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Negotiating and Programming Food Aid:

A Review of Successes

PL 480 Title I Case Study
PAKISTAN

Bureau for Food for Peace and Voluntary Assistance
Agency for International Development
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PL 480 TITLE I CASE STUDY

PAKISTAN

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PREFACE

This report presents the findings and conclusions of the fifth of 5 case studies of the PL 480 food aid process. The studies stress identification, negotiation, implementation and reporting on the self-help provisions and programming and monitoring of local currency use. The first two studies, one of the Tunisia Title I program, the other of the Mali Title II, Section 206 program were carried out as pilot efforts, to test whether the study approach would generate information that would be useful in guiding PL 480 program operation and to design methodology for a second phase, should a decision to proceed be made. Following these, methodology was reviewed and three additional countries selected and visited, Haiti, Zambia and Pakistan.[1] The objectives that oriented data collection and analyses for the studies were:

- To assist AID and host countries to understand better how PL 480 resources are being programmed, including the identification, negotiation and monitoring of self-help provisions and the mechanisms developed to program and manage local currency sales proceeds.

- To provide other USAID Missions and host countries with information useful for replication of successful experiences in the use of Titles I and III as a development tool, for improvements on past performance, and for the identification of likely pitfalls in the process.

Country Selection

The Agency used the following criteria to select countries for the case studies:

- Country programs would include representation from each of AID's 3 major geographic regions;

- Programs had been or would be in operation long enough for substantial data to be available for analysis;

- There was consensus in the Agency that the programs had been successful;

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[1] This report covers only the Title I program in Pakistan, which in total has accounted for the bulk of the food assistance to Pakistan.

- Programs selected would represent different approaches to using PL 480 resources for development; and

- Programs would be sufficiently representative that generalizations from the studies would be useful for other country settings.

Two other considerations were that the programs were reasonably well documented, and professional people familiar with the progress were available for consultation.

Pakistan was chosen to represent the Asia Near East region because it has a very long (34 year) period of continuous US food aid operation; it was generally considered to have specific self-help commitments and benchmarks; and it has been a major element of the US commitment to a substantially expanded program of US assistance to Pakistan, which began in 1981/82.

Study Approach

Based on the first two pilot case studies a major set of questions, organized in terms of key issues to be addressed, was developed to guide information collection and analysis (see Annex A). While the set of questions was to be used as a guide for all of the case studies, it was expected that the nature of each individual country program, and the types of data available about it would condition the relative weight given to each issue, and thus, each set of questions.

For each of the 5 countries, two to three person teams were assembled by RONCO Consulting Corporation. These teams started by interviewing personnel in Washington with responsibility for the country programs. Thereafter, they visited each country for 2-3 weeks, assembled US PL 480 and other program documents, cables, agreements and minutes, annual and interim reports, etc. from USAID, country planning documents, progress reports, annual agreements and official minutes and available program-related studies, government statistical and other relevant reports. After review of these, meetings were scheduled with host government officials, other donor representatives and USAID and US Embassy officials involved in PL 480 and other US assistance programs.

The pilot and second phase studies were designed to emphasize the process of identification and negotiation of self-help measures and appropriate benchmarks for evaluation of success in meeting the self-help provisions. An effort was made to recount the events, as well as draw conclusions. Much of the

information included was gleaned from individuals who were interviewed about the process some years after it had taken place. Hence, recall sometimes was a problem for early years, but the substantially corroborating minutes were located in most countries.

Team Composition

The Pakistan report has been prepared by Dr. Richard Newberg, Agricultural Economist, and Dr. Allen Jones, Social Scientist. Dr. Newberg was chief of the USAID/Pakistan agriculture office for 5 years during the 1970's, and returned in 1980 as the agriculture member of the AID review team.[2] Dr. Jones spent his early years in Pakistan. In recent years he has been on several consultant teams working on development project design and project evaluations.

Acknowledgements

The team wishes to express its appreciation to the many people in the Government of Pakistan, and the US country team, who were so generous with their time, and frank in their discussions with us. We wish particularly to express our appreciation to Dr. Paul Mulligan, PL 480 project manager for giving generously of his time to discuss issues, supply information and otherwise assist us, and to Maria Morgan for her outstanding work in putting the report on the word processor.

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[2] A review of US Development assistance to Pakistan, 1952-1980.

ACRONYMS

ADB	Asian Development Bank
ARD	Agriculture and Rural Development, USAID/Islamabad
ASA	American Soybean Association
CCI&E	Chief Controller, Imports and Exports, MOC
CDSS	Country Development Strategy Statement
CIP	Commodity Import Program
EAD	Economic Affairs Division of Finance Ministry
ECC	Economic Council of the Cabinet
ECNEC	Economic Committee of the National Economic Council
EDI	Edible Oilseed Industry Study
ESF	Economic Support Fund
FAS	Foreign Agricultural Service, USDA
GCP	Ghee Corporation of Pakistan
GOP	Government of Pakistan
IBRD	International Bank for Reconstruction and Development
JS	Joint Secretary
LC	Local Currency
MOA	Ministry of Agriculture
MOC	Ministry of Commerce
MOFEA	Ministry of Finance and Economic Affairs
MOI	Ministry of Industries
NARC	National Agricultural Research Center
NWFP	Northwest Frontier Province
OICD	Office of International Cooperation and Development, USDA
PAAD	Program Assistance Approval Document
PARC	Pakistan Agricultural Research Council
PDM	Project Development and Monitoring, USAID/Islamabad
SHM's	Self-Help Measure
STM	Stock and Trade Management Study
TCP	Trading Corporation of Pakistan
USDA	U.S. Department of Agriculture
USG	United States Government

GLOSSARY

Seer	2.06 lb.
Maund (MD)	40 seer (82.4 lb.)
Desi Ghee	Butter oil containing a small amount of residual non-fat milk solids
Basmati Rice	A slightly aromatic rice which commands a very high premium
Vegetable Ghee	A hydrogenated vegetable oil used as a substitute for desi ghee

COUNTRY BACKGROUND

Pakistan has long been included among the lowest income grouping of the developing countries, but in recent years it has made impressive progress in increasing average per capita GNP despite a population which is growing at about 3% per year. In early 1985 the population was estimated to have passed the 95 million mark. During the 1977-1983 Fifth Year Plan period, Pakistan enjoyed a 6.7% growth rate in real GNP and by 1983, per capita income had reached US $390. During this period migrant worker remittances and export earnings grew quite rapidly and the current accounts deficit decined. This sterling performance was particularly impressive in view of the 1979 oil price shock which resulted in a decline in the terms of trade, and the Afghan crisis which resulted in increased defense expenditures and the accumulation of almost 3 million long-term Afghan refugees in Pakistan. Political stability under the current military government has been cited as a major factor in this high growth phenomenon, but the evidence indicates that initiation of the accelerated growth pattern antedates the military take-over of the government in 1977. One of the internal factors was a shift from a negative investment rate of 5.5% of GNP in 1969/70 to 1974/75 to a positive investment rate of 4.1% from 1975/76 to 1980/81, and 10% for 1981/82 an 1982/83.

Pakistan has a very strong agricultural resource base with a land area of 80 million hectares and a cropped area of approximately 20 million hectares, including citrus and other permanent crops and planted forage land. Almost one-third of this area in crops is rainfed and the remainder irrigated. The irrigated area accounts for about 90% of the value of crops grown.

The agriculture sector currently accounts directly for 24% of GDP and is the principal source of export earnings. It directly provides employment for 51% of the active labor force. In 1984/85, exports of raw and processed goods of agriculture, forestry and fishery origins accounted for 79% (Rs 30,500 million) of total merchandise exports (Rs 38,400 million). This large contribution was made despite a poor crop year which reduced exports and increased imports. Rice, cotton and cotton products alone accounted for 47% of Pakistan's merchandise exports from 1979/80 to 1983/84. Pakistan has been a major net exporter of cereals in recent years. Imports of raw and processed merchandise from agriculture, forestry and fisheries of Rs 16,800 million were 19% to total imports of Rs 89,800 million. The principal agricultural imports currently are vegetable oils, which cost $500-600 million per year, and tea, about $200 million per year. Value added per worker in agriculture in 1983/84 ($472) was less than one third of value added per worker in industry ($1,557) and services ($1,558).

The agricultural growth rate was slightly above 1% during the 1969-74 period, but began to accelerate substantially thereafter due largely to what was then referred to as a fertilizer-fueled agricultural growth strategy. The agriculture sector growth rate peaked in 1979/80 at 6.7% and averaged approximately 4.5% in the 5 years through 1982/83. Before partition in 1947, the area which is now Pakistan was a major surplus producer of cotton and wheat. It subsequently became a major importer of wheat, its principal food staple. Recent increases in agricultural output have permitted Pakistan to become self-sufficient in wheat (in some years, at least), and to provide both the raw materials for Pakistan's largest industry (textiles).

Due largely to unfavorable weather, but also to the growth in input use, agriculture in 1983/84 declined by 6.2%, thereby contributing to a decline in the GNP growth rate and an increase in the current account's trade deficit. Overall, economic growth and agricultural growth have both recovered somewhat in 1985. Pakistan's major current macro-economic problems are:

- its large merchandise trade deficit (Rs 51,385 million) with exports (Rs 38,415 million) covering only 43% of merchandise imports (Rs 89,800 million) in 1984/85,
- its growing debt service load ($570 million in 1983/84),
- the growing external debt ($10 billion in 1984); and
- its large budgetary deficit.

Though improved over recent years, current expenditure alone exceeds current revenue by about 2% of GDP (capital expenditures of the government add about 8% of GDP to the overall deficit). Donor assistance finances most of the "Government" investment. About 75% of the current trade deficit is financed by worker remittances and donor assistance, but prospects for continuation of these two items at growing real levels are slim. The U.S. commitment of $3.2 billion in economic and military assistance over six years will come to an end in 1987. The U.S. has negotiated another six-year program of economic and military assistance to Pakistan that will begin

in FY 1988. The total package is $4.02 billion and the economic portion $2.28 billion. The PL 480 portion will be $480 million total or $80 million per year.

Recently, Pakistan moved in the direction of transfer of power from military to civilian hands. On December 30, 1985, Martial Law was formally lifted, but substantial controls over the political process still exist. On January 29, a new Cabinet, formed by the civilian prime minister, was announced.

The previous Government had decided to undertake a program of deregulation, divestment of some government-owned businesses and stimulation of private investments by both domestic and foreign investors; and had already taken some cautious steps. It had, for example, committed itself publicly to begin to dismantle subsidies, including those on foods and agricultural inputs, and had made notable progress in this direction. This has been a factor in the decline in the current budget deficit and the reduction in public investment (the budget category which included subsidies on fertilizer, pesticides and other production inputs). The value of subsidies received by agriculture on inputs (pesticides, fertilizer, seeds and irrigation water) has substantially declined in recent years, with increases in water charges and fertilizer prices, elimination of pesticide subsidies, and turn over of pesticide distribution to the private sector. In most years, there is a substantial transfer of resources from agriculture as a result of government monopolies on cotton and rice exports and other price management which, in addition to providing a substantial net to the Government on exports, also depresses the local prices paid for cotton by textile mills and for Basmati rice by consumers (see Annex H). This year, however, textile mills are paying a price for cotton higher than the export price because of the decline in world market prices.

CHAPTER I. EXECUTIVE SUMMARY

A. General

This report is the fifth in a series of five case studies aimed at identifying how PL480 programs can be better designed and managed to increase their developmental effectiveness. Pakistan's Title I program was chosen because it has had a very long period of continuous operation, called for sufficiently specific self-help commitments to permit an appraisal of effectiveness, and has been a major element of a US commitment, beginning in 1981/82, to a substantially expanded program of US assistance to Pakistan.

B. Country Background

Pakistan is a country of 95 million people with a per capita income of $390. In recent years, progress in increasing average per capita GNP has been impressive despite a population growing at 3 % per annum. The agricultural sector accounts for 24% of GDP and is the principal source of export earnings. It directly employs 51% of the active labor force. Growth in the agriculture sector peaked at 6.7% in 1979-80 and averaged 4.5% for the 5 years after that. Pakistan has been a major net exporter of cereals in recent years. The principal agricultural import is vegetable oil, which costs $500-600 million per year.

Pakistan's major macro-economic problems are:

- a large merchandise trade deficit with exports covering only 43% of imports;
- a growing debt service load;
- a growing external debt which equalled $ 10 billion in 1984; and
- a large budgetary deficit.

About 75% of the current trade deficit is financed by worker remittances and donor assistance, both of which are unlikely to grow in real terms. The US commitment of $ 3.2 billion in economic and military assistance over 6 years will come to an end in 1987. A new 6 year program of economic and military assistance worth $4.02 billion (of which $2.28 billion is economic aid) has recently been negotiated to begin in FY'88.

Recently Pakistan has moved in the direction of a transfer from military to civilian government. A new Cabinet with a civilian Prime Minister was announced in January 1985. This government recently announced major policy changes, which USAID had long been encouraging, in the edible oil sector.

C. Program Development

US food aid has been provided every year since 1952 and has totalled approximately $ 2.6 billion over 34 years, most of which has been offered under Title I. The principal commodities provided have been wheat and vegetable oil. PL 480-generated LC resources have been a major factor in promoting agricultural growth and industrial development, but PL 480 financing also contributed to a rapid growth in vegetable oil (ghee) consumption, and import dependence. SHMs concentrated in early years on wheat. Vegetable oil-related policy issues have been the main focus in recent years. There has been some shifting in the focus of self-help measures over the years between wheat and vegetable oil as one or the other appeared to present a more critical problem. A decline in the wheat output growth rate in the early 1970s, owing in part to complacency (self-sufficiency was then in sight), and a false rust scare in 1979 again turned attention to wheat. In 1981, after vegetable oil had again returned to the forefront, a team assembled by USAID helped design an oilseed and vegetable oil program to address the problem of rapidly-growing vegetable oil imports. However, opposition to US assistance for oilseed production was organized by an American Soybean Association lobbyist, with the end result that SHMs and US support for the vegetable oil sector focused on oilseed and oil pricing, marketing and processing liberalization, and the livestock industry (as the principal consumer of oil seed cake and meal). The current understanding is that while AID can support and promote policy reform, direct effort to increase oilseed production will be left to the GOP.

D. Self-Help Measures

SHMs have been identified within the context of overall development assistance and the continuing informal, low-key dialogue between USAID/Pakistan and GOP officials or subjects related to Pakistan's development needs. Various studies over the years have helped guide SHM development. The USAID also consulted with other donors, notably IBRD, on policy reform measures needed. In addition, USAID/Pakistan relied on outside assistance to develop a strategy for PL480 and vegetable oil in 1981 and to conduct two major studies in 1982-4 to orient the development of measures to alleviate dependence on imported vegetable oil. Both major studies are well done, with the

second being more sharply focused on marketing and stock management and a higher quality product. A seminar which became an important part of the policy dialogue, drawing significant GOP participation, was based on results of these studies. The primary HG entity involved in SHM identification and analysis is the Economic Affairs Division (EAD) of the Ministry of Finance. EAD shares draft SHMs with other concerned GOP agencies.

After 34 years, the negotiation process is both understood and established. Each side knows the limits of the other. Informal discussions of draft SHMs set the stage for later formal negotiations. The process usually begins at the beginning of the fiscal year. While an attempt is made to achieve an agreement by the end of the calendar year, signing almost always takes place in the spring. Real differences do emerge during negotiations. The USG has apparently won points of difference in the past but is careful not to table measures that the GOP will not be able to accept. Pakistani negotiators have held a strong card in recent years, owing to a US multi-year commitment to a large and specific assistance level.

Washington recently has played a critical role in PL 480 decision making and has affected the integration of PL 480 with other development assistance by ruling out direct support to oilseed production. While the GOP may regret this US decision, they do understand the fact of domestic political pressures. There is, however, still some sensitivity to advantages accorded to India that are not given to Pakistan; one being, in this case, the more generous support of the vegetable oil sector under PL 480 Title II in India.

In April the civilian Cabinet of Prime Minister Junejo announced several important policy measures, most of which the USAID has long encouraged, to reduce controls on the vegetable oil and vegetable ghee industry. These measures include:

- the removal of price controls on vegetable ghee and edible oil;
- the elimination of private sector import restrictions for both palm and vegetable oils;
- levying of a variable import duty (initially Rs 3,000 but subsequently lowered to Rs 2,350 per MT owing to an increase in world prices) in lieu of the excise tax and import surcharge previously levied on vegetable oil

imports. Unlike the previous system, the variable duty is designed to equalize import costs with the domestic support price;

- existing private ghee production factories will be permitted to produce at full plant capacity whereas before April, production quotas often limited them to operating at 1/3-1/2 capacity.

The government continues to retain its prerogatives of licensing new ghee producers and permitting existing private producers to expand operations.

Over the approximately two decades that SHMs have been required, the GOP has taken its commitments seriously and has tried hard to implement them, but there have been some recurring problems:

- the GOP has periodically imposed restrictions, which US officials generally felt were either too severe or unnecessary, on private wheat trade and on private interdistrict grain movement in times of shortages;

- the GOP has occasionally delayed overlong in adjusting wheat and wheat flour prices; and

- the GOP has at times appeared to pay less attention to the implementation of the vegetable oil strategy it had developed than US officials felt was desirable, given the magnitude of the problem.

Methods of monitoring include the reporting system (use of proceeds reports and self-help reports), and more informal methods, such as discussions between relevant officials. Benchmarks and reporting requirements have both become more complex over time. The latter have to some extent distracted from the SHMs and are also out of "sync" with the general flow of GOP business.

The examination of these processes yielded several lessons learned. The following are especially noteworthy:

- <u>USAID technical offices should participate in the policy dialogue</u>.

The PL 480 policy dialogue, which has focused on agriculture, was facilitated by drawing on expertise from the Agriculture Office and by use of other fora and activities in agriculture to support and sustain the dialogue.

- PL 480 should be integrated with other US assistance to the extent feasible.

This has been hampered in the Pakistani context recently owing to the decision that USAID would not support oilseed production directly. However, prices and price incentives, which have been a major subject of PL 480 discussion, have been key factors in promoting agricultural growth. In general, SHMs related to vegetable oil are tied only to PL 480, while those in other areas, such as fertilizer, are also tied to issues relevant to CIP or other assistance. Considerable PL 480 LC have been used for research and water development, as have other aid funds. The FY'86 program includes new SHMs calling for studies on agribusiness and small farmer credit. These studies will support possible new USAID programs.

- A low profile in policy dialogue can work.

Pakistani and US officials have maintained good working relationships, and evidence indicates that many policy improvements do correlate with suggestions put forth by USAID personnel. US assistance to agriculture has been substantial and on the whole well managed, and both the assistance and the counsel of US agriculture personnel have been highly valued by Pakistani officials.

- Continuity in SHMs is important.

There has been considerable continuity in the Pakistani context, with sustained attention devoted to wheat and vegetable oil. This continuity has helped reinforce US seriousness in GOP eyes. However, there have been a few sharp shifts in attention from one commodity to the other which had the effect of slowing progress with respect to oil. Wheat production, the principal crop and the longest-lasting theme, also suffered some ups and downs, but benefited from greater continuity of US assistance and support and, of course, from being the number one GOP food concern. Some of the changes in SHMs have reflected changes in the actual urgency or the perception of urgency of different problems, while others reflected changes in personnel on the US side or shifts in the political winds in Washington.

- Simplicity and a sharp focus on self-help conditions is very important.

When the number of themes reflected in SHMs or the number of SHMs themselves increases, attention paid to each declines

sharply. The inclusion of a great many and/or very complex benchmarks for even two or three SHMs has a similar effect. For example, in 1979, when there was a shift from vegetable oil as the only SHM to the addition of five new measures, this was interpreted by many GOP officials as a downgrading of the oil issue. Further unease was caused by the fact that the previous year's multiple oil-related SHMs had basically been combined in a single new SHM, also seeming to downgrade oil as a concern.

- Opportunities to develop clear multiyear programs should be used.

Pakistan is one of the very few countries where there is a specific PL 480 multi-year aid commitment. However, USAID/Pakistan did not develop a multi-year strategy with a scheduled implementation plan to accompany the commitment and perhaps lost an opportunity to strengthen its program. In part, the AID decision was the result of limitations on the Mission's ability to be responsive in the oilseeds sector. In late 1984, however, the AID Mission did develop a multi-year framework, which serves similar purposes, to guide negotiations and agreements.

- Reporting requirements should be straightforward and appropriate guidance should be provided.

Donors in Pakistan as elsewhere have different reporting formats and schedules. Together, these may become so time-consuming for the host government that officials spend time that should more properly be devoted to policy, on reporting and monitoring progress instead. Both USAID and GOP officials report that complex reporting requirements have created a misdirected emphasis that has frustrated HG personnel and detracted at times from the implementation of SHMs.

E. Local Currency Programming.

In the 1980 PL 480 Agreement, the GOP and the USAID established procedures for managing LC that keep the USAID from seeming to play too great a role in the GOP budgeting process. Local currency is now credited to a separate subsidiary account in the Consolidated Federal Fund (budget), which is debited as funds are disbursed. The agreements call for LC use consultations to take place within two weeks of signature. An attempt is made to synchronize LC allocations with the GOP budget cycle. The AID Mission, in discussion of local currency use, has opened a dialogue on budget allocations for areas such as primary education, family planning, agricultural universities and research, and irrigation systems maintenance.

The evidence suggests that the availability of PL 480 LC has resulted in increases in commitments of resources to the population program and increased allocations to agricultural universities and to research at the provincial and central levels.

Since the view prevails that LC is a Pakistani resource, the GOP is responsible for ex post audit and evaluation. The USAID does not become involved in this process except in connection with US-assisted projects that also receive LC. However, the USAID does use the opportunity presented by the LC use consultations to open a dialogue on sector priorities, and it does review and evaluate the budget aspect.

Some of the important lessons learned are as follows:

o Large amounts of PL 480 LC can cause programming problems particularly for the HG.

As in Zambia, the large amount of LC in Pakistan from PL480 and other aid can generate friction and resentment over US involvement in programming. That involvement represents foreign control of a significant portion of the flexible budget and also creates uncertainties since US decisions could upset otherwise sound budgeting practices. The decision in Pakistan to treat CIP imports for the public sector as direct budgetary transfers for which the GOP is not required to deposit a local currency equivalent helps reduce the burden. The recently developed approach of attribution with some effort to increase allocation to a few carefully selected areas in priority sectors seems very appropriate in these circumstances.

o Local currency programming can be made more effective by conforming substantially to the HG budget cycle, fitting procedures to those used by the HG and, in general, permitting the LC to be managed as simply as possible given the HG systems of accounting and audit.

Over the years, the USAID in Pakistan has worked with the GOP to design and implement approaches which do conform substantially to GOP practices. This has facilitated program implementation, especially since such large amounts of local currency sales proceeds are involved.

CHAPTER II. PL 480 TITLE I PROGRAM DEVELOPMENT

A. U.S. Food Aid Through 1980

Pakistan has received a total of $2.6 billion in food aid with some provided every year since 1952. The first agreement included neither conditions of use of the local currency generated by sales nor any self-help measures. The second food aid agreement under PL 70, was signed with Pakistan on June 25, 1953 for 1 million MR of wheat, with the first 700,000 MT to be provided immediately as a grant for famine relief. Wheat production had fallen 40% due to a drought and high cotton prices (because of the Korean war). Proceeds were to go into a special account in the name of the Government of Pakistan, with 5% for USG uses. The first priority for use of the remainder of the funds was to be increased food production. Pakistan made two commitments: 1) to distribute these food supplies, and others it or the provinces might acquire, free to those unable to pay for reasons beyond their control; and 2) to pursue all appropriate measures to reduce relief needs and increase production, supply and distribution of foodstuffs to lessen the danger of future emergencies.

PL 480 started in 1954, with the first sale under Title I occuring in 1955. This latter year marked the first vegetable oil procurement under PL 480. Over the next 11 years, leading up to the time when self-help measures were incorporated and PL 480 was being shifted from rupee financing to convertible rupees, Rs 700 million (about $150 million) additional financing was provided for edible oil imports.[4]

Availability of large PL 480 supplies of wheat have been credited by Falcon and Gotsch with several major policy reforms in 1959-60, mainly applying to wheat in West Pakistan. These included: initiation of a process of relaxation of price controls, trade restrictions and export duties in 1959; and, in 1960, freeing farmers to sell in the open market, freeing private trade, establishment of the previous Government price of Rs 13.5 as a floor price and establishment of a system of open market sales from buffer stocks at Rs 16 (which was about 20% above the procurement price) to control excessive price rises. With arrangments having been made for import of rice from Burma, rice rationing and rice procurement controls also

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[4]State Bank of Pakistan Report on PL 480 LC, 1956-1967

were lifted in East Pakistan in 1960. PL 480 also is credited with being a major resource mobilizer during the rapid industrialization period of the 1960's. Approximately 85% of the $1.2 billion of PL 480 financing from 1956 to 1967 went for industrial and other development purposes.

The record shows that through the years before specific agriculture self-help measures were required in PL 480 agreements, USAID, through its other programs, was a consistent advocate of more market freedom, greater producer price incentives and other measures to improve production. It also supported a variety of major agricultural development programs, including ground and surface water irrigation, research, and agricultural education. Policy dialogue, as it is now called, took place in the context of these other programs and PL 480, though the record on the latter is less clear. At times, availability of PL 480 supplies got in the way of desired policy actions to stimulate agriculture and reduce import dependence. As wheat self-sufficiency appeared to be at hand, a slackening of effort, most commonly in the form of failure to adjust prices upward, resulted in a slowing of growth in production; and deficits returned. Large wheat imports have been blamed for monopolizing the large wheat mills and contributing to depressed prices in surplus areas and high price differentials between deficit and surplus areas. This widening of margins frequently has been interpreted as private sector gouging and siezed on as an excuse for controls and greater public involvement in marketing.

Wheat has been the major and most frequent theme of policy dialogue related to food aid going back to 1953. Vegetable oil has been the second major theme. A multiyear agreement of October, 1961, of $622 M earmarked $128 M for vegetable oil imports and $16 M for tallow. That the UMR in that agreement was only 5,000 MT suggests that the rapid growth in Pakistan of vegetable oil imports in the 1960's was largely financed, if not motivated, by PL 480. The GOP and US were seeking commodities to import in 1961 to use the $622 M (9 different commodities were mentioned in the agreement). The GOP wanted to generate rupees for its development use, and the new US administration was involved in an intensive effort to reduce surpluses which included a costly but rather unsuccessful, crop land set aside program. During the 1960's, PL 480 financed between 50% and about 90% of the oil imports. While West Pakistan was importing vegetable oil under PL 480, it was shipping substantial quantities of rape and mustard oil to East Pakistan where it was preferred and commanded a high price. This PL 480 frequently exceeded net imports of oil into West Pakistan.

In January 1970 a PL 480 agreement for the first time included a self-help provision to encourage oil seed production and the establishment of solvent processing plants. This SHM was maintained in 1971. In 1970, agreements provided for 100,000 MT of oil. The 1971 agreement merely committed the GOP to maintain priority on the 1969, and 170 SHMs which, of course, included those on oil. In 1971, commodities, to be directed mainly to EP relief, included wheat, rice, and oil.

In 1972, funding for the new and smaller Pakistan included 25,000 MT of oil with a UMR of 21,500 MT. The 1972 agreement included a more specific SHM calling for the formulation of domestic production and processing of edible oils to meet minimum per capita nutritional needs (underline included). What this means in quantitative terms is unclear since requirements for fat and oil intake, to the extent they are known, would have been met by traditional diets which are high in whole wheat (see Appendix F).

During 1972-74, with prices of wheat allowed to deteriorate, production stagnated. In the 1972-75 agreements, almost all the financing and SHMs applied to wheat prices and improved irrigation, pest control, storage, credit, research and rainfed agriculture, with emphasis on wheat. In 1973 world vegetable oil prices increased several fold and food aid was very limited. Oil shortages occurred and the GOP nationalized much of the vegetable oil industry. In 1975, with wheat policy moving in the right direction and oil imports growing, even though largely financed by Pakistan itself, an oil SHM called for establishment of minimum prices for selected oilseeds and/or products to encourage production. Meanwhile, AID was urging the GOP to prepare a comprehensive strategy for increasing vegetable oil and suggested such a strategy's major elements (Annex H). The strategy was developed and was accepted in the December 1976 agreement. Two actions were taken almost immediately: 1) measures were announced to encourage the substitution of vegetable oil with cooking oil, which costs less to process and market; and 2) price supports were put into place for those non-traditional oilseeds being introduced (sunflower, soybeans). Oil seeds remained a focus of SHMs until 1978, when an alarm was raised about the vulnerability of wheat varieties to rust. While this was later proven to be greatly exaggerated, emphasis was shifted back to wheat and wheat ration shop operations in both the negotiations and the January 1979 agreement. Only the 4th of six SHMs addressed the vegetable oil problem. The others dealt with wheat or fertilizer. Despite this shift in attention, the government proceeded with major elements of the oil seed strategy.

In the 1980 agreement, self-help measures remained very similar, but detailed benchmarks were included and oilseeds fell to sixth of six SHMs. The several oilseed benchmarks included studies on how to increase production, a pricing policy study and a special organization to provide and support increased production. In response to an earlier SHM, this responsibility had been assigned to a special new division of the Pakistan Edible Oils Corporation.

B. 1981-1986

The years 1980/81 represented a substantial watershed in U.S. assistance to Pakistan. The U.S. had suspended most economic aid except food aid from 1978 because of the nuclear issue. In 1980, with increasing involvement of the USSR in Afghanistan and large numbers of refugees accumulating on the border in Pakistan, the U.S. was reassessing its position on economic and military aid to Pakistan. In 1980, a team visited Pakistan, reviewed past assistance and made recommendations on future priorities.

Six priorities were listed for U.S. support. These included, as items 1 and 2, continuation of support for water development (particularly for improved water management) and support for the thus far successful fertlizer strategy. The third recommendaton was "improvement of production, storage, and processing of oilseeds". The other priorities were support of family welfare and population programs, expansion in agricultural credit for small farmers and expansion in the marketing and storage systems. Continued support of the research system was also suggested as an appropriate U.S. or other donor project.

The GOP had already decided in 1980 to prepare and introduce, by December 1981, an oilseed action program for expansion of oilseed production aimed at curtailing edible oil imports and subsidies over the next few years and eliminating imports by 1990. It also said it was committed to eliminate fertilizer subsidies by June 1985.

Negotiations were conducted on a substantial new assistance package which ultimately resulted in a commitment of $1.6 billion of economic aid over six years (1982-87) plus a similar level of military assistance. In January 1981, a team from AID/W and USDA was sent to Pakistan to review the vegetable oil situation and recommend action programs and specific U.S. support. They were joined by three USAID personnel. The nine memeber U.S. team worked closely with GOP officials in review

of the agricultural situation, including intensive study of the vegetable oil situation and suggested that both Pakistan and the U.S. would benefit from a substantial effort to increase oilseed production.

The team also recommended that :

1. no additional studies be undertaken, though more effort was needed on refinement of a strategy;

2. the U.S. use PL 480 self-help measures to promote a major effort in vegetable oil production, with specific measure of progress to be included;

3. the GOP establish incentive support prices for oils;

4. the SHMs continue to include wheat, emphasizing price incentives and limiting ration shop operations to 3.28 MMT as stated in the 1979 PL 480 agreement.

In April, USAID, drawing on the team review, cabled Washington summarizing the situation and proposing early PL 480 signature:

- The GOP has implemented a solid wheat and fertilizer policy which produced bumper crops in 1978-79 and 1979-80 and another bumper crop is expected in 1980-81. Therefore, wheat SHMs should be simple, should maintain current policies, and should address management of domestic self-sufficiency.

- PL 480's major emphasis should be on edible oils, but that another study (in answer to a suggestion emanating from Washington) was not needed.

The Mission argued that oilmeal prices were not sufficient to justify investment in solvent oil extraction plants; that Canadian (double O) rape varieties were not then feasible on a large scale; and that sunflower, safflower, peanut and soybeans offered the major short-term prospects. The Mission argued for simple, easily monitored self-help measures; and asked that the support price requirements be limited to non-traditional oilseeds in order to keep subsidy and support costs down. The U.S. was at this time trying to promote decreases in wheat and fertilizer subsidies. A proposal for major support for extension services was opposed on the basis of the ineffectiveness of the extension service and its concentration on cereals. Other items opposed by USAID were a large allocation of LC to universities, because that was beyond the

USAID's ability to monitor, and a SHM on storage expansion since IBRD was supporting this. It appears that USAID gained its points on most of the SHM's in 1981.

It is noteworthy that, at this point, there was a commitment on both sides that a major part of the LC would be used for support of oilseed production and/or modernizing oilseed processing facilities. During 1981, Washington, mainly USDA, took an increasingly strong position that a study of the vegetable oilseed sector would be desirable. More important, a position was taken that neither PL 480 nor other U.S. assistance should be used directly to support increased oilseed production. In January 1982, USAID agreed that economic and technical information bearing on long-term comparative advantage would need to come from an AID-funded comprehensive edible oil study (Islamabad 01170). The paramount section in such a study was to be an assessment of comparative advantage of additional edible oil production in Pakistan. At that time, a USDA (OICD) team was reported to be in Islamabad laying out the detailed scope of work for the study, (which ultimately was carried out by OICD/USDA, but paid for by AID). This communication suggested that if proven feasible, the USAID was planning to offer economic support to increased oilseed production. However, a memcon between USAID and AID/W of 2/11/82 indicated no movement on the issue of U.S. support for oilseed production. It indicated that USDA was unable or unwilling to agree to "any support for oil in Pakistan" (B G/B memcon of 2/11/82).

The 1982 PL 480 agreement included a substantially more complex set of SHMs, benchmarks and reporting requirements. While direct assistance to oilseed production was being played down and ultimately precluded, the benchmark to a self-help measure on research called for the GOP to allocate Rs 2 million of the PL 480 LC in FY 1981/82 and 1982/83 to the Research Council to contract research on oilseed production and processing. The proposed study was called for in SHM #6 with a full time coordinator to be appointed by May 31, 1982. (The 1982 agreement, SHM and related benchmarks and reporting requirements are enclosed as Annex C.2).

In 1983, the number of self-help measures was reduced from nine to four with benchmarks for each:

1. Liberalization of price policies for edible oil products.

2. Study of the feasibility of an edible oil buffer stock.

3. Progressive privitization of the vegetable ghee industry.

4. Stimulation of domestic livestock and poultry industry.

It was made clear that LC could be used to increase Pakistan's ability to import vegtable oil, modernize oilseeds processing, develop the poultry industry and other agricultural development, but not for oilseed production.

In 1984, the fourth of these SHMs, which concerned the livestock industry, was dropped from the list. However, the U.S., particularly the USDA, continued to urge the government to implement the 1983 SHM by facilitating private soybean meal imports in 1984 and 1985. LC uses continue to emphasize SHM support for the import, handling and processing of edible oil and oilseed processing facilities and development of the poultry industry.

The self-help measures were supported by a carefully detailed set of benchmarks. On the second SHM of 1983 and 1984, the March 20, 1984 appendix on benchmarks specified that the buffer stock study (later the Stock Management Study) would commence on April 1, 1984, with a draft due on September 1, 1984 and first review of the draft completed after another four months. Preparation of the scope of work and decisions on contracting personnel (through a USDA PASA) were initiated by USAID in the latter part of 1983. The Study was conducted in 1984, the final report was published in January 1985, and pursuant to an SHM in the 1985 agreement, a seminar involving officials of all the interested ministries and other agencies and private sector was held to discuss it in late 1985. This study has become a major resource in the continuing policy dialogue, and probably helped increase GOP support for recently announced policy changes.

The 1985 agreement included four SHMs: 1) price policy basically tied to world prices with price supports not to be precluded; 2) detailed review of the stock and trade management study; 3) privatization of the vegetable ghee industry and 4) return of the earlier livestock SHM, mainly stressing provision of private trade opportunities to participate in the U.S. CCC import credit program and other measures to permit the private sector to import protein meal, (Annex C.3). The minutes suggest discussion focused on failure of the private sector to use the offered CCC credit to import U.S. soybean meal. LC uses were essentially as in 1984. In April 1986, the GOP announced measures that significantly reduced controls on the vegetable ghee and vetetable oil industry.

One important point to make in reviewing the selection of SHMs is that, in some cases, early food aid contributed to

situations that SHMs were later instituted to alleviate. Two examples are worth mentioning here. The availability of liberal PL 480 wheat financing made it possible for the government to delay in raising wheat prices in order to hold down its own subsidies. This resulted in a decline in the growth of wheat production just as self-sufficiency was in sight. In addition, U.S.-promoted PL 480-financed sales of vegetable oil to Pakistan encouraged the rapid growth of consumption. Imports grew and when the U.S. substantially reduced PL 480 oil financing, the GOP nationalized the ghee industry. Thereafter, oilseed production declined while consumption continued to grow.

CHAPTER III: SELF-HELP MEASURES

A. Introduction

Between 1952 and 1969, when self-help measures became a formal requirement, discussion on measures to be taken by the Government to improve agriculture took place primarily in connection with other development assistance. Starting in 1967, specific self-help measures were included in every agreement and in most cases the record is available for at least the final negotiation sessions.

While there is much to learn from the early experience with formulation, negotiation and implementation of self-help measures, emphasis in this evaluation is more heavily on experience of recent years. In the following sections, the last five years are discussed first and then, where earlier experiences differed significantly or appear to reinforce conclusions, they are discussed at the end of each section.

The experience in Pakistan differs somewhat from that in other countries reviewed in that the long history of annual food aid negotiations from which an institutionalized approach to the management of food and other aid has evolved.

B. Identification of Self-Help Measures[5]

1. The Approach

The principal U.S. country team approach to identifying self-help measures (SHMs) in Pakistan has the following main characteristics, which resemble those reported for other countries:[6]

- Use of both "ex-ante" and "ex-post" analysis to identify, design and redesign SHMs,

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[5]Principal self-help measures contained in 1981-1985 agreements are reproduced in Annex C.

[6]See, for example, III A1. of the Zambia report.

- Frequent reliance on outside professional assistance to supplement the USAID staff which is very heavily occupied with implementation of other elements of the $1.6 billion six-year economic aid package. A six person team came to Pakistan early in 1981 to help develop a strategy for PL 480 and vegetable oil. Two major studies were carried out during 1982-1984 to provide guidance on measures to alleviate heavy dependence on imported vegetable oil - the number one PL 480 self-help theme.

- Continuous informal dialogue conducted between the GOP and the USAID officials;

- Consultation with other donors, most notably IBRD, on policy reform progress in agriculture;

- Integration of PL 480 and other U.S. assistance programs through major studies discussed below. However, integration was inhibited by suspension of other aid during the early part of this period and by the decision, initiated by Washington, not to support oilseed production directly;

- Enhancement of continuity of the U.S. side by bringing one of the 1981 PL 480 team members back as Program Economist and then by naming him Project Manager for the PL 480 program.

- Washington apparently played a strong hand in decisions on PL 480, particularly vis-a-vis the vegetable oil sector.

In terms of Self-Help Measure selection, wheat long held a central position in PL 480 financing and in PL 480 dialogue. However, after the achievement of virtual wheat self-sufficienty in 1979/1980, inclusion of wheat-related SHMs was designed to help ensure that complacency would not result in a change in policies which would undermine success (as had occurred in the early 1970's). Since 1981, SHMs have paid only secondary attention to wheat and have given priority to the edible oil sector. While there has been considerable U.S. consistency with respect to wheat SHMs, there has been less consistency in edible oil sector SHMs. Oilseeds were featured from 1970-72, dropped from 1973-74, became a priority from 1975-78, were then demoted from 1979-80, and again became a priority from 1981 on. These two breaks in continuity probably slowed progress in bringing about desired policy changes in this sector.

2. The Process and Entities Involved

a. USG Involvement

The USAID is the principal player involved in identifying SHMs and does so within the context of the overall assistance strategy for Pakistan and its continuing policy dialogue with GOP officials on Pakistan's development needs. Formal and informal processes of identification and analysis go hand in hand, with informal discussions occuring in advance of annual authorization and forwarding of negotiating instructions from Washington. While in theory, proposed SHMs and other terms are not discussed until they have been cleared, informal discussion is begun early.

The more formal process of identification of SHMs proceeds as follows: the Program Economist, who has also been the Program Manager for the PL 480 Title I program since February 1983, reviews background material and the current status on SHMs and prepares a first draft of new SHMs in consultation with the Mission's Office of Agriculture and Rural Development (ARD). ARD's Agricultural Economist provides substantive technical input, particularly on issues relating to agriculture. Draft SHMs are circulated to other interested offices in the Mission, including RLA and other staff of the Program Office. Sometimes the Deputy Director provides technical input. The Mission has also relied on outside expertise to help conduct studies that guided the selection of SHMs. The Mission Director tends to become involved at the review level, and is interested in macro-policy concerns and how SHMs are integrated with the rest of the Mission's portfolio.

From 1973 to 1979, Pl 480 management responsibility was shared by the Program and Agriculture Officers of the USAID. The former handled the documentation while the latter conducted the economic and policy analyses and prepared proposals on SHMs. Development of SHMs aimed at edible oils, wheat and other agricultural areas emanated from the Agriculture Office. When a SHM measure on health or nutrition was proposed, the Health and Nutrition Office was involved. The period from 1978-80 was somewhat unusual in that major changes in USAID staffing occurred and the program, except for PL 480, wound down over the nuclear issue. During this period, the Acting Director became more involved in the PL 480 process, although the Agriculture and Program Offices nominally mainatained responsibility.

After consensus is reached within the USAID, the proposed SHMs are shared with other members of the US country team, including

the Agricultural Attache, the Commercial Attache, the Economic Counselor and sometimes the Ambassador. The current Ambassador, a former AID director, is particularly interested in the selection of SHMs. The Economic Counselor is available to supply supporting economic analysis for the SHMs. Normally, these officials rely on the USAID to identify and draft the SHMs but sometimes they play a more active role. In 1981-83, the Agricultural Attache opposed US assistance for oilseed production. He saw the AID's interests in production as being directly antagonistic to those of his agency, the USDA.

Once the country team reaches consensus, proposals are cabled to AID/W, which then shares them with the interagency Working Group for PL 480 in Washington. Obtaining Washington concurrence often involves considerable communication between USAID/Islamabad and AID/W as the latter attempts to find a formula acceptable to all seven of the US government agencies involved. Once agreement is reached in Washington, negotiating instructions are cabled to the Embassy in Islamabad.

US organizations which have played an important role in recent years, with particular reference to the oilseeds sector in Pakistan, include the Office of International Co-operation and Development (OICD), the Foreign Agriculture Service (FAS) of the USDA, and the American Soybean Association (ASA). The OICD and FAS held strongly opposing positions during the period of the AID's efforts to advance its oilseeds production project. FAS espoused the ASA lobbyist's opposition to the production project, while OICD supported production since it hoped to be involved in implementation. Despite the behavior of their lobbyist, the evidence seems to indicate that the American Soybean Association was in favor of the project. The ASA retains an interest in Pakistan's oilseed productivity and currently has a Pakistan office which collaborates in developing better processing methods for oil, and promoting the use of soybean meal and raising poultry.

b. Host Government Involvement

Pakistan has a large, well-trained and sophisticated senior civil service which provides stability and continuity as ministers and other political appointees come and go. By the time senior civil servants reach top positions, most have had twenty years or more of government experience.

It is common to find that Pakistani negotiators and managers received most of their education in English, speak English fluently, have advanced degrees from Universities in the U.S. or England and have been involved in international negotiations

on development assistance or other matters for much of their professional lives. Pakistan has very capable diplomats in Washington. Progress on negotiating aid levels and SHMs is followed closely by the Pakistan Embassy and reported promptly. We were told that GOP officials frequently know about decisions affecting the Pakistan AID program as soon as USAID/Islamabad does.

The primary host government entity involved in SHM identification is the Economic Affairs Division of the Ministry of Finance (EAD). During informal discussions, EAD may object to the wording of a particular SHM or a suggested benchmark. Staff hope to resolve most difficulties at this stage. The record appears to suggest that on only a very few occasions were serious differences raised and major changes required. Important differences do, of course, occur but while there have been delays in the negotiations, there have been no complete breakdowns in the process.

c. Other Donors

The IBRD is the only other donor that has a project planned in the oilseeds sector and therefore has an interest in the SHMs. This project is at an early stage of development. The USAID has had discussions with Bank representatives about their plans (See the discussion of the proposed IBRD project in Annex B).

3. Data and Analysis

a. Current Period

Data collection and analysis are key steps in identifying and selecting the SHMs. Use of both GOP and USG documents and special studies has been important in providing guidance. To supplement the more general, contextual documents, such as the GOP Five Year Plan and the USAID CDSS, the USAID commissioned two major studies to help shape its decisions concerning SHM identification during the current period. These were entitled Pakistan's Edible Oilseeds Industry (EOI) and the Pakistan Edible Oil Stock and Trade Management Study (STM).*

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*EOI was done in two versions - an earlier one which was essentially a compilation of reports of consultants and a final one which integrated the consultants' material into a report: Pakistan's Edible Oilseeds Industry, (OICD/USAID): November 1984 (draft), January 1985 (final); Pakistan's Edible Oils Stock and Trade Management, (USAID: January 1985).

These studies evolved from AID's desire, which was fully supported by an AID/W-selected team which visited Pakistan in early 1981, to mount a major assistance effort in vegetable oil production. This team, joined by three USAID officials, fully endorsed plans to provide major support to Pakistan's oil seeds sector in an effort to reduce the country's dependence on imported vegetable oil. The Mission contracted with consultants, through USDA, to carry out these studies. Both were aimed primarily at a GOP audience, but involved relatively minor GOP inputs. The EOI study which was largely a USDA-managed affair, was high in cost -- nearly $1 million -- and numbers of consultants -- 27, but the initial published draft was disappointing. While the large number of consultants made the study unwieldy, the problem was more with management of the study by the principal actors--USDA and USAID. A small and carefully selected team of analysts, including the USAID personnel who, this time, played a more major role, produced and published a much improved draft in 1985. The second STM study was more sharply focused on marketing and stock management and is a higher quality product. The Mission did a creditable job of selecting SHMs from the various recommendations of these studies.

Except for our conclusion that the demand-estimating model has probably overestimated demand by 1994, and the difficulty in resolving the issue of comparative advantage, we consider the two studies to be well done. These studies have been discussed at high levels in the GOP and drew significant participation in a seminar which became an important part of the informal policy dialogue.

Despite the hope that the studies would lay to rest concerns about the possible lack of Pakistan's comparative advantage in edible oils production and would test the feasibility of increased production, there are lingering doubts in some circles about whether major progress can be made in increasing Pakistan's oilseed and vegetable oil production. The studies themselves, even under the best scenario, visualized continuation of substantial imports. Yet, the U.S. soybean lobby, perceiving a threat to its industry, succeeded in obtaining a prohibition on U.S. support to oilseed production.

Opposition to oilseed production assistance seems to have been based on somewhat questionable grounds. Concerns were primarily with the level of US soybean meal imports. Even with a concentrated effort, it is unlikely that Pakistan could become self-sufficient in vegetable oil production. Furthermore, there is no evidence to indicate that Pakistan has

a comparative advantage in producing soybeans compared with competing crops, except in isolated situations--very limited gaps in the crop rotation, interplanting of sugar cane and fruit in NWFP and, in some situations in Sind, following rice where wheat is unfeasible. These situations would involve early spring planting and reduced yields, because of the planting time. Evidence to date with non-traditional oilseed crops sugggests much better prospects exist for sunflower, which has a much higher oil content; the oil is of prime interest and meal secondary. Sunflower apparently gives higher returns and fits better into the rotation gap, mainly early spring after cotton in Punjab and NWFP and in summer in some of the rainfed areas, mainly in northern Pakistan. Thus far, sunflower production has grown much faster than soybean production. (See Annex B for more information on this subject).

One of the current SHMs is designed to encourage the GOP to promote private imports of soybean meal with CCC credit. We could not find any analysis which led to its inclusion as a self-help measure and doubt its appropriateness as a SHM though it might be included in its current form in some other part of the agreement. This SHM, which was included to help the US soybean industry, might also help develop a market in Pakistan for soybean meal (mainly for poultry). Increased demand could help stimulate local soybean and soybean meal production.

b. Earlier Periods

As in 1981-85, in the earlier years several studies helped to provide a basis for proposed self-help terms. Many of these were no longer available by the time this study was carried out. The first oilseed study commissioned by USAID that could be located was done by Brian Ross in 1971. This was followed by an oilseed processing study in 1975-76 by a contractor, Experience Incorporated, and a small-scale oilseed processing study beginning in 1976 by Denver Research Institute. Additional analysis was carried out by USAID staff between 1971 and 1975. Increased sensitivity to the vegetable oil problem was an objective of the USAID's "Pakistan Development Data" publication (contained in official PL 480 minutes reproduced in Annex H). In 1976, the USAID funded a study of the vegetable oilseed processing industry and a study of small-scale oilseed extraction, and assisted in development. These provide guidance for the development of further SHMs.

C. The Negotiation Process

1. Approach

Informal discussions set the stage for the more formal negotiations and signing of an agreement. The balance of informal and formal has varied greatly over time. The informal negotiations usually involve only a few individuals and may be simply a "one-on-one" discussion, without a written agenda. The time for the meeting is open-ended. It usually involves professionals who know one another and have worked together. The setting may be either an office or a social meeting place. Formal sessions involve teams of negotiators following a written agenda. Although a deadline is not always set, time pressures are usually kept in mind.

Once the US Embassy receives negotiating instructions from Washington, the USAID prepares a draft agreement and tables it with EAD. Prior to this, the instructions may be discussed informally with EAD. EAD, after review of the agreement, passes the draft agreement to other concerned agencies, including the Ministries of Industry, Commerce and Agriculture, the Ghee Corporation of Pakistan and the Pakistan Edible Oils Corporation. All are free to comment on the draft SHMs, but no instances of GOP entities identifying SHMs were uncovered, although the USAID, according to the Program Manager, gives them the opportunity to do so. During the period of informal discussions, the USAID's Agricultural Officer may meet frequently with the Secretary of Agriculture, the various Joint Secretaries of Agriculture, the Joint Secretary of Industry and the Special Assistant to the Prime Minister. The Mission Director may become involved in discussions with the Secretary of EAD, but generally does not participate in discussions with the Ministry of Agriculture or at lower levels of the EAD.

Prior to the final meeting or meetings, the U.S. presents a draft agreement for consideration by the GOP along with proposed minutes of negotiation which amplify the terms of the agreement. Sometimes, a formal record of this meeting, going beyond the official minutes, is made by the USAID and verified in a letter by the GOP representative. This record tends to state conclusions and report positions and rationales for different positions.

Formal sessions are facilitated when those who are involved are well known to one another from informal discussions and from prior negotiations. For EAD, the PL 480 negotiation is just one of many conducted with USAID/Pakistan each year. However, for some of the others, it may be the only involvement with the

AID Mission during the year. On the USAID side, the principal actors have been involved for several years now -- the Deputy Director since 1982 and the Program Manager since 1982. On the Pakistan side, the most noteworthy change is the senior EAD official. The officer who had filled that role for several years was promoted in mid-1985 and his place has been filled by a more junior officer who is less familiar with PL 480 matters, but who gives indications of gaining a quick grasp of the subject.

The process of negotiation usually begins at the beginning of the fiscal year. For some years there has been an effort, as yet unsuccessful, to complete the agreement by the end of the calendar year. Agreements have been signed in March, April or May. In FY 1986, the signing will take place in May because negotiations were held in abeyance until the GOP announced its encouraging new policies on oilseeds.

Early signing of an agreement usually enhances the recipient government's negotiating position while delayed signing strengthens the U.S. position. The agreement must be signed sufficiently in advance of the end of the FY to permit purchasing formalities and loading before September 30. If signing is delayed, the GOP and USG run the risk of not meeting this deadline. The U.S. for its part is eager to obligate all the money on time and, in unusual situations, might shift the resources to another country if excessive delays were encountered.

The Pakistani negotiators have held a strong card in recent years. The U.S. has publicly committed itself to a large and specific assistance level over a given period ($1.6 billion of economic assistance over 1982-1987 and $2.28 billion for the six years starting in FY88). As a result, U.S. officials are under pressure to achieve the committed obligation levels and, therefore, find their bargaining position weakened. That bargaining position is, in any case, weak for loans when compared with ESF grants. Finally, in Pakistan as elsewhere, although PL 480 loans are certainly appreciated, most government officials understand that it is politically important to the U.S. to dispose of its agricultural surpluses.

Other considerations are the usual seasonal rise in the price of U.S. edible oil after the harvest, the GOP desire to have financing settled early and savings generated by early use of low PL 480 interest rates. Six months delay on PL 480 while using commercial credit might add 5% (or $2.0-2.5 million per $50 million agreement)to costs.

Real difficulties and differences do emerge between the two sides during negotiations. A USAID official, who has been involved with the negotiations, commented that the USG side usually has won points of difference with the GOP up to now, but it also is evident that the U.S. has been generally careful not to table measures which were highly unlikely to be acceptable to the GOP.

Quantitative measures of progress on SHMs have become increasingly specific in recent years. They reached a point in detail and length in 1982 that probably proved counterproductive. Attention has focused more on the benchmarks since the number of SHMs has been reduced (to 4) and less on the SHMs themselves. In 1985 differences over the working of one of the benchmarks was largely responsible for a delay of 6 weeks between the formal meeting and the final signing of the agreement in April. The Program Manager and the ARD representative wanted the benchmark to call for cottonseed oil deregulation without which, they believed, the SHM would have no teeth. The issue was resolved when the Ambassador, for political reasons, proposed a softer line.

The SHMs have remained virtually unchanged over the past three years, but the benchmarks have tended to change from year to year. The repetition of the same or almost identical SHMs has been an important tactic in the process of policy dialogue. It suggests a sustained US commitment to the policy reform agenda, a point which is not lost on the GOP. There is also the important practical consideration that a year or two is not sufficient time to institutionalize the major kinds of policy reforms that are being called for in Pakistan's oilseed sector.

All in all, the negotiation process works reasonably well in Pakistan. After 34 years of PL 480 food aid, the process is both understood and established. Each side knows the limits of the other side and each side retains respect for the other. These features make for a relationship that works relatively smoothly, and, in addition to accomplishing the purposes of PL 480, it helps to reinforce USG-GOP relations in their broader dimensions.

2. Entities Involved

In negotiations, EAD is represented by a Joint Secretary (JS),

a senior officer of Grade 20.[7] He is the conduit through which the SHMs pass to the line ministries, and he is also the one who leads the negotiation on behalf of the GOP. The table on page 27 lists officials who represented the GOP and USG at the last round of formal negotiations in 1985.

The line ministries which are involved in implementing the PL 480 agreement and reporting on the SHMs are included in negotiations, as are the Planning and Development, and Finance Ministries, which need to be kept apprised of implications for budgets and plans.

With the recent effort at policy reform through the SHMs, the Ministries of Commerce and Industries have found themselves at times arrayed against the Ministry of Agriculture. The former have favored emphasis on non-traditional oilseeds, while the latter have favored traditional oilseeds. Another point of difference has been public versus private sector support. The former have favored public sector controls as they benefit from them and have a vested interest in regulations while the latter favor private sector initiatives and support.

EAD attempts to reconcile the differences that may exist among these or other ministries. In the event a settlement or compromise cannot be worked out, the matter is referred to the Economic Committee of the Cabinet (ECC), a high level committee that sets national economic policy. This committee is chaired by the Finance Minister and includes ministers of nation-building departments. Failing agreement at this level, the matter may be passed on to ECNEC (the Economic Committee of the National Economic Council) which is the highest level committee for economic policy matters in government.

Other important entities on the GOP side include the Ghee Corporation of Pakistan and the Edible Oilseeds Corporation. These are parastatals which embody the government's current heavy market intervention policies. They are most threatened by the policy reform thrust of the SHMs and have argued for continued public sector controls. In the opinion of some in the GOP, the vested interests of the Ghee Corporation are more serious obstacles to reform than concern over the public reaction to the removal of price controls and the consequent

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[7] The highest grade in the Pakistan Civil Service is 22. There is only one position between the JS and the Secretary: the Additional Secretary.

GOP AND USG REPRESENTATIVES AT FORMAL PL 480 NEGOTIATIONS, MARCH 1985

Government of Pakistan Representatives:

Mr. S. Nisar Ali Shah	Joint Secretary, EAD
Mr. G. K. Dakkan	Joint Secretary, Ministry of Industries
Dr. Muhammad Noorullah	Agricultural Development Commissioner, Ministry of Food and Agriculture
Mr. S. A. Ghafoor	Chief, Planning & Development, Ministry of Planning & Development
Mr. Azfar Shafqat	Deputy Secretary Ministry of Commerce
Col. Khawaja Javed Sarshad	Deputy Secretary Ministry of Industries
Dr. Muhammad Hanif	Deputy Ag. Development Commissioner, Ministry of Food and Agriculture
Mr. Tahawwar Ahmad	Section Officer, EAD
Mr. S. Ali Nasir	Section Officer, Ministry of Commerce
Mr. Abdul Haq	Section Officer, Finance Division
Mr. Muhammad Sarwar	Research Officer, External Finance Wing Ministry of Finance

U.S. Government Representatives:

Mr. Jimmie M. Stone	Deputy Director, USAID
Mr. William L. Brant	Agricultural Attache, US Embassy
Mr. Russell Graham	First Secretary, US Embassy
Dr. Paul F. Mulligan	PL 480 Title I Program Manager, USAID
Mr. Stephen S. Spielman	Regional Legal Advisor, USAID
Dr. Zakir Hussain Rana	Program Specialist, ARD, USAID
Mr. Ahmad Masood Khalid	Program Specialist, ARD, USAID
Ms. Tahira Abdullah	Program Assistant, Office of Program, USAID

increase in prices. The network of vested interests extends into ministry ranks where some mid-level bureaucrats may benefit from maintaining the status quo. The involvement of bureaucrats broadens the base of the vested interests, making them formidable antagonists of free market or private sector forces.

On the USG side, the lead negotiator is the USAID Director or, as has been the case in the last two rounds, the Deputy Director in his capacity as Acting Director. He is supported by staff from the AID Mission including primarily the Program Manager for PL 480 and representatives from ARD. The Mission's Regional Legal Advisor (RLA) attends because of the agreement's legal implications. Other members of the U.S. country team include the Agricultural Attache, representing the USDA and the Economic Counselor, representing the Embassy.

Mid-level officers from both sides are also involved with both informal and formal negotiations. These include section officers on the GOP side and program specialists on the USG side. They do much of the behind-the-scenes work, such as telephone calling, and writing letters and reports, which make it possible for the negotiation process to move forward.

D. Implementation, Monitoring and Evaluation Process

1. Entities Involved in Implementation

The entities on the GOP side involved in implementation of SHMs are EAD and the technical line ministries, mainly Industries, Commerce and Food and Agriculture. EAD plays a coordinating role and acts as a conduit for information that passes to and from the technical ministries. The technical ministries are responsible for actually carrying out the implementation of the SHMs and consultations with EAD and, where appropriate, with other members of the Cabinet, particularly ECC or ECNEC.

The Office of Chief Controller, Import and Export (CCIE) of the Ministry of Commerce plays a role in the importation of PL 480 commodities since it issues import licenses. It has also, on occasion, been included in the formal negotiation session.

2. Implementation Process

The SHMs which are directed at major economic policy modifications (liberalization and privatization) progress slowly and with much deliberation. It is up to EAD and the concerned ministry to obtain the required high level approval, e.g., NEC or ECNEC. This has been particularly the case with

SHMs on market deregulation since powerful interest groups are involved and short run effects on prices are uncertain.

The implementation of SHMs depends to a great extent on the relative importance that the USAID Mission gives to PL 480. If the Mission adopts a passive role or appears to give a measure low priority, generally the GOP will make a reduced effort to comply with their obligations under the agreement. If, on the other hand, the Mission adopts an activist or even aggressive approach and monitors progress closely, then the GOP can be expected to be much more responsive in implementing the self-help measure and meeting benchmarks.

Beginning in 1980, increased emphasis has been given to SHMs' conditions of specificity, measurability and additionality. The following year, however, the AID Mission expressed some concerns to AID/W relating to the "manageability" of SHMs and stressed that SHMs needed to be achievable in a short time. The AID Mission, then preparing for program reactivation, noted that specifications needed to take account of the limited USAID staff available to monitor and evaluate progress. Considerable enthusiasm was generated for the PL 480 program in 1981 and 1982, some of which was lost when requirements for additional studies were imposed and when the USAID was precluded from direct support of oil seed production. This was particularly disappointing to ARD.

3. Reporting by GOP

The GOP is responsible for completing three kinds of reports. Quarterly Compliance Reports which detail PL 480 imports are sent to the Agricultural Attache. Self-help and LC use reports are prepared by the ministry concerned and forwarded to USAID through EAD.

Information on compliance with SHMs is more abundant since self-help reporting requirements along with benchmarks, became increasingly formal in the 1980's. Self-help reports are due every six months. The Program Office reminds the concerned government office in advance and asks for any clarifications if reports are vague. If the reports do not arrive on the due date, the Program Manager telephones or writes EAD.

In earlier years, major stress on quantitative reporting was on detailed monthly reports of wheat, vegetable oil and fertilizer situations (e.g., production, imports, stocks, off-take for the last 12 months and projection for the next 6 months). Self-help reporting was largely provided verbally and in annual aide memoires to the aid community.

The GOP appears to take the implementation of SHMs more seriously than reporting. The AID Mission also sees implementation as being of primary importance, with reporting a legal requirement but of secondary emphasis. Still, GOP reporting has improved significantly in recent years particularly in timeliness, although reports are sometimes incomplete and lack information requested in the benchmarks. This occurs because the staff in the ministries which prepare the basic information do not fully understand the format or purpose of the reports. Inadequate direct communication between the USAID and these ministries appears one of the factors responsible for the problem.

Reporting on LC use is usually done semi-annually, six months after the end of the reported-upon semester. Reports state how the government disbursed funds--into which account, for what purpose and when the deposit was made. While these reports are supposed to explain how proceeds have benefitted the needy, the narrative on this is frequently missing from the reports. The Auditor-General of the GOP certifies the use of LC proceeds annually.

A complaint was made that reporting requirements of USAID and other donors do not adequately consider GOP scheduling and the available data series. (Please see the sample reporting schedule on the next page.) Illustratively, the GOP was responsible for submitting three different reports on July 1, 1985, which is also the first day of the Pakistani financial year. Such reporting requirements are out of sync with the general flow of GOP business and contribute to inadequate reporting. The 1982 agreement was particularly demanding with respect to reporting requirements, with which GOP never fully complied. The fault in this case appears to rest more with the requirements than with the efforts to comply. A senior GOP official noted that a recent request for self-help reports had diverted the Minister's attention from SHMs to assembly of data.

SCHEDULE OF CONSULTATIONS AND REPORTS REQUIRED UNDER FY 1985 PL 480 AGREEMENT

In each case, the date mentioned in the deadline. Consultations may occur, and reports may be submitted earlier.

April 1, 1985	- Quarterly compliance report
May 12, 1985	- Consultations to discuss the allocation of proceeds from the FY 1985 Agreement
July 1, 1985	- Quarterly compliance report - Report on Self-Help Measures - Report on use of proceeds and how they benefit the needy, FY 1984 Agreement
August 28, 1985*	- Public seminar on results of USG study of Pakistan Edible Oilseed Industry
August 15 1985	- Consultations to review progress on Self-Help Measures
October 28, 1985*	- Public seminar on policy emanating from review of Stock and Trade Management study
October 1, 1985	- Quarterly compliance report - Consultations to finalize the allocation of proceeds from the FY 1985 Agreement
December 1, 1985	- Audited annual report on proceeds, FY 1984 Agreement
January 1, 1986	- Quarterly compliance reports - Report on Self-Help Measures - Report on use of proceeds and how they benefit the needy, FY 1984 and FY 1985 Agreements
April 1, 1986	- Quarterly compliance report
July 1, 1986	- Report on Self-Help Measures - Report on use of proceeds, FY 1985 Agreement

*Subject to completion of GOP review of STM Report

4. Monitoring and Evaluation by the USAID

According to discussions with the USAID staff and information contained in program files, there are several ways the USAID monitors and evaluates the PL 480 program. The chief formal method is the reporting system delineated above, but other methods which probably are more important include informal discussions with government officials, review of reports in the media, statistical reports and information garnered from contacts either in Islamabad or in the field. After Self-Help reports are received in the Program Office, an analysis is made and an annual report sent to Washington.

The current Program Manager brings a broad perspective and depth of experience to PL 480 management since he was a member of the 1981 PL 480 team and was involved with PL 480 in Washington prior to coming to Pakistan. Since his appointment, discussions and negotiations have become more focused, and proposals and negotiations better documented. Monitoring has improved, Self-Help reports have become more complete, and analyses more thorough.

The present system of monitoring and evaluation works reasonably well. Performance might be improved if more time could be devoted to the task. The Program Manager has many tasks other than the PL 480 programs.

E. Congruence Between SHMs and GOP Action

1. Summary

Over the approximately two decades that SHMs have been required, the GOP has taken its commitments seriously and has tried hard to implement them, but there have been some recurring problems:

- the GOP has periodically imposed restrictions, which US officials generally felt were either too severe or unnecessary, on private wheat trade and on private interdistrict grain movement in times of shortages,
- the GOP has occasionally delayed overlong in adjusting wheat and atta prices; and
- the GOP has at times appeared to pay less attention to the implementation of the vegetable oil strategy it had developed than US officials felt was desireable, given the magnitude of the problem.

2. 1981-1985

In 1981, the GOP sanctioned 11 new ghee mills and 80,000 MT of cooking oil production in the private sector with four new mills already in production. No new public sector plant was authorized. (Two have, in fact, been closed recently). Increases in price supports for non-traditional oilseeds and substantial increases in output were reported. 52,000 bogus ration cards (USHM) were lifted in 1980/81 and 41,000 in 1981/82 in Sind and Punjab and all cards in Baluchistan. Completion of the study of increased wheat procurement prices and record level of procurement were reported (3.98 MMT). This level exceeded the agreed 3.3 MMT ration shop distribution limit.

The GOP noted in December 1982 that it had:

- Increased storage capacity well beyond what the SHM called for;
- Lifted interprovincial bars on private wheat movements (except along national borders);
- Completed a price commission (APCOM) study on wheat;
- Increased fertilizer prices by about 25%;
- Increased ghee prices; and
- Increased private sector participation in ghee and cooking oil processing and marketing.

In 1983 the GOP reported that it had increased research allocations and expenditures in oilseed production research by 250% since 1980/81.

Self-Help reporting in 1984 and early 1985 noted the following compliance:

- Enactment of a measure to encourage private trader purchases of non-traditional oilseeds. Such purchases would constitute 52% of production;
- Justification of its monopoly on the purchase of cottonseed oil;
- Increases in ghee and cottonseed oil prices;
- Enactment of a major increase (up to 35% of the total) in the private sector capacity to produce ghee and oil; and

- Purchase of non-traditional oils by the GOP at the same price as paid for cottonseed oil.

Recent SHMs have addressed greater privatization of the edible oil processing industry in the following ways: a) freezing of public sector capacity, b) freer entry of private firms, c) decontrol of domestic edible oil market, d) direct importation of edible oil by private sector, e) free movement of edible oil and edible oil products, f) equal treatment of private and public companies, g) liberalization of price of edible oil products and h) removal of budget support for modernization of public companies.

An AID assessment in August 1985 claimed that progress had been achieved on all the items above except b) and g). An independent source claimed that AID's principal achievement with SHMs was in ending the monopoly in cottonseed oil of the government entity, the Ghee Corporation of Pakistan.

In August 1985, principal actions remaining from the 1985 agreement were deregulation of cottonseed oil trade and ghee prices and measures to denationalize public ghee mills. The SHM on private sector import of soybean meal using CCC credit continued to encounter serious difficulty. In mid-1985, the government freed trade on cottonseed oil. In November 1985, a very high level seminar was held to review the 1985 oil stock management study as called for in the SHMs.

The main incompleted actions on deregulation were reported to be before the Cabinet as of late January 1986 when the evaluation team was working in Pakistan. The resnuffling of the Cabinet, however, on January 28, 1986, brought in a new, much more conservative group, many with major land interests. The strongest technocrats and advocates of greater free enterprise left. It was feared that this foreshadowed delays in further deregulation, yet recent changes, as noted above, have been encouraging.

On April 6, 1986, several major policy actions were taken by the new civilian Cabinet, chaired by Prime Minister Junejo. These actions significantly reduce controls on the vegetable oil and vegetable ghee industry. Specific measures include:

- Removal of price controls on vegetable ghee and edible oil

- Elimination of private sector import restrictions for both palm and vegetable oils

- Substitution of a Rs 3000 per MT regulatory import duty in place of the excise tax and import surcharge previously levied on vegetable oil imports

The Ghee Corporation will continue to operate ghee production units. This continued public operation will be used to influence ghee prices and thereby protect consumers from excessive price increases. The import duty will serve to equalize effective import costs with prices of local oils directed at stimulation of local oilseed production and improved oil extraction. On 17 April, the duty of Rs 3,000 per MT was lowered to Rs 2,350 owing to an increase in world prices of vegetable oil. The Ghee Corporation will continue to buy oilseeds at the support price, but private traders also will be free to buy oilseed in competition with the Ghee Corporation. All industrial units will be encouraged to promote soybean and sunflower seed production by provision of seed, technical guidance and buying the output from farmers[8].

While the government continues its policy of requiring permits for new or enlarged ghee production facilities, existing private plants will now be free to produce ghee up to their existing plant capacity. Previously, some had permits that allowed them to operate at only one-third or one-half of total capacity. This measure gives the private sector the option of increasing its market share from one quarter to one-half of total in-country production.[9]

Whatever the cause and effect relationship, this freeing up of vegetable oil and ghee prices, imports, and production represents considerable progress in implementing the measures included in PL 480 discussion and agreements.

3. 1952-1980

Although there were no formal requirements for SHMs prior to 1967, PL 480 negotiations were used as an arena in which to discuss agricultural policy. The U.S. gave strong support between 1952 and 1967 to major agricultural policy changes, and many of those agricultural development measures taken by the GOP were urged and supported by USG officials and the U.S. assistance program.

Frequently, as noted by Falcon and Gotsch, PL 480 contributed to the establishment of more liberal economic policies favoring agriculture, but at times it also was a negative factor. From 1967 through 1980, there was a substantial degree of congruence between SHM and GOP action with the exception of completely freeing the wheat market to private traders and allowing unrestricted movement of wheat and wheat flour (atta).

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[8] Telex U.S. Embassy/Islamabad, Cable 08113, April 9, 1986.
[9] Telex U.S. Embassy/Islamabad Cable 10365, May 13, 1986

A major self-help requirement of the mid-1970's was development of a comprehensive oilseeds strategy by the GOP which, with some inputs from USAID, was prepared in 1976/77 and refined the following year. The strategy included non-traditional oilseeds being introduced with USAID assistance. The first major step was a price support initiated for the 1976/77 crop season.

Implementation on oilseeds SHMs, however, did not receive the attention that wheat, fertilizer and water development received. It would be unfair to suggest that there was not a very serious effort made by many GOP officials concerned with the problem. Increased oil production has been included as a major objective of the Government's development programs from at least 1977, despite the change in focus of SHMs to wheat in the late 1970's. In 1980, the GOP stated that the elimination of vegetable oil subsidies and closing the vegetable oil supply/demand gaps were top priorities. One of the major problems in implementation of the strategy is lack of knowledge and agreement on what specifically needs to be done to stimulate and support increased oilseed and vegetable oil production. A review of GOP records for 1980 indicate good compliance with the self-help commitments except for the full opening of wheat trade to the private trade. Wheat and atta price increases also were less than appear warranted.

CHAPTER IV: LOCAL CURRENCY

A. The Negotiation Process

The negotiation process for local currency takes place at several stages involving different casts of players. Some informal bilateral discussions take place among project management people and counterparts of the GOP and AID during the course of project design and implementation. In general, the initiative for these discussions tends to originate with AID Mission project management personnel who are alerted by the USAID management to the possibility of LC availabilities. These bilateral discussions may be preceded by USAID/Pakistan in-house discussions on priorities and on US policy on local currency application. During negotiations of annual agreements, emphasis is given to SH priorities, but the agreements also specify how LC will be handled.

Following signature of the agreement, the USAID reviews the list of priorities for LC use. Recently, this has included some LC for operations and maintenance of the USAID. The agreement requires that within two weeks following signature the GOP representative must consult with US agencies (the USAID Director or Deputy Director initially and then with the PL 480 project manager) on LC uses. GOP parties usually indicate items which they feel might be addressed with PL 480 LC. At this stage, agreement may be reached on 50-75% of the total. While up to now, the resources all go into the GOP budget and are attributeed to specific items, these discussions offer an opportunity for the USAID to be involved in budget allocations and perhaps influence the proportions going to different subsectors.

Before the new FY (July-June) budget is submitted, the GOP nominates specific amounts for specific budget items and the USAID indicates areas of agreement. An attempt is made to reach full agreement before the budget is submitted, but agreement usually is not reached on all the funds. Funds have gone mainly to population programs, agricultural universities, special schools, research, and irrigation. The evidence suggests the result of the negotiation has been increased funding levels in these areas.

Washington can also play a role in determining LC uses. The 1985 PL 480 legislation requires Missions to take steps to direct the use of LC to the support of private enterprise through the banking system. The Pakistan Mission is not sure how it will respond yet, but this directive will be a factor in LC use negotiation.

B. Local Currency Use

The terms of agreements have varied over time. In early years, sales were made with repayment in local currency, making the LC the property of the US Government. This was followed by a several year transitional period beginning in 1967 wherein an increasing proportion of the total financed was a long-term convertible LC loan. Beginning in 1972, PL 480 Title I financing shifted to long term, low interest, dollar repayable loans. As the financing shifted to dollar repayment, the LC has come to be viewed as a HG asset for which the US retained little or no say on actual use.

During the time that repayment was in local currency, LC generation soon came to exceed USG needs despite considerable ingenuity in devising an expanding range of uses. These included loans to US and local businesses, US product market development, purchase of strategic materials, schools and many more. Ultimately, as LC accumulated, large amounts of the resources were granted to the Government for a wide range of development purposes. Much of it went for water development. However, repayment from different local currency repayable loans continues to bring rupee funds to the US treasury.

In the years after the shift from sales for local currency to long term dollar repayable loans, the programming of local currency was left to the GOP. Later, as AID policy called for US participation in the local currency programming, an attribution process was adopted in Pakistan as in many other countries. Qualifying items in the budget were identified and reports were made to the USAID on expenditures. The LC was accepted and used as expenditures were reported. In many instances, discussions involved little more than a letter from the HG proposing line items for attribution and a letter from the USAID agreeing, possibly with one or two suggested changes. This exchange of letters may have been the totality of the reporting.

Later, as USAID policy called for more participation and encouraged special accounts, affected countries took up varying degrees of opposition to this greater USAID exercise of control. In general, the US participation in LC programming in early years of dollar loan funding was largely a charade. Nevertheless, it may have been an improvement over earlier years when the LC belonged to the US, but its use involved no normal budgetary review process on the part of either government. The Pakistan experience tends to confirm this pattern.

In the 1980 PL 480 agreement, the GOP and the USAID agreed on a procedure for managing PL 480 generated local currency. This procedure was a step forward in terms of AID involvement in programming and, perhaps more importantly, it established a more specific identification process for the PL 480 LC. The parties agreed to establish a Special Subsidiary Account, to which PL 480 LC was credited or generated, in the Federal Consolidated Fund (budget). The account was debited as drawn down for agreed uses. A separate account is established for the LC generations from each year's agreement. The CIP LC is handled in the same manner, but separate subsidiary accounts are established.

C. Recent Negotiations on PL 480 LC Use

In May 1985, following the April signing of the agreement, GOP and USAID officials met to determine PL 480 LC use. EAD proposed to allocate funds (around Rs 800 million) to:

o	Population Planning	Rs 130 million
o	Education (University and Higher)	Rs 250 million
o	Agricultural Universities	Rs 20 million
o	Chasmal Right Bank Canal Punjab Abassic and Chotaki Fresh Ground Water	Rs 200 million

The USAID Deputy Director expressed both a Mission desire to see some PL 480 LC used for primary education and the hope that allocations for higher education would be directed toward improving technical training.

The USAID later proposed minor changes and put forward a substantive proposal for an allocation of Rs 16 million of PL 480 LC to the NWFP University development project, funded in part from other USAID funds. It also proposed showing the funds in the 1985/86 consolidated budget but without specific allocations so that later applications could, if necessary, be altered.

At the May meeting, the Deputy Director also raised the issue of the GOP's extension of the fertilizer subsidy. The subsidy was to have ended in 1985 but will now continue until 1988. To the USAID's consternation, it appeared that some of the proceeds from the 1981/82 PL 480 program were used to finance the fertilizer subsidy. The USAID made clear, at this meeting, that LC, this time from the CIP, should not be used for such a purpose.

D. Monitoring and Reporting

Reports of expenditures are submitted to USAID semi-annually within six months of the end of each semi-annual period and appear to provide adequate detail and accuracy. Since the view prevails that these are Pakistani resources, the GOP is responsible for ex post audit and evaluation. USAID neither audits nor conducts evaluations of activities to which PL 480 LC is attributed except in connection with those US assisted projects which receive PL 480 LC. However, USAID does use the opportunity presented by consultations on the uses of LC to open a dialogue on sector priorities, and it does review and evaluate the budget aspect. Review of the budget suggests that areas receiving LC attribution (e.g., research) are likely to be somewhat better dealt with in the budget allocations than those not so favored.

RECEIPT AND USE OF SALE PROCEEDS

(A) UNDER PL-480 TITLE I AGREEMENT DATED JUNE 4, 1981

RECEIPTS	EXPENDITURES			
Total Rs.	Payee	Date	Amount Rs.	Total Rs.
469,628,010	Ghee Corp. of Pakistan	Dec.29,1981	10,000,000	
		Jun.26,1982	5,000,000	
		Aug.17,1982	10,000,000	
		Dec.11,1982	10,000,000	
	Sub Total (a)			35,000,000
	Pakistan Agricultural Research Council	Sep.22,1982	400,000	
		Nov.24,1982	166,800	
		Jan.29,1983	166,600	
		Feb. 7,1983	166,600	
		Jun.29,1983	900,000	
	Sub Total (b)			1,800,000
	Federal Directorate of Fertilizer Import	Jan. 4,1982	153,975,559	
		Jan.31,1982	106,243,772	
		Feb.27,1982	42,467,752	
		Mar.31,1982	36,029,451	
		Jun. 2,1982	7,184,981	
	Sub Total (c)			345,901,515
	National Fertilizer Corporation	Jan. 5,1982	73,440,236	
		Jan. 5,1982	3,295,764	
		Feb. 4,1982	10,190,495	
	Sub Total (d)			86,926,495
	Grand Total (a+b+c+d)			469,628,010

(B) UNDER PL-480 TITLE I AGREEMENT DATED APRIL 15, 1982

RECEIPTS	EXPENDITURES			
Total Rs.	Payee	Date	Amount Rs.	Total Rs.
584,396,721	Federal Directorate of Fertilizer Imports	Jan.26,1983	393,256,751	
		Feb.14,1983	80,084,305	
		Jun.28,1983	111,055,665	
	Total			584,396,721

(C) UNDER PL-480 TITLE I AGREEMENT DATED MAY 15, 1983

RECEIPTS	EXPENDITURES			
Total Rs.	Payee	Date	Amount Rs.	Total Rs.
630,807,210	IRRIGATION	Upto 3,31,1984		
	Karachi Irrigation Project (Remedial work)		20,000,000	
	Punjab Abbasia Scarp-VI		75,000,000	
	Lower Rechna (Khair-Wala)		14,201,000	
	Fordwah Sidiqi		15,448,000	
	Central Rabi Board Cantal (Pandoki)		7,749,000	
	Lower Rechna (Remaining)		200,000,000	
	Chashma Right Bank Canal			
	Sub Total (a)			347,398,000
	SPECIAL DEVELOPMENT PROGRAM IN TRIBAL AREAS AND BALUCHISTAN			
	Govt. of Baluchistan	Aug.20,1983	43,000,000	
		Nov.29,1983	43,000,000	
		Jan.12,1984	49,000,000	
	Sub Total (b)			135,000,000
	AGRICULTURAL EDUCATION/ AGRICULTURE UNIVERSITIES			
	Agriculture University, Tandojam	Oct.31,1983	10,000,000	
	University of Agriculture, Peshawar	Feb.28,1984	5,000,000	
	Agriculture University, Faisalabad		5,000,000	
	Sub Total (c)			20,000,000
	POPULATION PLANNING			
	Population Planning Program		75,000,000	
	Sub Total (d)			75,000,000

AGRICULTURAL STORAGE

Pakistan Agricultural Storage and Services Corporation, Lahore	Nov.28,1983	17,502,210	
Rice Expt Corp of Pakistan,Karachi	Jan.26,1984	1,250,000	
Pakistan Agricultural Storage)	Mar.26,1984	1,950,000	
and Services Corp,Lahore)	Apr.25,1984	3,900,000	
Sub Total (e)			24,602,210

EDUCATION

University of Punjab (18 projects)	Oct.31,1983	25,807,000	
University of Baluchistan(6projects)	Feb.28,1984	3,000,000	
Sub Total (f)			28,807,000
Grand Total (a+b+c+d+e+f)			630,807,210

(D) UNDER PL-480 TITLE I AGREEMENT DATED MARCH 20, 1984

RECEIPTS	EXPENDITURES			
Total Rs.	Payee	Date	Amount Rs.	Total Rs.
660,622,154	(I) IRRIGATION			
	-Chasma Right Bank Canal	Upto June 30, 1985	131,866,000	
	-Punjab Abasia (Scarp VI)		124,114,000	
	-C.B.D.C. (Pandoki)		20,000,000	
	-Lower Rachna		24,100,000	
	-Fordwah Sidiqia		31,000,000	
	-Kotri Surface Drains		63,224,000	
	-Chotki F.G.W.		31,000,000	
	Sub Total (a)			425,304,000
	(II) PAKISTAN AGRICULTURAL RESEARCH			
	-Arid Zone Research Institute	Upto June 30,	14,000,000	
	-Barani (Rainfed) Agricultural Research and Development Project		5,500,000	
	-Establishment of Tea Research Station		2,397,000	
	-Coordinated Research Project of Saline Agriculture		1,000,000	
	-National Out Reach Research Project of Soil Fertility and Fertilizer use in Pakistan		1,200,000	
	-Farm Machinery Institute		4,500,000	
	-Coordinated Research Project for Livestock Feed Research & Nutrition		1,590,000	
	-Maximization and Strengthening of Research in Oilseed Crops		1,000,000	
	-Crop Maximization Program for Improving Productivity of Wheat, Maize and Groundnut		18,813,000	
	Sub Total (b)			50,000,000

(III) AGRICULTURAL EDUCATION AGRICULTURE UNIVERSITIES	Upto June 30, 1985		
Agriculture University, Faisalabad		10,000,000	
Sub Total (c)			10,000,000
(IV) POPULATION PLANNING	Upto June 6, 1985	175,318,154	
Sub Total (d)			175,318,154
Grand Total (a+b+c+d)			660,622,154

(E) UNDER PL-480 TITLE I AGREEMENT DATED APRIL 28, 1985

RECEIPTS	PROPOSED ALLOCATION OF PROCEEDS			
Total Rs.	Payee	Date	Amount Rs.	Total Rs.
	-Population Planning		130,000,000	
	-Education - University and Higher Education		250,000,000	
	-Agricultural Universities		20,000,000	
	-Chashma Right Bank Canal		200,000,000	
	Punjab Abbasia and Chotaki Fresh Ground Water		200,000,000	
	Total		800,000,000	

CHAPTER V: LESSONS LEARNED

1. USAID technical offices should participate in the policy dialogue.

In the last two decades, since SHMs were required, the Agriculture Office has made an important input into the PL 480 process even when leadership was taken by the Director's Office or Program Office. The PL 480 policy dialogue, which has focused on agriculture, was facilitaed by drawing on expertise from the Agriculture Office and by use of other fora and activities in agriculture to support and sustain the dialogue. However, given the large part of the total assistance package going into agriculture and the resulting time demands on staff, assignment of PL 480 management responsibility outside agriculture, as was done in 1983, was a positive step in giving the large PL 480 program the attention is needed and deserved.

2. PL 480 should be integrated with other US assistance to the extent feasible.

In Pakistan in the 1980s this has been done on a rather limited scale largely because of a Washington decision to prohibit direct US assistance in oilseeds production. The two studies financed outside PL 480, which were used to facilitate policy dialogue did suggest some directions to the GOP but this is fairly limited integration. The FY86 program included new SHMs calling for studies on agribusiness and small farmer credit. These studies will support possible new USAID programs.

Some integration of PL 480 with other aid is helpful. Most consistent US agricultural development support has been in water development, fertilizer expansion and research which have been the major physical factors in agricultural growth in Pakistan. Considerable PL 480 LC has been used for research and water development along with other aid funds. Prices and price incentives, which have been a major subject of discussion in connection with PL 480 and other aid, have been another key factor. In general, SHMs related to vegetable oil are only tied to PL 480, while those in other areas are more likely to be linked as well to the CIP or other assistance.

3. Large amounts of LC from PL 480 and other aid can cause programming problems, especially for the host government.

Like Zambia, the amount of LC in Pakistan coming from PL 480 and other US aid is sufficient to create friction and resentment over US involvement in its programming. Because these loans are repayable in hard currency, HGs are inclined to

regard LC as their own funds, to use as they see best. In addition, US involvement in programming represents foreign control of a significant part of the flexible budget and also creates uncertainties since US decisions could upset otherwise sound budgeting practices. The approach of attribution with some effort to increase allocation to a few carefully selected areas in priority sectors seems most appropriate in these circumstances. In addition, the decision to treat CIP imports for the public sector as not generating LC helps reduce the burden.

4. A low profile in policy dialogue can work.

Pakistan and US aid representatives had a good working relationship with respect to negotiating agricultural development assistance and PL 480 agreements during the 1952-80 period. US development assistance in agriculture and irrigation development was large, on the whole well managed, and was highly valued by Pakistani officials. The counsel of US agriculture personnel was valued and policy dialogue was fairly continuous between the USAID and the GOP. Evidence indicates that many of the policy improvements made correlate with suggestions put forth by the USAID representatives.

5. Setting the stage was very important for PL 480 negotiations.

PL 480 self-help measures were generally well conceived and most were seen as reflecting genuine US concerns over development in Pakistan. In general, the US has considered the role of the public sector too large and the private sector too limited. Discussion in advance of negotiation helped smooth the path for PL 480 negotiations.

6. Self-help commitments in agreements were taken very seriously by the GOP and, with only a rare exception, the GOP strove hard to implement agreed-upon measures.

Recurring problems have included the periodic GOP imposition of restrictions on private wheat trade and private interdistrict grain movement and occasional delays in raising wheat and atta prices. In addition, the GOP has sometimes paid less attention to implementation of the vegetable oil strategy than US officials felt was desireable given the magnitude of the problem.

7. Continuity in SHM is important.

In general, the self-help themes have maintained a substantial degree of continuity from year to year and this continuity has

reinforced US concerns in GOP eyes. Occasionally there have been some sharp shifts, some of which, in retrospect, do not seem justified. Oilseeds were put on the agenda in 1970-72, dropped in 1973-74 in favor of wheat, became the major theme from about 1975 to 1978, became only one of several themes in 1979-80 and then became the major theme circa 1981. Then in 1983, the US declined to assist with oilseed production as planned. The two major breaks in continuity in the vegetable oil effort clearly slowed progress considerably. Production of wheat, the principal crop and longest lasting theme, also suffered some ups and downs, but benefited from greater continuity of US assistance and support and, of course, from being the number one GOP food concern. Some of the changes in SHMs reflect changes in the actual urgency of different problems, while others reflect either changed preconceptions of urgency or changes in personnel on the US side. Some, of course, reflect shifts in the political winds in Washington.

8. <u>Early food aid contributed to some of the problems AID is now trying to alleviate</u>.

In 1953, the food aid agreement imposed a requirement for free distribution of food to the needy. This necessitated some form of government distribution arrangement. It is reasonable to ask whether this is how ration-shop type operations got started. We don't have a clear answer, but ration operations did later come to dominate GOP thinking on wheat. The availability of liberal PL 480 wheat financing also encouraged long delays in raising prices of wheat (to hold subsidy costs down) as self-sufficiency appeared to be in sight in the late 1960's. This failure to raise prices was a factor in the decline in the rate of growth in wheat production in the early 1970's.

Beginning with the over $620 million multiyear agreement in 1961, the US promoted large PL 480 financed sales of vegetable oil to Pakistan, which Pakistan accepted, in part at least, because of the resulting local currency which could then be used for development. Whether cause and effect or not, it was after 1) consumption of vegetable ghee and oil imports had grown large and was increasing rapidly; and 2) the US sharply reduced PL 480 oil financing that the ghee industry was nationalized. Thereafter price increases were limited and oilseed production declined while consumption grew rapidly.

9. <u>Simplicity and a sharp focus on self-help conditions is very important</u>.

When the number of themes in self-help sections or the number of discrete self-help measures increases, attention to each

declines sharply. The inclusions of a great many or very complex benchmarks for even two or three SHMs has a similar effect.

In 1979, when a shift was made from vegetable oil as the only SHM to oil as one of six, it was interpreted by many GOP officials as clearly signaling a downgrading of the oil issue although the oil SHMs which were folded into a single SHM, were not greatly changed and most of the newly introduced issues had been a part of US assistance for many years.

10. Changes in SHMs should be based on careful analysis.

Elimination of a self-help requirement should be based on a determination that a) an irreversible commitment has been made to satisfactorily address the problem or issue or b) it is clear that a mistake was made in including the particular measure (the form is wrong, the solution called for is incorrect, the priority is inappropriate, progress is impossible), or c) the overall in-country situation has drastically changed. AID should require full justification for changes in SHMs. In Pakistan, as in the other countries studied, the evidence indicates that when a self-help measure was dropped, it was forgotten. Stability has many other virtues. It demonstrates that the US is serious about the SHM and that the US appreciates the complexity of implementation and the length of time it takes to institutionalize the types of changes stipulated. However, continuation of the same SHMs also needs to be based on periodic review of relevance.

11. Time required for a dialogue argues for sharp limitations on issues tabled.

Preparation for and conduct of responsible, professional level dialogue on important issues requires considerable analytical effort and time from the USAID officials even when much of the study is delegated to hired consultants. Successful pursuit of a dialogue on important issues also requires considerable effort in identification of host government players, their positions and the mobilization of host government allies. Inevitably, each issue uses up some good will between US and HG officials. It is doubtful whether the USAID, even in a large mission like Islamabad, has the time, the manpower and the good will to open and maintain dialogues on major new sets of issues each year.

12. Use existing opportunities to develop clear multiyear programs.

This is one of the very few countries where there is a very specific multiyear aid commitment of which PL 480 is an integral part. However, AID did not take advantage of this rare opportunity to formulate, articulate and reach agreement on a multi-year strategy and a clearly scheduled implementation plan to accompany the aid commitment. In part, this resulted from the sharp limitations placed on the Mission's ability to be responsive to identified assistance needs in the oilseed and vegetable oil sector. The program would have been stronger with a clear multi-year time-frame and clearly defined multi-year plans and schedules explicitly included early in a jointly prepared PL 480 program paper. In autumn 1984, USAID did prepare a multi-year framework to use as the basis for negotiating future PL 480 programs. The framework was sent to AID/W and was shared with the GOP. Most of the objectives in this framework were achieved in the GOP's recent policy reforms.

13. To be successful, policy dialogue must be supported by strong informal professional relationships.

The entire process of policy dialogue is more successful when carried out in the context of professional discussion of development needs rather than relegated largely to formal negotiations. Efforts to use leverage in the absence of this adequate setting of the stage can be counter productive.

14. Overriding political commitments can weaken the development dialogue supported by PL 480.

Leverage and policy dialogue appear to be weakened by the US commitment to a large multi-year program for which PL 480 is counted upon by the US to make up part of the total package.

15. As a tactic, USAID should strive to draw approaches it supports from government plans or to have proposals it originates accepted early and incorporated into Government plans.

It then can agree to support HG plans and include their implementation as a part of the justification for PL 480.

16. Local currency programming can be made more effective by conforming substantially to the HG budget cycle, fitting procedures to those used by the HG and, in general, permitting the LC to be managed as simply as possible given the HG systems of accounting and audit.

Over the years, the USAID in Pakistan has worked with the GOP to design and implement approaches which do conform substantially to GOP practices. This has facilitated program implementation, especially since such large amounts of local currency sales proceeds are involved.

17. The intervention of US agriculture interests in the determination of the use of PL 480 and other agricultural development assistance can have disastrous effects on US credibility and prospects for program success.

In this case, it was the US soybean lobby which, as reported, "advised" USAID to cancel its planned major support of oilseed production in Pakistan. The evidence suggests the primary concern was with possible exports of soybean meal if Pakistan were to make a concerted effort to grow oilseeds. This concern, as noted earlier, seems to have been based on some faulty thinking about soybean production possibilities and comparative advantage vis-a-vis other oilseeds.

Evidence indicates it was not the US soybean interests that took the initiative on intervention, but rather the over zealous lobbyists who represent US soybean interests. It is unfortunate that lobbyists, with USDA support, were able to stop assistance to oilseed production in Pakistan based on a hypothesized threat to US farmers that does not stand up to examination. This is doubly unfortunate in view of Pakistan's political and trade importance to the US (including to the soybean industry). It may not be possible to deflect lobbyists in cases such as this but more adequate analysis should be demanded before the field is surrendered.

The US appears to have used up some good-will in recent years, both by refusing to support oilseed production, even with LC, and more recently and perhaps questionably, by its efforts to leverage the GOP to encourage and promote private traders to import soybean oil meal under CCC credit.

18. Donors should be very sensitive to the problems of the government in fulfilling reporting requirements.

At present, donors tend to have different formats and schedules. These together may become so time consuming for the host governments that their staffs spend much time monitoring and reporting progress when they should be attending to the weightier concerns of policy guidance, including implementation of self-help measures. Conversations with both USAID and GOP officials confirm that difficult reporting requirements clearly detract from implementation of self-help measures. Such usage of time is bound to cause resentment and frustration among host country nationals, who may reveal their feelings in various negative ways.

The schedule of reporting that has been established in Pakistan placed an added burden on the Pakistanis. One example cited as

particularly onerous was the request for three reports on the first day of the Pakistani financial year. GOP officials promote the view that fewer reports or even one major annual report would be adequate to meet reporting requirements. It would be a worthwhile exercise for the Mission and the USAID to review the issue of reports, looking in particular at scheduling, frequency and format, but keeping in view USAID requirements. Based on this review, appropriate changes could be made. Where specific data or data series are desired, existing data series should be reviewed carefully and efforts made to conform requests to existing series. Exceptions might be made where lack of the data constitutes a handicap to the host government's own management. Where data requested in self-help reports are not tied into existing series, it would seem reasonable that full costs and benefits analysis should be made by the USAID for the new requirement before it is imposed.

ANNEX A: SCOPE OF WORK - PHASE II QUESTIONS

C.1. Description

The purpose of this contract is to assist FVA/PPE in acquiring a better understanding of successful PL 480 programming processes. In doing so, the contractor shall conduct case studies in three of the following five countries: Pakistan, Zambia, Haiti, Dominican Republic or Costa Rica.

Case Study Approach and Duration

Each case study shall begin with the collection and analysis of background information on the country program in Washington, D.C. This will include documentation review and interviews with key AID, USDA, State Department and OMB officials involved in the PL 480 program in question. This phase will take approximately 5 days per team member.

After this pre-field analysis is completed, the study team will proceed to the country to carry out field investigations, reviewing additional documentation, interviewing key U.S. Mission and Host-Government officials and visiting appropriate field sites. The field work will be carried out in approximately 15 working days per team member.

Upon return from the field, the team will review its findings and prepare a draft country case report. When all three case studies have been carried out, and the three final case reports are prepared, the Contractor's core technical staff, collaborating with the appropriate AID officer team members will prepare a synthesis report, drawing out lessons learned from the three cases plus the two Phase I pilot cases. The synthesis will provide recommendations for making decisions about what kinds of self-help provisions are appropriate given a variety of country environments, what kinds of mechanisms are appropriate for the programming and monitoring of local currency sales proceeds, and appropriate methodologies for evaluating program success. A strategy for dissemination of conclusions will also be included. Preparation of the

draft synthesis report will take approximately 15 working days.

C.2. Work Statement

To accomplish the objectives of this contract, the contractor shall perform the following tasks:

Case Studies

1. Review and evaluation of data analysis underlying the PL 480 program. The study shall identify and evaluate the data and analyses which provide the basis for selection of priorities and proposed PL 480 strategies, negotiation instructions and the local currency use and related self-help conditions contained in annual PL 480 agreements. Particular emphasis will be placed on the approaches used and assembly, processing and analyses of quantitative and qualitative information. The study shall include methods used by Missions to assemble and manage the process, the roles of various entities and adequacy of data and analytical techniques to support alternative program directions. The study shall be particularly sensitive to innovative methods used in mobilizing and deploying Mission-provided analyses, collaboration with host country and other donor institutions and resource people to methods used to overcome data limitations frequently encountered in developing countries. The study shall identify areas where data and analysis might be strengthened and, to the extent resources permit, it will assist in strengthening data and analysis and improving methodology.

   Review and evaluation of underlying data and analysis shall include, as appropriate, examination of relative private and public roles in agricultural production and marketing, pricing at both consumer and producer levels and adequacy of the pricing system and price incentives to achieve higher gross output rates for key agricultural commodities.

2. Review of Negotiation and Monitoring Process. The study shall identify roles played and processes by which:

   a) U.S. positions were developed on different issues;

   b) the discussions were carried out with host government officials at different levels, and

   c) specific PL 48- self-help terms were negotiated.

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It shall examine also, though in less detail, roles and proficiencies on the host government side. The study shall review provisions for self-help reporting, self-help reports submitted and other methods used by Missions in monitoring self-help performance. It shall review action that were taken when self-help conditions were not met. Wherever possible and within the constraints o_ data availability, impact information will be assessed.

3) Review of Local Currency Applications. The study shall identify and evaluate:

a) the specific terms and conditions for application of local currency proceeds generated by sale of PL 480-financed commodities.

b) procedures actually employed in managing local currency, and

c) timeliness, adequacy and, to the extent possible, results of specific local currency applications and reporting by host government. It will also review assignments of responsibility and roles played in local currency programming, disbursement of funds, audit, reporting and local currency monitoring within both U.S. Missions and host countries.

Issues to be Addressed, With Illustrative Questions

The issues and associated questions which follow are derived from the Contractor's experience in carrying out the two pilot case studies. They are grouped according to broad issues about program definition, identification of self-help measures, negotiation techniques, participants and outcomes, implementation issues--including local currency programming and monitoring-- and evaluation. This list is meant to be illustrative, and will be adjusted in advance of each country visit in accordance with the information gathered and analyzed before departure about the specific case to be studied.

Identification of self-help provisions:

1. On the basis of what kind of analysis within the AID Mission, or the broader U.S. country team, were key self-help provisions identified? What analysis from the host government?

2. If this analysis was cursory, and based on generalized feelings about what the host government should be doing

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about development priorities, was there consensus within the country team that these generalizations were correct and relevant?

If not, what kinds of steps was the AID Mission able to take to see that its view of the situation prevailed? Was it successful in this?

3. Within the U.S. country team, what role did personalities play in the identification of proposed self-help provisions? E.g., had the Ambassador already identified some agenda items that he/she felt should receive leverage through the PL 480 program process? Was the relationship between the Ambassador and the AID Director such that there was a clear division of labor between them that was maintained when it came to PL 480 matters?

4. For the purpose of developing a country-team stance on self-help provisions to be proposed to the host country government, who asked to do the technical analysis? Within the AID mission specifically, did this analysis come from the agriculture office, from the progam office, or from a combination of both? If the latter, and where there was disagreement, which analysis prevailed, and who made the decision?

5. To what extent was the identification of proposed self-help provisions part of a broader attempt at addressing development policy within the host country government? That is, was there an on-going policy dialogue of any kind of which this became a part, or from which it was drawn, or were the PL 480 negotiations ad hoc, or perhaps the only venue for such a dialogue?

6. On the host government side, which entities were approached, and at what level during the identification process? Was the process a joint one from the beginning, or did the U.S. team develop its own proposals first "in-house" and then seek an HG interlocutor?

7. Who was allowed to speak for the HG about possible self-help provisions at the technical level, at the policy level, overall? How many HG entities were involved in the initial stages of discussions?

8. How well did these HG entities understand the concept of self-help provisions, and how seriously did they take them once they were understood? Also, how well

did they understand the internal structure of the U.S. country team and the power relationships within it? Did they, for example, try to restrict discussions to the AID technicians they were used to or, alternatively, did they seek to involved others in the hope that broader political concerns could be brought to bear in order to reduce the onus on them to take the process seriously?

9. What had been the history of requirements for self-help measures in prior PL 480 negotiations, and how did this affect subsequent negotiations?

10. Did the HG officials involved tend to stick to the analysis underlying or set forth in the contemporary five-year plan in addressing self-help issues?

11. Was there reference from either of the parties to the actions and expectations of other donors in identifying appropriate self-help provisions?

Negotiations of self-help provisions:

1. At what point in the negotiations did local currency sales proceeds and their attribution become an item of discussion, and did this pose problems in terms of generating and agreement on self-help provisions?

2. During negotiations, were new actors from each side brought into the process depending only how the negotiations were faring? Were appeals made to higher authority on one side, or on both sides? Did this depend on the funding level of the PL 480 program being negotiated, and on its visibility, or rather did it depend on general power and authority relations on both sides?

3. Did the members of the U.S. country team who were involved have a good understanding of the decision-making process on the HG side, and of the HG budgeting process as this related to the PL 480 agreement under the discussion? Were there any surprises in this area? Did there appear to be good communication about the basic premises underlying discussions of policy issues and related financing questions?

4. What appeared to be the role of other donors, and/or TA advisors to the HG entities involved, and their impact on the negotiation process?

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5. How much did AID/W guidance, and/or State Department concerns, enter in both in terms of the content and the style of the negotiations? Did this have a particular kind of impact? E.g., if AID/W was saying that self-help provisions and verifiable bench-marks were important, was there a different, more political message coming from the Embassy? Alternatively, was AID trying to get State to focus on the implications of the PL 480 program for broader political concerns?

6. How important a role did the HG Ministry of Plan and/or Ministry of Finance play in the negotiation process, vis-a-vis that of the Ministry of Agriculture or other line ministries? What about the central bank?

7. How much did the U.S. wind up giving in regarding verifiable self-help provisions in order to get an agreement signed? How much did the HG representatives wind up giving in?

8. To what extent, when agreement was reached, was there anything substantive and verifiable left in the self-help provisions? If there was little left, was it the joint intention to try to again next year or merely to give a sign of relief, and go about business as usual?

9. In the view of those who were involved, what would have improved the quality and the outcome of the negotiation process?

10. What would have improved it in the view of the evaluation team?

Implementation, Monitoring and Evaluation

1. Were there serious delays in signing the Agreement? Were there serious delays in the arrival and/or sale of the commodities? If so, why? If so, what were the implications of these delays for implementation in general?

2. Given arrangements made in the negotiation process for monitoring and evaluation during implementation, was the appropriate level of interest and effort maintained during the initial stages of implementation?

3. If problems arose in implementation, was there a mechanism in place for their timely discussion and resolution, or did this have to await the arrival of scheduled evaluations/reports?

4. Did implementation and monitoring of the PL 480 program assist the AID Mission in carrying out its other activities in the same sector or sectors, or was there little feed-through from one or the other? Were the same people involved in monitoring both aspects of the AID program or were they operated separately the majority of the time?

5. Was there any kind of monitoring other than that connected with the programming of local currency proceeds? If so, what kind; if not why?

6. Was monitoring and evaluation seen as a concern primarily or exclusively of the U.S., or was it taken seriously by the HG as well?

7. Were outsiders brought in to facilitate monitoring and evalaution, and if so, was this helpful in leading to success in problem resolution and redesign where necessary? Was it harmful to continuity or helpful to provide an institutional memory when AID and HG staff changed?

8. Were the self-help provisions' bench-marks sufficiently verifiable such that monitoring and evaluation were facilitated?

9. What happened when monitoring or evaluation showed that the bench-marks or targets were not being met in a timely manner? Were they revised, were they ignored, on what basis and how?

10. Were these bench-marks conceived of as success measures, or were three other mutually-agreed measures of success? How were these established, and how much consensus was there about them? Were they technically defined, or were they framed in terms of broader policy considerations?

Redesign

1. Was the provision made for a formal redesign process, with which the HG was in agreement? What were the criteria established on the basis of which redesign would be called for? Who had the right or authority to call for it?

2. Who was involved in carrying out the redesign? AID Mission staff? Consultants? Host government implementing agency? Others?

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3. What latitude did the Mission have in deciding whether or not to prepare a completely new program paper rather than an amendment? What was the nature of the negotiation process in each case?

4. Where there was redesign, were relationships with the HG fostered or harmed? On what does the answer depend? How much was local currency programming an issue here?

Local Currency Proceeds

Programming:

1. Did the agreement specify the applications of the LC, and how LC allocations would be treated in both the host country budget and the accounting and auditing systems? Did the agreement specify how and when LC would be disbursed?

2. Are USAID personnel included in programming activities at the ministry level? Co-programming allows the USAID to follow and influence projects more often and better than during the annual reporting period.

3. Has the HG established tough, but attainable self-help targets?

4. Are there specific, sufficiently detailed plans for projects/programs on which LC will be spent, prepared before agreements are signed?

5. Do both the host country government and the USAID have a "planning action schedule" specifying what each will do when? Is there a coordinating group (government-USAID) with a coordinator named by the implementing ministry - who monitors, convenes the parties, reviews, resolves problems, and who assemblies reports of various action agencies and integrates them into interim and final reports?

6. Do host country implementing agencies have sufficient manpower/expertise to do detailed project planning, project economic/financial analysis, and to establish and carry out implementation plans? Can they establish a management information and control system to provide planning, control and evaluation? Should AID devote a part of LC to strengthen implementing agency expertise in these areas?

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7. What kind and amount of assistance and guidelines do "staff" (as opposed to "line") ministries/agencies (e.g., Ministry of Planning, Ministry of Finance, Ministry of Foreign Affairs) offer implementing ministries/agencies in the preparation of budget proposals so that proposed uses of funds (including PL 480 Title I) fit into the overall economic development plan of the country and have the best chances of approval?

8. The large and fragmented conglomeration of government agencies and parastatals reporting to different ministries involved in agricultural development has substantially complicated the processs of reaching agreement on program objectives and implementation assignments. What kind of coordinating mechanisms have USAID and the HG established?

9. Do the USAID and the host country government come to an early understanding as to priorities in the use of LC which directly support specific self-help measures of the host country, and are there sufficiently well-analyzed and prepared high-potential projects/programs ready to be funded, i.e., is the "agreement programming" rather than "ex-post programming"?

10. Is there written understanding between the two parties as to when LC is released to implementing agencies, what documentation is required, and what budgeting, accounting and auditing procedures are necessar to satisfy AID?. Is there a mechanism whereby the two parties can hold LC "in escrow" until decisions regarding specific allocations can be made? For example, in Tunisia, the Minstry of Planning stated the Ministry of Agriculture had <u>not</u> sufficiently analyzed the question of establishing service cooperatives for small farmers (the subject on the 1984 supplementary PL 480 Title I agreement) nor had it identified and developed adequate implementation plans. Thus, the LC generated has not yet "reached" the Ministry of Agriculture. It is in escrow.

11. Is the host country resistant to specific programming of LC? Is there host country resistence to the concept of additionality? Does the host country understand the concept?

12. Does the PL 480 program have quantified measurable targets which are <u>additional</u>? Does it ensure that the poor people in the recipient country will be the major beneficiaries?

13. Does the message of additionality, specific programming of LC and monitoring get across to all concerned ministries? Seemingly, it did not in Tunisia because MOA did not convey the message to MOP.

In the case of Cape Verde's PL 480 Title II, Section 206 program, the lack of initial understanding caused some confusion, and seemingly some resentment in that the Cape Verdeians felt they were being "dictated to."

Management

1. Is the host country accounting and auditing system adequate for AID purposes?

2. Does the Mission do regular on-site inspections of a representative sample of self-help activities financed from Title I LC sales proceeds?

3. Is there a procedure established to record the progress made toward project goals and uses made of the local currency? Than a self-help project is tied-in with one of USAID's regular projects, does it receive adequate overview as a result of being attached to the regular project?

4. How soon after receipt of U.S. commodities do implementing agencies receive authorization to spend?

5. Does the Mision receive timely, frequent reports from each implementing host country agency on how monies have been used? Does the Mission receive and end-use accounting for each PL 480 activity?

6. To what degree does the USAID manage PL 480-generated LC? Is management limited to monitoring [illegible] budgeting and host country application of LC, or does it extend so far as offering technical assistance, training and/or other forms of support to LC financed activities so as to enhance their chances of success?

7. What provision has been made by the USAID to ensure continuity in dealing with the host country government, in programming and in managing the PL 480 program? This question is asked because USAIDs experience turnover in personnel, often rapid and frequent.

8. What is the accounting transactions procedure by which LC is made available to the implementing ministry/agency? Is it available almost immediately to the Ministry of Agriculture as in Tunisia, or does availability of LC depend on the ability of, and time for, the commodity-selling agency to see the products and get paid for its sales - as in Cape Verde?

9. Has the Mission examined the pros and cons of a special account or special mechanism which gives the Mission a greater degree of control and monitoring, and makes the host country strictly accountable to the Mission for the PL 480 funds? Did the Mission do this priority to the institution of a PL 480 program; is it considering asking/requiring the host country to establish a special account for an on-going PL 480 program?

"Political Economy"

1. How closely attuned is the AID Mission to the "political economy" of the host country's economic development strategy as well as its financial/budgetary decision-making process? Who makes the decisions, how do the decisions come about, what is the process, calendar and sequence of budget preparation, review change and approval (disapproval)? (Often a country has its official "five year plan" as well as an unofficial, unwritten plan. The unwritten plan usually is the operative one). What are the priorities as to projects/programs likely to be funded, e.g., Tunisia uses and A, B, C method, i.e.?

   A - 1st Priority - Those projects/activites already underway are reviewed individually for future funding.

   B - 2nd Priority - Those projects which are new, have been approved by the Ministry of Planning, but which have not yet been started. If sufficient funds are available, they will be undertaken.

   C - 3rd Priority - Those projects which are new, have been through the planning and approval process at the Ministry of Agriculture, but which have not yet been approved by the Ministry of Planning.

2. What ministry/department acts as allocator of resources for an implementing ministry's investment budget, and its operating budget? In Tunisia, for example, the Ministry of Finance only has say-so over another ministry's operations budget and acts largely as a

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controller and auditor. The Ministry of Plan controls the allocations to implementing ministry's investment budget. By contrast, in Morocco, the Ministry of Finance has a great deal more authority, with the Ministry of Plan playing a largely analytical and "staff" role.

3. What are the roles of the Minister of Finance, Plan, Industry or Economy, Interior Foreign Affairs? What are the roles of key parastatals as operating entities? Do they have a policy voice?

4. Does the resource-allocating ministry provide guidance for the implementing ministry regarding budget preparation and changes during the budget process? What degree of negotiation is possible at various points in the budget process, between whom, at what levels, and does the implementing ministry have resources to higher authorities should it feel very strongly that an initially disapproved project/program should be carried out?

5. Are donor funds (including U.S.) fungible, i.e., are they, for example, commingled in one development account such that they lose their identity and such that, effectively, U.S. funds may be used to support other donor(s) programs(s) with "repayment" to the U.S. funded project(s) to come at a future date?

   In the Mali Title II, Section 206 example, funds are accounted for separately, but all donors which are parties to the PRMC must reach consensus about how "counterpart" funds are spent.

   In the case of Cape Verde, almost all development activity is completely donor-funded, and because of different funding modalities among donors, there are lags in the flow of funds to projects - some of which make frequent, regular demands on the overall funds flow, i.e., projects with heavy labor components.

   In Morocco, at least up to the 1983 PL 480 Title I Agreement, funds generated from sales of PL 480 grain could be and were attributed to counterpart funding of other donor activities. The 1983 agreement saw concerted effort on the part of the USAID to program proceeds toward HG counterpart contributions to USAID-funded projects.

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Other

1. Is the objective of a PL 480 program largely political, market development, or agricultural development? If the objective is principally political, then USAID would be unlikely to insist on strict programming, monitoring and accountability.

2. Is the financial size of the host country self-help measures relative to the LC generation from sale of PL 480 commodities so much larger than the Mission feels constrained to insist on planning, programming an monitoring the LC proceeds?

ANNEX B. OTHER DONOR INVOLVEMENT

Nearly all bilateral and multilateral donors active in Pakistan have programs in either agriculture or rural development. Individual countries involved include Australia (sheep and wool development), Canada (research, irrigation, drainage, rainfed agriculture), Germany (livestock and forestry development), the Netherlands (fertilizer, veterinary activities, irrigation) and Great Britain (irrigation and drainage). USAID and the two major multilateral donors, the World Bank and the Asian Development Bank (ADB), are involved in nearly every major agricultural sub-sector, including food policy, irrigation, and agricultural education, research and extension.

Coordination among the largest donors takes place on both a formal and informal basis. There is substantial agreement within the donor community on the basic agricultural reform agenda as reflected in the GOP's revised action plan (1979) and national agricultural policy (1980). The USAID pioneered the development of an on-farm water management (OFWM) program in the 1970's which later received extensive World Bank and ADB support. Many of the concepts developed under OFWM are also being implemented under an irrigation system management (ISM) project co-financed by the USAID and the World Bank. In addition, the USAID along with the World Bank (and hopefully ADB) share nearly identical views on the institutional and policy reform measures needed to strengthen Pakistan's system of agricultural education, research and extension.

Macro level policy objectives are stated most clearly in balance of payments support agreements such as the World Bank's agricultural sector loans and USAID's PL 480 and Agricultural Commodities and Equipment (ACE) programs. While mutually supportive of initiatives taken by individual donors, an informal "division of labor" has also developed. The USAID is most active in discrete sub-sectors such as policy dialogues on edible oils and fertilizer, while the World Bank takes the lead on sector-wide pricing and resource mobilization issues.

The World Bank and ADB are both presently preparing reports on the oilseeds sector. In this effort, they have both consulted with the USAID not only in sharing technical information relevant to the sector, but also with respect to the policy reform agenda (i.e. liberalization and privatization) for which they have given indications of support.

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A. Proposed IBRD Oilseed Project

1. IBRD Diagnosis

During the 1970's and early 1980's domestic production of edible oil stagnated at approximately 200-250,000 MT a year while consumer demand expanded from 250,000 tons in 1971 to over 800,000 tons in 1984 and 850,000 MT in 1985, and increase of 8-9% per annum. To fill the gap, imports increased from 46,000 tons in 1971 to 720,000 tons in 1984. In 84/85, the foreign exchange bill on edible oils was about US $500 million. The Sixth Plan (1983-88) sets a goal of containing imports at 600,000 MT/year; and analysts, including the recent IBRD team, consider it possible to meet all or most needs locally. The IBRD team noted "the edible oilseeds sector is highly regulated at all levels by a range of policy controls and direct interference with market forces which has dampened incentives to oilseed production and more directly private sector investment. Many factors combine to constrain expansion of the edible oilseed sector. On the technical or agronomic side, these include: a) a limit to the supply of cotton seed oil; b) lack of familiarity of Pakistan's farmers to the non-traditional oilseeds; c) stagnating production and the lack of extension efforts; d) lack of high quality soybean and sunflower seed and innoculum industries; e) lack of mechanical threshers for sunflower and safflower varieties; f) a low level of processing efficiency for low pressure mechanical expellers (75-80% of total crush); g) the low level of efficiency of the solvent extraction plants; and h) lack of a coordinated research, extension and market support program for the non-traditional oilseed crops."

2. The IBRD Project

An IBRD team started work in 1984 on design of an agro-industry project. The team spent a month in October-November 1985 working intensively on the project. During that time, the team concluded that the project should be limited to oilseed production and processing. However, they were concerned that some policy reform will be needed before the project can be implemented and were undecided (in October 1985) whether to proceed further, or wait for reforms. The policy reforms it considers essential include:

- Deregulation of retail ghee prices
- Removal of restrictions on private oil imports and elimination of the edible oil allocation system to ghee mills by the GCP

- Promotion of oilseed production and strengthening of domestic market for oilseed and oils. Recently, the GOP monopoly in cottonseed oil buying was ended. New ghee plants are now being permitted only in the private sector. Imported palm and soybean oil are cheaper than domestic cottonseed oil. Cotton seed oil currently is quoted at Rs 7.9 to Rs 9/Kg -- about US 20-23 cents/lb which is close to the world market cost C&F for US soybean oil.

The proposed IBRD Project would have 4 major production components:

- Oilseed extension activity
- On-farm demonstrations
- Provision of high quality seed
- Research on oilseed production.

The production oriented activities would receive $15-20 million and about $30 million for a line of credit for processors. It is recognized that a major problem is marketing and price incentives. Since there is a large amount of excess processing capacity, the major demand for funds initially is expected to be for improvement in mills to increase extraction rates as oil prices rise (to an estimated Rs 365 Md (Rs 9.7/Kg), which is about US 28 cents/lb).

Favorable recent actions include the decision to deregulate the monopoly purchase of cottonseed oil by GCP at a fixed price and a substantial increase in non-traditional oilseed procurement prices for 1985/86.

The IBRD team appears to conclude that, in the immediate future, oilseeds are unlikely to be able to compete more effectively with traditional major crops (wheat, cotton, rice, sugarcane) and fruits and vegetables. Hence, the must find an open niche in the existing rotations. The following opportunities have been identified in the four provinces.

Punjab

Emphasis on sunflower as a spring crop sown in fallow areas in January-February, mainly after cotton in the southern zone of Punjab. Six districts, which together have 1,109,000 ha of cotton, have been specifically identified. On 660,000 ha of this total, wheat follows cotton but on the 450,000 which is fallow, sunflowers might be grown.

Sind

In lower Sind, sunflowers might follow rice on some 50% of 120,000 ha now left fallow. Due to shortages of water, the planting of wheat following rice produces low yields and might be partially displaced. Safflower is a more likely prospect for following rice on some 90,000 ha in upper Sind, but some sunflower might be grown. Safflower involves a special problem in harvesting because of its spiny nature.

Baluchistan

Safflower on areas with too little moisture for wheat offers the best, though quite limited, prospect. Because of moisture limitations, only half of the 1,445,000 ha of cultivated area is planted on a given year. Safflower, which is deep-rooted and drought resistant, might be grown in some of this area.

NWFP

At present, some 4,000 ha of soybeans are grown and soybeans appear to offer the best prospects. At the lower elevations, it might be grown as a spring crop, planted in February following the vegetable and sugar cane harvests (25,000 ha) or interplanted with a cane ratoon crop (up to 90,000 ha) and irrigated. In higher elevations, it might be a Kharif (summer) crop with or without irrigation. In some of the hill districts, it might be interplanted with fruit (15,000 ha) or maize. Opening of additional cotton and rice in D.I. Khan with completion of the Chasma Right Bank Canal would add 100,000 ha of rice and cotton, which might be followed in part by soybeans.

COMMENT:

All told, there would appear to be 500,000 to 1,000,000 ha on which non-traditional oilseeds could be fitted into the rotation with good research, extension, improved marketing and other measures. The potential at 1-2 MT/ha could be 1,000,000 to 2,000,000 MT of increased production of oilseed and increase in vegetable oil production of 300,000 to 600,000 MT over a period of a decade or so. Improvement in processing of currently produced oilseeds could add another 100,000 MT to oil production from current oilseed production.

B. ADB Planned Project

The Asian Development Bank had an oilseed production project under consideration, but has since dropped the idea.

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1. 1980

Item V. Self-Help Measures:

A. In implementing the following self-help measures specific emphasis will be placed on contributing directly to development progress in poor rural areas and on enabling the poor to participate actively in increasing agricultural production through small farm agriculture.

B. The Government of Pakistan agrees to:

1. Wheat Price Policy

(A) The GOP, recognizing the importance of adequate wheat floor prices to assure sufficient financial returns to producers in the face of other rising costs, will announce a raise in the wheat price for its domestic procurement not later than sowing time (September, 1980). Moreover, the GOP, recognizing the necessity of controlling the subsidy for ration shop offtake, will raise the ration shop atta price to a level at least equivalent to the domestic wheat procurement price.

Benchmarks: The GOP will (a) announce the new domestic wheat procurement price as soon as practicable but not later than September 1, 1980; (b) announce the new ration shop atta price as soon as practicable but not later than September 1, 1980; and (c) make adequate funding available to maintain the domestic wheat procurement floor price throughout the year.

(B) The GOP will continue its efforts to provide an effective floor price for wheat producers, giving particular attention to its impact on the smaller producing units. Its floor price program will be designed to provide an effective and accessible market, especially at the time of harvest and over the first few months thereafter for all wheat producers in the country. Participation in the program by producers will be voluntary in all respects and this fact will be communicated to all officials in the GOP's Food Department. Wide publicity will be given to the voluntary nature of this program.

Benchmarks: An assessment of the number and location of procurement stations as compared with prior years and how well the Government has succeeded in maintaining a minimum floor price will be made. The number and location of these procurement stations

will be such as to assure farmers have access to the established floor price.

2. Ration Shop System

(A) The GOP is committed to reduce ration shop distribution, but in any case, it will not exceed during the 1980/81 crop year the offtake ceiling of 3.277 million MT established in the January 29, 1979 Title I Agreement.

Benchmarks: If the ration shop system continues over a period of time, the offtake in each crop year will not exceed the ceiling established in the January 29, 1979 Title I Agreement, and the GOP will seek to reduce the amount of ration shop distribution each year.

(B) The current campaign to eliminate bogus cards will continue to be pursued vigorously. Progress will be reported by September 30, 1980. The GOP will provide information on the number of new cards issued, the number of bogus cards eliminated and the net change.

3. Private Grain Trade

The GOP agrees to maintain the free and unrestricted inter-district movement, buying, selling and storage of wheat within Pakistan, except under emergency conditions as defined in the Title I Agreement of January 1979; provided, however, that a restriction could be placed on the movement between provinces of whole wheat grain by the private sector by road in order to minimize the chances for illegal movement of wheat across international borders.

Benchmarks: Federal and Provincial Governments will impose no restrictions in the transportation/movement, buying, selling and storage of wheat during the course of this Agreement. In the event the GOP determines emergency conditions warrant temporary imposition of restrictions, the U.S. Mission will be notified prior to the announcement.

4. Fertilizer Supply, Distribution and Pricing

(A) The GOP will make available necessary foreign exchange for fertilizer imports which will, along with domestic production, provide adequate supplies to meet projected demand for fertilizer as projected by the National Fertilizer Development Center (NFDC).

It will also review the number and locations of fertilizer sales outlets and encourage expansion, to the degree necessary, to provide easy access to the consumer.

Benchmarks: The GOP undertakes to take all possible measures to ensure that by September, 1980 in-country stocks of phosphatic and nitrogenous fertilizer will be at least 75 per cent and 35 per cent respectively, of the projected requirements for the ensuing six months. For this purpose the GOP will provide the requisite foreign exchange. The GOP will continue to support and utilize the NFDC.

(B) The GOP will continue to review fertilizer pricing and fertilizer and crop price relationships, recognizing the need for a phased program to substantially reduce the fertilizer subsidy. The purpose of this phased program, initiated by the GOP in its February 1980 increase in fertilizer prices, is to rationalize fertilizer and wheat price relationships and to reduce the GOP budget deficit for fertilizer.

Benchmarks: In recognition of a possible negative impact that the large fertilizer price increases can have on fertilizer consumption and agricultural production, the GOP will continue to expand its past efforts to promote greater fertilizer sales and utilization by Pakistani farmers.

5. Improved Wheat Production and Distribution Data Base

The GOP will establish a continuing capacity to collect and analyze data on wheat production and distribution as a basis for more effective decision-making, including an early warning system to wheat crop prospects. The GOP will proceed with the following studies and actions: (a) improve statistical crop reporting system for wheat production, stocks, and utilization; (b) study wheat production response to price changes; and (c) conduct analyses of cost of production of wheat. The USG would be prepared to lend appropriate assistance to these studies.

6. Edible Oil Strategy

(A) The GOP will carry out research, demonstration and marketing projects on expanding oilseeds production. In addition, the GOP will initiate studies for developing appropriate high-yielding varieties of cotton, rape, mustard, groundnut, sunflower, safflower, and soybeans. These studies will provide details on the necessary linkages between research (under the direction and coordination of the Agriculture Research Council), seed propagation, extension to farmers and nutrition. A study will also be made on oilseed pricing policy.

Benchmarks: The GOP in calendar year 1980 will (1) initiate a study for domestic oilseed production for the next production year, and (2) initiate and provide to the U.S. Mission a scope of work for an oilseed pricing policy study. The study for domestic oilseed production will include production targets for traditional and non-traditional oilseeds, proposed support prices for selected non-traditional types of oilseeds which will help to achieve the production targets, and the link between research, seed propagation and distribution.

(B) The GOP will establish a responsible authority for encouraging the expansion of vegetable oil production in Pakistan with a role comparable to that of the National Fertilizer Development Center. Continuously increasing vegetable oil imports have become a serious drain on Pakistan's foreign exchange reserves. Establishment of a responsible, effective and influential organization as the primary organization dealing with vegetable oil production, processing and marketing would focus responsibility and provide the GOP with an improved means of approaching and dealing with the problems of increasing production. It is assumed research activities would continue under the direction and coordination of Agriculture Research Council.

Benchmarks: The GOP will initiate measures to develop and establish such an organization.

SELF-HELP MEASURES IN THE 1981 AGREEMENT

Self-Help Measure 1

To review and to establish for long term production considerations a set of farm gate prices for non-traditional oilseed crops at a level sufficient to provide an incentive to farmers to increase production and to overcome reluctance to plant new crops.

Benchmark: Incentive prices for non-traditional oilseed crops for the agriculture year 1981-82 will be announced before the sowing season. For oilseed crops, including those promoted by the Ghee Corporation, the Government of Pakistan will prepare a report showing the farm gate price for the agriculture year 1980-81 and the changes occuring for the agriculture year 1981-82.

Discussion: The Self-Help Measure was acceptable. The Government of Pakistan representatives, however, requested that the listing of hoped for incentive prices be reflected in these minutes since they have established an Agricultural Prices Commission which will be setting these prices. Although the Agricultural Prices Commission would consider these proposed prices, their recommendations would have to take into account a number of concerns. In the event that the Commission is not operational in time for the sowing season, the Government of Pakistan assured the U.S. representatives that appropriate revised prices would be announced.

The U.S. representatives agreed to place the expected percentage increases in prices of non-traditional oilseeds in the official minutes. The U.S. representatives stressed that the production program of the Ghee Corporation (GCP) required that official buyers for the GCP be authorized to offer incentive prices above those for 1980-81 .

The prices for non-traditional oilseed crops specifically promoted by the Ghee Corporation of Pakistan for the agricultural year 1980-81 and the suggested 1981-82 incentive price increases are:

Crop	1980-81 Rs./Maund[1]	1981-82 Percentage Increase Recommended
Sunflower	110	12 - 14
Safflower	90	15 - 17
Soybean	100	10 - 12
Groundnuts	207	*

*(The Government of Pakistan will make concerted efforts to increase groundnut production and to release high yielding commercial varieties of seeds to farmers.)

Self-Help Measure 2

To use the proceeds from this Agreement to finance the Ghee Corporation's programs for expanding the planting, production, purchase, and processing of oilseed crops in order to meet demand over the longterm.

Benchmark: The Government of Pakistan will release sufficient funds from the sales proceeds to the Ghee Corporation for a program to expand the planting, production, purchase, and processing of oilseed crops. This will be approximately Rs.25 million per year in Pakistan's fiscal year 1981-82 and 1982-83.

Discussion: The Government of Pakistan representatives questioned the relationship of the Benchmark for Self-Help Measure 2 to the normal budgetary process of the Pakistan Government and the ability of the Ghee Corporation to effectively utilize Rs.25 million in one year.

The U.S. representatives pointed out the Ghee Corporation's PC-1[2] has primary level approval by the Government of Pakistan and it calls for more than Rs.50 million to be allocated over a two year period. In addition, the PC-1 sets out specific plans for utilizing all of these funds in support of a growing oilseed unit.

The U.S. representatives continued to strongly support release of funds for this Ghee Corporation oilseed production program. This activity is the single clearly identified activity which can demonstrate field level action to increase production of non-traditional oilseeds.

Self-Help Measure 3

To review and, if necessary, revise the controlled price of hydrogenated vegetable oil (vegetable ghee) to take into account the full cost of agricultural production and processing with a view to stimulating production of oilseeds and curbing consumer demand for hydrogenated vegetable oil (vegetable ghee). Such prices will be commensurate with the full cost of production also taking into consideration the cost of imported edible oil CIF Karachi.

Benchmark: The consumer price of hydrogenated vegetable oil (vegetable ghee) produced during agricultural year 1980-81 was Rs.56.0 per 5 Kilograms. The Government of Pakistan will prepare a report which reviews the consumer price for hydrogenated vegetable oil (vegetable ghee) based on the total production costs and send it to the U.S. Government by November 30, 1981.

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Discussion: During discussion of this Self-Help Measure, the Government of Pakistan stated that the price of edible oil is not controlled. The above wording of the Self-Help Measure reflected this modification.

Self-Help Measure 4

To provide additional resources to finance a comprehensive oilseed research program that includes provincial research establishments. Particular emphasis will be given to varietal trials, adaptation of appropriate equipment, fertilizer trials, water management, cropping systems and the economic analysis of same.

Benchmark:

(A) The Government of Pakistan will present a report by November 30, 1981 which summarizes current expenditures for traditional and non-traditional oilseed research. The report will include details on current and proposed provincial allocations and expenditures. The allocation in the 1980-81 Budget will be the benchmark. Allocations in future Budgets (i.e. 1981-82) will show if additional resources are being provided.

(B) The Government of Pakistan will provide from sales proceeds under the Agreement a minimum of Rs.2 million per year in PFY 81 and 82 to the Pakistan Agricultural Research Council for contractual research on oilseed production and processing. The details for these expenditures should be included in the report described in benchmark A.

Discussion: The Government of Pakistan was confident that the budget allocations for oilseed research would undoubtedly be more than that indicated in the Agreement. It was agreed that the Pakistan Agricultural Research Council will report quarterly on the use of these special research funds and forward copies of the report to the U.S. Government.

Self-Help Measure 5

To provide increased financial support to an oilseed production program for traditional and non-traditional oilseed crops, including funding of necessary support services and inputs, such as extension, fertilizer, insecticides, implements, and seeds.

Benchmark: The Ghee Corporation's program targetted 32,000 acres of new acreage for non-traditional oilseed crops in 1980-81. They achieved 30,000. The expanded program for 1981-82 has a target of 60,000 acres. The Government of Pakistan will make every effort to ensure that availability of seeds and other inputs will be sufficient to meet the increased target.

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Discussion: The Government of Pakistan requested that the Benchmark reflect additional effort to increase oilseed acreage rather than a specific target.

The U.S. representatives indicated that the specified acreage target, 60,000 acres, was the Ghee Corporation's proposal.

Self-Help Measure 7

To maintain the present favorable agricultural policy environment for wheat production, to maintain and bolster the present input-output price relationships for wheat which have led to increased production.

Benchmark:

(A) The Government of Pakistan will undertake appropriate price adjustments to provide adequate incentives for increasing agricultural production and to coordinate pricing decisions for agriculture inputs and crops in order to offset any adverse effects of input price adjustments on producer incentives. A report will be submitted to the U.S. Government by November 30, 1981 which gives fertilizer prices and the price of wheat. The report will highlight changes in prices during the period July 1, 1980 until November 1, 1981.

(B) The Agricultural Prices Commission will analyze the cost of production as it relates to seed, fertilizer, water, insecticides, land, fuel, and other related inputs to be used in making decisions about future support price levels for wheat. A report will be prepared on studies initiated and carried out during the course of the 1981-82 agricultural year.

(C) Federal and Provincial Governments will impose no restriction in the transportation/movement, buying, selling and storage of wheat during the course of the Agreement except for restrictions on the movement of whole wheat grain by road needed to minimize the illegal movement of wheat across international borders. In the event the Government determines emergency conditions (as defined in the Title I Agreement of January, 1979) warrant temporary imposition of restrictions, the U.S. Government will be notified prior to the announcement.

Discussion: It was agreed that given the recent establishment of the Agricultural Prices Commission many of the reports cited in Benchmark 7(B) will not be completed in the near term, however, this task clearly falls within the mandate of this newly created body.

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Self-Help Measure 8

To permit an equitable availability of wheat for private marketing channels, the Government of Pakistan will continue to limit the sale of wheat through ration shops and will continue its efforts to eliminate bogus ration cards.

Benchmark: Reports will be provided on a semi-annual basis for the following:

(A) The official offtake of wheat which should not exceed 3.277 million metric tons.

(B) The number of bogus cards eliminated during PFY 1980-81, and the number of cards existing at the end of PFY 1980-81.

Discussion: The Government of Pakistan wished to maintain the limit for the public sector offtake of wheat at 3.277 million metric tons although the actual public sector offtake for distribution through the ration shops has recently been closer to 2.3 million metric tons. It was agreed that official offtake would be limited to the higher figure.

The Government of Pakistan representatives stressed the diminishing role of the ration shops given the favorable supply for wheat. In addition, they stated that the Government of Pakistan is studying the option of expanded open market operations as the policy instrument to influence

2. 1982 AGREEMENT: SELF-HELP MEASURES

III. Self-Help Measures, Benchmarks, and Reporting Formats

The parties discussed the self-help measures, benchmarks, and reporting formats proposed by the Government of the United States. Discussion on specific points follows:

A. Self-help Measure No. 1

1. Self-help Measure

To review and to establish for long term production considerations a set of farm gate prices for non-traditional oilseed crops at a level sufficient to provide an incentive to farmers to increase production and to overcome reluctance to plant new crops.

2. Benchmark

Current prices for non-traditional oilseed crops will be at least maintained during the agriculture year 1981-82. The Agricultural Prices Commission will analyze the cost of production of non-traditional oilseed crops for deciding upon the future levels of support prices in September 1982. For all oilseed crops, including those promoted by the Ghee Corporation of Pakistan, the Government of Pakistan will prepare a report showing the farm gate price for the agriculture year 1981-82 and the changes occurring for the agriculture year 1982-83.

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3. Reporting Format

Prices for Non-Traditional Oilseeds

Crop	Price for 1981-82 (Rs/40 kg)[1/]	Price for 1982-83 (Rs/40 kg)	Date of Announcement
Sunflower	133		
Safflower	112		
Soybean	117		
Groundnuts	-		

Discussion:

Enclosure: Report of Agricultural Prices Commission on oilseed prices.

1/ Rs: Rupee, $1=Rs 11.63 as of April 8, 1982

The GOP representative reported that the Agricultural Prices Commission is analysing the cost of production of non-traditional oilseed crops. As the prices on non-traditional oilseed crops were raised in September 1981, further increases in the near term are unlikely. The USG representative noted that the benchmark called for maintenance of the current set of prices and continued study of prices of non-traditional oilseed crops. The GOP representative agreed to the self-help measure, benchmark, and reporting format as shown above.

B. Self-Help Measure No. 2

1. Self-Help Measure

To use the proceeds from this Agreement to finance the Ghee Corporation's programs for expanding the purchase and processing of non-traditional oilseed crops in order to meet demand over the long term.

2. Benchmark

The Government of Pakistan will release sufficient funds from the sales proceeds to the Seed Division of the Ghee Corporation for a program to expand the purchase and processing of non-traditional oilseed crops. This will be approximately Rs 25 million each year in Pakistan fiscal years 1981-82 and 1982-83.

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3. Reporting Format

Release for the G.C.P.[1/]

Pakistan Fiscal Year	Target	Actual Release
1981-82	Rs 25 million	
1982-83	Rs 25 million	

Discussion:

1/ Consolidated releases from both FY 81 and FY 82 PL 480 Title I Agreements.

The GOP representative agreed to the self-help measure, benchmark, and the reporting format as shown above.

C. Self-Help Measure No. 3

Self-Help Measure

To review and, if necessary, revise the controlled price of hydrogenated vegetable oil (vegetable ghee) to take into account the full cost of agricultural production and processing with a view to stimulating production of oilseeds and curbing consumer demand for hydrogenated vegetable oil (vegetable ghee). Such prices will be commensurate with full cost of production also taking into consideration the cost of imported edible oil CIF Karachi.

2. Benchmark

The Government of Pakistan will continue its efforts to adjust upwards the consumer price of hydrogenated vegetable oil (vegetable ghee). The Government of Pakistan will prepare a report which reviews the consumer price for hydrogenated vegetable oil (vegetable ghee) based on the total production costs and send it to the U.S. Government by September 30, 1982.

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3. Reporting Format

Price of Hydrogenated Vegetable Oil

Government of Pakistan will prepare a report on consumer price of hydrogenated vegetable oil by September 30, 1982, which includes the areas of focus described in Self-help Measure 3.

Discussion:

The GOP representative gave assurances that the Government of Pakistan is conscious of the needs to have consumer prices reflect true production costs. The GOP representative agreed to the self-help measure, benchmark, and reporting format as shown above.

D. Self-Help Measure No. 4

1. Self-Help Measure

To provide additional resources to finance a comprehensive oilseed research program that includes provincial research establishments. Particular emphasis will be given to varietal trials, adaptation of appropriate equipment, fertilizer trials, water management, cropping system and the economic analysis of same.

Benchmarks

a. The Government of Pakistan will present a report by September 30, 1982 which summarizes current expenditures for traditional and non-traditional oilseed research. The report will include details of current and proposed provincial allocations and expenditures. The allocation in the 1980-81 Budget will be the benchmark. Allocations in future Budgets (i.e. 1981-82 and 1982-83) will show if additional resources are being provided.

b. The Government of Pakistan will provide, from sales proceeds under the Agreement, a minimum of Rs [illegible] million per year in Pakistan fiscal years 1981-82 and 1982-83 to the Pakistan Agricultural Research Council for contractual research on oilseed production and processing. The details for these expenditures should be included in the report described in benchmark a.

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3. Reporting Formats

(For Benchmark a)

Rupee Allocation and Expenditures for Oilseed Research

(Rs Thousand)

Project/Agency	1980-81		1981-82		1982-83	
	Alloc.	Expd.	Alloc.	Expd.	Alloc.	Expd.
Punjab						
(a)						
(b)						
(n)						
Sub-total	115	86	322		448	
Sind						
(a)						
(b)						
(n)						
Sub-total	114	114	500		334	
N.W.F.P.						
(a)						
(b)						
(n)						
Sub-total	144	144	354		276	
Baluchistan						
(a)						
(b)						
(n)						
Sub-total	81	81	300		195	
Federal						
(a)						
(b)						
(n)						
Sub-total	530	286	524		747	
GRAND TOTAL	984	711	2,000		2,000	

Discussion

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detailing incentives and other measures necessary to encourage private sector involvement in the production, processing, and marketing of oilseeds. This report has not been thus far provided to the U.S. Government. The Government of Pakistan will complete this pending report by August 30, 1982, identifying any important changes in private sector involvement in the edible oil industry, and send it to the U.S. Government by September 30, 1982.

3. Reporting Format

Discussion

Enclosure

Report.

The GOP representative gave the assurance that the outstanding report would be completed. The GOP representative agreed to the self-help measure, benchmark, and the reporting format as shown above.

F. Self-help Measure No. 6

1. Self-help Measure

To provide support to an oilseed study which, inter alia, assesses the comparative advantage in Pakistan of expanding oilseed production in the light of ready availability on the world market for edible oils as well as other considerations.

2. Benchmark

The Government of Pakistan will appoint by May 31, 1982 an officer from the Ministry of Food, Agriculture and Cooperatives to serve as a full time coordinator for the edible oil study team from the United States Department of Agriculture. Other technical counterparts from the Government of Pakistan bodies represented on the Oilseed Development Board will be appointed to work with U.S. technicians as needed for this study.

3. Reporting Format

Discussion

Enclosure

Copy of the notification regarding the appointment of the coordinator.

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The USG representative emphasized the importance of the edible oil study and stated that the paramount question is whether or not increased domestic production is economically viable. The edible oil study will assess the comparative advantage of oilseed production in Pakistan.

The GOP representative observed that the Government of Pakistan must strive for some increased measure of self-reliance in edible oil. He supported the need for the edible oil study and reported that the Government of Pakistan has appointed the Additional Secretary, Ministry of Food, Agriculture and Cooperatives to serve as coordinating officer to the U.S. edible oil study team. This appointment will be confirmed in writing. The GOP representative agreed to the appointment of other technical counterparts from Government of Pakistan bodies represented on the Oilseed Development Board to work with the U.S. technicians.

G. Self-Help Measure No. 7

1. Self-Help Measure

To maintain the present favorable agricultural policy environment for wheat production, to maintain and bolster the present input-output price relationships for wheat which have led to increased production.

2. Benchmarks

a. The Government of Pakistan will undertake appropriate price adjustments, to provide adequate incentives for increasing agricultural production and to coordinate pricing decisions for agriculture inputs and crops in order to offset any adverse effects of input price adjustments on producer incentives. A report will be submitted to the U.S. Government by September 30, 1982 which gives fertilizer prices and the price of wheat. The report will highlight changes in prices during the period October 31, 1981 until August 31, 1982.

b. The Agricultural Prices Commission will continue to analyze the cost of production as it relates to seed, fertilizer, water, insecticides, land, fuel, and other related inputs to be used in making decisions about future support price levels for wheat. A report will be prepared on studies initiated and carried out during the period November 30, 1981 until August 31, 1982.

c. Federal and Provincial Governments will impose no restrictions in the transportation/movement, buying, selling and storage of wheat during the course of the Agreement except for restrictions on the movement of whole wheat grain by road needed to minimize the illegal movement of wheat across international borders. In the event the Government determines emergency conditions (as defined in the Title I Agreement of January, 1979) warrant temporary imposition of restrictions, the U.S. Government will be notified.

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3. Reporting Formats

(For Benchmark a)

Prices of Wheat and Fertilizer

	Unit	Prices		Percent Change
		Oct. 31, 82	Aug. 31,82	
Wheat				
Fertilizers				
Urea				
DAP				
CAN				
SSP				
NP				
SOP				
AS				

Discussion

(For Benchmark b)

Please Provide a List of Studies With Dates, Initiated by the Price Commission

Discussion

Enclosure

Reports of completed studies.

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(For Benchmark c)

Please Provide a Report Describing the Movement and Marketing of Wheat, If any Restriction was Imposed on this Movement by the Federal or the Provincial Governments Please Provide a Description and Date of the Event

Discussion

The GOP representative agreed to the self-help measure, benchmarks, and reporting formats as shown above.

H. Self-Help Measure No. 8

1. Self-Help Measure

To permit equitable availability of wheat for private marketing channels, the Government of Pakistan will continue to limit the sale of wheat through ration shops and will continue its efforts to eliminate bogus ration cards.

2. Benchmarks

a. Reports will be provided on an annual basis for the following:

i. The offtake of wheat for the partial provisioning system

ii. Offtake for other official uses

b. The number of bogus cards eliminated during Pakistan fiscal year 1981-82 and the number of cards existing at the end of Pakistan fiscal year 1981-82.

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3. Reporting Formats

(For Benchmark a)

Official Offtake for Wheat

(Thousand Metric Tons)

Release	1981-82	1982-83
PPS	2,439	
Punjab	997	
Sind	627	
N.W.F.P.	575	
Baluchistan	240	
Others		
Defence and Azad Kashmir	350	
Open Market Sales	450	

Discussion

(For Benchmark b)

Number of Bogus Ration Cards

	Number
Eliminated during PFY 1980-81	51,960 1/
Eliminated during PFY 1981-82	_____
Existing at the end of PFY 1981-82	_____

Discussion

1/ Excluding Baluchistan

The need to disaggregate reported official offtake was stressed by the USG representative. This disaggregation will allow identification of releases of wheat stocks through ration shops, the important factor in this self-help measure.

The GOP representative pointed out that total official offtake has been consistently maintained below the agreed limit of 3.277 metric tons despite increasing population and growing urbanization, thereby reducing the relative proportion of releases through ration shops. A technical review was scheduled to discuss benchmark targets and reporting formats. (At the technical review meeting the difficulties associated with mixing releases for open market operations and ration shops were discussed. It was agreed that the emphasis of the benchmark should be placed on the trend over time and not on an artificial limit. Therefore, reports will be provided on a disaggregated basis to allow time-series analyses. It was understood that offtake from the rationing system could increase if there was a significant shortfall in wheat production.)

The GOP representative agreed to the self-help measure, benchmarks, and reporting formats as shown above.

I. Self-help Measure No. 9

1. Self-Help Measure

To increase domestic storage capacity for wheat and to facilitate procurement operations at harvest time, additional wheat storage facilities will be built in Pakistan.

2. Benchmark

The Government of Pakistan will increase total storage capacity by 200,000 metric tons.

3. Reporting Format

Wheat Storage Capacity

(Thousand Metric Tons)

Agencies	Capacity Avail. as of Nov. 30, 1981	Completed Construction	Total Capacity as of August 31, 1982
Provincial	1,814		
Punjab	1,129		
Sind	436		
N.W.F.P.	174		
Baluchistan	75		
2. Federal	543		
Food Wing	20		
Defense Division	34		
N.L.C.	162		
A.K.	18		
Northern Areas	7		
PASSCO	302		
3. Private	300		

Discussion

The GOP representative agreed to the self-help measure, benchmark, and reporting format as shown above.

IV. Communication

For the purpose of this Agreement, communication will be through the Secretary or the Joint Secretary or the Deputy Secretary of the Economic Affairs Division for the Government of Pakistan and through the Agriculture Attache, United States Embassy in Pakistan, and the Mission Director, Agency for International Development, Pakistan for the Government of the United States.

V. Attendance

The list of attendees for the meeting is attached.

FOR THE GOVERNMENT OF THE ISLAMIC REPUBLIC OF PAKISTAN

By : Sd/-

Name: Ejaz A. Naik

Title: Secretary

Economic Affairs Division

FOR THE GOVERNMENT OF THE UNITED STATES OF AMERICA

By: Sd/-

Name: Ronald I. Spiers

Title: Ambassador of the United States of America

3. 1985 SELF-HELP MEASURES (1983 and 1984 SHMs were basically the same)

Self-Help Measure No. 1 - Price Policy

The Government of Pakistan will continue the long-term policy of liberalized prices for edible oil products to create favorable conditions for the improvement of the edible oil sector in Pakistan. Liberalization in this particular context shall be understood to permit producer prices and wholesale prices of edible oil and edible oil products to change in response to domestic demand or rising world market prices. It should not be understood to preclude selective use of support prices consistent with these objectives.

Benchmarks

a) The GOP will continue to permit the direct importation of edible oil by the private sector on a cash basis.

b) The GOP will provide semiannual reports beginning July 1, 1985 of monthly domestic wholesale and retail prices of mustard/rapeseed oil, palm oil, cottonseed oil, sunflower, safflower and soybean oils and import statistics of edible oil by quantity and value.

c) The private sector will be permitted to transport and sell, without controls or restrictions, vegetable ghee among the provinces and districts. The GOP will publicize this policy.

d) The GOP will hold a public seminar on the results of the USG study of Pakistan's Edible Oilseeds Industry within four months of the signing of the agreement, in coordination with SHM No.2.

e) The GOP will complete, by August 15, its review of the current policies that set the retail price of vegetable ghee as well as the practices in the cottonseed oil market in the context of the Stock and Trade Management report. The review will consider decisions with respect to the removal of price controls from private sector vegetable ghee, and the purchase and resale of domestic cottonseed oil on a free market basis. The USG will be informed of the outcome of the review and the Government's pricing decisions.

Self-Help Measure No. 2 - Stock and Trade Management

The GOP and USG will carry out a detailed review of the Stock and Trade Management Study. This review will include a series of meetings among

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representatives of the ministries, inter alia, of Agriculture, Planning, Finance, Commerce and Industries. This intergovernmental review will be followed by a public seminar with private sector participation. The subjects for discussion at the meetings will include: 1) buffer stocks, domestic demand and international markets; 2) the domestic wholesale market for oilseeds and edible oil, including a commodity exchange; 3) import procedures, including forward purchases, and domestic prices of bulk oil; 4) the present and future demand for ghee and edible oil; 5) distribution and pricing practices for ghee; and 6) sanctioning procedures for new and existing ghee plants. Other topics will be added as needed. The GOP will insure that its participants will be of sufficiently high position to affect directly policy discussions and policy change. Since the Edible Oilseed Study and the Stock and Trade Management Study are complementary, the GOP and USAID/Pakistan may agree to coordinate the required reviews and seminars and to hold them simultaneously, as appropriate.

Benchmarks

a) Agreement to discuss with USAID the results of the GOP's interagency meetings within five months of this agreement.

b) Public seminar within 4 months of this agreement.

Self-Help Measure No. 3 - Privatization of Vegetable Ghee Industry

To advance the policy of increased private sector participation in the edible oil and vegetable ghee industry, the Government of Pakistan will continue its policy of progressive privatization of the vegetable ghee industry. The Government of Pakistan will encourage the entry of private firms into the industry through relaxation of barriers to entry and movement towards the removal of price controls. The Government of Pakistan undertakes to pursue policies that ensure operation of all ghee plants, public and private, without subsidization of their operations or raw material costs.

Benchmarks

a) The Ministry of Industries of the GOP will provide updated information by July 1, 1985 on the public/private sector balance of production, capacity and ownership of units in the edible oil (not the expelling part of the industry) and vegetable ghee industry. Updates will be made by January 1, 1986.

b) The Ministry of Industries of the GOP will continue to provide information semiannually beginning July 1, 1985 on the number of outstanding applications for edible oil and ghee plants, the status of these applications and the status of implementation of the sanctioned projects. The Ministry of Industries will expedite the implementation of sanctioned projects, e.g., by facilitating credit arrangements and utility hook-ups. The Ministry of Industries of the GOP will provide a report on the actions taken in this regard by July 1, 1985, and will provide an updated report by January 1, 1986.

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c) The Ministry of Industries of the GOP will keep USAID informed on policy statements and decisions affecting the operation and disposition of publicly owned ghee units. A summary report on each policy decision and statements will be provided to USAID by July 1, 1985. An update will be provided by January 1, 1986.

d) The GOP will review its sanctioning procedures for the vegetable ghee industry in the context of the Stock and Trade Management report including removal of sanctioning requirements from the vegetable ghee industry. The GOP will advise the USG of the policy it intends to adopt as a result of its review of the STM report within six months of the signing of this agreement.

e) The Ministry of Industries will arrange for the analysis of the legal status of each of its constituent mills in terms of privatization. It will perform separate analyses for those that are the sole proprietary projects of the GOP, the private limited companies for which public bodies paid significant amounts and those for which they did not, and the public limited companies for which public bodies paid significant amounts and those for which they did not. Special attention will be devoted to the units listed on the stock exchange and whose shares are actively traded. A report on the status of this project will be made by July 1, 1985 and a draft report will be delivered to USAID by January 1, 1986.

f) The GOP will not expand the production capacity of any of its units or add new units except for modernization, balancing or replacement which will be financed through retained earnings or borrowing from the commercial banks.

Self-Help Measure No. 4 - Import and Credit Policies

In order to stimulate the domestic livestock and poultry industry and rationalize production and imports of oilseeds and products, the GOP will consider instituting a broad range of policies and other measures, including a measure giving the private trade the opportunity to participate in credit programs that are available for financing imports, and to review import duties and taxes on oilseed meal, with due regard to the movement in related international prices and the cost of production of domestic poultry and livestock feeds.

Benchmark

The GOP will report the results of this review to the USG by July 1,1985 with special reference to: (a) the use of the Commodity Credit Corporation credit for protein meal imports by the private sector; and (b) the extension of zero duty privileges to other than poultry feedmill operators, including poultry farmers.

ANNEX D

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ANNEX E. PERSONS CONTACTED

GOVERNMENT OF PAKISTAN

Nisar Ali Shah	Additional Secretary, EAD
Riazul Haq	Joint Secretary, EAD
Rahmatullah Khan	Joint Secretary, MOI
-- Qasmi	Joint Secretary, MOI
-- Akhund	Secretary of Agriculture
Imtizaj Husain	Agricultural Development Commissioner, MOA
Mohammed Haneef	Deputy Agricultural Development Commissioner, I/C Edible Oil Crops, MOA
Ikhlaq Hussain	Sales Manager, GCP
Javed Sarshad	Deputy Secretary, Ghee, MOI
Afzal Hussain	Executive Director, Agricultural Development Bank of Pakistan, Islamabad
Manzoor Ahmad	Consultant, Coordination PARC, Islamabad
Akhtar Beg	Coordinator, Oil Seed Crops, PARC

USAID/ISLAMABAD

Eugene Staples	Director
Jimmie Stone	Deputy Director
Peter Davis	Program Economist, Program Manager, PL 480
Wayne Tate	Deputy Chief, Program
William McKinney	Assistant Program Officer, Program
Tahira Abdullah	Program Assistant, Program (Liaison with IBRD, ADB)
Allen Hankins	Chief, ARD

Richard Goldman	Deputy Chief, ARD
Barry Primm	Agricultural Economist, ARD
Adbul Wasay	Economic Specialist
Robert Nachtrieb	Chief, PDM
Jeffrey Mallick	Deputy Chief, PDM
AID/WASHINGTON	
Judy Gilmore	FVA
Paul Wenger	FVA
Forest Duncan	FVA
US EMBASSY/ISLAMABAD	
William Brant	Agricultural Attache
Russell Graham	Economic Counselor
OTHERS	
Larry Morgan	Chief of Party, Economic Analysis Network, (EAN) FSM Project
Shahid Pervaiz	Project Coordinator, EAN
Asad Khan Malik	Director, Saudi Pak Kalabagh Livestock Company

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ANNEX F: FAT REQUIREMENTS IN THE DIET

The most critical functions of dietary fat are as a carrier of fat soluble vitamins and a provider of essential fatty acids. Nutritionists estimate that a diet in which at least two per cent of the calories come from essential fatty acids would meet that requirement and that 15% of fat/day is adequate. The 1980 nutrition survey of Pakistan found on average an intake of 23.7 grams from visible sources - vegetable oils, milk products and livestock fats. In addition, substantial amounts are obtained from meat, eggs, grains, pulses, fruits and vegetables. On average, total intake of fats and oils was 42.2 grams per day, so that nearly 17% of the caloric intake comes from fat which provides concentrated calories. In both human and bovine milk, aobut 50% of the calories are supplied by the milk fat.

There has been a substantial increase in distribution of vegetable ghee and fat per capita since 1980, and it appears now to reach all parts of the country. Data indicate that in recent years, the increase in vegetable ghee consumption has been largely in rural areas where intake levels previously were lower. Thus, there apparently is little or no fat deficiency per se, though there are caloric deficiencies that could be met by higher fat intake. However, economics, which would be a major consideration, argues for grains which provide a cheaper form of calories for low income groups. Fats and oils in reasonable quantities do increase palatability of otherwise high starch diets.

Source: RECOMMENDED DIETARY ALLOWANCES: National Academy of Science; Washington D.C.; 1980.

ANNEX G: INTERSECTORAL TRANSFERS - AGRICULTURE

The issue of prices of fertilizer, pesticides and imports, and irrigation fees related to their costs has been widely discussed. The prevailing view, among the donor community at least, seems to be that subsidies are bad and should be eliminated. In many cases, donors, most notably IBRD, IMF and AID have taken a strong position along this line. AID/W guidance appears to be quite specific and urges that the USAID dialogue should emphasize elimination of production subsidies to the agriculture sector.

Most economists agree that price management, with or without resort to subsidies, is likely to result in some and often major misallocations in resources use. Most agricultural policy analysts will concede, however, that a degree of stabilization effort is desirable to shield farmers and consumers from the vagaries of large temporary fluctuations in supplies and prices. These are accepted and supported on a domestic and international basis, hence the many international commodity agreements -- coffee, wheat, etc. However, neither domestic programs nor international agreements should prevent needed lon-term production, consumption and price adjustment.

Granting the desirability of freedom in the market place, it is essential that international donor dialogue on the policy of reduced price management and elimination of subsidies be based on a careful analysis of individual country situations which pay particular attention to the balance of economic management (including price management), subsidies and intersectoral and intergroup resource transfers. It appears intuitively obvious that pressure (and measures) to eliminate subsidies in agriculture, the case in point, should be balanced by pressure (and measures) to eliminate implicit and explicit resource transfers from the sector where they exceed the norms of the society and economy as a whole; i.e., agriculture should bear its share of government costs but no more and it should not suffer a substantial intersectoral resource transfer.

The currently stated policy of the GOP is to eliminate subsidies as rapidly as possible. An explicit 1981 commitment was to eliminate fertilizer and pesticide subsidies by 1985. Negative differentials between water user fees and costs of irrigation maintenance are to be reduced.

By 1985, the GOP had first eliminated the subsidy in public pesticide application and then transferred pesticide distribution to private hands, eliminating subsidies. Recently, progress on reduction in the fertilizer subsidy has

been reported as a result of 75% price increases from 1979/80 to 1983/84 while principal crops (wheat, cotton, rice) prices were raised by between 20 and 40% and sugar cane by 55% (further crop increases have come since). The apparent subsidy on fertilizer has declined from Rs 1,819 million in 1981/82 to an estimated Rs 1,500 million in 1984/85 despite an estimated 30% increase in use. These subsidies are the amount that must be paid for the highest cost producers and imports and do not include adjustments for lower cost plants which are taxed (i.e. subject to a surcharge). Adjusted for this surcharge, the net budgetary subsidy drops from Rs 1,448 million in 1981/82 to Rs 551 million in 1984/85.

Net irrigation expenditures increased during this period from Rs 591 million to Rs 1,318 million.

However, there are several major hidden intersectoral transfers from agriculture. For 1984/85, the highest quality cotton lint was supported at about Rs 13.31/Kg. The price in recent years has tended to hold at about US $1.35/Kg for similar US cotton, while Pakistan received only about .90 cents. Thus, Pakistani farmers are paid on the basis of about 70% of the price US farmers receive for similar variety and length of staple cotton about 80% of the export price of the lower quality grading. The lower price to Pakistani farmers results from inefficiencies of the government monopolized trade, poor ginning, lack of grades, and tax on exported lint. Since the government fixed price structure, taxes and CDCP costs fix internal prices to the textile industry, the farmers suffer this price reduction and income transfer to textile mills and consumers on all their production. The 1985 IBRD report estimated a Rs 300 million tax take on cotton exports. This level applied to total output in recent years would amount to an invome transfer from farmers to the treasury of about Rs 1-2 billion per year.

The basmati rice price in 1984/85 was set at Rs 160/40 Kg (Rs 4,000/MT), which is less than 50% of the export price in recent years of about $600/MT. The domestic retail price in early 1986 was about 60% of the export price. Here again, the export price is the principal determining factor in the domestic price. On 950,000 MT of Basmati, the transfer amounts to about $250 million (Rs 4.0 billion) per year.

The price of IRRI rice is about Rs 92/40 Kg (Rs 2,300/MT, about $140/MT) which is below prices at which similar rice from Thailand, Indonesia and China has sold recently. The consumers and the RECP are principal beneficiaries of the income transfer.

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Wheat, with a procurement price of Rs 2,000/MT (Rs 80/40MT) or $125/MT, is well below the FOB price of imported wheat, though fairly close to US internal price. This wheat is cheaper than imports from the US by the amount of transportation costs.

Soybean procurement prices, at Rs 140/40 Kg, are slightly above the US price.

In general, the government of Pakistan also manages prices of livestock products to the advantage of domestic consumers over producers. How much this amounts to is not clear but it is very substantial and reflected in both livestock prices and prices of feeds (e.g. oil cake).

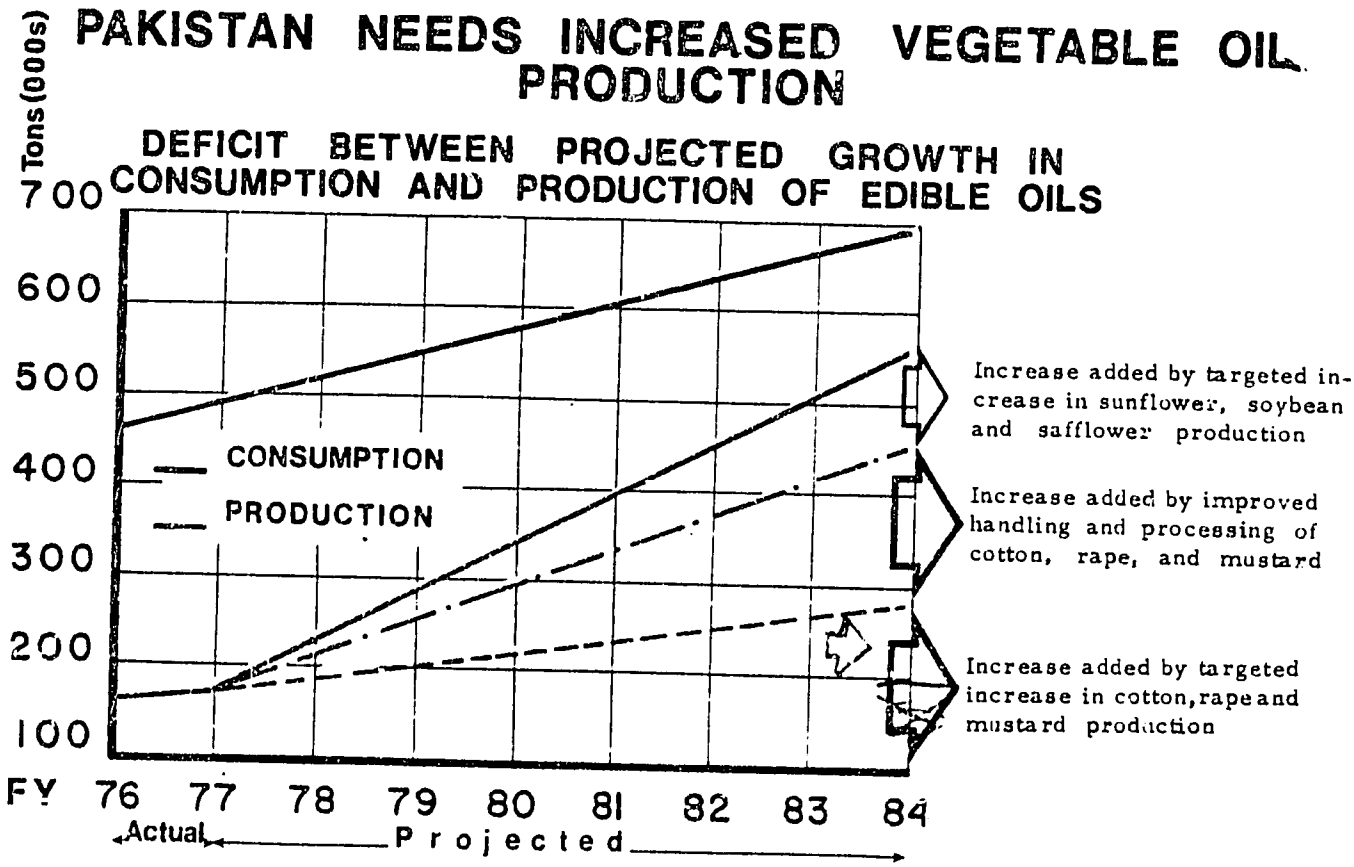
The March 1985 IBRD report looked just at direct taxes and export corporation profits on exports of rice and cotton and arrived at a cost of almost Rs 600 million for 1984/85. If the transfer were only at this level on internally processed cotton and internally consumed rice, the total would be Rs 2,000 to 2,500 million which is well above the irrigation and fertilizer subsidies.

There undoubtedly are other transfers both ways (e.g. agricultural credit to farmers and land revenue from farmers), but considering only the major and documentable transfers noted above, it is evident that care should be taken in strong endorsement of further subsidy reduction until some offsetting adjustments are made reducing the "implicit commodity taxes".

ANNEX H: JANUARY 1977 AID PAKISTAN DEVELOPMENT DATA

Excerpt on Vegetable Oil and PL 480 Strategy Elaboration Request

PAKISTAN NEEDS INCREASED VEGETABLE OIL PRODUCTION



Pakistan's vegetable oil consumption has increased rapidly from about 300,000 tons in 1973-74 to about 500,000 tons in 1976-77. At present growth rates, consumption is expected to exceed 700,000 tons per year by 1982-83. Production, however, is lagging and vegetable oil imports may cost between $125 and $150 million in 1976-77. Unless an adequate production strategy is developed, imports could cost $250 million per year by 1982, at current prices.

The two major types of domestically produced vegetable oil in Pakistan are cottonseed and brassica (rape and mustard) seed. Poor handling and processing now result in heavy losses due to spoilage, build up of fatty acids and low extraction rates. After allowing for seed, feed and waste, approximately 950,000 tons of cottonseed should have been available for oil processing in 1975-76 which would have provided 160,000 tons of oil. However, the Government procured only about 80,000 tons - the equivalent of $40 million in import value. Pakistan presently produces about 290,000 tons of brassica seed annually, but again, much of the oil is not extracted due to poor processing and handling techniques.

In the long run, attainment of self-sufficiency in vegetable oils will require substantial production of specialized oilseeds such as groundnuts, sunflower, safflower, and soybeans. The Government's tentative target is to obtain about 115,000 tons of oils from these specialized crops by 1982-83. The Government's strategy combines increased production with improved handling and processing of all oilseeds.

The United States is providing large amounts of soybean oil under PL-480 terms to supplement commercial imports while Pakistan moves to implement its oilseeds strategy. The United States is also assisting in a project designed to improve the extraction rates of brassica in small mills and with research efforts aimed at improving seed yields and at introducing and widely disseminating other types of oilseeds. However, a major coordinated effort will be required to make Pakistan self-sufficient in vegetable oil.

Key elements of that strategy are to:

-- Conduct sound research on the introduction, testing, and distribution of improved varieties and improved cultivation practices.

-- Assure incentive prices for intensive cultivation of specialized oil crops.

-- Provide incentives for the construction of adequate and conveniently located handling and storage facilities as well as efficient extraction facilities.

"3. A. The USG representatives noted that the Aide Memoire for Fiscal Year 1976-77 provides an informative general statement on Pakistan's strategy in expanding oilseed production and requested the Pakistan representatives to elaborate on their strategy by oilseed crops (soybean, groundnut, sunflower, safflower, rape and mustard seed) in such regards as:

1. Research activity - description of present and planned research by locations and institutions, major problems being addressed, types of trials and resources assigned;

2. Amount of seed multiplication - number of acres planned in the last year, seed production and projections;

3. Extension demonstrations and crop promotion activity - number and acreage by province;

4. Area planted to oilseed crops, production and projections;

5. The major facilities, locations and capabilities for processing different oilseeds and any planned increases;

6. The price policies for different oilseeds including procurement prices, manner in which they will be operated, location of procurement centres, and capabilities (price policies being followed for kharif crops and those to apply to the rabi should be described. Any changes contemplated for the next year also should be described);

7. Any other actions being taken; and

8. Additional action considered necessary to make a major increase in output.

B. The USG representatives also requested a statement of:

1. The progress on steps being taken to shift from ghee to the production of less costly refined oil;

2. Any action being taken to reduce processing losses due to high levels of Free Fatty Acids in oilseed and oil;

3. An appraisal of the effects of measures already taken to increase the utilization of solvent oilseed processing plants and additional actions considered necessary.

C. It was agreed that in addition to the monthly report on edible oils the Government of Pakistan would also provide to USAID, within 120 days after the date of the signing of the Minutes of this meeting, the statements of its oilseed strategy and other matters as requested above. "

ANNEX I

APPARENT IMPACTS OF GOVERNMENT PRICING POLICY ON OIL PRODUCTION

From 1971 to 1975, the price of vegetable ghee and the price of wheat were allowed to rise at similar, though not identical, rates. The price of cooking oil, which was basically free, rose at about the same rate as that of wheat. From 1971 to 1975, the ghee price increased by 90%; wheat, 120%; and the price of cooking oil went up 108%. In contrast, from 1976 to 1982-83, the price of wheat was increased by 73%, while the ghee was increased by only 13%. Cooking oil increased by only 25% during this period. Even with the increase in ghee in 1983, the total increase from 1975 to 1983 was only 30% in ghee and 73% for wheat (the principal competitor of winter oilseeds for land). The current price of wheat (Rs 80) is 370% above the 1971 price (Rs 17) while the price of cooking oil is up only 242%, and that of ghee (at Rs 13.50) is up only 165%.

The consequences of these price policies and that of liberal vegetable oil imports are clear (and disastrous for production). During 1970/71 and 1971/72, rape and mustard seed production averaged 285,000 MT and for 1975/76 and 1976/77, averaged 282,000 MT; but by 1983/84, production had dropped to 217,000 MT, with a 3 year average (1981/82-1983/84) of 233,000 MT.* In the same period, oil extraction rate of cotton seed dropped about 2 percentage points, from 13-14% to 11-12%. Wheat production rose from a plateau of about 7,000,000 MT to about 12,000,000 MT.

Outputs of groundnuts, which are mainly consumed as nuts (not processed for oil) and hence not greatly affected by ghee price limitations, increased from about 50,000 MT in the early 1970s to 86,000 MT average FY 1982/83 and 1983/84. Production of non-traditional oilseeds, (sunflower, soybean, safflower) for which price supports were first established in 1976, pursuant to PL 480 negotiation which called for a vegetable oil strategy, has increased substantially in percentage terms starting from a small base:

*With price increases in 1983/84 for ghee and oil about 30%, rape and mustard seed output were up 10% in 1984/85 over the year before.

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From 1970/71 to 1971/72 to the present:

- Soybeans increased from 930 to 1450 MT (+55%)
- Sunflower increased from 670 to 7,900 MT (+1075%)
- Safflower, introduced in 1976, reached an estimated 4,447 MT in 1982/83 and then dropped to 3,200 in 1983/84.

These increases in sunflower and safflower have come mainly in Sind, while soybeans are grown mainly in NWFP. Very small amounts of sunflower were grown in Sind in 1970/72, but production then ceased until incentives were introduced in 1976/77. In 1983/84, Sind accounted for over 50% of total Pakistan sunflower production.