Salt
SDEP	Special Development and Enforcement Plan
UNFDAC	United Nations Fund for Drug Abuse Control
PNCB	Pakistan Narcotics Control Board
BOP	Balance of Payment
SDF	Special Development Fund
CCC	Commodity Commercial Credit

PART I: INTRODUCTORY OVERVIEW

A. INTRODUCTION

The six-year \$1.625 billion U.S. economic assistance commitment to Pakistan undertaken in 1981 to support Pakistan in its courageous stand against the Soviet invasion of Afghanistan ends this year. FY1988 will begin a renewed six-year commitment to provide \$2.28 billion in economic assistance (including \$480 million under the PL-480 program) through FY1993. The new six-year planning horizon coincides roughly with Pakistan's Seventh Five Year Plan period (PFY1989-1993), providing opportunities for serious policy dialogue and a coordinated approach to development well into the 1990s.

In the joint U.S.-Pakistani statement at the signing of the new agreement, the two parties expressed support for the GOP's program of "economic policy reform to improve domestic resource mobilization, stimulate private sector investment and increase the overall efficiency of the Pakistan economy." Two successful formal economic policy discussions based on that agreement have already taken place (in August 1986 and February 1987); the meetings should continue to serve as a useful forum for elevating major Mission and GOP policy concerns to a high level throughout the Post FY1988-93 program. Additional policy discussions take place on a continuing informal and formal basis throughout the year, of course, on both sectoral and macro economic subjects. Planning discussions about the new program have underscored the need to remain active and build on earlier work in four major sectors--energy, agricultural, social services and "lagging areas." Experience under the current program is playing an important part in designing new activities.

needs to be improved in terms of social services, employment and geographic distribution.

D. PLANNED ACTIVITIES

The new projects planned for the FY 1988-93 period are discussed at greater length in Part II of this Action Plan. Major activities planned for the balance of this fiscal year include a possible \$80 million balance of payments support program (AID/W endorsement still pending) which, among other accomplishments, would set up a Rs. 500 million Special Development Fund for NGO/WID and community-based activities; a \$170 million add-on to the Rural Electrification project to expand the Guddu power station by 300 MW, and an initial obligation of the policy reform-based Agricultural Sector Support Program (ASSP).

Probable FY1988 new starts include a social marketing project in health services and commodities (CHIPS), a major Child Survival project, a new project to encourage institutional excellence, and policy reforms and financing to foster private sector power generation and distribution. Starts planned later in the FY1988-FY1993 period include Supporting Provincial Agricultural Production (SPAP), training and infrastructure projects in the lagging areas and a possible intervention in primary education. Design or pre-design work for these activities is underway. This design work must be managed simultaneously with the implementation of a portfolio of about twenty projects and commodity import programs, and the preparation of a number of project amendments to extend or expand successful activities from the current program.

Activities are driven by the Mission's large policy reform agenda covering the entire FY1988-93 CDSS period. The emphasis is on policy and institutional

PART II: PERFORMANCE AND PLANS

A. MACROECONOMIC CONCERNS

Goals and Strategy: The Mission has two major objectives in the macroeconomic policy area: (1) increasing Pakistan's domestic resource mobilization capacity; and, (2) improving the balance of payments situation.

Domestic resource mobilization, both for public sector finance and private sector investment, is hindered by a maze of regulatory barriers, an ineffective revenue collection system and overwhelming governmental control of the financial sector.

Implicit in the precarious balance of payments situation is the need for economic reforms to induce greater domestic investment and efficiency as well as to improve Pakistan's export competitiveness. Tariff and investment reforms are necessary to make production for export more attractive than for the domestic market. The Mission's strategy is to provide financial resources on a limited basis to mitigate short-term balance of payments crises while pursuing policy and institutional reforms to correct structural BOP problems and to address resource mobilization needs. This approach embraces sector-specific activities as well as policy dialogue and assistance at the macroeconomic level. Program targets can be found in the FY1988-93 CDSS.

Benchmarks for increasing domestic resource mobilization during the first two years of the new program include: issuance of regulations to allow private investment companies to operate, enactment of disinvestment legislation, preparation of a privatization strategy, and inauguration of reforms based upon the National Tax Commission's recent study including implementation of a sales or value-added tax.

to work with the State Bank of Pakistan and Ministry of Finance to modernize its finance management system and to help bring some parastatals off budget and into the capital market. To help redress current balance of payments problems, the Mission will continue to provide support through PL-480, the CIPs, and the new Agriculture Sector Support Program. Building on our current agro-industry study we intend to develop a Mission deregulation strategy that will encompass further reductions of government sanctioning requirements and tariff and trade reforms. We are providing analytical support to help assure greater realism in the forthcoming 1988-93 Plan.

Problems and Constraints: Any attempt at fundamental market restructuring and policy reform obviously must take into account the political dimension. It is fully recognized that the timing of decisions and their implementation is the GOP's. Our leverage is tempered by the nature of the U.S. Government's overarching assistance goals in Pakistan. Still, we have choices as to where and what kind of assistance to give. We have found that policy reforms also can bring problems: for example, success in deregulating oil imports has now made it difficult for Pakistan to meet its UMR under the PL 480 Title I program.

B. AGRICULTURE AND RURAL DEVELOPMENT

Goals and Strategy: The Mission's goal for the CDSS period is to maintain agricultural growth in constant prices above 3.6 percent annually. Necessary conditions for attaining this objective include: more rapid increases in water availability, technology development/transfer to increase production and efficiency, increased private sector investment in agribusiness, reduction in subsidies and increased reliance on open market mechanisms.

since we are dealing with monolithic provincial departments not easily reformed. While many of the drainage, cost recovery and other studies referred to in the 1986 Action plan were finished, the politically difficult steps needed to increase water user charges and improve funding for O&M have yet to take place.

Planned Actions: Two major new activities are planned for the FY1988-93 period. The first--Agricultural Sector Support Project (ASSP)--combines elements of the Agricultural Commodities and Equipment (ACE) program and Food Security Management (FSM) project (these activities will then be phased out) to link analysis with the Mission's policy dialogue agenda. An initial ASSP obligation is planned this fiscal year, to hire TA and fund some analytical studies that will form the basis for our policy dialogue in the later years. The second--Supporting Provincial Agricultural Production (SPAP)--is at the concept stage but will emphasize required policy reform along with targeted interventions aimed at improving agricultural productivity at the provincial level. We hope to design activities that directly affect the poorest farmers and farm laborers. Finally, several project evaluations scheduled for FY1988 will be used to guide decision-making on which current activities need to be expanded and which ones are no longer essential to achieving overall programing goals.

Policy Agenda: The medium-term policy agenda for agriculture will focus first on finishing reforms that figured prominently under the current program and then on new initiatives. Extensive reforms have been undertaken in edible oils, fertilizer and wheat, however, further steps are needed to bring these policy initiatives to a completely successful conclusion; the wheat subsidy further decreased, the phosphatic fertilizer subsidy reduced one third

economically rational manner. The FY1988-93 CDSS details specific objectives for 1993. Major intermediate targets include effective implementation of national conservation and energy efficiency programs, institutional reform and modernization including moving public sector energy entities such as WAPDA and OGDC toward self-financing, and energy pricing reform that encourages rational use of scarce energy resources and encourages private exploration for oil and gas.

During the coming year, USAID will assist the GOP to meet several key benchmarks which include: (1) staffing of key senior positions for the Distribution Wing at WAPDA, the Energy Wing, ENERCON and the geodata center of the Geological Survey of Pakistan; (2) instituting a monitorable action plan to meet the 40 percent self-financing requirements for WAPDA; (through electricity pricing reforms, rationalization, reduced administrative losses, and improved collection of arrears and billings) (3) developing a monitorable action plan for full self-financing at OGDC; (4) National Energy Conservation Council approving key energy conservation legislation and implementation of energy conservation demonstrations; (5) rationalization/integration of the Master Rural Electrification Master Plan with the Prime Minister's plan to electrify 90 percent of remaining villages by 1990; and, (6) development of the Seventh Five Year National Energy Plan.

Recent Developments: A number of prior energy-related benchmarks were achieved during 1986. Energy planning and conservation offices were formally established within the Ministry of Planning. A national energy conservation program commenced, as has drafting of the Seventh Five Year Energy Plan. WAPDA established a consolidated and potentially detachable power distribution

FY1988. A third policy goal--related to both pricing and regulatory reform--is to promote private sector participation, not only in power but also in energy exploration and development.

Problems and Constraints: Inefficient energy use has enormous implications for the rest of the economy, especially when it is remembered that the energy sector already absorbs nearly 40 percent of all public development funds under the Sixth Plan. The GOP clearly appreciates the need for pricing and institutional reform in order to stimulate energy efficiency. Its willingness to act is often constrained by political concerns. In addition, popular demands for immediate action on rural electrification result in highly inefficient expansion plans. High annual electricity rate increases between 15 and 30 percent will be required simply to continue to meet WAPDA's self-financing targets.

D. HEALTH AND POPULATION

Goals and Strategy: USAID programs in health and population are driven by two strategic objectives: (1) reducing infant mortality 25 percent by 1993; and, (2) reducing total fertility rate to 5 births. At the operational level, medium-term targets include establishing the roles of NGOs and commercial enterprises as a means of increasing delivery of needed preventive health and family planning services. Within the next two years, the Mission's benchmarks include: increasing tetanus toxoid immunization coverage by approximately 40 percent among married women, four million married women in endemic goiter areas administered iodated oil, 300 physicians trained in control of diarrheal diseases and 500 simple rehydration centers established in rural health facilities. In addition we will help the GOP and private doctors expand contraceptive surgery capacity and introduce new family planning product lines through social marketing.

iodized salt. Support for private and public sector family planning activities will also continue through add-ons to existing projects rather than new ones. Evaluating the Social Marketing of Contraceptives project in early FY1988 will help to decide whether to add new products under that project. Evaluation of the Malaria Control II project, now scheduled to end this fiscal year, will assist in determining the nature and extent of Mission involvement in malaria control during the new program.

Policy Agenda: Support for NGO and commercial activities are central to the Mission's overall policy agenda in health and population. Since an estimated 71 percent of total health expenditures are already in the private sector, it is essential that we work to improve this area. The Government supports a greater role for the private sector but has not yet found many effective ways to mobilize the private sector in health. Support for commercial initiatives is the key feature in the CHIPS project. Under Child Survival, support to NGOs and training of private sector health care providers is planned. In population, the Mission will increase its support of the commercial sector to deliver services. Policy level discussion to promote health investment strategies emphasizing preventive health and child survival as well as better management of malaria surveillance are planned.

Problems and Constraints: Health and family planning service delivery is poor for a country at Pakistan's level of development. Infant mortality is extremely high at 116 per 1,000 live births (1984), while the 3.1 percent annual population growth rate is the highest in Asia. Although there is little debate within the GOP on the need to address both problems, implementation at the operational level is weak. Management of government services, low status of women and low literacy are major constraints. Family

1,000 public and private sector candidates for training in the U.S. and third countries, and provide in-country training for some 350 managers and trainees at improved and newly developed management courses. During FY1987, the project will be supporting 1500 new and existing participants overseas. Design work is moving ahead on the Institutional Excellence project aimed at improving the effectiveness of selected management and technical institutions in Pakistan, including some in the private sector. Although a decision as to USAID involvement in primary education has not been made, the Mission will continue to explore the topic. Questions include: 1) is the GOP commitment increased and sustaining; 2) would USAID participation remove pressure on domestic resource mobilization; 3) do we have the management capacity to undertake a new program?

Policy Agenda: In a low-key but effective manner, the Mission has been able substantially to increase female and private sector participation in overseas training programs as part of its broader goal of including women and individuals from the private sector more fully in project-related activities. This effort will be continued throughout the program. The Institutional Excellence project and a possible intervention in primary education will encompass policy initiatives aimed at improving the financial base and decentralization.

Problems and Constraints: Problems affecting educational development in Pakistan are well known and need be only briefly summarized here: chronic underfunding and poor management of existing resources, which have resulted in one of the lowest literacy rates in Asia. Donors, including ourselves, need to devise assistance modes that do not relieve the GOP of its fundamental responsibility to raise sufficient domestic resources to meet education

Turbat-Karachi highway and building the Lowari Tunnel to connect Chitral with the rest of the country.

(iii) Women in Development (WID): The Mission has taken a number of steps to develop a credible WID program that more directly addresses the problems confronting women in Pakistan. . The proposed Special Development Fund, targeted primarily at local NGOs and other decentralized development entities, represents the centerpiece of that effort and would substantially increase funds going to women-related programs in Pakistan. If successful, the activity would also represent a major policy dialogue success in terms of GOP support for NGOs and WID as well as decentralized development. Elsewhere in the program, WID-related concerns are increasingly being addressed through project-specific interventions such as a scholarship program for women and a proposed female income generation activity under the Tribal Areas Development project. Involvement in education would offer further opportunity to support WID concerns at the primary and secondary school level.

(iv) Narcotics: Development assistance to back up the GOP's implementation of the Special Development and Enforcement Plan (SDEP) will continue to be important throughout the FY1988-93 period. The GOP has carried out an extremely well organized enforcement action in the Gadoon-Amazai area this spring. The USAID-supported UNFDAC project in Dir is now finally underway. A new public information activity which provided support for two national narcotics awareness campaigns was begun in 1986 and continued in 1987. Plans are underway to establish a narcotics information unit at the Pakistan Narcotics Control Board (PNCB) that will build on those campaigns. Although the SDEP is inherently difficult and fraught with political mine fields, there has been a substantial shift in popular opinion over the past year, largely

itself, then different modes of assistance with more rapid forms of expenditure will have to be sought.

2. Mortgage: The Mission's current portfolio contains authorized and planned ESF and DA obligations for the final year of the first six year program totaling \$273.9 million. Amendments are planned for several current projects to extend them well into the new program. The out-year mortgage for projects from the current program for FY1988 and beyond is over \$600 million, the bulk of which is ASSP at \$290 million and Rural Electrification at \$140 million. This commitment will be met under the FY1988-93 program, with the full amount of \$1.621 billion having been provided to Pakistan by the end of this fiscal year. The existence of a small mortgage for the remaining 19 projects indicates a relatively high level of forward funding--and, therefore, a fairly high pipeline.

3. Planned Obligations by Month (Revise for Final Draft):

<u>Month</u>	<u>Project</u>	<u>Amount</u> (\$ million)
February	Irrigation Systems Management	\$13.0
	Baluchistan Area Development	8.0
March	Development Support Training	6.5
	Tribal Areas Development	9.0
April	Roads Resources Management	2.0
	Project Design and Implementation	5.0
	TIPAN	17.0
May	Primary Health Care	10.0
	Energy Planning and Development	15.0
	Social Marketing of Contraceptives	4.3
	Rural Electrification *	71.0
	Agricultural Commodities and Equipment	19.0
July	Balance of Payments Support **	80.0
	Population Welfare Planning	5.2
August	Agricultural Sector Support Program	8.9
TOTAL		\$273.9

* Awaiting Letter of Request

** Should BOP support prove not to be feasible, funds could be utilized to expand ACE or ASSP, to reformulate SDF and to add-on to Rural Electrification, the Tribal Area Development project or other projects.

2. Evaluations Completed in FY1986:

<u>Project</u>	<u>Type</u>	<u>Quarter</u>
Primary Health Care (391-0475)	Interim	1
Malaria Control II (391-0472)	Special	1
Development Support Training (391-0474)	Interim	1
Participant Training Component of Agricultural Research (391-0296)	Special	2
Tribal Areas Development (391-0471)	Interim	3
Rural Electrification (391-0473)	Interim	4

3. Evaluations Planned for FY1987:

<u>Project</u>	<u>Type</u>	<u>Quarter</u>	<u>Status</u>
Project Design and Implementation (391-0470)	Interim	2	Complete
Agricultural Commodities & Equipment (391-0468) and Energy Commodities & Equipment (391-0486)	Interim	3	Team Selected
Malaria Control II (391-0472)	Final	3	Team Selected
Baluchistan Area Development (391-0479)	Interim	4	SOW Complete
Northwest Frontier Area Development (391-0485)	Interim	4	SOW under preparation
Forestry Planning and Development (391-0481)	Interim	4	SOW completed
Transformation and Integration of Provincial Agricultural Network (391-0488)	Interim	4	SOW under preparation

4. Provisional Evaluation Plan for FY1988

<u>Project</u>	<u>Type</u>	<u>Quarter</u>
Energy Planning and Development (391-0478) <u>Purpose:</u> To assess progress made in implementing the various components of the project, particularly the effectiveness of newly-established energy planning and energy conservation entities and the status of the coal resource assessment program.	Interim	2
Social Marketing of Contraceptives (391-0484) <u>Purpose:</u> To assess the effectiveness of social marketing activities (both in the pilot and extended programs) and to make recommendations regarding expanded private sector involvement in the population field.	Interim	2
Food Security Management (391-0491) <u>Purpose:</u> To review overall project implementation, in particular management issues relating to institutional arrangement and progress made in providing required inputs.	Interim	1
Management of Agricultural Research and Technology (391-0489) <u>Purpose:</u> To review overall project implementation, in particular management issues, effectiveness of technical assistance, and progress made in meeting project goals.	Interim	2

E. Gray Amendment Requirement: From FY1985 to FY1987 the Mission will obligate \$99 million of Development Assistance funds. The goal established for the Mission by ANE is 10 percent of this amount or \$9.9 million. To date, actual commitments to 8(a) firms are \$10.2 million (under ESF), actual expenditures are \$2.4 million. Significant increases in contracting Gray Amendment firms in FY87 and FY88 reflect the Mission's vigorous internal examination of opportunities to increase utilization of Gray Amendment organizations.

	<u>Actual FY84</u>	<u>Actual FY85</u>	<u>Actual FY86</u>	<u>Planned FY87</u>	<u>Planned FY88</u>
Total	\$4.1	\$1.0	\$5.1	\$6.1	\$7.6
Cumulative	4.1	5.1	10.2	16.3	23.9

F. Summary Budget Tables:

Development Assistance, Economic Support Fund And PL-480
Budget Summary - FY 1987 & FY 1988 (\$ 000)

<u>Project No. and Title</u>	<u>Loan/Grant</u>	<u>FY 1987</u>	<u>FY 1988</u>
<u>Development Assistance (DA)</u>			
391-0469 Population Welfare Planning	G	5.2	8.95
391-0474 Development Support Training	G		6.55
391-0475 Primary Health Care	G	10.0	
391-0481 Forestry of Planning & Development	G		7.0
391-0484 Social Marketing of Contraceptives	G	4.3	
391-0488 TIPAN	G	5.5	2.5
391-0489 MART	G		10.0
391-0496 Child Survival	G		15.0
Total DA	G	<u>25.0</u>	<u>50.0</u>
<u>Economic Support Fund</u>			
391-0467 Irrigation System Management	G	13.0	15.0
391-0468 Agri. Comm. & Equipment	L	12.3	
	G	6.7	35.0
391-0470 Project Design & Impl. Fund	G	5.0	
391-0471 Tribal Areas Development	G	9.0	2.0
391-0472 Malaria Control II	G		8.0
391-0473 Rural Electrification	L	69.0	
	G	2.0	20.0
391-0474 Development Support Training	G	6.5	
391-0478 Energy Planning & Development	L	10.0	
	G	5.0	15.0