

POLICY DIALOGUE SUMMARY:
PAKISTAN ESF PROGRAM
JULY 1984

BEST AVAILABLE

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I. Overview:

The six year ESF program in Pakistan spans the fiscal years 1982 through 1987. The program was explicitly political in origin, responding to the geopolitical situation in Southwest Asia and the joint foreign policy and security concerns of Pakistan and the United States. The program was planned as a package which would assist Pakistan to sustain its foreign policies and security commitments and which would offset the heavy financial burdens of a five year \$1.575 billion package of military purchases funded on commercial terms.

The basic bilateral understanding, negotiated by Undersecretary of State Buckley in 1981, incorporated no economic or developmental quid pro quo element. It has been the persistence and determination of the USAID mission, combined with a very considerable responsiveness from the policy levels of the Government of Pakistan which have permitted the conduct and expansion of a substantial economic development policy dialogue in the context of the six year ESF program. Indeed, it would appear that the magnitude of the program, which gives it genuine macro-level significance in the Pakistan context has been a more powerful impetus for the bilateral policy dialogue than explicit conditionality. Serious economic planners and policy makers in the GOP recognize the importance of the wise use of ESF resource and the need for structural and sectoral reforms in the sectors where ESF monies are deployed. The conjunction of (a) significant ESF program levels, (b) a multi year planning horizon in the six year package (c) policy responsiveness in the GOP and (d) commitment to policy dialogue in the USAID have permitted the development of a broad and sustained series of policy discussions and policy initiatives which have borne substantial fruit in the first two full years of program operations. This summary provides a capsule description of some of our major policy initiatives and a description of our policy strategy for the medium term.

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II. Policy Strategies for the Balance of the 1980's

A. The Policy Setting

Serious policy dialogue is an arduous and incremental process. While micro-economists can design instant policy interventions which turn on a dime, real world politicians and public servants understand that meaningful public policy analysis and decision-making requires care, caution and time. USAID joins the major multilateral financiers and the Government of Pakistan in a multi-year approach to structural reforms and sectoral policy reorientation. All these parties share some common long term goals. Each of the parties has special areas of concern and at times rather distinctive policy predispositions. More investment, more efficient resource allocation, more efficient resource utilization, a larger role for the private sector and (most importantly) sustained high growth rates are themes common to all parties in the dialogue. AID brings to the dialogue a particular appreciation of the importance of market mechanisms, the allocative efficiencies of market pricing, the resource mobilization power of the private sector and the advantages of government disengagement from many key economic processes. The IMF and the IBRD bring a keen sense of the necessity for fiscal restraint and monetary reforms with a particular concern for the resource side of public finance. The planners in the GOP quite naturally bring to the dialogue a sensitivity to the domestic political environment as well as a strong desire for setting sectoral targets and framing sectoral investment decisions. The dialogue has had its ups and downs in recent years, but all parties bring professionalism and a very long-term perspective to the process.

B. Policy Priorities

AID's policy strategy is necessarily integrated with its resource and investment strategy. While our sectoral interests range more widely than our investment portfolio, our policy emphasis quite naturally is oriented towards the areas of our greatest programmatic involvement. The table below outlines the basic priorities for our policy and investment strategy over the decade, noting the sectors where other donors play the leading role.

AID STRATEGIC PRIORITIES: POLICY AND INVESTMENT TO FY 1990

	<u>Policy</u>	<u>Investment</u>	<u>Donor Leadership</u>
<u>I. Economic Infrastructure</u>			
Energy	MAX	MAX	AID/IBRD/ADB/Bilat
Water	HI	HI	IBRD/AID
Transportation & Communications	MED/LO	MED/LO	IBRD
<u>II. Commodity Producing Sector</u>			
Agriculture	MAX	MAX	AID/IBRD/FAO
Industry	LO	LO/NIL	IBRD
Minerals (excluding fossil fuel)	LO/NIL	NIL	IBRD
<u>III. Social Infrastructure</u>			
Education & Manpower	?	?	IBRD/UNDP
Urban Development	LO/NIL	NIL	IBRD
Health	MED	MED/LO	WHO/IBRD/AID
Population	MAX	HI	AID/IBRD/UNFPA
<u>IV. Other</u>			
Narcotics	MAX	MAX	AID/UNFDAC/INM/DEA
Lagging Areas	MED	HI	AID/IBRD/ADB/UNDP
Private Sector Dev.	HI	MED	AID/International Commercial Banks

LEGEND:

MAX - Maximum possible within Mission staffing/funding resources

HI - Funding & policy priority higher than lower ranked sectors

MED - Important sector, but AID inputs subject to reduction when higher priority sectors present new investment/policy opportunities

LO - Sufficient investment/policy involvement to keep a "seat at the table" pending possible priority changes for AID/GOP

C. Macro Level Policy Strategy

As is traditional even in large ESF programs, the AID posture on macro policy is to define a role in relationship to the initiatives of the major multilaterals. For the early years of the six year program this role was defined by the fact that the IMF and the IBRD, through the mechanisms of an Extended Fund Facility (EFF) and a Structural Adjustment Program, had set out an agenda of policy reform for the Government of Pakistan.

Both the EFF and the first Structural Adjustment Loan (SAL) have run their course, and neither is currently in force, although discussions continue on both fronts. Nonetheless, the EFF and the SAL continue to frame the basic posture of the multilaterals and define the macro policy agenda for Pakistan. The core of this agenda is major movement towards economic liberalization in which public and private sectors will be increasingly focused upon their areas of comparative advantage, with the public sector concentrating on the provision of public goods and infrastructure and the private sector increasingly responsible for the production and distribution functions within the economy. These goals are to be pursued in a climate of fiscal restraint and with sufficient monetary controls that inflation remains within appropriate bounds. The USAID and the Embassy support the overall IBRD/IMF initiatives in their policy dialogue with the GOP, but we have set our national agenda against somewhat narrower goals than the multilateral donors. USAID's macro level dialogue focuses on the key issues of improved delineation of public and private sector roles. Our portfolio is designed to sharpen public/private distinctions at the sectoral level and our macro policy dialogue will be very specifically focused on what the GOP terms "deregulation". The scope of "deregulation" is wide, encompassing trade liberalization and banking reform, as well as industrial liberalization. The elements of GOP macro policy upon which USAID and the Embassy will seek to have a sustained policy impact include:

- a. policies to curb new capital spending on public sector production enterprises in sectors where the US is active

- b. policies to limit capacity increases in existing public sector plants in sectors where the US is active
- c. policies which 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
- d. policies which seek to provide a fair and competitive environment, or in the words of a recent demarche to the GOP by local bankers, a "level playing field" for public, private and international financial institutions in Pakistan
- e. policies to remove inequitable credit access favoring public sector enterprises over private enterprises
- f. policies to properly price capital so as to reflect its opportunity costs
- g. policies which remove administered prices to the maximum extent possible and remove barriers to private entry into industrial sectors
- h. progressive disinvestment of inappropriate public sector assets, especially in the edible oil sector
- i. equitable investment rules and tax treatment for private sector productive investments
- j. equitable pricing of inputs (e.g., electric power) to private users
- k. policies designed to enhance private sector resource mobilization
- l. policies designed to liberalize the financial system

The entire US Mission in Pakistan will be vigorously pursuing forward movement on these issues. These same macro policy themes

are reiterated at the sector and micro levels in the policy components of our project portfolio. In the case of the oilseeds industry, for example, our macro dialogue on progressive disinvestment and price deregulation will be reinforced by our PL-480 negotiations which set specific performance benchmarks for privatization in oilseeds processing and in our Food Security Project which will incorporate economic policy analysis to assist the GOP in the definition of a liberalization program in agriculture. We have deliberately chosen to concentrate our macro policy dialogue on those areas where our investment portfolio provides vehicles for sectoral and micro level reinforcement of our objectives. It is the firm belief of the Mission that this complementarity of macro and project policy goals will improve the chances of realizing our policy objectives.

D. Next Step in Policy Liberalization: Industrial Deregulation

Perhaps the most important sphere of policy movement in the 1984-85 timeframe will be the industrial sector. In conjunction with the budget for the next PFY it is anticipated that the GOP will promulgate an Industrial Sector Strategy. This strategy will include a list of specific industrial objectives in the form of an "Investment Schedule" and an "Industrial Policy Statement". Most importantly, the package will include an "Industrial Action Plan". It is understood that the Industrial Action Plan will touch upon ten important policy areas and direct significant changes in the way the GOP does its business in these areas. The Action Plan will not be an implementing document, but will be the basis for executive actions. It is understood that World Bank sector lending in industry will be keyed to performance in implementing the Action Plan. The core elements in the unsigned draft action plan as of mid June 1984 are listed below:

- a. simplification of sanctioning procedure;
- b. changes in fiscal policy (specifically: revision of the tariff structure to provide lower tariffs for imported raw materials necessary for capital goods industries and

relatively higher tariffs for finished goods; lower corporate tax rates; accelerated depreciation of assets on replacement basis in accounts; and, removal of the provision that private companies issuing capital above Rs 10 million be converted into public companies);

- c. changes in financial policy (particularly permission for existence of private sector investment companies);
- d. encouragement of foreign investment;
- e. incentives for location of industry in "backward regions";
- f. encouragement of private sector industrial estates;
- g. reclassification of industries into three categories: "pioneer industries" (involving sophisticated technology and where Pakistan has potential long-term comparative advantage); "specified industries" (those industries still requiring government sanction under revised sanctioning procedures); and, "other industries";
- h. no further expansion of the public industrial sector (unless "it is found that response from private sector is poor") and increased efficiency and competitiveness of existing public industries;
- i. incentives for private sector research and development facilities; and,
- j. encouragement of small scale industries.

The policy reforms suggested in the draft action plan could go a long way toward improving the investment climate in Pakistan. Of particular note are the proposed reduction in corporate tax rates, the long-awaited tariff adjustment, the accelerated depreciation of assets on a replacement basis, and the possibility of allowing establishment of private sector investment companies. These fiscal and financial initiatives,

when added to the major public sector infrastructural investment envisioned under the Sixth Five Year Plan, are at least the beginning of a coherent and integrated industrial policy. The timetable for combining these elements and realizing the coherent and integrated policy will be a matter of major concern to USAID and to the other major donors. We will want to begin to introduce elements of this agenda into our overall policy dialogue. In areas such as liberalization of oilseed production, private investment financing and the privatization of the fertilizer sector, we will need to reexamine our current positions to see if we can constructively tie our policy stance to explicit new policy content in the industrial sector package.

E. Energy Pricing Strategy: IBRD/USAID Collaboration

The Mission's detailed policy dialogue on institutional and structural issues in the energy sector is outlined in the second section of this document. In the special case of energy pricing strategy, the USAID has formulated an overall strategic objective and specific strategic goals for the major energy products in Pakistan, but we have determined that it makes sense to allow the IBRD to take the lead in the development of specific tariff proposals and in the establishment of interim benchmarks and targets relating to achievement of the revised tariffs. This section of the policy dialogue paper recounts the basic economic objectives which USAID seeks to achieve in the energy pricing and outlines the specifics of the joint USAID/World Bank positions on electricity pricing, gas pricing and coal pricing.

Our core concern is, of course, to assist Pakistan to move towards an energy pricing regime which is optimal in terms of (a) inducing efficient use of scarce energy resources, (b) directing efficient allocation of new investment and resources into energy sector development, and (c) expanding the private sector's role in the sector. It is difficult to imagine a setting in which these would not be the cornerstones of an AID energy pricing strategy. Progress towards this basic goal of an efficient energy price regime will be a complex and multi year process. It will involve a considerable range of detailed technical analyses

of the financial and economic setting of each of Pakistan's major energy sources: oil, natural gas, coal, hydro power, etc. The World Bank has taken the lead in supporting this analytic work in the context of their massive energy sector portfolio in Pakistan which will run to some 500 million dollars over the next four to five years. The bank has the subsectoral expertise in oil, gas, coal and hydro analysis as well as the tariff expertise to pull this analysis together into a cohesive long run sector pricing strategy for Pakistan. USAID participates in a continuous and extensive dialogue with the bank on energy pricing and all other major energy sector issues. There is considerable complementarity in our portfolios which underpins this dialogue. USAID's ability to finance institutional developments in energy give us the lead in many organizational and management questions in the sector, while the bank's superior price and tariff expertise position it for the lead role on these issues. Our dialogue builds upon this complementarity and we have been able to develop a united front on a broad range of institutional and price issues.

On pricing, we share a common set of objectives with the World Bank which are worth reviewing here:

Electricity Pricing. Our common goal is to move GOP electricity tariffs to parity with long range marginal costs. We believe that LRMC is the only acceptable basis for a tariff regime which can insure efficient use of electricity and can mobilize adequate resources for the long run development of the power sector. We and the bank share the view that the level and structure of electricity tariffs in 1984 are not consistent with LRMC. Capacity charges, in particular, are inadequate. This gives rise to excessive peak demands and the unfortunate corollary of load shedding. It also distorts the long run power investment schedule away from base load development towards excessive peak load generation capacity. We and the bank share the strategic objective of moving the GOP to LRMC parity by 1990. The bank intends to negotiate specific incremental tariff targets for 1985 and 1986. USAID and the bank will also finance a research and management study which will provide the financial and economic

data base for meaningful calculation of LRMC. This is a case where USAID has taken the lead, in close consultation with the bank, in framing and negotiating the broad terms of reference for analytical work aimed at improving controls on cost of service, refining service rates, managing recurrent costs, improving the basis for capital plant valuation and depreciation, and overall refinements in the system of financial management in the electricity subsector. The Bank's financing of WAPDA IV and planned sector lending in energy is keyed to GOP performance on these jointly financed initiatives. This type of cross consultation and complementary policy initiative characterize the very constructive USAID/Bank relations in this sector. This study is a sine qua non for meaningful tariff reform and AID will do what it can to assist the bank in assuring that the study is completed on a timely basis. Without this study WAPDA and KESC will continue to use internal financial ratios based upon spurious capital valuations to justify understated generation costs. USAID fully concurs with the LRMC principle and the 1990 target for 100 percent compliance. We will support the bank in all efforts to achieve that target. We will not introduce alternative pricing principles or covenants which would muddy the waters on this issue. The Bank's principle is clear, correct and feasible within the planned timeframe. The World Bank energy team which was recently in Pakistan has asked us to play the role described above. We believe their request is sound.

Natural Gas Pricing. Gas pricing is intrinsically more complex than electricity pricing because (a) there are unique logistical constraints to optimum distribution and (b) there are significant qualitative differences between various gas products which influence end use options. LRMC has not been found to be a sound guide to gas pricing in other countries and AID does not believe that it will prove to be so here in Pakistan. Rather, we share with the World Bank the view that the gas pricing regime needs to be pegged to international POL prices. There is no question but that the present price regime for gas is too low. Producer prices for new gas fields are inadequate to provide the incentives necessary to increase private sector activity in exploration and development of gas fields. The indigenous

private sector, in cooperation with international firms, is demonstrably capable of expanding Pakistan's supplies of natural gas. It can do so only when prices are right and when the framework for pricing insures that they will continue to be right. USAID and the Bank have agreed that our strategy for gas pricing is to press the GOP to adopt a pricing formula which is pegged to the border price for fuel oil and is calculated on the basis of BTU equivalency. In other words, a formula in which a given amount of thermal energy from gas would be producer priced at a known percentage of the border price for the amount of fuel oil which would yield that quantum of thermal energy. The formula would have to permit discounts from the base for location, geology and field size. As we know from the experience of the United States, natural gas pricing is far tougher to work out than oil or electricity pricing, but, difficulties notwithstanding, USAID intends to fully support the Bank in its efforts to lead the GOP into the producer price regime outlined above. On the consumer side, the problems are particularly acute. The present consumer price tariff so favors gas over other fuel sources that it distorts investment patterns and permits non economic uses of gas in an energy short national economy. The Bank's strategy is a two step one in this area. They have already reached agreement with the GOP on a consumer price schedule which will move average prices to sixty six percent of the border price of fuel oil by 1988. It is clear, however, that this salutary first step will still leave an unacceptable level of relative price distortion in the system. USAID and the Bank agree that the second step in the process is an agreement on a firm schedule for moving from sixty six percent parity in 1988 to 100 percent parity. The Bank has not reached agreement with the GOP on this second step, but it is pressing for full parity by 1993. USAID concurs on the importance of both the principle of parity based consumer prices for natural gas and on the importance of realizing full parity through adherence to a firm schedule of planned tariff increases. Such a schedule can begin to influence industrial and commercial users now by giving them a clear picture of the shape of the price curve for gas over the next ten years. It is USAID policy, as in the case of electricity, to look to the gas specialists and the tariff

experts in the Bank to play the lead role in implementing this strategy, with AID being a forceful advocate in support of the Bank agenda.

Coal Pricing. USAID has a keen interest in coal pricing because of our role in the Lakhra coal fired generation activity in Pakistan and our leadership in the donor effort to bring private sector coal mining interests into the forefront of the development and operation of the Lakhra coal fields. The coal price in Pakistan is quite different from the prices which obtain in gas and electricity. There is not, in fact, an official price schedule. The small private producers of coal seem content to permit the public sector mining company to be a price leader. The public sector firm is both inefficient and undermotivated with the result that it takes the lead in setting a high price which the private sector follows. In an environment where both gas and electricity are underpriced, relative price distortions constrain growth in commercial coal utilization. This low growth in utilization, in turn, constrains investment in new mining capacity. The situation roughly approximates that of cartel pricing and Pakistan is consequently deprived of full access to an important domestic energy resource. USAID has developed extensive contacts with the private sector coal mining concerns and believes that one important ingredient in a strategy for coal price rationalization is the creation of a more stable and more substantial framework for commercial coal demand. Virtually no long term supply contracts are let in the coal business here, so private investors are loathe to take on the capital costs of mine improvements and expansion. The development of properly managed coal fired electricity generation plants, operating in a price environment of LRMC electricity prices, will permit efficient contracting on a longer term basis for coal at financially and economically viable prices. The World Bank is participating with USAID in a range of coal sector activities designed to (a) promote private sector investment (b) improve the efficiency of the sub sector (c) more effectively direct the structure of demand for coal and (d) improve relative pricing of coal through the price initiatives on gas and electricity outlined above.

To recap, AID's overall pricing strategy in energy is to support moves toward sectorwide prices which are efficient and consistent with international energy prices. We seek both aggregate shifts towards economically efficient prices and changes in relative prices which will reduce and eliminate distortions in energy use and in energy investment. Recognizing the superior technical capacity of the World Bank to design and monitor energy price strategies, it is USAID's policy to use our influence with the Bank to insure that we and they are pursuing common goals, and to leave the Bank in the leadership role in formulating specific price programs and negotiating specific tariff adjustment schedules. For our part, we will continue to play the lead role on issues of privatization in the energy sector, where the Bank's multinational constituency seems to preclude a hard line on private sector issues, and on institutional and managerial reforms where USAID's ability to grant finance permits us far wider leeway in packaging appropriate technical assistance in the energy sector. Moreover, the Energy Planning and Development Project is regarded by both the GOP and World Bank as the center-piece of institutional reform in the energy sector. This perception and our prospective role will assist us to provide leadership in the cited areas of the sector.

The approach outlined above provides a basis for a powerful and concerted effort by the key energy sector donors to work on a broad agenda of sector reforms in energy and to guard against the host country taking "divide and conquer" tactics to weaken the overall policy dialogue. Technical differences on gas pricing between the World Bank and the Asian Development Bank in earlier years provided such a wedge for "divide and conquer" tactics and delayed progress towards the medium term gas parity price targets. It is imperative that the donors do not step on each other's toes in their zeal to make headway on these issues. A solid front supported by first class technical and economic analysis and full and frank donor coordination is the key to progress on this front. The Mission's approved CDSS calls for an energy sector assessment in CY 1986. We anticipate that this

will be designed to incorporate broad IBRD and ADB participation in a review of progress across the full spectrum of the price and policy front in energy. The GOP's performance against Bank developed price benchmarks will be an important element of the assessment. The policy sections of our upcoming ECE program will reflect these positions and will present the full range of sector policy issues relating to pricing, management, policy analysis capability, investment strategy and enhanced private sector participation.

F. Sectoral and Subsectoral policy Dialogue

The six year ESF program is concentrated in the Agricultural and Energy Sectors. All of our projects are built around certain basic policy themes:

- deregulation and liberalization
- movement towards market pricing of inputs and outputs
- economically and financially sound recurring cost policies
- shifts towards efficiency-enhancing technology

The details of our sectoral and subsectoral policy initiatives are presented in capsule form in the sections which follow. It is the intention of the USAID to periodically update and revise these capsule descriptions. The strategy and summary sections will be updated and changed only when circumstances warrant.

GOVERNMENT OF PAKISTAN AND USAID POLICY DIALOGUE

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

1. Agriculture/Rural Development

Policy dialogue is taking place in 15 important areas of concern related to the bilaterally financed program.

- Privatization of fertilizer sales & distribution
- Rationalization of fertilizer prices at the wholesale & retail levels to reflect production & marketing costs.
- Privatization of oilseed extension marketing & processing.
- Rationalization of farmgate, wholesale & retail prices for oilseed & vegetable oil to reflect marketing & processing costs.
- Increased efficiency in or abolishment of the ration shop system.
- Increased efficiency in ag. data collection and improved economic analysis in support of GOP policy formulation & implementation.
- Improved stock & trade management of cereal grains & oilseeds for increased food security.
- Increased private sector role in cereal grain post-harvest system.
- Rationalized rate structure to reflect the full cost of the irrigation water.

USAID and the donor community as a whole consider the majority of GOP's announced developmental policies to be appropriate & fully consonant with the overall development interests of the nation. Consequently, the Mission's emphasis is on discussing policy implementation, although there are instances where the Mission is addressing policy reform which has not been contemplated by the GOP. Examples of GOP actions and/or performance include:

- Significant increases have occurred in the private sector's share in fertilizer distribution and private distributors now pick up imported stocks at dockside rather than through regional GOP distribution centers.
- There has been substantial decreases in fertilizer subsidies over the past 5-years.
- A slow, but determined, process of government dis-investment in ghee processing has been taking place during the past several years.
- The retail price of ghee was raised 26.0% in response to changing international market conditions

USAID/Pakistan policy discussions with the GOP are supportive of agreements reached with the World Bank & IMF on economic policies. Mission staff work closely with all levels of the host country staff in developing sector priorities & designing projects. Policy issues are raised & discussed at this time & throughout project implementation and are linked to project agreements & disbursements. For example:

- Ag. Commodities & Equipment: The GOP has agreed in the FY-84/86 Program to provide for private sector distribution of at least 50% of all fertilizer and to rationalize incidentals to reflect variable marketing costs. In addition, the GOP has agreed to consider adjusting cotton prices accordingly to reflect the value of lint & oilseed.
- PL480, Title I: The government will continue the phased privatization of the ghee processing industry and to more closely align domestic oilseed & vegetable oil prices with that of the international market.

Most policy concerns in agriculture and rural development are addressed on a bilateral basis. However, the substance of discussions is often based on the results of meetings & talks with the World Bank & IMF. Nevertheless, the Mission will continue to strengthen its emphasis on reinforcing & promoting sound GOP policy initiatives.

- A command water management policy is being developed through AID's support to the irrigation sector.
- An economic analysis network in support of GOP policy formulation is being established under the FSM project.
- Studies are to be conducted for improved management or abolishment of the ration shop system through AID assistance in the area of economic & policy analysis.
- A study to develop scenarios for stock & trade management in edible oil for increased food security is being financed as a self-help measure under PL-480, Title I.
- New policies & programs for improved grain storage management & pest control are to be developed

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

- Increased private ownership of irrigation tubewells.
- Improved institutional framework to operate & maintain irrigation systems.
- Increased national fuelwood supplies.
- Reversal of the deforestation process.
- Improved management of federal & provincial resources for ag. research.
- Increased ag. development emphasis on the more economically lagging areas of the country.

- Sugar was de-rationed & the retail price subsidy was decreased.
- The number of bogus ration cards has been substantially decreased.

Food Security Management: As part of project design a detailed study of Pakistan's oilseed sector has been completed and the recommendations have been presented to an Inter-Ministerial group including the Minister of Agriculture and other senior GOP officials. In addition, the GOP has agreed to the need to establish an economic analysis network to support government ag. policy formulation.

- Irrigation Systems Management: Provincial governments have agreed to: periodically increase O&M funding on an agreed-upon schedule; increase water charges on a phased basis to cover the increased O&M costs; and, implement a new water user charge structure on a pilot basis in support of equitable & efficient water delivery to farmers. As part of these activities the GOP will adopt an institutional structure permitting more effective operation & maintenance of irrigation facilities. Finally, the GOP has agreed to encourage & support private ownership of tubewells.

- Forestry Planning & Development: Federal & Provincial authorities have agreed to: establish a senior-level policy advisory committee on reforestation & agro-forestry; design & implement federal & pro-

- through AID support in the post harvest management subsector under the FSM project.
- A fertilizer sector study will be conducted as part of the ACE project to determine how the private sector role can be further increased and to determine methods for assisting the GOP in its scheduled removal of all fertilizer subsidies by 1985.

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

vincial reforestry development plans; and, emphasize training of forestry economists.

- Management of Agricultural Research & Technology: The GOP has agreed to policies to encourage federal & provincial research institutions to: improve maintenance & financial reporting along with cash management; devise long-term systems for more effectively managing research; resolve constraints to timely release of research funds; and, institutionalize an ag. information system.
- Transformation and Integration of the Provincial Agricultural Network: Federal & Provincial authorities have agreed to strengthen the current system of ag. research, education and extension by: transferring the provincial research budget & responsibilities to the university; substantially enhance the financial commitment to an integrated research & outreach program; and, integrate the university & provincial extension personnel systems.

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

2. Training

Establishment of adequate numbers of training opportunities for people from Pakistan's least developed areas and for women.

Policy dialogue has centered on methods and targets for distributing training opportunities among Pakistan's institutions and for women.

USAID adopted a low-key approach in designing the Development Support Training Project to emphasize in-country and third country, non-academic training linked to operational needs of the trainees.

Continue to emphasize in-country and non-academic training programs for the public and private sector, focusing on the training needs of Pakistan's least developed areas and women.

The Integrated Provincial Agricultural Network (TIPAN) Project to provide increased training/educational opportunities for women through the Agricultural University of Peshawar.

Mission has at Federal and provincial levels stressed the necessity of providing increased and diversified levels of training/degree education to a greater percentage of women in Pakistan

USAID and GOP have agreed to increase the number of accommodations to be provided to the women's hostel as part of the TIPAN Project construction phase. One of the major constraints faced by women who wish to undergo training and education away from home is the lack of adequate hostel facilities.

Continue dialogue with GOP at federal and provincial levels.

3. Health and Population

Principal policy issues in this area are the use of para-medics rather than graduate medical officers as health providers.

Mission has an extensive ongoing policy dialogue with the Secretary of Health and the State who along with secretaries in the Federal Government and provincial ministers/secretaries, are the appropriate level officers to effect policy.

Recent posting of surplus physicians to BHUs in rural areas may change role of paramedics from curative provider to preventive health care provider.

Discussions will continue to define the relationship of the medical officer and paramedic and to ascertain their respective responsibilities in health care delivery.

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

Recurrent cost implications of the established health delivery system.

A consultant assisted the GOP in clarifying the recurrent cost implications of continuing the established health delivery system.

A/ASIA, Mr. Charles Greenleaf determined (CDSS Decision memorandum of 26 Mar 84) that the traditional approach to primary health care has not proven viable. The public sector system is deficient to the point that no public agency can deliver quality services. There is broad agreement in AID about what is wrong in public sector health service delivery, but the problems are so deep and vast that they are beyond the Mission's reach and resources. If AID is to have a meaningful impact in health, the program should address the basic problems of how to finance health services and how to broaden the private sector alternatives.

The final report made two major recommendations:
-creating hospitals with statutory boards to generate its own revenue &
-more pharmaceutical supply into the private sector.

Both recommendations would free up existing government funds which could be diverted to Primary Health Care activities. Dialogue with appropriate GOP officials will be initiated in the near future.

Mission is reviewing next steps leading to the design of at least two pilot tests of private sector/self financing interventions in curative health services. It is currently anticipated that these will be in the areas of hospital finance and pharmaceutical finance. PRE Bureau and ASIA/TR assistance will be required to identify the private sector financial skills necessary to design these pilots.

During the next few years the Mission should test health financing options through experiments conducted under the umbrella of the existing project, while searching for quality improvements in health services delivery in existing government programs.

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

Maximizing the role of the private sector in providing contraceptives.

Mission has extensive ongoing dialogue with Minister of Planning and secretaries of PWD on need for private sector active involvement.

The GOP and the USG signed a project agreement on March 31, 1984 for a social marketing of contraceptives program within the private sector.

Increasing the use of media to popularize population issues and the population program.

Mission has a continuing dialogue with Minister of Planning and secretaries of PWD and EAD on the need for greater use of the media.

The GOP recently began a series of pilot radio programs and has approved two television programs.

Recruitment and placement of increasing numbers of female health workers.

As a result of on-going discussions with provincial health authorities, a commitment has been made to recruit females from areas with existing facilities so that they will subsequently be posted back to their own areas. This will overcome reluctance of females to serve away from their homes. This type of recruitment has been initiated.

Developing more effective and safe means of malaria control and increase technical competence in malariology.

Two external review teams in 1983 reviewed in depth the areas of surveillance, chemotherapy, vector resistance to insecticides and safety procedures. National Malaria Training Center to be expanded with the addition of an operational research component.

Ongoing dialogue with Federal and Provincial secretaries Health and malaria officials to effect recommendations and institutional development as outlined.

MOH/GOP has approved 14 positions for the Operational Research Unit in the NMTC recruitment for personnel to fill the positions is actively underway.

The third GOP/USAID joint evaluation has been planned and will take place in the 3rd quarter of 1984.

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

4. Narcotics

Over the past two years Pakistan has emerged as one of the major sources and transmitters of illicit drugs reaching the U.S. market. USG at all levels emphasizes the importance the U.S. attaches to this issue & to the GOP's implementation of its narcotics control policies.

The Mission expects that the policy dialogue on narcotics and its relevant project activities will keep opium poppy cultivation out of new areas by use of "poppy clauses" in projects it supports and reduce the area of cultivation through an integrated rural development program initiated late in FY 1983.

USAID has adopted three approaches in dealing with the issues of opium poppy cultivation:

-each project in the Mission's portfolio is reviewed at the time project preparation and design get underway and during implementation as appropriate to assure that AID financed benefits do not accrue to areas cultivating opium poppies. Poppy clauses are included as appropriate.

-USAID is financing a major development program in the Gadoon/Amazai Area to provide economic opportunities for alternatives to poppy production and to help integrate an ex-tribal area into the mainstream of Pakistani development. The terms of the project agreement require the GOP to progressively enforce its ban on poppy cultivation in the area. The GOP has taken action to enforce the ban in the geographic area required for the crop year 1983/1984.

Eight projects: On-Farm Water Management; Irrigation Systems Management; Ag Commodities & Equipment; Tribal Areas Development; Rural Electrification, Energy Planning and Development; Forestry Planning & Development; and, the Gadoon-Amazai Area Development Project have "poppy clauses" contained in the project agreements.

During April 1984 the Government of NWFP destroyed 18 acres of opium poppies growing on Government-owned land. They also undertook destruction of poppy fields in the FATA area when our TADP is located.

Continue policy dialogue with the GOP on the narcotics issues, including the "poppy clause" in project agreements.

Mission to keep apprised of other bilateral donors and multilateral agencies active in the narcotics area.

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

Special Development and Enforcement Plan for Opium Poppy Growing Areas encouraged.

-USAID assisted the GOP to develop a Special Development and Enforcement Plan for Opium Producing Areas which is designed to attract multi-donor funding for a comprehensive development and enforcement program addressed to all of Pakistan's opium producing areas.

USAID has pledged \$5 million for FY84 and has encouraged other donors to support the plan. STATE/INM has re-programmed \$300,000 of funds allotted to UNFDAC. These funds are to go directly to the SDEP. STATE/INM has also earmarked \$20,000 for enforcement in the SDEP area. The UK has pledged pounds one million and Italy has pledged \$5 million.

Continue to work with and support UNFDAC which has, at the GOP's request, taken on the management and coordination of the SDEP.

5. Private Sector

Policy issues concern the opening of additional areas to private sector activity (edible oil, industry and contraceptives), return of previously nationalized industrial units, and the establishment of a completely private sector owned and operated financial institution.

Discussions of the private sector's role in Pakistan's economy has been concentrated at the level of Chambers of Commerce, individual entrepreneurs, Ministerial and Secretary levels of the GOP.

Direct discussions on the expansion of the private sector's role in Pakistan's economy have taken place bilaterally. In addition there has been close monitoring of the private sector activities of the World Bank and ADB, consultations with them and review of agreements reached with the IMF.

Continue the dialogue. Implement private sector - stimulation action in projects. Design and approve private sector financed institution project.

There is full policy agreement between the GOP and USG on the importance of the private sector for self-sustaining economic growth.

An analysis of GOP policy and legislation as it effects a private sector financed institution has been completed by the Mission.

Examine alternative projects in private sector.

<u>SECTOR OBJECTIVES</u>	<u>ACTION/PERFORMANCE</u>	<u>RECENT ACTIONS</u>	<u>STEPS TO BE TAKEN</u>
Increase private sector investment in agribusiness.		Mission senior staff reviewed policy issues on interest rates, credit ceilings and participating banks with senior most civil servant in Ministry of Finance. He and the Secretary General, EAD have concurred in principle in the use of funds from Ag Commodities program for lending to private sector agribusiness borrowers.	Final agreement on terms and conditions for the private sector window in ACE still to be negotiated with GOP.
Increase private sector investment in (a) energy production and (b) energy conservation.	Discussed need for enhanced private sector role in Energy with concerned Ministry of Planning policy makers. Discussed Administrator McPherson's recent letter to Minister of Finance on appropriate public and private roles in Energy development with senior GOP policymakers.	Review of possible private sector "window" in FY84 Energy Commodity Program with Economic Affairs Div. GOP concurs in principle.	Need to negotiate final agreement on terms and conditions of loans in private sector "window" of ECE. Agreement on overall public/private split in the multi year program still to be negotiated.
<u>6. Energy & Environment</u>			
Establishment of a joint AID/World Bank medium term sector strategy with AID in the lead on institutional elements and the Bank in the lead on price and tariff elements.	GOP-Mission dialogue on policy matters is taking place at all GOP levels responsible for making, coordinating, implementing and evaluating policy.	The Mission has frequent meetings with representatives of the World Bank, ADB, UNDP, and other donor organization to discuss policy. The Mission is currently coordinating with the World Bank's energy sector appraisal team.	Major concerns related to energy/policy continue to be discussed on a bilateral basis as well as within multilateral forums. The Mission will work closely to follow up on discussions held with the World Bank energy sector team in May and June, 1984.

SECTOR OBJECTIVES

An overall energy price regime which has the following characteristics:

- Induces efficient use of scarce energy resources
- directs efficient allocation of new investment and resources into energy sector development
- expands the role of the private sector in the development, production and distribution of energy.

Design of the rural electrification system consistent with sound economic practices.

ACTION/PERFORMANCE

See discussion in section E of first chapter of this document

The principal technical assistance team is now in place and will assist the GOP to insure that sound economic practices are followed regarding the Rural System Expansion and Connection Program.

RECENT ACTIONS

See part I section E

A General Policy and Implementation Guidelines Section of the National Rural Electrification Plan has been completed.

STEPS TO BE TAKEN

See part I section E

The completed paper provides the basis for the continuation of the dialogue as important aspects of project implementation.

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

Institutional Improvements in the principal electric power generating, transmitting and distributing organization in Pakistan:WAPDA. The fifteen key institutional areas for improvement which AID plans to address in the context of approved technical assistance for WAPDA are listed below:

- the introduction of comprehensive distribution planning(financial, administrative, and technical), including the finalization and initial implementation of a comprehensive National Rural Electrification Master Plan. (The Master Plan is currently being developed by WAPDA with the assistance of several local consulting firms and assistance that has already been proved through AID TO develop the General Policy and Implementation Guidelines Section);
- the design and implementation of the first stage of a Comprehensive Energy Loss Reduction Program including the monitoring of on-going and inspection and certification of completed work;

The Technical Assistance Contract was signed with EBASCO Overseas Corporation on Jan 22, 1984. The Contract Team has been on Board since March 3, 1984.

The Team composition is:

- a. Project Manager
- b. Principal Consultant
- c. Commercial Management Advisor
- d. Technical Energy Loss Reduction
- e. Distribution Training Advisor
- f. Curriculum Specialist Advisor
- g. Technical Training Specialist
- h. General Training Specialist

Contractor to finalize the work Plan and present to USAID and WAPDA asap.

USAID/WAPDA to review and approve the Work Plan and provide go ahead to implement same by the Contractor.

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

- the review and improvement of WAPDA's distribution system planning, design, construction, operation and maintenance guidelines and standards.
- the study and improvement of the policies, functions, responsibilities, authority, organization, staffing and methods and procedures of all aspects of the power distribution and rural electrification functions in WAPDA including the formation of a Power Distribution Wing;
- the study and improvement of the functions, policies, responsibilities, authority, organization, staffing, methods and procedures, and facilities of Area Electricity Boards (AEBs) and their subordinate organizational units;
- the study and improvement of the functions, responsibilities, authority, organization, staffing, methods and procedures of WAPDA's Rural Electrification Office;

Short-term Expatriate Consultants and short-term local hire consultants will be scheduled into project activities required after approval of the Work Plan.

WAPDA/Contractor to identify short term consultants.

As per Contract requirement the Contractor has completed the draft Work Plan for submission to USAID and WAPDA. Draft Work Plan will be initially presented to USAID on June 15, 1984 and subject to approval/modification will be submitted in final jointly to USAID and WAPDA for approval.

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

- formation of an organizational unit plan, coordinate and manpower distribution function training;
- study and improvement of distribution function staffing and personnel administration, policies and practices including cost development;
- study and improvement of cost of service, service rates, recurrent costs, and property valuation and depreciation policies, practices, and management;
- study and improvement of the collection, analysis, dissemination, and utilization of power distribution and rural electrification statistics;
- study of ways to reduce the capital cost of rural electrification system by introducing the use of single-phase power distribution systems and equipment;

Pakistan sub-contractor has been identified by the Principle Contractor. Final approval of USAID and WAPDA is in process.

USAID has concurred in WAPDA's request for 40 thousand electricity meters.

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

- the study and improvement of the design and use of power distribution poles (concrete and steel lattice) including the creation of an extra light-weight, concrete pole to reduce rural electrification costs;
- the introduction of modern electric utility load management systems and practices including direct load control as appropriate;
- the study and improvement of Watt-hour meter specifications, testing, control and replacement policies and practices;
- the study of data processing and information management systems and requirements of the power distribution and rural electrification functions, the recommendation of improvements and assistance with the implementation of approved recommendations;

<u>SECTOR OBJECTIVES</u>	<u>ACTION/PERFORMANCE</u>	<u>RECENT ACTIONS</u>	<u>STEPS TO BE TAKEN</u>
Introduction of a rational rate structure.	Mission has continuing dialogue with the GOP Federal Ministry of Water & Power. Mission has also contracted with the principal technical assistance team for Rural Electrification project which will also review and recommend the rate structure.	A Standing Power Rates Advisory Board has been set up by the GOP to update electric power rates on a continuing basis.	Continue policy dialogue with the GOP for establishing a rational rate structure.
Price structure for different energy forms.	The GOP Ministries responsible for energy sector activities are working actively on up-dating the price structures.	GOP is taking appropriate action for the establishment of price structure for different energy forms.	Continue policy dialogue with the GOP for achieving the sector objectives.
Energy Conservation Measures.	A US/Pakistan joint venture team, contracted by AID, will assist the GOP in introducing systematic continuous preventive financial and administrative measures.	GOP has already introduced some preventive measures for customers education through public media and has also taken other steps through pricing and administrative policies for Energy Conservation.	Continue dialogue with the GOP for adoption of various energy measures on a continuing basis.
Development of indigeneous coal resources as a substitute for imported oil, stressing private sector participation.	GOP has placed a high priority on the development of increased energy supplies from indigenous sources including coal. An agreement has been reached with the GOP that all options for private sector participation in the supply of coal to the first and subsequent large scale power generation plants will be carefully considered.	A formal Request for Proposal is being published in key world newspapers soliciting expressions of interest from experienced expatriate and Pakistani private companies to participate in the investment, development, and management of coal mines in the country.	Mission to brief other donor agencies interested in financing coal mine development for coal-fired thermal power generation facilities.

SECTOR OBJECTIVES

ACTION/PERFORMANCE

RECENT ACTIONS

STEPS TO BE TAKEN

Rural Energy Supply.

A US/Pakistan joint venture has been contracted to assist the GOP in rural distribution expansion program.

Plans are under way for initiating distribution system expansion program to be implemented when adequate electric power will be available for distribution in 1985.

Continue policy dialogue with the GOP for effective and timely implementation of this sub-project.

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