

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

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PAKISTAN

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PAKISTAN COUNTRY DEVELOPMENT STRATEGY STATEMENT

INTRODUCTION

The process of economic development in Pakistan is proving long, frustrating and difficult for Pakistan and donors alike. Yet the potential is there and a development program, which recognizes social and economic realities, can reasonably be expected to produce tangible results. The purpose of what follows in this paper is to outline a strategy of how U.S. development assistance can support and encourage Pakistan in the pursuit of a sound development program.

There are two tasks. One is to get Pakistan over its immediate and pressing problems. The other is to put Pakistan firmly on the road to self-sustaining economic growth that will distribute the benefits equitably to all sectors of society. The strategy proposal addresses the second task.

The immediate problem is to see that Pakistan emerges from its impending balance-of-payments crisis in a posture that will permit economic development and not merely survival. Current circumstances promise to make this exceptionally difficult, but it is in our political and economic interest to commit ourselves to it. It appears that the process will require extraordinary resource transfers from the donor community along with economic policy reforms so that Pakistan's development posture will be better in the future than it has been in the past.

Any effective development strategy must concentrate on the rural sector. This is obvious from basic human needs considerations, since the bulk of Pakistanis are rural and they are also the nation's poorest. The rural sector's performance has a massive impact upon the rest of the economy and its relationships with the outside world.

Since our direct bilateral contribution is only a small part of the total donor effort in Pakistan, we must work in concert with the Pakistan leaders and other donors

if we are to support appropriate policy directions and programs and break the rural sector out of its prevailing lethargy. We cannot hope to overcome the inertia with our efforts alone.

The basis of an improvement in the rural sector is the development of agriculture, and there must be sufficient good seed, water, fertilizer and insecticides to do the job. The rural producer must also have access to appropriate knowledge to use these inputs effectively and to markets that will provide him an adequate return for his efforts.

Success depends to a large extent on an educated rural populace. Fewer than half of rural school age children enter school and less than half of these complete the fifth grade. The educational system must not only put the children into school and keep them there long enough to educate them, but education must also be made relevant to their needs. It must be geared to what the rural people need to know to farm effectively and improve the quality of their lives, and not be beholden to some model developed long ago and far away for an entirely different class of people.

The health of the rural poor must be improved. Better education will contribute to this, but before they can be fully productive workers, they must have access to minimum health services.

As we look ahead in a five year time-frame our greatest need is to frankly face the economic, political and social constraints to Pakistan's development.

We are confident that Pakistan intends to move ahead in its efforts to improve the productivity and welfare of its people, and we propose here a preliminary strategy to assist in this effort.

PART I - ANALYSIS

A. Pakistan's Poverty

The absolute poverty of Pakistan is evident both from conventional national income account indicators and from the current status of social services. Per capita income, presently \$219 in current prices (\$60 in 1960 prices)*, has grown in real terms by 1.9 percent during this decade, largely due to home remittances (about \$1.2 billion in 1978) from Pakistani workers abroad and relatively rapid expansion of value added in the services sectors. Per capita commodity production, in fact, declined from the already low level of \$28.7 in 1971 to \$27.6 in 1978, in 1960 constant prices. Population, totalling 75.6 million and increasing by 3 percent each year, is characterized by a high fertility rate (6.75), high infant mortality (105 per thousand), low literacy (21.7 percent) and considerable underemployment. Per capita caloric intake of 2,381, computed from the food supply balance sheet, compares well with the recommended dietary allowance of 2,154, but distributional inequalities are believed to be pronounced. Protein calorie malnutrition manifests itself in poor growth amongst children and several clinical symptoms. Per capita government expenditure on health and education stands at the low levels of \$1.62 and \$4.04 respectively; there is a backlog of over one million housing units; only 20 percent of the total houses in the country are estimated to be pucca (brick built); the potable water supply system covers 27 percent of the population, and sewerage facilities are available to less than

* All figures, unless otherwise stated, are in current prices. The current exchange rate is Rs. 9.9 for one dollar and has been used for converting Rupees into Dollars.

10 percent of the inhabitants. Significant inequalities exist amongst different regions and various segments of the population. The social structure is more or less semi-feudalistic and rigidly stratified.

Virtually no conceptual framework exists to develop an operational poverty definition rooted in established social values. National objectives are blurred to start with. A marked divergence between pronouncements and actions characterizes official behaviour. Essential factors of poverty, like dietary habits, housing standards, price differentials and ecological diversities, are yet to be explored in any detail. Data are scarce, inconsistent, and of questionable accuracy. It is thus not surprising that researchers on Pakistan's poverty have confined themselves to arbitrary expenditure benchmarks for segregating the poor from the rest. ^{1/}

The Poverty Line

For the purpose of this exercise two approximate standards have been employed for defining the poor: A relative concept, treating poverty as a deprivation from the consumption standards enjoyed by the largest income group in the society; and an absolute concept based on minimum expenditure levels required to satisfy basic needs. While the latter concentrates on the segment of population below the subsistence level, the former helps to focus attention on the poorest of the poor. The expenditure level of the modal income group (Rural: \$15.15-20.10 per month, Urban: \$30.30-40.30 per month) in the latest available Household Income and Expenditure (HIE) Survey, 1972, has been used to describe the relative concept. As regards the absolute standard, the amount of money required for purchasing the minimum quantity of food commensurate with healthy bodily

1/ IBRD considers a person in a "state of absolute poverty when he or she has an annual income equivalent to \$50 or less" (1969 prices). AID/W sets the poverty line at US \$250 in "Kravis dollars" and U.S.\$ 80 at official exchange rates.

growth, has been combined with expenditure on housing, clothing and miscellaneous items, expressed as a percentage of food expenditure, to arrive at the minimum expenditure requirement. Access to services has therefore been incorporated in the poverty line only in a rough manner. Available data preclude precise calculations. The poverty benchmarks thus estimated, when applied to the HIE Survey, 1972, yield the following results as to the extent of poverty:

	Poverty Line (PL) in dollars: Per Capita Per Annum		Percentage of respective House- holds Below PL	Percentage of respective Population Below PL
	1972 Prices	Current Prices ^{1/}		
<u>Relative</u>				
Rural	\$42.1	102.2	42.4	50.8
Urban	\$62.3	151.4	47.9	59.2
<u>Absolute</u>				
Rural	\$46.1	111.5	45.5	54.5
Urban	\$70.3	170.9	56.8	61.3

The above computations show that about 42.6 million people, or 56 percent of total population, live in absolute poverty. Rural areas account for 70 percent (29.9 million) of the poor, and urban centers have the remaining 30 percent (12.7 million).

Rural-Urban Disparity

The concentration of the poor in the rural areas, apart from the sheer magnitude of the rural population (73 percent of the total), seems to be the consequence of an urban-based growth strategy. The profile of development activity has been low in the rural areas, and they have been severely discriminated against in the provision of social services. Significant disparities characterise urban-rural income and expenditure levels. In real terms (1960 prices), the 1978 per capita urban income is estimated to be roughly

^{1/} Computed using the Consumer Price Index.

90 percent higher than the rural, and similarly in the case of urban-rural expenditure levels, there is a difference of about 70 percent. The rural share in total consumption, though higher than its contribution to value added, is not in line with its population. This seems logical in view of institutional, infrastructural, capital and other constraints resulting in lower productivity for the rural population. Rural literacy is 14 percent against urban 41 percent; potable water supply and sewerage systems cover 14.0 and 0.3 percent, respectively, of the rural population against corresponding figures of 61 and 35 for urban areas; 81 percent of hospital beds and 60 percent of the dispensaries are located in urban centers, and only 8 percent of rural houses are estimated to be pucca as compared to 54 percent in urban areas.

The rural-urban disparity in the availability of social, business and other tertiary services finds due reflection in the employment pattern of the respective work force. The national bureaucracy is almost completely dominated by persons having an urban background.

While the prime importance of attacking rural poverty cannot be denied, the incidence of urban poverty appears somewhat disturbing and deserves attention. Urban poverty in a sense, is a spill-over of rural poverty as rural-urban migration (equivalent to about 20 percent of the annual population increase) is significant. It is also true that our poverty estimates do not adequately reflect the fact that the urban poor have access to social services in larger proportions than the rural poor. While these two factors tend to moderate the incidence of urban poverty, it remains nonetheless largely valid that, despite higher incomes, the number of urban poor as a percentage of the urban population is higher than the similar figure for rural areas. The per capita caloric intake of urban dwellers (estimated at 1,840 against 2,079 for rural areas in 1972) is less than that of the rural people; cities continue to

amass slums at an ever increasing pace; and, what is more important, acute awareness of poverty in urban areas has bred considerable discontent, expressed frequently in the form of street violence.

Two main reasons can be discerned to explain the relative gravity of urban versus rural poverty. The first explanation is based on the urban life style which inclines towards a status-oriented consumption pattern, even at the expense of recognized basic needs. The second reason is that the extent of inequality in urban areas is greater than in the countryside.

Identification of Targets

The identification of depressed economic groups is beset by the problem of serious data scarcity and, on the basis of the 1972 HIE Survey, only a few generalizations can be offered. Analysis of the Survey data suggests that the majority of transport, production and service workers are below the poverty line. However, when account is taken of the relative sizes of each group, farmers and production workers turn out to be the major groups of rural poor, while urban poverty is concentrated among production, sales and service workers. The fact that 80 percent of rural and 58 percent of urban earners, which according to our absolute poverty criteria are delineated as poor, are estimated from the Survey to be either self-employed or working as unpaid family helpers, broadly means that a large number of the poor are engaged in marginal activities.

The largest rural poverty group, that is farmers, is comprised of small farmers, particularly tenant cultivators, and landless agricultural labor. The 1972 Agricultural Census reveals that land ownership and operational holding patterns are markedly uneven. According to the Census, only about 12 percent of ownership holdings cover about 59 percent of the farm area. Analysis of private farms, operated by members of one family

alone, with or without assistance from other households, shows that 49 percent of the farming households are likely to be poor.

Small tenants are certain to be below the poverty line. The percentage of tenant operated farms is as high as 34 percent, and 13 percent cultivate less than 7.5 acres. Rural production workers conceivably comprise mainly village artisans who have been the victims of industrialization and are believed to be migrating to urban centers. The urban poor are either self-employed or employed in small scale establishments or local bodies.

Generally speaking, the rural poor are present mainly in non-irrigated areas and in those irrigated areas having a concentration of small holdings, while the urban poor are mostly slum and street dwellers. While the status of research on Pakistan's poverty does not permit an accurate determination of the geographic location of the poor a recent study carried out as a part of USAID sponsored research in support of Pakistan's Integrated Rural Development Program, identifies 92 (out of 290) most under-developed tehsils (the lowest geographical unit in Pakistan's administrative hierarchy, roughly synonymous with county) inhabited by the lowest 20 percent of the population. The identification of the underdeveloped tehsils results from composite factors based on 21 development indicators covering agriculture, industry and social services. They are grouped under three major heads: infrastructure, modernization and agriculture. The discernible features of the underdeveloped tehsils are, first that they are ^{mostly} located in non-irrigated areas, and secondly, variations in the character of under-development of the four Provinces. Examination of the underdeveloped tehsils shows that practically the whole of Baluchistan, regions of the North West Frontier Province (NWFP) Indus Right Bank, the territory lying between the rivers Indus and Jhelum in the Punjab, and sandy areas of Sind, are least developed. To this may be added the Northern Areas

and a large part of Azad Kashmir - regions not covered in the study. Most of the backward tehsils of the Sindh are less modernized, having a lower component of industry and small enrollment ratios at different educational levels; the underdeveloped tehsils of the Punjab appear to be lagging most in rural infrastructure and those of the NWFP in agricultural development. Baluchistan is underdeveloped in nearly all respects.

B. Causes of Poverty

Pakistan's turbulent history explains much of its present state of development. Nearly two hundred years of colonial rule (1757-1947) have left deep social, political and economic marks. Born in turmoil, Pakistan inherited a weak economy, limited public institutions and a bureaucracy having little familiarity with development issues. The post-independence era has witnessed two major armed conflicts with neighboring India (1965 and 1971), separation of the Eastern part of the country (1971), a series of floods and droughts, intermittent industrial labor violence, and widespread civil disturbances on at least two occasions (1969 and 1977), with consequent modest economic growth. Popular enthusiasm generated by the creation of the country has now subsided, and today the vast majority is less optimistic as to whether their economic and social miseries can be alleviated.

Institutional Constraints

The link between Pakistan's poverty and limited capital stock is obvious from the preceding section, and hardly requires further elaboration. What needs attention here are the economic, political and social factors, that have, since independence, either prevented the exploitation of the substantial resource endowment or have bred disparities exacerbating poverty. In the final analysis, the burden of continuing mass poverty rests on the composition of the power structure and the absence of links

between the poor and the decision makers. A small number of industrialists, the traditional rural elite and bureaucrats make strategic decisions. Economic, political and social institutions are weighted against the poor. There is no orderly channel for the poor to make their needs felt. Popular participation, which ultimately determines the success of a development program, is almost completely absent. Democracy has often been forced to take a holiday and the country has experienced military rule thrice. Local institutions are conspicuous by their absence. The legal system favors the rich litigant. On the social front, compliance of lower groups in the stratified social structure is assumed as a matter of right and deviations attract penalties. It is thus not surprising that measures aimed at the eradication of poverty are either forced on decision makers through public unrest, or emanate more out of benevolence than out of a sense of national commitment.

Growth Strategy

The growth philosophy guiding Pakistan's economic destiny during the sixties, rested on the erroneous notion of the incompatibility between growth and social justice. The following advice of the then Joint Chief Economist of the Planning Commission neatly sums up the Government thinking:

The underdeveloped countries must consciously accept a philosophy of growth and shelve for the distant future all ideas of equitable distribution and welfare state. It should be recognized that these are luxuries which only developed countries can afford.^{1/}

This growth-focussed doctrine found its manifestation in a complex of fiscal, monetary, trade and exchange rate measures, designed to promote output distribution in favor of groups and sectors believed to have high savings rates. Behind a high wall of protection, a highly inefficient consumer goods industry was nursed by tax breaks, subsidized credit, liberal depreciation allowances and the low wage level of industrial

1/ Mahbub-ul-Haq, The Strategy of Economic Planning (1963), p. 30.

workers. Terms of trade were deliberately turned against agriculture through an overvalued currency, discriminatory licensing of scarce foreign exchange and procurement of food grains at low prices or on credit to subsidize urban consumers. This concentration-oriented strategy, despite the higher GDP growth rate of the period 1963-69,

the vast majority worse off. Real incomes of industrial workers declined and similarly in the agricultural sector increased production did not percolate to landless tenants and small farmers. At the extremes, the GDP share of the top 10 percent of households increased from 32.4 percent in 1963-64 to 40.9 percent in 1968-69, and the receipts of families in the bottom 10 percent declined from 2.6 to 1.8 percent. Rural-urban income relationships moved against the former and rural GDP per capita declined from 68 percent of the per capita urban GDP in 1959-60 to 52 percent in 1969-70.

Unfortunately, since the late sixties, when the desirability of growth with social justice has been recognized, there has been firstly, very little growth and secondly, the recognition has not found full expression in related policies including public sector investment programs, though marginal policy changes favoring the depressed economic groups have been introduced from time to time.

Land reforms restricting ownership to 100 acres of irrigated and 200 acres of unirrigated land, tenancy protection legislation, abolition of land revenue on agricultural land holdings under 25 acres, increased Government procurement price levels for farm products and rupee devaluation in 1972, coupled with the abolition of a multiple exchange rate system, should have caused some slight distributional shift in favor of the rural poor. Similarly, an increase of about 100 percent in minimum wage levels, additional fringe benefits and security of employment for industrial labor, proprietary rights to small holders, and more enforcement of labor laws, should have

The overall impact of these policy changes on poverty cannot be quantified for the present, though it does not appear to be significant. Even a cursory view of some development indicators confirms this view: Indirect taxes still account for over four-fifths of Federal receipts: the agricultural income tax, imposed in 1977, is presently in abeyance: the commercial banking system remains oriented towards commerce and manufacturing, and the combined bank advances going to agriculture work out to less than 10 percent of the total; exigencies of foreign trade imbalance continue to govern domestic resource allocation and serious attempts have not been made to deal with the foreign exchange scarcity, due, among other things, to unfavorable terms of trade, by altering consumption and investment patterns. Ostentatious consumption (liberal import of cars, airconditioners, refrigerators etc.) and wasteful investment (electric trains, super-highways, palatial houses) are an unnecessary drain on limited resources.

Employment

Pakistan is a labor surplus economy where the high degree of unemployment is concealed behind massive underemployment, resulting in low open unemployment rates. Underemployment in the construction sector has disappeared because of large-scale emigration of construction workers to the Middle East, but the situation in agriculture, the main sector of underemployment, remains unchanged. Except during the peak seasons, a substantial number of the rural labor force remains less than fully employed. The root cause of underemployment in agriculture seems to be the inadequate size of landholdings and lack of off-farm employment opportunities. In the past planners had pinned their hopes on a buoyant modern industrial sector, but high capital-labor ratios dashed such expectations. The importance of rural development programs linked to small farmers' productivity, is now being realized, but it is doubtful that the situation will improve

in the near future. Even if the very ambitious Fifth Plan target of 3.38 million new jobs is fulfilled, about 12 percent of the additional labor force of 3.84 million will be available for emigration to the Middle East or will join the ranks of the unemployed.

C. Progress and Commitment

Pakistan, a country created almost 31 years ago, with a limited financial and human skills base, has neither been able to achieve a sustained rate of economic growth, nor to significantly improve the living standards of the mass of its population.

Although the growth strategy of the late 1950's and early 60's enabled the country to experience increasing growth rates, it failed to set the socio-economic basis required to bring about sustained economic progress and social and political stability. Thus, during the 1960's, Pakistan's Gross Domestic Product (GDP) growth rates averaged 6.8 percent per annum (versus 3.6 percent from 1970-75) with annual growth rates of about 5 percent per year in agriculture (1.4 percent from 1970-76), and 10 percent in manufacturing (2.0 percent from 1970-76). However, inter-regional and inter-personal income remained inequitably distributed, contributing to social and political unrest which caused the dismemberment of the country and long-lasting political instability. Growth during this period was supported by high levels of capital formation, made possible by very large inflows of foreign resources. The costs of this strategy were high: socio-economic inequality, misallocation of resources and the incurring of a substantial volume of external debt which is now coming due.

During the 1970's the country's economic performance has been less than modest. The growth of output (GDP) has barely kept up with population growth, production in agriculture has stagnated and industrial output has suffered from the effects of nationalization, political unrest and low levels of investment.

The rate of gross domestic savings fell from 13 percent of GDP in FY 1970, to 8 percent in FY 1976. Public savings have declined, mainly as a result of the increase in government subsidies designed to protect urban consumers from the impact of higher food and petroleum prices. It is doubtful, however, that food subsidies have resulted in any improvement in the overall income distribution because of the adverse effect of the government procurement policy on the incomes of small farmers. The decline in private savings has been caused principally by the nationalization of private industry and the high rate of inflation (26.1 percent in 1975).

While it is difficult to measure how many people are unemployed or underemployed, it is clear, that since the labor force increases by approximately 750 thousand new entrants annually and the Government's industrial development strategy is characterized by very high capital/output and capital/labor ratios, not enough attention is being given to the generation of employment opportunities. While rapid emigration to the Middle East has lessened the unemployment problem, it has also created shortages in some skills, and the longer-term problem of creating sufficient jobs for the labor force remains.

The Government's commitment to improve the health and nutrition of its people has been lacking. Thus, health expenditures, as a percentage of total public expenditures are one of the lowest in Asia. It is therefore, not surprising to discover that apart from declining crude death rates and increasing life expectancy, health and nutrition indicators present a bleak picture.

The country's efforts to reduce population growth via fertility decline have been unsuccessful. Among the Asian countries, Pakistan has the highest birth, fertility and population growth rates, while it has the lowest percentage of married women using family planning methods.

In a very real sense Pakistan continues as a two-sector country with major development investments and returns impacting initially upon its urban population. Its large rural sector on the other hand has continued in a traditional mold and ranks on most indicators as comparable to a least developed country. While this dichotomy has existed for many years it has been overlooked by many development analysts until recently.

D. Host Country Development Plan and Budget

After several years of ad hoc annual planning and reacting primarily to immediate external and domestic economic and political pressures between 1970 and 1978, the Martial Law Administration at the end of last June issued the Fifth Five-Year Plan for the period 1978 to 1983. The Plan is intended to provide a framework and establish targets for a growth with equity strategy. It states five principal objectives:

1. Giving priority to the development of rural areas;
2. Alleviation of urban problems;
3. The development of backward regions;
4. Meeting the basic needs of the population and the promotion of equity, and
5. Laying the foundations of long-term economic growth.

To implement these objectives the Plan sets forth ambitious targets for increases in agricultural and industrial production, domestic savings and public and private investment. The Gross Domestic Product (GDP) is projected to increase at an annual rate of 7 percent in 1977-78 constant prices, agricultural production at 6 percent, manufacturing at 10 percent and construction at 8.4 percent.

To give an idea of the magnitudes implied in these growth rates, some of the important targets for 1982-83, compared with the 1977/78 benchmark data are as

follows. Wheat production is expected to reach 12.8 million tons by the end of the Plan period, and the country is expected to achieve self-sufficiency by then. The 1977/78 wheat crop, admittedly a poor year, was around 7.5 million tons (USAID estimate). Similarly, the rice crop is projected to increase to 3.9 million tons (2.9 million in 1977/78), cotton 5 million bales (3.3 million), sugarcane 34.3 million tons (28.0). No less ambitious are the targets of some major industrial products; cement 6 million tons from 3.15, fertilizer 1.4 million nutrient tons from 0.334, cotton yarn 548 million Kgs from 295. With population expected to increase at 3 percent per annum and reach 86.9 million in the final plan year, per capita consumption is projected to increase annually by 3.4 percent. Gross investment is expected to increase by 10.6 percent, with public investment continuing to play its predominant role (70 percent of total investment).

The difficulties in achieving the targets laid out in the Plan become apparent in the discussion of the effort of internal resource mobilization which would be required. Domestic savings are projected to rise by 18 percent per annum, from 7.8 percent of GDP in 1977-78 to 12.5 percent in 1982-83, and by a marginal rate of 23 percent.

Over the five-year period, the budget is expected to finance 128 billion rupees of development expenditures of which 71 billion rupees would come from domestic resources and 57 billion rupees from external resources. Of the former, the present tax system is projected to yield Rs. 34 billion, borrowing from the banking system is put at 10 billion rupees, leaving a resources gap of 27 billion rupees (38 percent) of the target, to be provided through further measures to mobilize additional resources. As the Plan document points out, substantial efforts will be needed to restrain non-development expenditures and increase the surpluses

generated by public sector enterprises.

No less ambitious is the projected financing of private investment. Domestic resources (Rs. 51 billion) are expected to provide 83 percent of the total, over two-thirds of which (Rs. 35 billion) would be provided through self-financing. As the Plan points out, with a touch of understatement, the conversion of household savings into productive investment in the desired direction, rather than consumption will require the initiation of equitable economic policies.

Despite the completion of substantial import substituting investment (cement, fertilizer, edible oil, etc.) no improvement in the current account balance is envisaged during the Plan period. Exports are expected to rise by 11.0 percent p.a. and imports by 6.3 percent p.a. The keys to the export performance are the assumed targets for cotton and rice production which show a substantial increase over their recent performance.

The trade deficit will be met substantially by the inflow of remittances, estimated to increase from \$1.2 billion in 1977/78 to \$1.35 billion by 1983. The estimate, however, appears to be conservative.

Net external assistance is assumed to continue at \$1.1 billion p.a. To allow for debt repayment the average annual capital inflow of the Plan period is put at \$1.5 billion.

To put the Plan targets in perspective the Gross Domestic Product increased by 3.5 percent per annum in real terms (1960 prices) from 1970 to 1978, and by about one percent on a per capita basis. Production levels in both agriculture and manufacturing remained sluggish, increasing by 1.9 percent and 2.1 percent respectively.

During this period public investment in the industrial sector increased sharply, from 7 percent in 1971/72 to 70 percent in 1976/77. Investment was heavily concentrated in large scale projects such as a Steel Mill, cement and fertilizer plants. By contrast private industrial investment declined by 50 percent during the corresponding period. Domestic savings which were 8.7 percent of GDP in 1970/71 and rose slightly in 1971/72 and 1972/73, declined to 4.8 percent in 1974/75 and were 7.8 percent in 1977/78.

A comparison of the Plan's targets with the immediately preceding period is not too satisfactory since the years since 1970 were a period of unusual turbulence and internal and external disruptions. East Pakistan became independent in December 1971, the price of oil rose five-fold in 1973 and 1974, followed by recession in the major industrial countries and a worsening of the terms of trade for developing countries. Inflation also took its toll with prices rising about 13.5 percent a year during this period, and money supply increasing by 19 percent. At ^{the} same time, as noted, major public investments were started in heavy industry. Widespread nationalizations took place affecting banking, insurance and a host of heavy and medium industries which had an adverse effect on the investment climate and resulted in the substantial decline of private investment and domestic savings.

A comparison with the economic performance in the sixties, during the second (1960-65) and third (1965-70) Five Year Plan, a period characterized by less economic and political turbulence and high economic growth, however, underscores the ambitious nature of the production, growth and savings targets of the Fifth Five Year Plan. The latter match or exceed the highest targets achieved during the 1960s.

Another questionable aspect of the Plan is that the distribution of public sector expenditures do not reflect the priority given to agriculture and the social sectors in the Plan narrative. Social sector expenditures (21 percent) do not exceed the rate of the sixties, a period when emphasis was on rapid growth rather than equity considerations. Furthermore investment in agriculture is projected at six percent, a lower rate than achieved during the earlier period; while investment in industry, particularly textiles and minerals, shows significant increases.

The Plan can also be faulted for the fact that there is a lack of specificity as to the policies which the Government intends to pursue to implement the shift toward agricultural investment and the greater attention to equity and social considerations stated in the Plan.

A look at some of the targets stated for the social sectors makes one wonder whether their implications in terms of manpower, required skills, facilities, and the major administrative and institutional changes which would be required to implement them have been fully thought through. For instance in the health sector the government has been setting up only about 33 Rural Health Centers (RHC) a year on the average; the Plan envisages establishing 125 RHC annually. Likewise the highest level of producing paramedical personnel in a year was achieved in 1976/77 when 1,900 persons were trained; the Plan states that 2,500 persons a year will be trained during 1978-83.

Similar quantum jumps are projected in education. For instance while the increase in school enrolment during 1960-75 averaged 188,000 a year, enrolment during the Plan period is expected to rise by 536,000 annually. In 1977/78 1,210 new primary schools were opened, the highest level attained in several years; the

Plan envisages the opening of 2,530 primary schools each year during 1978-83, about seven schools a day.

Perhaps the drafters of the Plan felt that the Plan document was not the place to spell out the needed policies and that this will be done in the annual development programs implementing it. It is difficult to avoid the impression, however, that the important implications of a major rearranging of development priorities in terms of policies and structural changes have not been thought through or that political considerations made it inopportune to spell them out. One illustration of the vagueness of the Plan's policy statement will suffice. In connection with the discussion of the projected increase in the domestic savings rate the Plan states (p. 11): "Measures will be taken from time to time to discourage indiscriminate consumption and to promote instead attitudes of thrift and austerity."

The gulf between pronouncements and reality is also evident in the 1978/79 budget and the Annual Development Plan. The GDP growth rate for 1978/79 has been projected at 6.2 percent and may turn out to be lower, rather than 7 percent a year as envisaged in the Plan. Development expenditures are expected to increase by 5 percent, while the increase in non-development expenditures is projected at 20 percent, with the major share going to defense and the wheat subsidy. Expenditures for the construction of the Karachi Steel Mill, Port Qasim, cement and fertilizer plants show significant increases, while expenditures for health and education are kept at the modest levels of recent years.

The Deputy Chairman of the Planning Commission has recently stated that the Plan is undergoing revision, in order to give greater attention to equity and improvements in the quality of life. Also in connection with introducing the

Islamic order the Government is in the process of developing the modalities for introducing an interest free banking system, a wealth tax (Zakat), and a tax on agricultural producers (Usher) for use by local governments. The actions reflect the greater attention which is being given to equity considerations and resource mobilization, and may well modify the assessment of the Five Year Plan in that respect. However, until more detail becomes available and there is an opportunity to evaluate the proposed measures and changes in the Plan, the criticisms expressed above remain valid.

In the light of these comments it is difficult to express definitive judgement whether, and the extent to which, the Plan's objectives are compatible with AID policy objectives. Important objectives of the Plan are certainly consistent with those of AID assistance, as expressed in the New Directions. As problems of resource mobilization are more forcefully addressed, and the political situation becomes more settled, it would not be surprising to see a substantial increase in resources going to the priority areas stated in the Plan. AID assistance to these sectors, should help support this movement.

E. Absorptive Capacity

The usual classification of absorptive capacity constraints on development are institutions, personnel and money. These constraints apply to Pakistan as to any other developing country.

In addition, we face a special constraint in Pakistan, in attempting to focus upon basic human needs of the rural poor: the federal structure of government which assigns to the provinces responsibility for most sectors dealing with the rural poor. This particular constraint is further aggravated by the financial relationships between federal and provincial governments, and the expectation

that the provincial governments will fund the recurrent costs while the federal government's resources are limited to development expenditures (capital construction). For all such projects having a national scope full collaboration and endorsement by each of the provincial governments is required for effective implementation of development activities

Our experience to date with absorptive capacity constraints indicates that the ability to overcome them is directly related to the quantitative size of the project undertaken and its congruence with the policy and programmatic preferences of the federal and provincial governments. When the donor inputs provided are of a significant magnitude, the institutional changes required, along with the skilled personnel and necessary supporting resources, are forthcoming. In such cases, the Pakistan Government, both federal and provincial, have demonstrated their capability to successfully implement projects on a scale and at a speed which exceeds their prior experience and practice.

In the implementation of the 1974 flood relief grant, for instance, over 1400 schools were built and 590 miles of road constructed in less than 18 months by the Punjab and Sind provinces, in order to utilize a \$27.5 million US grant before its terminal date. This suggests that successful execution of AID-initiated development activities must be of a sufficient magnitude and be clearly recognized as beneficial by the recipient in order to overcome the very real constraints.

A less tractable constraint relates to the lack of local government institutions which are a critical element in the area of rural development. The present announced plans of the Government are to hold national elections no later than October of 1979 and subsequently, hopefully within a year, hold local elections

and recreate local government institutions. In recognition of this constraint, we have designed our program so that we will work essentially with national and provincial organizations with the intention of adjusting the program, once local participatory institutions have been created. In addition, we are encouraging the creation of special local associations related specifically to program activities such as organizations for rural electrification, local school committees, water user associations, etc.

E. Other Donors

Since its inception, Pakistan has been the recipient of substantial amounts of aid from a large number of donors. Thirtytwo bilateral donors and multilateral organizations have committed about \$5.2 billion to Pakistan between 1972 and March 1978. The bulk of this assistance has been development loans (\$4.2 billion or 81 percent), with about \$500 million for technical assistance and the balance in food aid. This total does not include loans in certain years from the People's Republic of China, the Democratic Republic of Germany and Libya amounting to approximately \$44 million, since these loans do not meet the DAC criteria for Aid lending, i.e. a grant element of at least twentyfive percent.

The annual amounts of commitments peaked in 1974-75 at \$1.1 billion, and have since been between 800 and 900 million a year.

Despite the large number of contributors, five bilateral and multilateral donors account for about 60 percent of total donor assistance. The U.S. is the largest contributor for the period from 1972-1978, with 17 percent of the total. Other important contributors are Iran, the World Bank, the Asian Development Bank and Canada.

Major Western donors are members of a Consortium chaired by the World Bank which meets annually to review Pakistan's economic situation and development prospects, at which time assistance pledges for the following year are made.

Donor assistance covers a fairly wide range of projects, but is heavily concentrated on major capital-intensive projects such as the Tarbela Dam, the Karachi Steel Mill, the development of Port Qasim, cement and fertilizer plants, etc. This emphasis on capital-intensive projects reflects the donors' preference for projects with a heavy foreign exchange component, which can absorb large amounts of assistance, and which do not rely heavily on the availability of large numbers of skilled local labor for their implementation. It also reflects the development strategy of past Pakistan governments which emphasized import substitution and the build-up of heavy industry, while devoting lesser attention and resources to improvements in agricultural production and productivity. There is some evidence that this urban-industrial bias is being slowly corrected and significant projects in the field of agriculture are under consideration, particularly by multilateral donors.

Despite general agreement among the members of the DAC that greater emphasis needs to be given to projects designed to meet basic human needs and improve the income and standard of living of the poor, there is little evidence to date to demonstrate that foreign assistance is focused on these objectives. Aside from the complexity and the greater demands on donor resources which are involved in the design and implementation of such projects, there is also a reluctance on the part of many donors to get involved in projects which require primarily local cost financing. Yet many of the large capital projects also include significant

local cost components which put a heavy burden on Pakistan's domestic resources. Thus there is urgent need to achieve a greater degree of donor agreement as to the importance of financing a larger share of local cost expenditures of projects which they finance.

The Consortium for Pakistan provides a useful forum for exchanges of view and a coordinated approach toward Pakistan's development problems. Informal coordination is also maintained among donors and with the World Bank between meetings of the Consortium. Nevertheless more narrow national and commercial interests and the pressures to which the International Financial Institutions are exposed limit closer donor coordination on some important issues, and there is scope for significant improvement in that direction.

The annual flows of foreign assistance resources to Pakistan from 1972 to 1978 show upswings and declines which preclude the projection of future flows, based on the donor community's performance. Given the international economic situation, with the prospects of a mild but long-lasting recession, the recent events in Iran (the largest capital aid donor), and the real possibility of new oil price increases, future foreign aid flows must be projected conservatively. Accordingly we have assumed that aid flows will remain at the 1978 levels in real terms, but will increase in monetary terms at a rate of 10 percent per annum to reflect average worldwide inflation rates. On this assumption we have projected development loans and grants, excluding food assistance, to increase from \$740 million in 1979 to \$1.3 billion in 1985. The World Bank projects debt service payments on the external public debt outstanding as of June 30, 1977 between \$414 million and \$546 million annually for 1981 to 1985. To this must be added any payments on debt incurred since that time and on other debt, including suppliers' credits. Thus net aid flows will be substantially smaller.

The foregoing analysis has identified significant and sobering conditions that must be clearly faced in pursuing an AID program.

To put this assessment in perspective it must again be noted that during the last few years Pakistan has had not only to contend with world forces which affected many developing countries with unusual severity, such as the steep rise in oil prices and recession and inflation in the developed countries, but was confronted with a series of domestic crisis - floods, droughts, crop failure, wars, domestic unrest, which prevented succeeding governments from pursuing a stable course and would have made the pursuit of an equitable growth strategy most difficult even if this had been a major objective of government policy.

A large proportion (56%) of Pakistan's population has incomes below the absolute poverty line and the majority of this group (70%) live in rural areas. The causes of poverty are many, but can be summarized as inequitable asset distribution, inadequate access to inputs and services, lack of knowledge, and ineffective markets for labor and production. Limited resources and inappropriate development policies combined with the economic and social forces have kept the large majority of the rural population poor and have failed to provide sufficient public and private resources to alleviate their condition and raise their productivity. We doubt that foreign donors can have an impact on the current asset distribution pattern, but, together with other donors, we can help influence the direction of government programs and services to the rural poor.

During the last 7 years the government's investment in those areas directly impacting on basic human needs has been stable but minimal. Critical local government institutions have remained non-existent to be recreated some time in the future.

Pakistan's commitment to basic human needs of the rural poor has been more rhetorical than real, and has been subordinated to higher priority objectives and claims on available resources. Government expenditures and investments have focused on major capital-intensive infrastructure and industrial projects and on food subsidies to the urban consumer.

Although the prior policy of nationalization has now been reversed, continuing political instability and uncertainty as to the implications and dimensions of the Islamic economic system which the government plans to introduce impede the early revival of a long-term favorable investment climate. In the meantime the completion or initiation of large capital projects continues to absorb a large share of government expenditures, and outlays for subsidies are increasing.

Under these circumstances the emphasis given in the Fifth Five Year Plan to meeting basic human needs has to be viewed with considerable skepticism. Large investments are required in such areas as rural electrification, roads, education, water supply, health, etc. To meet the Plan's targets will require a major reallocation of currently available resources or the generation of additional domestic resources. There is little evidence so far to suggest that either is taking place.

Since 1972 development assistance provided by other donors, particularly the multilateral financial institutions and the OPEC countries has expanded substantially. This donor assistance has concentrated on large capital investment projects with a significant foreign exchange component. Donor preference for this type of projects has reinforced Pakistan's similar proclivities to the detriment of adequate funding of expenditures to meet basic human needs. Donors' reluctance to engage in significant local cost financing, both with respect to heavy capital projects and projects in the social sectors has meant that large

budgetary resources have to be devoted to the former while the needs of the latter remain largely unmet. Unless substantial additional resources can be generated or other donors will revise their policies and focus on providing financial support for basic needs, there will be a continuing shortfall in domestic resources available for this purpose.

Objectives

The macro objective of U.S. assistance is to help the GOP focus on the needs of the poor majority, particularly the rural poor, and to encourage the Government to devote larger resources to meeting basic human needs. In effect we are advocating that the GOP allocate its resources in accord with its professed objectives. And if they do we will support them.

It is important to bear in mind, that U.S. influence while important is much diminished from the years prior to 1970. With U.S. development assistance leveling off at about \$100 million a year, while that of other donors has been increasing, current US Aid levels, including PL 480, amount to approximately 10-15 percent of total annual assistance. As noted, other bilateral donors and international development banks appear to be more interested in the transfer of a certain level of resources rather than in providing strong support and encouragement to Pakistan to adopt the necessary policy and program reforms. In addition most other donors do not have sufficient in-country staff or the necessary policy flexibility to engage in programs that will assist in the development and transformation of rural Pakistan into a more productive and equitable society.

Our assistance methodology aside from PL 480, will be essentially reimbursement in dollars for local cost expenditures tied to specific indicators of performance. We will also require a commensurate commitment by the GOP of its own resources in areas off subsectors directly impacting on the poor. The number of areas and

subsectors of U.S. assistance will depend upon the likelihood of effective performance by the Government, but will also be limited by Mission staff constraints. The amount of resources in each subsector will be planned in a multi-year framework since even partial fulfillment of the targets will require a major 3 to 5 year effort.

While the allocation of resources is a key variable in determining the likelihood of achieving our objectives, institutional reform and program improvement are of comparable importance and will be pursued through grant-funded consultants and technical assistance in the subsectors selected.

Subordinate to the macro resource allocation to the rural sector objective are more specific objectives related to selective subsectors. Some sectors identified for assistance in Part III are essentially those selected in the 1979 and 1980 ABS submissions which impact on rural Pakistan. For purposes of discussion they can be grouped into agriculture, health and education.

Agriculture

Since the early 1970s the average annual growth in agricultural production (1.6%) has been disappointing. It has failed to keep pace with population. This performance can in part be attributed to a series of years of unfavorable weather conditions and to exceptional factors such as the delay in availability of Tarbella water. However, it is clear that there are also more fundamental factors at work which have restricted growth and output and improvement in distribution of benefits.

To a certain extent this disappointment is magnified by especially good crops in 1971-72-73 in cotton and 1976 in wheat, which were viewed by many as normal. Asset distribution in agriculture is poor and we believe will change only slightly over time.

In spite of prior efforts at land reform a substantial portion of Pakistan's agriculture is produced by tenant farmers. To a great extent large land ownership has been converted to large operating holdings with the formal ownership simply transferred to other members of the family. Local participatory institutions have not worked well in this stratified society and are now essentially non-existent.

The development failure of Pakistan's agriculture is, in our view, the direct result of an urban based industrial development strategy. Rural Pakistan comprising over 73% of the population continues to be poor, underdeveloped and under-productive.

Because of this urban-based strategy, analysis of policy options is seldom provided and less often used, agricultural research has been neglected, and benefits of major investments like Tarbela and public tubewells have not been followed by complementary programs to raise rural productivity. Government investment in rural areas for education, electricity, extension, seed production and other input distribution have been ill-planned and minimal. Status quo, subsistence agriculture continues in much of the country and most farmers are unaffected by government programs.

The recent crop failure in cotton and wheat only emphasizes failure to take remedial action. Pakistan government officials have been severely shaken by the inability of the country to increase agriculture production and by recent crop failures in wheat and cotton and the necessary foreign exchange expenditures to meet this shortage. The most optimistic indicator in the agriculture area is the continuing high growth in consumption of fertilizer and in the improvement in the nitrogen phosphate balance. It is, of course, in this area that major AID resources have been directed over the last few years.

Current emphasis on the financing of inputs while successful will not be fully reflected in increased production without improvement in knowledge and marketing. The agricultural system is not working effectively. Its full production is constrained by cultural tradition, inadequate policies, bureaucratic competition, and rests on a poor foundation of asset distribution and non-existent local participatory institutions. In addition, agriculture is by Constitution a subject where provincial authority is very strong and where influence of the Federal Government is diluted and diminished by provincial priorities.

Our PL 480 assistance will focus on the agricultural policies of the government, both at the national and provincial levels, giving special attention to price support programs, market activities, subsidies and storage, particularly in regard to wheat and vegetable oil.

A major portion of U.S. assistance to Pakistan since the early 1950s has been the PL 480 program and it continues today to be the largest single element in U.S. assistance, averaging \$70 million a year since 1972. There are those who believe that the program, in certain years, has been a disincentive to increasing agriculture production which allowed the Pakistan government to implement a strategy favoring the urban areas by keeping food prices low. As late as 1976 when Pakistan had a good wheat crop it was reliably asserted that the GOP procurement program was restricted, leaving domestic producers with a very low market price (below the floor price) due to PL 480 imports.

During the last two years a concerted effort has been made to tie PL 480 resources to improved wheat marketing policies, increased vegetable oil production, and to more adequate incentives to Pakistan producers. During these years the Pakistan wheat crop has fallen substantially short of domestic requirements and large purchases of U.S. wheat have been made by the GOP, both through PL 480 and

through commercial transactions.

We believe that the multi-year commitment of Title III holds considerable promise as a more attractive and viable tool than Title I for supporting necessary program and policy changes.

The wheat marketing system relies heavily upon government procurement at harvest time at "floor prices" and distribution of the wheat purchased to government institutions and to the consuming public through government ration shops. The ration shops provide urban Pakistanis a substantial portion of their flour needs at a highly subsidized price. Any shortfall in government procurement, regardless of total production, is considered a shortage which has to be met with foreign imports. The government has seldom had enough stock to moderate price by making releases in the open market.

A major objective in utilizing Title III resources will be to modify the above system and support the following:

- a) Government implementation of an effective floor price program designed to provide an adequate incentive price to Pakistan producers rather than to meet government supply requirements.
- b) Establishment of a grain reserve which will be used by the government for open market sales to moderate market price increases beyond a reasonable range (20%-30%).
- c) Substantial reform and eventual abolition of the present ration shop operation in order to reduce the heavy subsidy payments, encourage greater private marketing and limit government distribution to those most in need.

We expect that a Title III program will provide reasonable support to the government in pursuing these objectives, and mitigate their concern with the problems

resulting from either over- or under-production.

We will also attempt to increase agriculture productivity by improving rural access to agricultural research and technology, electricity, education, health, roads, water and markets. Our activities will be geographically, technologically and policywise focused to impact upon the rural poor. We believe that the GOP will make a major attempt to channel the required resources in these directions, both to meet their development objectives and obtain maximum U.S. reimbursements.

The local participatory institution issue is tied closely to re-establishment of representative government in Pakistan with national elections planned in October 1979. Until this occurs we believe our best approach is to proceed with investments in rural infrastructure funneling them through rural development institutions at the national and provincial level and encourage local organizations related particularly to subsector activities. For example, school boards, water districts, rural electric coops, etc.

Our current primary involvement in technology improvements has been in water course improvements and land levelling based to a large extent on research done by Colorado State University and experience of the Soil Conservation service. We are currently reviewing the major issues in this activity which have significantly delayed its progress in several geographic areas. In view of the critical nature of land and water management and the severe environmental degradation which is occurring we are giving increased attention to soil and water management activities in the rainfed area.

The link between agriculture knowledge and its distribution to producers either by government institution services or by an active agri-business effort is extremely weak and what link there is appears to be highly focused upon the larger producers.

Improvements in this important area are being supported by IBRD in five district

in the Punjab with possible expansion to the Sind Province. We believe it needs to be further extended to the rainfed area. In the area of agricultural research there are several research centers under control of the provinces and which focus upon particular crop or factors important to the particular province. There is little cooperation between the various institutions and they appear to be, for the most part, understaffed, underfunded and overbuilt with inadequate attention to many national problems and priorities.

In this situation we believe the Federal Agriculture Research Council can play a critical role if the Pakistan authorities can subordinate provincial bureaucratic rivalry to real national research requirements. To date this is far from evident. The central organization exists but the program substance is yet to emerge. We and other donors will continue working with the Council to bring this about.

While we believe that each of the current and proposed interventions are sound and desirable, we hesitate to describe the above as an agricultural sector strategy. It is rather a group of discreet interventions, some new but many inherited, which were initiated in response to perceived problems and or opportunities. We are equally unable to find a clear focused agricultural strategy articulated by the Pakistan government with which we can associate. It is thus obvious and necessary that a major Mission and GOP effort be launched to develop an agricultural strategy that is clearly focused upon major problems and requirements both current and future in this most important area. This will be a difficult and perhaps impossible task but nevertheless must be attempted if AID is to make an effective contribution to Pakistan's agricultural development.

Education

Pakistan has the highest percentages of population under the age 15 (47 percent or 36 million children) and of population of school age (29 percent or 22 million)

children) among the Asian countries. The country's average annual growth rate of population is the largest in Asia. Over 2 million children are born each year, and the need for education services increase by approximately 2.8 percent per annum.

Out of a population of approximately 40 million people aged 15 and over (adults) less than 8.5 million are able to read and write and almost 32 million adults join the 22 million children in the need of education. Seventy-three percent of the population are distributed throughout 45 thousand villages in the rural areas. Access to, and delivery of education is by this reason alone, a difficult task.

In the face of these obstacles, Pakistan's performance has not been as poor as most analyses seem to indicate. For instance between 1969 and 1977 primary schools increased by 44 percent and secondary schools by 66 percent.

Student enrollment figures show that even though enrollment ratios are the second lowest in Asia, they are almost twice what they were in 1969. Although the ratios between male and female enrollment do not approximate the country's sex composition ratio (53 percent males, 47 percent females) the figures show that despite Pakistan's socio-cultural preferences, female enrollment has increased at a higher rate than that of males. From 1969 to 1977 female enrollment increased from 27 to 33 percent in primary schools.

Despite these achievements, Pakistan educational sector suffers a series of handicaps to higher attainment of adequate educational levels, equitable delivery, appropriate educational practices, and needed attitudinal changes. Education financing accounts for less than 2 percent of GNP. Local participation in sharing education costs or influencing education activities is nil. The sector's share of resources is clearly insufficient to meet the country's educational needs.

Primary education has been historically allocated a smaller share of the education budget than the post-secondary level, and primary school allocations appear to be

subject to chronic reductions in response to budgetary pressures. Low enrollments and heavy dropouts severely impair the effectiveness of the funds actually spent. Thus, of those entering the first grade, forty-four percent drop out before grade 4. Dropout rates are also high at the secondary school level; only 15 percent of the students enrolled in first grade continue to tenth grade.

High drop out rates are partly explained by the lack of local participation and the perceived low quality of instruction and resulting low achievements (50 percent failure rate in secondary schools), the high opportunity cost of education in terms of labor services foregone (children aged 10 to 14 can add as much as Rs. 100 per month to family income), oppressive physical conditions, harsh discipline, lack of parental support and high rates of teacher absenteeism.

Equitable delivery of education is hampered by unequal provision of facilities in favor of the urban areas and re-inforced by the unbalanced distribution of teachers, with a surplus of between 30-35 thousand primary school teachers in urban areas and shortages in the rural areas.

Despite the high levels of expenditure for higher education curricula and standards are largely unrelated to the realities of the labor market, and the country is experiencing a high level of educated unemployment.

The Mission's strategy in education is to:

- 1) Focus on rural primary education as the most urgent need for the rural poor.
- 2) Provide major amounts of resources through the federal government to the provinces to expand education services.
- 3) Provide technical assistance to support major policy and program reforms focused on teacher housing, in-service training, instructional materials, downward revision in unrealistic teacher certificates requirements, improved supervision and support, etc.

4. Encourage local participation in the funding and management of primary education.

Health and Population

Pakistan faces essentially the same health problems that existed at the time of independence, more than 30 years ago. These include widespread, although largely preventable, communicable diseases, high fertility, moderate to severe malnutrition, especially among women and children, inadequate and polluted water supplies, and virtually non-existent sanitary facilities in the rural areas.

Generally speaking, the emphasis has been on curative rather than preventive care, the use of advanced technology and large sophisticated facilities, which are concentrated in the urban areas, with a heavy dependence on doctors. Roughly 15 percent of the population is "covered" by the existing health system. Although still a small percentage of total GNP, expenditures on health (excluding population planning) have increased from 0.57 percent in 1970 to 1.0 percent in 1977. About 18 percent of the health budget has been devoted to rural health in recent years.

The focus of publicly supported efforts in the health field has begun to shift to the rural areas, the use of paramedicals or physician extenders, and on the care and prevention of common ailments.

Most government efforts with respect to clean water and sanitation have thus far focused on the provision of piped water in urban areas and larger towns. Current estimates are that roughly 61 percent of the urban and 14 percent of the rural population has access to clean water and 35 percent of the urban population and virtually none of the rural population has access to sewerage facilities.

Government programs to treat and prevent diseases such as malaria, tuberculosis, polio, diphtheria and tetanus have been fraught with problems of poor management, logistics and personnel and, with the exception of the malaria spray program, thus

far have been able to reach only a small portion of the rural population. The Government has been moving in recent years toward the integration of these programs in the hope that this will increase their effectiveness.

Recognizing the existing difficulties, the GOP in its Fifth Five Year Plan covering the period 1978 through 1983, lays out a strategy regarding health care.

The elements of the strategy which it is hoped will bring about these changes include:

- 1) The establishment of a three-tiered rural health system utilizing appropriately trained physician extenders and community level health workers who will focus on the most common health problems;
- 2) the allocation of a larger share of the resources available for health to the rural areas;
- 3) a shift in health program emphasis from curative to preventive care;
- 4) the gradual integration of vertical programs, (e.g. population, malaria, nutrition, etc.) being careful not to jeopardize their effectiveness, and
- 5) encouragement of community involvement in planning and implementation of health and sanitation initiatives.

The stated objectives of increased emphasis on rural health, less sophisticated facilities, use of paramedical personnel, and preventive versus curative care are entirely consistent with AID's priorities in the health field. What remains to be seen is whether the political commitment, and allocation of the financial resources required to achieve these objectives, will actually be made.

We estimate that in view of the delays in constructing Rural Health Centers and Basic Health Units, and difficulties in making them operational, no more than 15 to 20 percent of the rural population will have access to a functioning health system by the end of the Plan period. Furthermore, despite the greater attention given to

rural health in the Plan, the recent expansion in the number of medical colleges and the continuing political pressure by vocal and influential interest groups to construct sophisticated urban based research and service facilities will make this promise difficult to keep.

Given this situation the US aid strategy in the health field is to provide substantial resources to assist the Government expand the development of Basic Health Services in the rural areas through continued training and the placement of paramedical personnel to staff rural health centers and to encourage the integration of all paramedical schools to standardize paramedical training. We will also continue to support the GOP in the control of malaria and the development of appropriate interventions to improve the nutritional status of the rural population. In addition, we will support the Government to expand its effort to provide clean water and sanitation systems in rural villages.

Population growth continues to seriously handicap Pakistan's ability to improve living standards. A 150 percent increase in population since 1947 has largely offset a 200 percent growth of real GNP, thus causing per capita GNP to increase by little more than one percent per year. If per capita income is to increase significantly, a reduction in the population growth rate is an essential element of any development strategy.

The importance of population planning was recognized soon after the nation's inception. The Family Planning Association of Pakistan, a voluntary agency, was organized in 1953. However, only during the Second Plan (1960-65) did family planning become an integral part of the Government budget.

To date performance of the family planning program can only be deemed as a failure. Two factors have influenced the failure of the family planning program: prevailing socio-cultural practices and lack of full Government support of the program. It is necessary, therefore, that adoption of family planning methods

become a Pakistan development goal, and that the ineffectual aspects of the program be revamped. Only after these two conditions have been met, will AID support of the program bring about the expected benefits.

Role of Women

While there are no statistical data that would define the extent of participation of women in the development of Pakistan, we know that women comprise 9% of the labor force which is about mid-way between 3 and 15% found in Muslim countries. We also know that girls comprise 1/3 of the student population but that current literacy rates for women are but 1/3 of those for men.

Many of the constraints that women face in attempting to become full partners in the economic life of Pakistan are cultural, traditional and rooted in religious beliefs. It is clearly acknowledged that these traditions represent a value system which most Pakistanis consider important. Therefore, any initiative designed to expand the involvement of women in development must be conceived with care and be in accord with the current value system.

We see one approach which is compatible with the cultural mores, traditions and religious beliefs in Pakistan and which would enhance women's role in development - education. At the outset this is education for its own sake and not designed to prepare women to enter the job market. If women are educated this will help solve many development problems. Illiteracy will be reduced because literate women will want their children to be educated. Educated women will reduce many of the problems of health and nutrition in fulfilling their role as homemaker. It will help solve the population growth problem in that we know that educated women have smaller families. Our strategy then to enhance the role of women in Pakistan will be through education. We will attempt in all our education activities to guarantee that proper attention and emphasis is given female students.

Environment

Pakistan faces the same environmental dangers of other IDCs. These dangers stem from the fact that the poor in developing countries view life in more basic terms than do people in more developed countries. Their focus of necessity is on the short term. They want wood to cook their food and to warm themselves tonight so that they may survive till tomorrow. And they want water and other basic needs. They have less concern with whether the cumulative effect of burning wood is to denude the countryside of forests and similarly they have little concern with whether they pollute water or use less of it.

In addition to these dangers that developing countries have in common, Pakistan faces special environmental dangers. Water logging and salinity are viewed as the twin menaces of the productive agricultural land. Of 33 million acres under irrigation, it is estimated that 17 million acres have water tables as close as 6 to 10 feet to the surface. It is estimated that the country loses three productive acres per minute to salinity. Sustained efforts, primarily vertical and horizontal drainage, have been undertaken over the last 30 years and major expenditures have been incurred to reverse the trend but to little avail. Efforts to reclaim the saline soil have been ineffective.

Another environmental problem particular to Pakistan is that of desert encroaching. In Baluchistan and NWFP, the western provinces of the country, with large areas with annual rainfalls of less than 10 inches, lands that were inhabited a generation ago are being abandoned and claimed by the desert. Large investments will be required to harness flash flood water and reforestation, and reverse the trend of desert encroachment.

Against this background, our strategy is to be responsive to and supportive unique opportunities for environmental initiatives in Pakistan.

PART III. ASSISTANCE PLANNING LEVEL

The indicative planning allocation provided for Pakistan in fiscal year 1985 is \$168 million. Our proposal is to approximately double this figure or a level of \$320 million. According to the plan proposed by the Mission, we reach the 1985 level in 1982.

The obvious question is why such a high planning level for a country which has done poorly in the recent past and has the various problems of commitment described earlier in this submission. Our response is that a planning level of that order of magnitude will be required, if we are to assist Pakistan effectively to move to a growth with equity strategy during the period covered by this submission. In our opinion a significantly lesser amount would not maintain the momentum which we hope to bring about in the next few years, and would be viewed both by Pakistan and the other donors as less than a meaningful commitment on our part to the country's development.

In order to accomplish the objectives stated in the strategy, the following is required:

1. A significant policy change from urban to rural development which will be difficult for the GOP economically, socially and politically.
2. A major long-term commitment to the reallocation of available resources to improving the quality of life of the rural poor.
3. The active support of major donors.

We estimate that the IPA level given by Washington would represent a reduction in the U.S. proportion of total foreign assistance to Pakistan from that provided during the last five years. The IPA level for 1985 does not indicate expanded support for the major policy corrections required but

rather the reverse, at what the Pakistan Government believes to be a critical time in regional affairs. Other important bilateral donors might similarly interpret our planning level.

In considering the appropriate level of resource transfer for development it is worthy of note that our current trade balance with Pakistan is \$600 million, in our favor, and the annual debt repayments to the U.S. by Pakistan are approaching the \$100 million level. The IPA then would be providing a net resource transfer to Pakistan of about \$50 million a year. There should be little question that Pakistan needs the level of investment proposed in these particular areas. While donors, including AID, have all talked about basic human needs and the rural poor, we have jointly failed to commit or condition our assistance imaginatively to this objective.

It should be noted that in all subsectors of assistance we are assuming - and will make clear in the conditions precedent - that our assistance will only be disbursed if Pakistan's own investment is increased, which in many cases will be several times the proposed AID level. For example, in rural electrification our commitment will be for not more than 35 percent of the total program cost. We estimate that in the field of education expanded investments of over a billion dollars would be required. Our contribution at the proposed level, if we assume that Pakistan will meet only 50 percent of its target, would provide only about 20 percent of the additional resources committed to education.

As of now other major donors are not providing assistance in most of the areas we have identified. If they were to adjust their programs to provide such assistance this would reinforce the donor commitment to the

required policy and program redirection and would provide valuable support to the GOP. We believe that the amount of resources required provides ample opportunity for other donor participation.

If development assistance to Pakistan expands from 7 to 10 percent, it is estimated that total donor assistance in 1985 will be in the range of 1.3 billion dollars. Our assistance then, at the Mission proposed level, would be less than 25 percent of external development assistance. As Pakistan is one of the largest and poorest of the underdeveloped nations, and essentially least developed in its major rural sector, we believe it would be proper and appropriate to commit this level of resources.

It should be clearly understood that this proposed level assumes a major policy change of the Government of Pakistan by focusing its development upon the rural poor. If this is not forthcoming then the disbursements and assistance should and will not be made. That is, we have tied our proposed level to the expectation as to what Pakistan can do and must do if it is to move to a sound development track. We therefore recommend that the indicative planning allocation for 1985 be approximately \$320 million.

Our PL 480 projected level assumes an increasing improvement in agricultural productivity and production, both with regard to wheat and vegetable oil. We firmly believe that effective implementation of the strategy elements described in Part II actively supported with Title III PL 480 and other complementary inputs will allow a progressive decline of PL 480 assistance through 1985. During this period domestic wheat and vegetable oil consumption is projected to continue to increase annually by 4 and 8 percent respectively, in response to population growth and improved diets.

We believe by judicious use of contract technical assistance this level of assistance and portfolio spread can be effectively managed within the current direct hire ceiling allocated to the Mission.

<u>CATEGORIES</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>Total</u>
	(\$ millions)					
<u>I. Agriculture</u>						
Electricity (L)	20.0	20.0	25.0	25.0	30.0	120.0
(G)	2.0	-	2.0	-	2.0	6.0
Roads (L)	15.0	15.0	20.0	25.0	40.0	115.0
(G)	1.0	-	1.0	-	1.0	3.0
Non-Conventional Energy (L)	5.0	-	7.0	10.0	15.0	37.0
Statistics(G)	.7	1.0	1.0	1.0	-	3.7
Ag Research (L)	5.0	7.0	10.0	10.0	10.0	42.0
Agri Business (L)	20.0	25.0	30.0	30.0	40.0	145.0
(G)	-	1.0	-	1.0	-	2.0
Soil & Water Mgmt. (L)	15.0	23.0	30.0	40.0	50.0	158.0
(G)	-	2.0	-	-	-	2.0
<u>II. Education</u>						
Primary (L)	10.0	15.0	20.0	25.0	40.0	110.0
(G)	-	3.0	-	3.0	-	6.0
Training (G)	3.0	-	5.0	-	5.0	13.0
<u>III. Health & Population</u>						
Rural Health (L)	10.0	15.0	20.0	25.0	30.0	100.0
Malaria (L)	-	10.0	-	-	-	10.0
Nutrition (G)	2.0	-	2.0	-	2.0	6.0
Population (G)	8.0	10.0	15.0	15.0	15.0	63.0
Water (L)	10.0	15.0	20.0	25.0	40.0	110.0
(G)	1.0	-	1.0	-	1.0	3.0
	<u>127.7</u>	<u>162.0</u>	<u>209.0</u>	<u>235.0</u>	<u>321.0</u>	<u>1,054.7</u>
PL 480	80.0	80.0	60.0	60.0	50.0	330.0

All of the proposed initiatives are in the current approved portfolio. Reduction from the proposed level would be accommodated by reducing the amounts of assistance in some subsectors and eliminating others, dependent upon performance.