

Country Development Strategy Statement

FY 1988 -- FY 1993

PAKISTAN

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ACRONYMS USED

ADB	- Asian Development Bank
ASSP	- Agriculture Sector Support Project
BOP	- Balance of Payment
ENERCON	- Energy Conservation Unit (GOP)
ENERPLAN	- Energy Planning Unit (GOP)
EP&D	- Energy Planning & Development
EPI	- Expanded Program of Immunization
FSN	- Foreign Service National
GDP	- Gross Domestic Product
GNP	- Gross National Product
GOP	- Government of Pakistan
HYV	- High Yielding Variety
IFPRI	- International Food Policy Research Institute
ILO	- International Labor Organization
IMF	- International Monetary Fund
MA	- Master of Arts
NWFAUP	- North-West Frontier Area Development Project
NWFP	- North-West Frontier Province
OGDC	- Oil & Gas Development Corporation
ORT	- Oral Rehydration Therapy
PFY	- Pakistan Fiscal Year
PNCB	- Pakistan Narcotics Control Board
PPP	- Pakistan People's Party
SMC	- Social Marketing of Contraceptives
SPAP	- Support for Provincial Agricultural Production
UMR	- Usual Marketing Requirement
WAPDA	- Water and Power Development Authority

Note: At time of writing the official exchange rate was Rs.17.16 = \$1, which was about equivalent to the open market rate.

FY 1988-93 CDSS

I. INTRODUCTION AND SUMMARY

A. Program Setting: Paradox and Potential

Pakistan's founder, Jinnah, dedicated his life to establishing a state that would unite Islam and his Westminsterian vision of democracy; yet Pakistan has suffered greatly from both religious discord and martial law. The official Islamic ideology, as expressed at high levels of government and by a host of mullahs, is conservative and ascetic. At the same time, much of Pakistani society today is as consumption-oriented as any American shopping mall. The dedication of virtually all Pakistanis to Islam does not keep Sunnis and Shias from suspecting each other of the worst, nor dilute the antagonisms among the major ethnic groups of Pakistan--the Punjabis, the Pathans, the Sindhis, the Baluch and the Mohajirs. The economy, fueled by Gulf remittances, smuggling, heroin and the Afghanistan war, has boomed for eight years. The Government meanwhile cannot mobilize money enough to remedy crippling inadequacies in education, health, family planning services and infrastructure.

The potential is equally clear. Underlying the contradictions is a fierce drive for self-betterment by most elements of the society. The Pakistani workers in the Gulf, who over the past 13 years have sent tens of billions of dollars home to their mostly poor and rural households, are tough, hardworking and self-sacrificing. The trading and industrial classes display tenacity and imagination in money making. The Pakistani civilian and military bureaucracies at their best are impressive. Throughout the society there exists a widespread, if frequently unsophisticated, yearning for democracy and justice and a far deeper devotion to the idea of Pakistan than the cacophony of national ethnic politics might suggest. The national endowment in land, water, and minerals is fragile but of enormous value if properly managed.

Pakistan's political history has complicated and slowed its overall development. The 1965 war with India was the beginning of the end of the Ayub Khan period of strong economic and social development. The 1971 war with India and the loss of Bangladesh left deep wounds in the body politic, leading to the eventually chaotic Bhutto period and the subsequent long martial law

regime of President Zia. The impact of such events in terms of confusion of national purpose, an inability to concentrate on long-range problems and a growing incidence of corruption, is manifest in the various institutional crises of Pakistan. Primary education has been starved, universities politicized, research neglected. Basic institutions like WAPDA (the state water and power monopoly) and the provincial irrigation departments have failed to reform their bureaucracies to respond to constantly growing demands on their services. The political elites have ignored the growing institutional problems or been unable to muster the will to tackle them.

Pakistan's problems in pursuing its development agenda today are compounded by the Afghanistan war, now in its eighth brutal year. Pakistan has behaved in an extraordinarily brave and generous fashion during this war. Pakistan shelters the world's largest refugee population, treating the Afghan refugees with a generosity, openness and tolerance seen nowhere else in the world under comparable circumstances. Pakistan maintains its stand against the Soviet occupation of Afghanistan in spite of the growing toll of cross-border aerial raids, artillery shelling and sabotage and terrorism inside Pakistan carried out by the Soviets and their Afghan puppets. In the early months of 1987, over 200 people have been killed in these incidents and there is a rising tide of popular sentiment that the war must be settled at virtually any cost.

The civilian government headed by Prime Minister Junejo, which took over day-to-day governmental power from President Zia in 1985, continues to stand firm on Afghanistan. Internally, its mandate began from an extremely weak political base. In the past year, however, the Junejo government increasingly has demonstrated the will to make difficult economic, political, and social decisions. Its record in economic policy reform, treated in some detail later in this document, is becoming genuinely praiseworthy. Politically, the government has skillfully defused the challenge posed by the extra-parliamentary opposition. While it used force in an August 1986 confrontation with the opposition, the government has lifted most controls on the press and on political expression. The Junejo government recognizes the growing menace of the heroin problem in Pakistan; this year, in contrast to the disastrous efforts in 1986, its poppy eradication campaign in the Gadoon area has been carried out with remarkable skill.

Possibly the most notable achievement of the Junejo government--if performance is sustained--is its recognition of the disastrous circumstances of education in Pakistan. In the past two years, the percentage of GNP dedicated to education has increased from 1.5 to 2.5 percent with most of the increase going to primary education; evidence is accumulating that these funds are in fact being spent appropriately.

In this volatile political environment, building on experience gained in carrying out the previous wide-ranging six-year development package, the large USAID program is clearly one of the most important elements in the overall U.S. strategic approach to Pakistan. In fostering economic growth, social development and policy and institutional reforms, the program also contributes substantially to the country's long-term political stability.

Even if fighting in Afghanistan ceases or slows markedly in the next year or so, the region itself will remain sensitive and unstable for years to come, and Pakistan's role will continue to be of vital importance. The U.S.-Pakistan relationship has improved in the past six years, at least in part because of the assistance program. It is not an entirely easy relationship. A good many Pakistanis question the reliability of the United States as an ally--although the United States historically is by far the largest economic and military donor to Pakistan--because of U.S. failure to come to Pakistan's assistance militarily during its wars with India. Particularly troubling elements in the otherwise generally warm official relationship are the nuclear and narcotics issues.

B. Economic Situation

The average annual growth rate of the Pakistan economy has exceeded 5.5 percent for the last 25 years and more than 6 percent for the last nine years. This growth has occurred despite two brief but costly wars with India, large military expenditures, floods, drought, regional dissension, the loss of half of the country, oil shocks, lack of political consensus and unity, economic recession under Bhutto, and in recent years, the arrival of three million Afghan refugees. The reasons for Pakistan's strong economic growth performance include the low base from which it started (after all these years of very respectable growth rates per capita GNP is still only \$354), economic

policy reforms, expanding private investment, extremely large remittances from the Gulf, favorable agricultural weather, the completion of long gestation public sector projects, the uncountable but huge and uncontrolled inflow of resources from smuggling, drug trafficking, the Afghan war and the use of resources gained from deferral of maintenance on physical and social infrastructure. The contribution of a number of these factors to economic growth is now declining and Pakistan is likely to suffer severe economic distress over the next six years unless serious underlying constraints are addressed and corrected.

Pakistan's economic problems are systemic as well as short-term. Current problems include an impending balance of payments crunch stemming from shrinking remittances, growing debt service payments and slow export growth. Growing unemployment and the potential for rapid inflation are due to the fall in Middle East employment and the rising budget deficit. Deep-seated, systemic problems include the the government's inability to mobilize resources, inefficiency in the industrial sector, inadequate social services for a growing population and a deteriorating physical infrastructure. Fundamental reforms are required in virtually all institutions, from banks to railways to irrigation departments and universities. John Lewis said in his January 1986 report on twenty-five years of World Bank activities in Pakistan: "The Pakistan economy is, in certain important respects, living on borrowed time." That concern, shared by virtually all observers of the Pakistan economy, underlies the Mission's development strategy.

C. Political Situation

Elections were held on a nonparty basis in 1985 and a civilian government took control on December 31, 1985, formally ending eight-and-a-half years of military rule. Since then a ruling party, the Muslim League, has been formed in the National Assembly under the leadership of Prime Minister Junejo. A large number of other parties have also resumed functioning. The power of the legislature is growing and will influence the Government's revenue reforms, regulatory initiatives and other economic policy changes throughout the CDSS period.

The extra-parliamentary opposition boycotted the 1985 elections, declared the new parliament illegitimate, denounced the extensive changes in the 1973 constitution and demanded fresh elections. Despite the emotional welcome afforded Benazir Bhutto, leader of the Pakistan People's Party (PPP) on her return to Pakistan in April 1986, the opposition has so far been unable to force the government to accept this demand. The government plans to hold the next elections on schedule in 1990.

The Junejo government is compiling a generally positive record in permitting a broad range of political activities and press freedom. It faces a number of current and potential major political and socio-economic problems, with Afghanistan near or at the top of the list. Many Pakistanis are growing weary of the sacrifices their country must endure because of the presence of millions of Afghan refugees. The Afghans are becoming a scapegoat for the excesses of the "heroin and Kalashnikov mafia". The exceedingly violent Pathan-Mohajir riots in Karachi in the latter part of 1986 and early 1987 (the Mohajirs are Urdu-speaking people who came to Pakistan from India after partition), in which several hundred people died, galvanized national attention on the problem of guns, growing violence and heroin. Some Pakistanis attribute this deterioration of their society to the Afghanistan war.

A second smoldering issue is religious politics. The Parliament has devoted a great deal of time this past year to inconclusively debating two Islamization bills. The interpretation of Islam is an extremely divisive issue, which not only pits Sunnis against Shias but also fundamentalist Sunnis against their Sunni brothers who believe government should in most regards remain secular.

The third underlying problem the government faces is to maintain the momentum of economic growth. In some respects this is the most difficult of all because the government inherited a long agenda of delayed but absolutely necessary economic policy decisions. Most of these decisions, when made, will lead to immediate higher costs for large parts of the public although their long-term effects will be positive.

D. Lack of Social Cohesion and National Integration

Ethnic differences, rapid population growth, poor social services and a general lack of political and social cohesion compound the challenges of Pakistan's political and economic development. Over the past 15 years the population has grown at a 3 percent annual rate from 65 million to over 100 million; it is now the fastest-growing country in Asia. In the process Pakistan is becoming an increasingly young and urban nation. Some 65 percent of all Pakistanis are under 26 years old and 36 percent are less than ten years old. Urban growth rates have been even more dramatic, averaging 4.4 percent annually between 1971 and 1981. By the turn of the century (the CDSS covers nearly half of this 13-year period), the number of people living in Pakistan's cities could double to 60 million. In effect, over a period of less than fifteen years the GOP will be required to provide new investment and infrastructure for an additional urban population roughly equal to the combined metropolitan populations of New York City, Los Angeles and Chicago. To cope with this enormous problem, Pakistan must radically improve its ability to mobilize domestic resources--donors simply cannot and will not provide the magnitude of funds required.

The extended family, traditionally viewed as the single most important reference point for individual Pakistanis, has proved to be both durable and flexible and provides a measure of overall stability, cushioning to some extent the impact of rapid and irreversible change. Nevertheless, the social and political fabric of Pakistan is becoming increasingly vulnerable to destabilizing internal and external forces.

E. Summary of Strategy

During the 1988-1993 period the USAID strategy is to bolster political stability and national integration through programs of economic and social development. The strategy concentrates on generic challenges extending across sectors: reform of the policy, institutional and managerial environment, development of human resources and sustainable improvement of physical infrastructure.

A.I.D.'s strategic resources will be applied to ten development problems derived from the CDSS economic and social analyses. These are:

1. Balance of Payments Pressure
2. Inadequate Domestic Resource Mobilization
3. Low Agricultural Productivity
4. Energy Deficit
5. High Population Growth Rate
6. High Rates of Infant and Child Mortality
7. Low Primary School Enrollment Rates
8. Need for Quality Improvement in Key Institutions
9. Lagging Areas
10. Narcotics

The four basic sectors USAID has elected to work in are crucially important to Pakistan. Agriculture and related agro-business dominate employment, production and exports. Energy is a crisis-ridden deficit area in which better analysis, policies and delivery will improve both agricultural and industrial development. Health and population are deeply neglected and poorly managed: bad performance here limits Pakistan's current and future development. Education and training are of enormous importance as Pakistan seeks to develop as a modern, competitive and, many Pakistanis would add, democratic society. Democracy cannot be sustained in a country where over three quarters of the population are illiterate, and where the few who reach higher education find their universities to be sites of political mayhem rather than sources of skills and knowledge.

Recognizing that mistrust and alienation on the part of the less developed parts of the country seriously threaten political stability, the Mission strategy includes a special emphasis on activities in the lagging areas--those parts of Baluchistan, NWFP, interior Sind, the Northern Areas and the urban slums in which the popular perception is of being deliberately excluded by government from the mainstream of economic growth.

In the four selected sectors, USAID's comparative advantage is based largely on past involvement and success. Backed by well prepared studies, USAID has

provided the government with detailed analyses of the implications and possible modes of implementation of specific reforms. Liberalization of wheat pricing and fertilizer imports and the establishment of a new GOP entity focusing on energy conservation are but recent examples of the results of USAID-financed analyses.

In all four sectors, the GOP has asked for our assistance. With the possible exception of education, where the jury is still out, prospects for achievement are believed favorable, other donor policies and programs will complement USAID efforts and the GOP propensity to address restraining factors is high.

About 40 percent of the program will consist of fast-disbursing activities to support the balance of payments. These include the PL-480 Title I and a large agricultural sector support program. Through these programs, the annual Economic Policy Review and sector projects the Mission will pursue broadly based policy reforms in domestic resource mobilization, exports and financial market development and the agro-industrial investment climate.

The large energy program will reduce the shortage of electricity and indigenous energy and improve efficiency through tariff reforms, conservation, managerial innovations and increased private sector participation. The agriculture program will raise factor productivity by improving irrigation efficiency and research, teaching and management institutions and by increasing the role of the private sector. The health program will mount a major child survival effort and work to make the GOP's malaria control activities more sophisticated and less costly. An innovative new project will seek to further health and other social objectives through commercial channels in the private sector. In education and training, the already large training program will expand further to improve the supply of high-quality manpower through training key individuals and strengthening key institutions. The Mission may present a major project in primary education, with particular emphasis on girls, if the GOP continues to provide increased funding and management attention and if a potential project would complement rather than relieve pressures on the Government to mobilize its own domestic resources. The population program will work through both public and private sectors to widen the distribution of contraceptives. The lagging areas program aims to

help integrate the NWFP, Baluchistan and interior Sind into the national economy and to improve national cohesion through better economic infrastructure and social services in these regions.

Policy dialogue on domestic resource mobilization, export promotion and the strengthening and reform of key institutions will be coordinated with the most significant other donors, the World Bank and the Asian Development Bank, who have annual obligations of \$500 - 600 million each. The IMF is not at this point a critical player. Pakistan is in the midst of repaying the extended fund facility and the IMF offers during the past year have not been sufficient to persuade the GOP to make the structural reforms necessary to promote exports. At an estimated \$275 million in 1987, Japan is a fourth major donor, but the program is not significant in terms of policy reform and conditionality.

The program contains several activities to assist women's development in Pakistan. The proposed Rs.500 million (\$30 million) Special Development Fund, targeted primarily at local NGOs and other decentralized entities, would very substantially increase assistance for women-related programs in Pakistan. In any program in primary education, a basic objective would be to raise enrollment rates for girls, especially in rural areas. The child survival program will greatly improve female health.

The remainder of the CDSS consists of two major and two minor sections. The Analysis Section reviews the economic and social situation, following the problem oriented approach of the Blueprint for Development. This is followed by the Strategy Section. Short sections on Resources and the Work Plan round out the CDSS.

II. ECONOMIC AND SOCIAL ANALYSIS AND DEVELOPMENT PROBLEMS

A. ECONOMIC ANALYSIS

1. Macroeconomic Setting

a. Overview: Economic growth in Pakistan has been impressive but will be difficult to sustain. Real GDP grew by 6.9 percent annually during the first half of the 1980s, with GNP reaching \$33.5 billion in 1984/85 (\$354 per capita). The growth included the impact of large remittances, now

declining, and deferred investment in public goods. Although the growth rate exceeds the 1983-88 Plan target of 6.5 percent, the average real value added growth rates of 3.9 percent in agriculture and of 8.3 percent in manufacturing are below the Plan targets and slightly below the growth rates achieved in the 1978-83 Plan period. In the past ten years, the industrial sector (mining, manufacturing including agribusiness, and construction) rose from 23 percent of GDP to 25 percent, agriculture declined from 32 to 25 percent and the rest of the economy rose from 45 to 50 percent. The decline in agriculture is somewhat misleading since agriculture-related sectors are growing: the cotton textile industry dominates manufacturing employment and the agricultural input industries such as fertilizer and agricultural machinery are among the fastest growing.

Excessive government regulation of the formal economy, tax evasion, smuggling, drug trafficking and profiteering related to the Afghan war and refugee population contribute to a vigorous "black" or informal economy which is almost certainly growing more rapidly than the official GNP. The National Taxation Reform Commission recently estimated the black economy to be at least \$10 billion, nearly one-third of total GDP. Other estimates suggest up to 50 percent of GNP or \$16 billion, including unremitted savings.

The economy's structural deficiencies, if not addressed, will lead to economic decline and social and political turmoil. These include a weak balance of payments, a widening budget deficit, low rates of domestic savings and investment, overreliance on migrant workers' remittances and foreign aid flows, deteriorating human and physical infrastructure, rising unemployment pressure and increasing domestic and foreign debt payments. Power load shedding caused by inadequate investment in energy has resulted in reduced manufacturing output and lower economic growth. Although the foregone investments in education, health, transportation and irrigation may result in higher growth rates in the very short run, the longer term growth will be lower; the future definitely has been mortgaged. Pakistan's migrant workers' remittances, which not only had moderated the balance of payments problem but also generated considerable domestic demand, have started to decline.

b. Savings and Investment: Pakistan's economy is characterized by low rates of savings and investment, primarily due to high marginal propensities to consume in the private and public sector. The gross investment rate was only 16.7 percent in PFY86, compared with 25 and 21 percent respectively, for low-income and lower middle-income (oil importers) countries. Pakistan's gross domestic savings rate (5 to 7 percent in the 1980s, with no upward trend) is extremely low compared with rates for low-income and lower middle income countries of 23 and 16 percent respectively in 1984. The figures strongly suggest that Pakistan is consuming its existing public and private capital, and ultimately economic growth must decline.

c. Balance of Payments: Since 1975, imports on average have been twice as large as exports. But since 1983/84 imports have been virtually stagnant in value terms, mainly because of falling international prices of petroleum, edible oil and fertilizer. Workers' remittances, which covered much of the trade gap since 1974, are now declining from their PFY83 peak of \$3 billion. The estimate for PFY86 is \$2.3 billion, and a recent ILO study suggests a PFY90 figure of about \$1.6-1.7 billion. The 4.1 percent annual growth rate for total export value is substantially below the 15 percent annual rate projected in the Sixth Plan. Falling export prices were partly responsible for the poor performance, but even export volume expanded by only 8.6 percent annually. A major cause of slow export growth is the concentration of exports in a few agriculturally oriented commodities (rice, cotton, cotton yarn) that are subject to sharp price and volume fluctuations. While textiles (the single largest manufactured export) have shown substantial vigor, these products face both tariff and non-tariff barriers in the international market. Non-traditional exports, which must expand, have been declining in both value and volume terms.

Although the 1985/86 current account deficit of \$1.1 billion is an improvement over the 1984/85 deficit of \$1.6 billion, most of this improvement was due to falling prices of Pakistan's major imports along with surprisingly buoyant workers' remittances. With trade deficits and debt service higher, and aid disbursements lower than projected in the 1983-88 Plan, the government has financed the gap by reserve drawdowns and short-term borrowing. Debt service as a percentage of exports and net service earnings rose from 13.4 in 1982/83 to an estimated 24.5 in 1986/87 and is likely to go higher. According to

World Bank estimates for June 1987, if short-term liabilities comprised of foreign currency deposits of non-resident banks and foreign exchange bearer certificates are excluded, adjusted reserves represent only 2.1 weeks worth of imports; mid-March 1987 figures are lower than the projection for June. Withdrawal of these liquid deposits, repurchases from the IMF, declining remittances and growing debt service payments (particularly military and commercial) will put the BOP under extreme pressure for the next few years.

The outlook over the CDSS period is for a tight balance of payments situation. The World Bank's best case scenario would see reserves slowly rising if exports grow at 7.1 percent annually in real terms and GDP growth is 5.5 percent. USAID is less optimistic because we expect a larger decline in remittances, based on the ILO study, than does the Bank. Both the Bank and USAID agree that real export growth of 7-8 percent will require major policy reforms.

Pakistan had an Extended Fund Facility with the IMF in the early 1980s but did not draw the last tranche. Since then, the GOP has managed its economy as if it had an agreement; visiting missions come at least twice a year. In 1982, Pakistan delinked the rupee from the dollar and has managed the exchange rate extremely well. In the past year, the rupee depreciated 10 to 25 percent against the yen, D-mark and other European currencies after earlier falling 50 percent against the dollar. The official rate of Rs.17.16 = \$1.00 is about the same as the open market rate.

d. Public Finance/Monetary Aggregates: Pakistan's budgetary situation has deteriorated markedly in the last three years with current budget expenditures rising dramatically and tax revenues remaining relatively flat. The overall budgetary deficit rose from about Rs.15 billion or 5.3 percent of GDP in FY81 to over Rs.40 billion or 8 percent of GDP last year, despite substantially lower edible oil and petroleum prices. The deficit may increase if Pakistan tries to match the very large defense budget increase announced by India in March, 1987, estimated in press reports to be between 25-40 percent. Defense and debt service expenditures already account for over two-thirds of current non-development expenditures, leaving little room for controlling expenditures. (The development or investment budget is equal to almost 40 percent of current expenditures.)

Outstanding domestic debt has been rising at over 20 percent annually since PFY80 and now exceeds external debt, while domestic interest payments are growing by more than 27 percent annually. Domestic non-bank borrowing has financed most of the deficit so that domestic debt rose from 25 percent of GDP in PFY80 to 34 percent in PFY86. As the growth of domestic debt accelerates, and interest and debt service absorb a rising share of government expenditures, Pakistan cannot continue to rely so heavily on nonbank borrowing and will have to borrow more from the banking sector. Without decisive action to increase domestic resource mobilization, the GOP risks inflation with its politically destabilizing consequences. Nonbank borrowing at high, tax-free interest rates (13-14 percent) has almost certainly diverted resources that otherwise would have gone into private investment.

Government revenues are in the 16-17 percent of GDP range with no evident upward trend; the average tax/GDP ratio during 1975-85 was 12.8 percent, much below the ratio in comparable countries. The causes are a narrow tax base (agricultural income is exempt, for example) and a relatively inelastic tax structure (81 percent of tax revenues come from indirect taxes and collections rise more slowly than income). The National Taxation Reform Commission has identified various measures to expand the tax base, improve collection of existing taxes and possibly introduce a broad based sales tax and a value added tax on some luxury items to increase tax revenues. The low level of tax revenues has been at least partially responsible for the low investment in the human capital and physical infrastructure necessary for economy growth. Borrowing to cover the deficit has diverted large amounts of capital from the private sector, probably at some cost in economic growth.

The government has generally pursued a conservative monetary policy whereby the annual growth rate of the money supply has been around 13 percent, while near money has been growing around 17 percent each year. These growth rates compare favorably with the established targets of the 1983-88 Plan and are close to economic growth in nominal terms. The government has used credit controls to help contain inflationary pressure, although at some cost to investment, employment creation and income generation. The annual inflation rate is now about 5-6 percent, although some indexes were lower in 1985/86.

e. Employment: Agriculture provides employment to about half of the workforce, manufacturing accounts for about 14 percent, and the other sectors employ over one-third. The service sector, which is the fastest growing in terms of employment creation, is used in Pakistan as a residual category and includes construction, (5.6 percent), transport and trade (16.7 percent), government and other services (13.3 percent). Pakistan faces a potentially serious employment problem in the near future: a 3.1 percent annual rise in the labor force due to the high population growth rate and a changing structure of production that implies a lower labor absorptive capacity of the economy.

Mechanization in agriculture is reducing growth in the demand for labor at the same time that labor is returning home from the Gulf. Manufacturing employment has been hovering at 15 percent of total employment despite rapid growth in output. According to the ILO, overseas employment is declining and the domestic economy must absorb about 60,000 returning workers (net) each year. The resulting reduction in remittances also may dampen domestic demand and further reduce employment and income opportunities. The growing problem of the educated unemployed is evidenced by recent demonstrations by young doctors. The Junejo government recognizes the potential political costs; the fall of the Ayub regime was caused by disgruntled students and workers.

The relatively stable and low official unemployment rate (3.9 percent overall, 6 percent in urban areas) is partly the product of the extended family structure, which absorbs large numbers of unemployed and lessens their visibility. Underemployment is also overlooked; 14 percent of the labor force are estimated to work fewer than 35 hours per week and a 1986 local Gallup poll found that one-fourth of Pakistani workers were not fully employed. The 1987 World Bank review of the 1983-88 Plan's progress estimates that unemployment will rise from 5.0 percent (World Bank estimate) in 1984/85 to 10.9 percent in 1992/93.

f. Income, Wages and Poverty: National income growth has averaged 6 percent a year for the past eight years, while per capita income, measured in constant rupees, grew by 39 percent or 4.8 percent per annum. In dollar terms, real per capita income (\$354 in 1985) has been growing 3 percent annually over the last eight years.

Available data indicate that the income shares of the lowest 40 percent of both urban and rural households increased between 1963/64 and 1970/71. Although it deteriorated between 1971 and 1979, the distribution of income still compares favorably with many other countries. As of 1979, the lowest 40 percent receive 19.2 percent of household income, the same as in Sri Lanka and considerably more than in India (16.2 percent), Indonesia (14.4 percent) and the U.S. (13.5 percent). The same pattern also holds for the highest 20 percent of households. The top 20 percent receive 45 percent of the income, which is more than Sri Lanka (43.4 percent) but less than in India (49.4 percent) or Indonesia (49.4 percent). Increases in the real wage rates of both agricultural (100 percent) and urban workers (80 percent) in the 70s and early 80s were the result of a domestic labor supply constrained by migration to the Middle East and increased demand for goods and services resulting from the inflow of remittances. In spite of these trends, the World Bank estimates that 29 percent of rural households and 32 percent of urban households are below an absolute poverty income level. It is clear that economic growth has left large numbers of very poor people in rural areas and urban slums.

g. Future Prospects and Constraints: Rapid economic growth is expected to continue for the next year or two, despite widening budget deficits and a difficult balance of payments position, because of good crops, continuing remittances and momentum. Over the medium to long-term, however, Pakistan's growth prospects are poor unless bold steps are taken to correct structural weaknesses. The budget deficit must be reduced by a decline in most subsidies and movement of public sector corporations off the budget and increased revenues from the taxation system without creating disincentives for investment. The financial sector and the overall investment climate require reform and liberalization. Economic growth that does not discriminate in favor of capital intensity is essential for increasing employment. Exports must be stimulated to resolve the balance of payments deficit. Neglect in the social sectors also must be redressed if Pakistan expects to compete in the tough world of the 1990s.

II. A. 2. Agriculture Sector

a. Sector Description: In 1985, agriculture provided 24 percent of the country's GDP, 51 percent of the employment, and was indirectly responsible for 52 percent of the value of goods exported. Total

output in value added terms increased every year during the past decade except 1984, when bad harvests led to a decrease of 6.7 percent. Despite a steady decline in percentage share of the labor force, the number of workers employed in agriculture increased by 43 percent between 1969-85.

Crop production contributes 70 percent of the value of national agricultural production with livestock products making up most of the remaining 30 percent. The major crops of wheat, basmati rice, cotton, sugarcane, other rice, pulses, maize, millet, edible oilseeds, tobacco and fruits account for over 80 percent of the area planted with the remainder planted to fodder crops. Wheat, cotton, rice and sugarcane are the most important crops, making up almost 75 percent of the value added in crop production.

Pakistan is more or less self-sufficient in food; in some years production of wheat, its major food, falls slightly short of total demand, in others there is a slight exportable surplus. Pakistan exports about two-thirds of its rice production and about the same proportion of its cotton production in the form of raw cotton or yarn. Major imports are edible oil (75 percent of consumption), tea (100 percent of consumption) and dried milk powder.

The land tenure situation existing at partition, in which 7 percent of the landowners owned 51 percent of the land, has improved somewhat due to several land reforms and the combined effects of rapid population growth and the Muslim inheritance laws which specify division of the land among all the children, including girls. In some areas, land division has resulted in uneconomically small plots. Market forces also seem to be spreading land ownership through land purchase by tenants and small owners. The ADB suggests that tenants now have a greater degree of security as compared to the pre-reform period. The number of units operated by landless tenants fell from 41 to 26 percent from 1960 to 1980 while the percentage of owner operators rose from 41 to 55 percent. The share of land in farms of 5 hectares or less rose from 30 to 34 percent during 1972-1980. On the other hand, in many parts of Sind and Punjab, extremely large land holdings (1,000 plus acres) are still common and serious inequities highly visible.

b. The Challenge: Pakistan's food security cannot be taken for granted. IFPRI has carried out simulation studies that show domestic production of food commodities will not meet demand over the next decade. A basic reason is that additions to the stock of cultivable land and water supply will be smaller than in the past. Furthermore, improvement in yields will be smaller because the switch from traditional to high yielding varieties (HYV) will soon be completed. Thus growth due to water and acreage increases and productivity gains from HYVs will be inadequate to meet the demand from population and per capita income growth at constant real prices. Substantial growth in productivity is necessary to meet the growth in demand and to keep real prices constant.

c. Constraints: Agricultural production has ample room to increase since crop yields in Pakistan are low in comparison with other Asian countries. Wheat yields (at about 1500 kg/ha) are lower than in India, Turkey, Korea and Egypt, due in part to purely economic reasons (late planting because of rotation with cotton). Paddy, cotton and sugar cane yields also are below the Asian averages, in most cases significantly so. Progressive Pakistani wheat farmers, however, regularly outproduce average farmers by 60-70 percent. The most obvious technological improvements such as HYV seed and fertilizers have already been adopted, so better extension, education and research are urgently needed to transfer improved land and water management practices to the remaining farmers. Unfortunately, the public extension services are underfunded and deficient both in coverage and effectiveness and private services are only now developing. Research and education are poorly linked and, with few exceptions, frequently irrelevant to farmers needs. Lack of private sector investment in agribusiness also has constrained the supply of appropriate inputs.

The agricultural sector is not fully contributing to overall economic development. Private sector investment in agroindustry faces high import duties, policies restricting exports, delays in sanctioning new projects, indigenization processes, price controls, subsidization of parastatals and non-standardized tax laws. GOP subsidies for wheat, edible oil and fertilizer accounted for over 65 percent (Rs.6.8 billion) of the total PFY 86 subsidy bill of \$690 million, which is about 8 percent of total expenditures. Support prices for a few commodities are below border prices and restrictive marketing policies prevent efficient private sector activities.

d. Irrigation: Irrigated agriculture, largely in the enormous Indus Basin, is responsible for nearly 80 percent of agricultural production. Pakistan can expect only modest increases in total irrigation water supplies by 2000. On the other hand, effective water supplies can be greatly increased since an estimated 50 percent of canal waters are lost before reaching the farmgate. Decades of surface irrigation and inadequate drainage have caused a continuous rise in the underground water table, resulting in an increasingly serious water-logging and soil salinity problem. Tubewells are widely used to augment surface irrigation, thus slowing the rate of waterlogging. However, almost 80 percent of the groundwater potential is already being exploited. Since even tubewell water supply can be unreliable because of electricity shortages, farmers use relatively low levels of complementary inputs, resulting in low yields.

Provincial irrigation departments are poorly organized, overstuffed, underfinanced and unmotivated. Current water user charges do not cover the system operations/maintenance costs. Consequently, vast quantities are wasted by farmers who have little economic incentive to use water efficiently.

The problems in the irrigation sector are (i) low agricultural production per unit of water and (ii) inequitable distribution of water to users. To increase production, water must be provided at the farm level on a reliable, equitable basis and water use efficiency increased by adoption of a rational volumetric water pricing scheme. These measures must be augmented by continued watercourse improvements and canal rehabilitation, better institutional and on-farm water management and by rational groundwater development.

II. A. 3. Financial Sector

The formal financial sector consists of five large banks (85 percent of total assets) nationalized during the Bhutto period, seventeen foreign private commercial banks, six development financial institutions (DFIs), two stock exchanges, a government-owned life insurance company, three investment houses and a bank for cooperatives. Except for the branches of the foreign banks, the government effectively owns and controls all financial institutions.

GOP monetary policy is to keep inflationary pressures under control by limiting growth in the money supply, fixing the ceiling for aggregate credit expansion and ensuring adequate credit for priority sectors, especially public sector companies, agriculture and small scale industry. Islamization of the financial sector in July 1985 did away with interest on all domestic transactions of the banking system except those involving the government and credits based on external loans. Most bank deposits have been put on the profit and loss sharing system (PLS), loans have changed to the mark-up or some other approved instrument, and the central bank's transactions with commercial banks have been converted to Islamic modes of financing. Preliminary results indicate that Islamization may have had a positive effect by making rates of return more responsive to market conditions, risk and the creditworthiness of the borrower.

The GOP urgently needs to raise the efficiency of the financial sector. Liberalization and improved competition might attract funds into the formal banking system from the very large informal financial market. Improving resource mobilization by allowing private banks and establishing secondary money markets could greatly facilitate industrial and commercial development.

II. A. 4. Manufacturing Sector

a. Growth Trends and Background: Although Pakistan inherited minimal manufacturing capacity at independence, output rose from 7.8 percent of GDP in 1949-50 to about 17 percent of GDP in 1985-86. From 1983-86, the manufacturing sector grew at 8.3 percent, missing the plan target of 9.3 percent. The slower than expected growth rate of the large scale (LSM) sector was due in great part to the weak performance of the textile subsector, which accounts for 17 percent of manufacturing value added and 40 percent of employment. Public sector industries are a substantial part of the industrial sector, particularly in key sectors such as cement, fertilizer, petroleum and steel. They represent nearly half of total investment but only 15 percent of value added. Their share of new investment in the manufacturing sector has declined from over 50 percent in 1978/83 to about 30 percent in 1983/86.

Industrial employment has lagged behind production growth. From PFY 64 to PFY 85, the manufacturing sector accounted for about 17 percent of gross domestic

output but provided only 12.2 percent of the new jobs. The large scale manufacturing sector in Pakistan is characterized by rising capital intensity; its employment potential differs significantly from small-scale manufacturing. The small-scale industrial (SSI) sector accounts for about 30 percent of manufacturing output but about 80 percent of manufacturing employment. Moreover, the creation of a job in large-scale manufacturing costs about 80 times more than the cost in small-scale manufacturing.

b. Industrialization Strategy and Reforms: Pakistan's 1983-88 Plan states that the major instrument of industrial growth would be the private sector and promises structural adjustment to attract greater private sector investment. Industrial sanctions are to be liberalized and tariffs rationalized. The Industrial Policy Statement states: "In short, what the country now needs is export-led industrialization" and emphasizes engineering industries, non-traditional agro-based industries and export-oriented industries. There is little evidence that these objectives are being realized, although certain industries such as cement, fertilizer and vegetable ghee have been partially deregulated and the investment sanctioning process has been eased. Many critical policy issues are outstanding: (1) reform and liberalization of the current trade regime; (2) change in policies that favor capital intensity; (3) better support of the SSI sector; and (4) elimination of most sanctioning requirements and other regulations. More exposure to international competition is necessary to improve the efficiency and product quality of many existing industries in order for exports to expand.

II. A. 5. Energy Sector

a. The Supply-Demand Gap: Modern forms of energy (non-biomass) provide two-thirds of the energy used in Pakistan. In FY85-86, petroleum (75 percent imported) met 41 percent of this amount, natural gas 35 percent, coal 6 percent, hydroelectric 17 percent, and nuclear and LPG 1/2 percent each. Virtually all economic activity depends on modern energy inputs in forms such as fertilizer, electricity, process heat and shaft horsepower. The existing shortages of electric power and natural gas have been the most serious problem facing industry for the last ten years; the annual amount of value added in manufacturing lost due to load shedding is estimated at \$500 million, while new investment has been decreased by an estimated 35 percent

per annum. The cost of energy embedded in nitrogenous fertilizers, diesel fuel and electricity to operate tubewells is a critical factor for increased agricultural production.

Effective demand is suppressed to about 4800 MW. The energy sector is unable to provide reliable supplies of energy to meet this level, let alone the existing unmet demand of industrial, agricultural, and other consumers and the estimated 10 percent annual growth in demand. Power load shedding has reached one-third of the system's capacity and gas load shedding one-fourth. Thousands of customers in all sectors of the economy await gas connections and literally millions await power hookups. Investments are made in inefficiently sized back-up generators because of the shortage in electric power generating capacity. Load shedding has especially injured small industry (18 percent loss in value added as compared with 5.5 percent for large industry) with a resultant impact on employment. Imported oil has substituted, at a significant cost in foreign exchange, for indigenous natural gas in power generation and larger industrial uses.

Energy imports have absorbed more than 30 percent of total foreign exchange earnings from 1983 to date despite declines in oil prices. Energy costs absorb an inequitable amount of the low income population's household income, varying from 10-20 percent over the various rural and urban areas of the country.

The energy sector absorbs currently 38 percent of the entire Annual Development Plan, with power receiving 29 percent of this -- more than health, housing, education, sanitation, agriculture and population planning combined. By 1993 Pakistan will need at least 6,000 MW more, a doubling of capacity, to meet demand, which will require up to Rs. 100 billion (\$5.8 billion) of additional investments. Donor resources have traditionally provided about 45 percent of energy sector investment. At current rates of cost recovery, WAPDA will be able to self-finance only 40 percent, although even this will require a near doubling of rates by 1993. The GOP will therefore have to make substantial additional allocations for power and oil gas development if demand is to be met.

The cost and pricing structure of the energy sector in Pakistan helps to explain the poor development of indigenous resources, the rapid growth of demand, the inadequate power generation capacity, the low level of rural electrification and the load shedding afflicting the country. The well-head price of gas and contractual procedures discourage private sector exploration and development of Pakistan's most abundant fossil fuel. Inadequate supplies are forcing industrial users and the electric power industry to switch to imported petroleum. Although oil prices are not subsidized, diesel prices are among the lowest in the world for an oil importing country, which discourages conservation measures. Electricity prices, which are about two-third of long run marginal cost, are low by world standards and are responsible for demand growth in excess of 10 percent per year. Domestic rates are even lower than the average, and as a result residential demand is the fastest growing component, particularly among high income consumers. The low life line rates for the lowest group of consumers and the very low rate for tubewells have discouraged expansion of the system into rural areas where costs far exceed revenues. Corruption and inefficiency result in extremely high losses, which combined with the low rates, means that inadequate funds are collected for increasing generation capacity. Poor load management and the absence of seasonal and hourly peak load pricing cause very high peaks in demand that cannot be met, especially when low water levels reduce hydroelectric generating capacity.

The potential for rationalized rates to resolve the energy problem is high. Such rates could reduce peak demand, restrain growth in demand, increase conservation and generate the funds needed for expansion. Institutional reform also is necessary, however, to ensure that the higher rates are implemented and the money collected and spent efficiently.

The energy sector in Pakistan is dominated by a small number of large inefficient public sector companies. WAPDA, the electric power utility which blankets the country outside Karachi, is the largest employer in the country (more than 100,000). It suffers from major institutional weaknesses in planning, maintenance, generating and distribution efficiency, project implementation and customer service. It has little real autonomy or accountability, and there is much public criticism of the quality of its service and corruption.

b. Pakistan's Needs: During the CDSS period, Pakistan must tackle important energy topics that include rational pricing policies, conservation, reduction of technical and administrative power losses, private sector involvement and improved organizational and fiscal performance and autonomy. Additional power generating capacity is sorely needed, other forms of energy (oil, gas, coal) must be identified, and measures to moderate energy demand and reduce energy waste must be firmly established. To meet the Government's own goals of ending load shedding and increasing rural electrification in the next few years, Pakistan's energy sector policies and activities must be based on a realistic assessment of the availability and requirements of foreign exchange, local currency, institutional development, manpower and regulatory incentives. Institutional reform and modernization of key implementing agencies (e.g. WAPDA and OGDC) and local financial resource mobilization must be top priorities. Resources can be gained not only through increased tariffs but also through reduced technical and administrative losses, collection of arrears and improved billing. Commercial borrowing and issuance of stocks and bonds are also desirable provided that private sector borrowing is not crowded out. Tariff reform should also be used to discourage wasteful consumption and non-productive power use, move consumers away from peak hours and peak seasonal use, and encourage efficient electricity use.

On the supply side, Pakistan urgently needs to start a large (at least 2000 MW) hydro project, balance the hydro-thermal supply mix to minimize hydro-season-induced load shedding and rehabilitate its ageing thermal power stations. Rural electrification expansion must be conducted on a more socio-economically rational basis with subsidies explicitly recognized. By 1993 oil, gas and coal production need to expand by 50 percent, annual on-farm fuelwood production must grow rapidly to supplement other traditional fuelwood sources and at least 600 MW of private generation should be on line.

II. B. SOCIAL ANALYSIS

1. Hunger and Malnutrition

Food balance sheets for Pakistan for 1980 show an adequate per capita availability of 2324 calories and a more than adequate per capita availability of 66g protein. Cereal consumption accounts for about 65 percent of caloric intake and contributes significantly to dietary protein levels.

Oil and fat levels in the 1976-1980 diets were, on average, very low. Only ten percent of calories in rural areas were from oils and fats, whereas an acceptable 26 percent of calories consumed in urban areas were derived from oils. There is medical concern, however, at excessive reliance on palm oil (imported from Malaysia).

According to a 1976 survey, seven percent of children under five years of age were acutely malnourished; a 1982 survey found that ten percent of children under two years of age were acutely malnourished. This is a clear factor in Pakistan's high child mortality rate of 180. Most authorities attribute malnutrition in Pakistan to high rates of infectious diseases, poor infant feeding practices and inequitable food distribution both within regions and within families. Hunger per se is not generally regarded as a serious development problem in Pakistan, although there is no doubt that in many families living below the World Bank per capita poverty lines of \$176 per year in urban areas and \$122 per year in rural areas hunger does in fact exist.

B. 2. Health Deficiencies

Despite recent increases in health sector spending Pakistan trails most developing countries in health indicators and expenditures on health. Infant mortality was estimated at 116 per thousand live births in 1984 and child mortality (0 to 5 years old) at 180 per 1000. Estimates of annual child deaths by cause include diarrheal diseases: 300,000; neonatal tetanus: 100,000; acute respiratory infections, 80,000; measles, 35,000; diphtheria, T.B., polio and pertussis: 30,000 and others: 125,000 for a total of 670,000 per year. Perhaps half these deaths could be avoided with full use of available technologies. Tuberculosis and malaria are major diseases for adults and children. The GOP estimates that in 1986 only 28 percent of the rural population had access to potable drinking water and six percent to sanitation facilities.

A recent program to inoculate children against six diseases has been quite successful; coverage increased from around five percent in 1980 to over 50 percent in 1986. An Oral Rehydration Therapy Program has succeeded in making oral rehydration salt packets widely available although effective use is still greatly lagging.

Government health budgets are skewed toward urban care, doctors and rural physical infrastructure. Poor management, supervision, and motivation give rise to poor health care delivery and gross underutilization of facilities. Medical education emphasizes curative care, poorly related to the country's priority health problems. Although a GOP survey showed that only 16 percent of respondents reporting sickness went to a government facility for treatment, the Ministry of Health continues to construct more and more rural health centers. Major recurring cost problems will likely accompany this infrastructure program, as the GOP has only timidly attempted to recover a portion of costs from consumers.

II. B. 3. Basic and Professional Education

a. Basic Education: Basic education has been severely neglected for decades. Despite considerable public rhetoric, numerous planned large-scale programs and some increase in primary school attendance, Pakistan's educational base remains so weak as to constitute a serious threat to sustainable economic growth. Even officially only 24 percent of the population is literate - placing Pakistan in the bottom quartile of all developing countries. Its Asian neighbors have achieved primary school enrollment levels averaging from 70-90 percent while a generous estimate for Pakistan is 50 percent overall with a much lower figure for females. The literacy rate for women in rural areas is six percent!

Persistent and serious underfunding have led to this sad situation; until a recent increase to 2.5 percent, the country had never allocated more than two percent of GNP to education. The present system offers a travesty of education in most rural areas. Thirty percent of the primary classes meet in the open air, lacking any facility other than a chalk board. Where schools exist, 70 percent are unsanitary, badly maintained and without learning materials. Supervisors are responsible for 150 schools of all levels in addition to other duties and have little time for individual primary schools. The curriculum is standardized, ignoring rural/urban, male/female or language and cultural differences.

The government is now looking hard at educational policy, finance and management issues and appears to be on the verge of committing itself to a truly more effective effort in this vitally important area.

b. Professional Education: In terms of quality and specialization, the current university output falls far short of the country's needs for high level manpower. The number of universities has increased from seven in 1970 (15,000 students) to 21 in 1986 (150,000 students), largely as a result of political demands for access to higher education. But quality of education received is widely acknowledged to have declined significantly. Causes include low salaries, low fees and unlimited and/or politically motivated admissions. Campus discipline has broken down and politically active student groups control the education agenda--quite frequently at gunpoint!

One GOP response has been a "centers of excellence" program in which selected institutions receive priority funding for staff and facilities. There is also the beginning of an impressive and useful response by the private sector. The Aga Khan Foundation recently opened a first-rate medical university in Karachi, and Lahore-based businessmen joined to create a University of Management Sciences offering Harvard Business School type graduate degrees. Full cost fees are being charged at both institutions to ensure sustainability and professors are paid at near-Western levels.

Recognizing a need for highly qualified technicians, the GOP recently has financed more than 600 scholarships (FY 86-87) for advanced degrees, established linkages between Pakistani and U. S. universities, and developed specialized policy formulation, research, planning, and evaluation units throughout the Federal Government. It is not yet clear if the "Centers" and new specialized units will be sufficiently supported to maximize the benefit to be gained from the return of the newly trained technicians.

II. B. 4. Population Pressure

a. Indicators: The 1981 census showed the population at 85.1 million. At an estimated annual 3.1 percent growth rate the 1987 population is about 101 million. At this rate, Pakistan will have 123 million people in 1993 and over 200 million in 2010, just 23 years from now.

The 1983 crude birth rate was estimated at 42 per 1,000, the crude death rate at 11 per 1,000, and the number of children per month at 5.95. This fertility rate represents a decline from 7.10 for 1960-70, but remains extraordinarily high.

The population of the major urban areas is growing even more rapidly; Karachi, for example, will grow by seven percent in 1987. Such growth is taxing the ability of cities to provide even minimum levels of transportation, water, power, sanitation, education and housing.

Employment is becoming a serious problem. The total potential labor force (male and female) was about 56 million in 1981. By 1991, this figure will grow by 1.6 million annually to about 64 million. Growth in the defined labor force and returning migrants are creating the need for almost a million new jobs each year.

b. GOP Policies: Pakistan was one of the first developing countries to initiate efforts to reduce fertility but to date has failed resoundingly to mount an effective national program. The GOP's new policy is to provide family planning services through all available channels, including public sector-supported expansion of private sector delivery and increasing the number of its own family planning outlets. In this way, it hopes to reduce the fertility rate to 5.0 children/mother.

c. Constraints: Attitudes and actions of the political and religious elite do not foster population objectives. The status of nearly all women is low and derived mainly from marriage and child bearing since income-generating opportunities for the over 90 percent of illiterate women are extremely limited.

Government-operated centers effectively reach one-third of the population. Staffing and training problems, weak management, inadequate and unplanned communication efforts and insufficient supervision of field staff promise little improvement in the short run. Experience suggests that the private sector must be encouraged to take a much larger role.

II. B. 5. Strategic Lagging Areas

a. Current Situation: Income and development vary widely among provinces and districts. The more densely populated areas of Punjab and Sind --essentially the irrigated portions of the Indus Basin--have received the lion's share of the development budget (although not on a per capita basis)

and experienced the highest rates of economic growth because of natural economic advantages. In other areas, people feel neglected by the GOP. Many are located in strategically significant border regions from which increasing numbers of men are migrating to urban areas. Cities then become battlegrounds for the various ethnic groups competing for limited employment and other economic opportunities.

The lagging areas share threads of social and political unrest reflected in ethnically-based political movements and sporadic civil disorder. The NWFP and Baluchistan are under additional stress from the large numbers of Afghan refugees. Local inhabitants are largely untouched by the international refugee relief efforts; their perception of deprivation is increased as they see social services provided to others. Afghan-related bombings (140 deaths in 1986, over 200 in the first three months of 1987) are also destabilizing. The Northern Areas (Gilgit, Baltistan, and districts of the NWFP such as Chitral) are extremely isolated and in some instances cut off from road and air communication with the rest of the country for weeks or months at a time. Sind has special problems often masked by provincial economic indicators that include Karachi; parts of rural Sind remain among the most deprived regions of Pakistan. The government considers Karachi itself to be a "lagging area" because of the tremendous pressures caused by high in-migration. Large-scale migration of other ethnic groups into Sind has given rise to a feeling that everyone except ethnic Sindhis benefit from provincial economic development. The formation of the Sindhi-Puktoon-Baluchi political front is indicative of attitudes in the three smaller provinces that Punjab and Punjabis are not giving them a fair deal.

b. Policies and Concerns: Regional and ethnicity issues are important in Pakistan. A core concern is how economic and political power should be shared between the central government and the various provinces. All regional politics are colored by the East Pakistan experience, which in 1971 split the country in two and led to the creation of Bangladesh.

The GOP acknowledges the problem: the 1983-88 Plan spoke of making Baluchistan into "a new agrarian frontier" and promised to increase public sector expenditures by 250 percent. The Plan also called for a doubling of

government spending in the Tribal Areas of the NWFP. On a per capita basis the residents of Baluchistan and the NWFP are allocated a disproportionately large share of the national development budget, but this has not dispelled the belief that investments largely benefit the Punjabi dominated bureaucracies in the provincial capitals.

Development in the lagging areas is expensive. Roads and other forms of communication cost more because of the longer distances involved, while the delivery of social services is more expensive on a per capita basis because of the relatively smaller populations served. Despite their low short run returns, investments must be made if the government is to maintain control and political stability.

II. B. 6. Narcotics

a. Situation: Opium poppy production, largely confined to the NWFP, has ranged from an estimated maximum of 800 metric tons in 1979 to a low of 40-50 tons in 1983. Poppy is grown in isolated areas by farmers for whom no other crop offers equivalent returns on meager land holdings. Production in any given year is affected by the perception of growers in the settled areas as to if and how the poppy ban will be enforced, by climatic conditions and by the farmgate price.

Heroin use is a rapidly growing problem in Pakistani society. Until 1980, Pakistan had relatively few heroin addicts because only unprocessed opium was available. Opium dens were then outlawed and dealers discovered they could increase profits by refining the opium to heroin before export. Hundreds of tiny "laboratories" sprang up in NWFP and, due to GOP pressure, over the border in Afghanistan. While statistics are not available, uncontrolled opium production in Afghanistan is believed to be growing, exacerbated by war conditions and the need for income. Pakistan has become the transshipment point. With heroin abundantly and inexpensively available, Pakistan's addict population jumped to an estimated 500,000 by 1986, a number that equals the heroin addict population of the United States. The increase reflects widespread ignorance and misinformation on the dangers of heroin use.

b. GOP Policies: In 1973 the Pakistan Narcotics Control Board (PNCB) was created to manage Federal Government policy on narcotics. In 1979 the GOP promulgated the Prohibition Ordinance, and within a year of enactment managed to reduce production by 75 percent primarily in settled areas. A late and poorly managed enforcement campaign in 1986 was called off following bloody clashes in which some people were killed. In 1987 the PNCB and the GOP have carried out an admirably orchestrated and vigorous enforcement effort that has had a substantial impact in reducing the area under cultivation. The 1986-87 Karachi riots helped focus national attention on the heroin problem. A national consensus is emerging against poppy growers and heroin traffickers. The GOP has encouraged special development projects in areas of current or potential poppy cultivation covered by a "Special Development and Enforcement Plan." Continued successful execution of this plan, supported by the Mission, UNFADC, and other donors, could eventually lead to the elimination of poppy production in Pakistan.

II. C. DEVELOPMENT PROBLEMS

The above analyses indicate many serious development problems. The Mission has reviewed these problems against the overall CDSS objective of supporting political stability and national integration through programs of economic and social development. Ten major development problems whose resolution or mitigation are crucial to achieving the objective have been identified. The rationale for their inclusion in the CDSS is summarized below.

1. Balance of Payments Pressure

Pakistan's a balance of payments deficit threatens economic growth and socio-political stability. New sources of foreign exchange are not on the immediate horizon. To close the deficit, imports will be constrained resulting in lower rates of economic growth and employment, and perhaps inflation. Short-term direct assistance is needed to help close the deficit (large-scale commercial loans probably will not be available based on the experience of the past year), while structural changes are necessary for long term sustainable export growth. The political nature of the program warrants U.S. Government assistance at the macroeconomic level; USAID, more than most other donors, has the appropriate resources.

2. Inadequate Domestic Resource Mobilization

The low level of domestic resource mobilization threatens economic growth through inadequate investment, provision of social services and maintenance of infrastructure. The narrow and revenue-inelastic tax system combined with inadequate user charges for a host of services are resulting in deterioration of the physical infrastructure and human capital base. Public revenues are far below the average for middle income countries, especially considering the heavy expenditures for defense. Capital markets are not generating the funds necessary for private sector growth and development. USAID experience in Pakistan and worldwide is directly relevant to this problem. Mission efforts in energy, irrigation, agriculture and health provide insights, expertise and resources necessary to analyze and advise the GOP on policies that will result in lower subsidies, higher user fees and efficient provision of services by the public and private sectors.

3. Low Agricultural Productivity

The growth trends in agricultural productivity and the amount of cultivated land are inadequate to meet the food demands from population and income growth. Productivity is significantly lower than in other Asian countries and can be improved by appropriate technological and policy interventions. Increases are necessary to keep real prices of agricultural commodities, most of which are at world levels, from rising to the point at which Pakistan could not compete in export markets. Rising productivity is necessary for farmers' incomes to rise to create domestic demand for non-agricultural goods and services. USAID has chosen to work on this problem because of the size of the sector, its employment levels, and because AID has the skills, experience, and resources to apply to productivity problems through investments in research, education, irrigation and private sector production. USAID can also play a major part in providing the analysis necessary for policy change.

4. Energy Deficit

Lack of reliable supplies of energy has hindered the growth of the industrial sector, especially small-scale industry, resulting in low rates of employment growth. Farmers who rely on tubewell irrigation also have been adversely affected. Limited access to electricity in rural areas has slowed

development and has prevented a large segment of the population from enjoying equal access to basic quality of life enhancers. The Mission has successfully worked in the energy sector for the past six years, establishing excellent working relations with host country counterparts and energy donors. Well coordinated donor policy dialogue with the GOP already has yielded important policy reforms; more are expected over this CDSS period. Although the GOP's goals of electrifying 90 percent of Pakistan's villages and eliminating load shedding by 1990 are agreed to be impossible by the donor community, USAID will work with the GOP to improve policies and maximize energy development and generation.

5. High Population Growth Rate

The inordinately high population growth rate threatens to undermine the gains of economic development by increasing pressure on food supplies and by burdening government with the need to provide jobs, social services and physical infrastructure for a population that will reach 121 million by the end of the CDSS period. USAID is by far the most significant population donor and will continue to take the lead in this vital area, particularly by increasing the emphasis on the role of the private sector.

6. High Rates of Infant and Child Mortality

The existing high rates, far above the levels acceptable for a developing country, represent unnecessary suffering and tend to maintain high birth rates and reduce contraceptive use. The government has taken a number of important steps in introducing child survival measures and the Mission intends to expand and strengthen these efforts through both public and private channels. Immunization and oral rehydration therapy will form the core of the health sector program.

7. Low Primary School Enrollment Rates

Low rates of literacy reduce economic and social opportunities for the vast majority of the population. In the long run this inequity could be the most serious impediment to sustainable economic growth and political stability. Rates of primary school attendance are less than half the Agency's Blueprint target. If the GOP maintains its current commitment in rupee expenditures and policy changes, and if U.S. assistance can be designed to maintain overall GOP domestic resource mobilization efforts, the Mission may consider interventions in this area.

8. Quality Improvement in Key Institutions

The proper functioning of public and private sector operational and educational institution and the availability of well-trained individuals to staff them are essential for Pakistan to sustain economic and social growth. USAID has a comparative advantage in participant training, provision of technical assistance in management and long experience in institutional development and training; past results have been greatly appreciated by the GOP. The recent emphasis on the private sector is yielding good results. In some instances (as in the reorganization of WAPDA, the modernization of provincial irrigation departments and the integration and development of the NWFP agricultural education and research system) the job started during the 1982-87 period remains only half done and awaits completion during the CDSS period.

9. Lagging Areas

The backwardness of large parts of the NWFP and Baluchistan and perceptions of inadequate attention by the central government have alienated segments of the local population. This is a major political and developmental problem, in part because these areas lie along the border with Soviet-controlled Afghanistan. If the Federal Government does not address these problems, it could lose effective control over large portions of these areas. It also would have a negative impact on opium eradication and trafficking control efforts because the opium and heroin originate in these areas. Unrest in interior Sind and Karachi similarly imperil the stability of Pakistan. Much of the ethnic violence in Karachi can be attributed to migration from the lagging areas. Because of requests from the GOP and U.S. concerns for political stability as well as development, USAID will devote substantial resources to help integrate these regions.

10. Narcotics

Opium poppy cultivation and heroin manufacture and transshipment have created rapidly increasing problems for Pakistan. Until a year or so ago it was common to hear that heroin was a Western, primarily a U.S., problem. Today, faced with growing heroin-connected violence and corruption and an addict population which equals that of the United States, there is a growing and powerful national consensus that Pakistan must get rid

of opium poppy cultivation and heroin traffickers. The government this year carried out an extremely effective eradication campaign in the major producing area of the Gadoon (site of the large USAID project), and is rapidly expanding its narcotics awareness programs through both public and private means.

III. STRATEGY

A. OVERVIEW

USAID's strategy is to bolster Pakistan's political stability and national integration through programs to support equitable economic growth and improved social development. Economic growth will produce rising employment and incomes. Better social sector performance will improve the quality of life for the poorest people in the country and lead to greater national integration.

The program concentrates on four generic challenges extending across all problem areas: reform of the policy environment, rehabilitation and expansion of physical infrastructure, development of human capital and improvement of institutional performance. The development problems USAID has chosen to address are major constraints to maintaining political stability and improving socio-economic performance. They are areas in which USAID has a comparative advantage based on past involvement and success. The GOP has requested assistance and demonstrated a willingness to address constraints in all of them.

The Mission fully recognizes the importance of problems in the industrial, communications and transport sectors but has not allocated significant resources for them because of the satisfactory level of other donor involvement or of Mission management considerations. The USAID policy dialogue on economic liberalization, deregulation and expanding the scope of the private sector will, however, have an effect in those sectors. Furthermore, policy rather than financial resources seems to be the major constraint in these sectors.

Several potential areas of intervention have been eliminated from consideration. Major urban areas are receiving substantial assistance from donors, and both lack of experience and manpower considerations suggest USAID should not take on a major urban sector program, although there may be a

strategic case for a special program in Karachi. The Mission will not work on employment directly; this is another area where policies are more important than projects and where the AID program will have wide indirect effects.

The Mission strategy encompasses A.I.D's four policy pillars in pursuing its objectives. Policy dialogue, supported by detailed analyses, made stronger by increasing donor coordination and backed up by large grant resources, will be a major instrument in improving the sustainability and equity of economic growth. The Mission and the Embassy have inaugurated a process of highly useful annual action-oriented Economic Policy Reviews with Pakistan's most senior economic managers. Institutional strengthening will continue to aim at improving the operational efficiency of key economic organizations such as WAPDA and the provincial irrigation departments, and at training the next generation of leaders in the economy. Technology transfer will be particularly important in energy and agriculture. The AID program is playing the lead role in introducing both computers for analysis and monitoring in WAPDA and the irrigation and planning departments, and state of the art technologies such as combined cycle power generation.

Increasing private sector participation in the economy is a feature of virtually all the proposed USAID activities. During the CDSS period, the Mission intends to introduce projects in private power generation and distribution and the marketing of health-related goods and services, specifically targeted at new roles of private firms. Our policy dialogue is designed to enhance private participation in agriculture, industry and finance.

III. B. SELECTED DEVELOPMENT PROBLEMS, STRATEGIES, PROGRAMS

1. Supporting the Balance of Payments

a. Objectives: The USAID objective is to help sustain economic growth by strengthening the balance of payments. Specific objectives are to have:

- (1) Foreign exchange reserves averaging two months of imports by 1993.
- (2) The trade balance narrowing each year.
- (3) Export growth averaging 8 percent per year by 1993.

b. Strategy: Achievement of these objectives will require direct support for the balance of payments and policy dialogue with the GOP, backed by the cumulative economic impact of the entire program. Pakistan has recorded a continuing deficit in its overall balance of payments since 1984, financed by commercial borrowing and reserve drawdowns. Because drawdowns cannot continue indefinitely and acceptable borrowing levels have been reached, direct USAID assistance may be needed in emergencies to stabilize the situation, while efforts continue at structural reform.

USAID will help provide longer-run solutions to closing the balance of payments deficit through projects and policy dialogue that stimulate export growth and import substitution. A more efficient and dynamic manufacturing sector offers the best potential for increasing exports. USAID's policy analysis will continue to examine deregulation; how to improve the climate for private investment; how to reform financial sector policies that limit working capital, especially for small firms and restrict credit to the private sector; and how to change trade policies that favor large firms producing for the domestic market over production for export.

Based on an early assessment of the work in progress, USAID expects to support the conclusions of a World Bank financed study of effective protection of tariff rates and other factors that discourage exports. Pakistan made deep tariff cuts on machinery and raw materials in 1986 but further cuts are necessary to make a difference. Dovetailing programming with that of other donors offering lines of credit will strengthen the chances of successful policy reform. USAID influence on World Bank and ADB lending should be a significant factor in the policy dialogue on tariff reform. Such reforms are necessary to complement the exchange rate depreciation that occurred in 1985, 1986 and is continuing in 1987.

c. Program: Several USAID programs will assist the balance of payments through import substitution. Improvements in the efficiency of energy use by conservation and loss reduction directly lower the need for petroleum imports, which is the single largest import item. Development of indigenous supplies of coal, gas and oil will reduce imports as will USAID work on renewable energy sources and alternatives such as fuelwood, coal

briquettes, and small hydro. The PL-480 Title I program at \$80 million annually will continue to import primarily vegetable oil for the ghee industry. Vegetable oil is the largest import item after petroleum, and ghee is the largest item in the diet after wheat. Absorption of this amount of oil as well as the UMR for U.S. vegetable oil may be a problem during the CDSS period. PL 480 self-help measures are helping to liberalize prices and increase competition, which may result in increased oilseed production and slow the rate of import growth. The Agriculture Sector Support Program will provide commodities and sector grants in support of the balance of payments worth \$50-100 million annually. Dollar financing of local costs in irrigation and other construction activities will also indirectly support the balance of payments.

III. B. 2. Increasing Domestic Resource Mobilization

a. Objectives: The USAID objective is to improve public sector revenues and mobilize greater financial resources for private sector investment. Specific macro-level objectives are:

- (1) Budget deficits averaging not more than 4.5 percent of GDP by 1993.
- (2) Major tax reforms introduced.
- (3) Inauguration of private investment institutions.
- (4) Movement of autonomous public sector institutions off the government budget.

b. Strategy: Most analysts agree that poor domestic resource mobilization is Pakistan's single most serious economic problem. Continuation of the current shares in GDP of government revenues, subsidies, development and non-development expenditures is not consistent with continued economic growth. Government borrowing with tight credit controls would leave insufficient funds for private investment and add to the already significant domestic debt burden. The USAID strategy is to provide some immediate relief to the budget deficit while pursuing policy change across sectors that will increase revenues and reduce expenditures.

c. Program: The commodity import elements of PL-480 and ASSP will generate local currency to help reduce the budget deficit. The Mission and other donors will continue to push for higher revenues from user fees in energy, irrigation, and health while trying to reduce the drain on the budget caused by subsidies for fertilizer, wheat storage and public sector companies. The GOP already has agreed to USAID and other donor requirements for WAPDA to self-finance at least 40 percent of its capital budget. Future policy dialogue will further encourage the GOP's tentative decision to move WAPDA and other public sector companies off the budget as autonomous entities capable of raising their own capital and no longer competing with the social sectors for scarce public funds. Such moves might serve as a prelude for later privatization efforts. The macro-economic policy dialogue will follow up on the tax reforms recommended in the National Commission's 1987 report.

The Mission has encouraged the GOP to liberalize the financial sector by permitting private Pakistani investment companies and banks and the establishment of a secondary money market. The Mission is providing technical assistance to the State Bank to investigate the issuance of bonds to finance the capital needs of WAPDA and other parastatals as part of the effort to move them off budget. Additional, technical assistance for privatization is being arranged which is likely to have a positive impact on the financial sector. The Mission continues to press the government to move ahead and issue rules allowing the establishment of private investment companies which the government had previously proposed.

III. B. 3. Increasing Agricultural Productivity

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

Towards this end the following specific objectives have been identified through 1993:

- (1) 50 percent reduction in the difference between the world and Pakistani average yields for wheat, rice, cotton and sugarcane, respectively.*
- (2) 50 percent decrease in agricultural subsidies.
- (3) 50 percent increase in the growth rate of private sector investment in agribusiness.
- (4) Water user charges covering 100 percent of the operations/maintenance costs of the irrigations system.
- (5) Measurable progress in institutional reform and development.

b. Strategy: The CDSS strategy for agricultural development includes policy dialogue backed by commodity imports and sector grants to deregulate prices and markets; technical assistance and infrastructure design and rehabilitation to improve water management and availability; training and institution building to integrate and improve agricultural extension, education and research; and technology transfer to ensure that Pakistan has access to equipment and techniques that allow efficient production, processing and distribution of food for domestic consumption and international markets.

Recent experience suggests GOP decision makers will undertake policy reforms more quickly and willingly if they are provided with detailed analyses that not only present costs and benefits but spell out implementation steps as well. The Mission will continue this approach by financing top flight consultants to undertake analytical studies in areas in which agricultural policy reforms are sought, i.e. the elimination of subsidies, management or policy constraints to increased privatization, production and/or exports.

*Comparative Agricultural Yields, 1984

(Kg per hectare)

	<u>Wheat</u>	<u>Rice</u>	<u>Cotton</u>	<u>Sugar</u>
Pakistan Yields	1,510	2,507	1,258	3,8346
World Average	2,250	3,186	1,492	5,8873

The multilaterals and USAID have closely and successfully coordinated policy reform efforts in fertilizer, irrigation, edible oils, and agribusiness subsectors. As a result, in 1986 the GOP decontrolled prices for nitrogenous fertilizers and edible oils after several years of constant and concerted donor discussions. The Mission intends to maintain this close donor coordination in pursuing its agricultural development objectives.

c. Program: The Mission plans two non-project activities: the proposed 6-year, Agricultural Sector Support Program (ASSP) and a 6-year PL-480 Title I Program. The two programs are designed to provide balance of payments support to the GOP, encourage removal of price and market controls, expand private sector investment and participation, and remove other constraints to increased agriculture sector growth.

Balance of payments support under the ASSP will consist of sector grants in addition to commodity imports. A major agri-business study to be financed by USAID in 1987 will provide the theoretical underpinnings for policy dialogue on constraints in the sub-sector. ASSP will also absorb the data collection, economic and policy analysis and training components of the Food Security Management Project. PL-480 Title I will expand by \$30 million a year to \$80 million and will continue basically to finance imports of soybean oil for the manufacture of ghee (a key food staple). Meeting the UMR and absorbing the commodities may be a problem. The program will seek to expand to other commodities such as high quality feed ingredients for Pakistan's emerging livestock industry.

USAID will continue to address constraints to increased agricultural productivity through project interventions in water supply and management, research and education and the environment. The Irrigation Systems Management, Transformation and Integration of the Provincial Agricultural Network and the Forestry Planning and Development Projects will be continued and expanded. However, the number of projects will be gradually reduced as the Agricultural Commodities and Equipment Program and the Food Security Management Projects are incorporated into ASSP and the On-Farm Water Management and the Management of Agricultural Research

and Technology Projects terminate in FY87 and FY90 respectively. The Agricultural Research Project was completed in FY85.

A new activity planned for the post 1987 period is the Support for Provincial Agricultural Production (SPAP) project which will be aimed at the problems of the small farmer and assetless households. Off-farm employment opportunities, improved availability of appropriate technology, basic infrastructure upgrading, improved seeds, and more effective and relevant extension services are among the components to be examined. The purpose of the activity is to ensure that equitable income growth accompanies expanded agricultural production. SPAP will emphasize private as well as public participation in the design and implementation of all components.

III. B. 4. Increasing Availability of Energy

a. Objectives: The Mission's goal is to increase the availability of energy on an economically rational, self-sustaining basis. The Mission's 1993 energy sector objectives are:

- (1) Long run marginal cost and peak load pricing of electricity in place.
- (2) Power load shedding occurring only during January and May.
- (3) WAPDA self-financing 40 percent of its investment budget on a regular basis.
- (4) WAPDA financial autonomy achieved with separate distribution authority.
- (5) Rural electrification policy following rational socio-economic principles, explicitly identifying subsidies and their source.
- (6) Power transmission losses falling from 10 percent to 5 percent and distribution losses from 15 to 10 percent.
- (7) Conserved energy equals 15 percent of 1985/86 energy levels.
- (8) At least 650 MW of private power coming on line.

- (9) Domestic oil, gas and coal production increasing by 50 percent, on-farm fuelwood production doubling and construction for a 50 percent increase in hydroelectric production underway.

b. Strategy: The Mission will continue the close coordination with the World Bank, ADB and other donors that has characterized the last CDSS period, seeking to contribute to the resolution of the multitude of policy and institutional reform issues that face the government and its parastatals. The policy dialogue will focus on rationalizing tariff rates, moving parastatals off budget, developing a least cost system expansion program to guide GOP energy investments and improving the investment climate and other conditions inhibiting the private development of indigenous energy resources. Technical assistance and training will be provided to strengthen key institutions in power generation and distribution and energy planning and conservation in order to improve services and increase efficiencies. The strategy includes the provision of new technologies in energy conservation, renewable resources and power generation, such as fluidized-bed combustion. Technical assistance will be provided to smooth the transfer of technologies. Privatization will be promoted not only by energetic policy efforts, but also by conditionality in the financing of power projects.

c. Program: The Rural Electrification Project will continue to assist WAPDA to reform and modernize its new distribution wing and reduce energy losses while financing training and an expected large expansion of the Guddu combined cycle power station complex. Funding for expanded rural electrification will be contingent on reconciliation of WAPDA's Master Power Distribution Plan with the Prime Minister's mandate to electrify 90 percent of villages by 1990, establishment of socio-economic criteria to guide rural electrification expansion and expanded power generation capacity to feed the distribution system. The Energy Planning and Development (EP&D) Project will continue its work on national energy planning, manpower development, coal resource assessment and utilization, energy conservation, renewables and special feasibility studies and activities such as oil and gas promotion.

The proposed Private Power Generation and Distribution Project, designed to assist the GOP implement its new private power policies, will include: evaluation of offers and negotiation of power supply contracts, extension of the policy to include distribution, expansion of indigenous private power equipment manufacture, promotion of private sector energy resource exploration and development and financing to attract additional private capital into the power sector. If the private coal supply offers due in summer 1987 are sufficiently attractive, the proposed Lakhra Power Project will proceed with donor co-financing to establish the first major indigenous coal fired power plant in Pakistan. A new and environmentally sound technology--fluidized bed combustion--will be considered for promotion in Pakistan, and a large scale power project may be used to help finance Pakistan's next major hydroelectric project, on which work must begin during the CDSS period.

III. B. 5. Reducing Population Growth

a. Objectives: To reduce Pakistan's high population growth, the Mission objectives are:

- (1) to lower the total fertility rate from 5.7 to 5.0 live children per mother by 1993.
- (2) to lower the annual population growth from 3.1 percent to 2.7 percent.
- (3) To ensure that 70 percent of the population has access to acceptable voluntary family planning methods by 1993 with 20 percent of these products being delivered by the private sector.

Achieving these targets will reduce potential food insecurity, rural to urban migration and employment problems. The provision of education and health services to the entire population will be more feasible if there are fewer students and patients.

b. Strategy: Policy dialogue will encourage the GOP to implement its announced population policies, especially with regard to the private sector. Commodities will continue to be the dominant mode of support. As the major supplier of contraceptives and the only source of condoms and pills, USAID will continue to use these commodities to strengthen its influence on policy. The encouraging early success of the

Mission-financed private sector condom distribution program will be used in the dialogue to ensure that the government recognizes the need to increase incentives for private investment in family planning. USAID will continue to help build the key population research and training institutions with the appropriate mix of training, equipment, assistance with construction and limited technical assistance.

c. Program: Child mortality rates, age at marriage, household income level, female employment, the status of women and levels of educational attainment represent socio-economic factors critical to long-term fertility declines. The Mission's overall portfolio includes interventions to help improve a number of these socio-economic variables. Examples of projects that will be helpful include the proposed Child Survival effort, which by reducing child mortality should ultimately lead to a smaller desired family size; the proposed Special Development Fund, which will support a number of NGO and community-based efforts to improve the socio-economic status of women; many of the Mission's agriculture projects designed to increase incomes and any possible new initiatives in primary education which would have a direct effect on literacy levels. In the population field, USAID will increase support for family planning services to be delivered through the private commercial and NGO sectors. The efficiency of implementation and extensive coverage of the Social Marketing of Contraceptives project has prompted USAID to plan to increase funds for commercial family-planning service delivery from 21 percent of its population assistance to at least 45 percent during the 1988-93 period. Public sector delivery systems will continue to receive large quantities of contraceptive commodities, including IUD's, contraceptive surgery materials, condoms and pills; in condoms alone over 8 million a month are targeted.

III. B. 6. Reducing Infant and Child Mortality

a. Objectives: The Mission's objectives are:

- (1) To reduce 1987 estimated infant mortality and under five mortality 25 percent by 1993 to respectively 78/1000 live births and 120/1000 live births.
- (2) To reduce the annual level of malaria incidence from 1200 cases to 500 cases per million population by 1993.

Although the target under five child mortality figure is higher than Agency guidelines, a reduction of 40 deaths/1000 over six years would be considered a significant achievement by the Mission.

b. Strategy: The Mission has proposed a child survival strategy that basically follows AID's world-wide guidelines. Planned interventions have been closely coordinated with other major donors, notably UNICEF, CIDA and WHO, who are already working to reduce child deaths. USAID's strategy includes policy dialogue to emphasize that preventive health care is more important to the health of Pakistan's population than the construction of more and more underequipped, poorly supplied and underused government health centers. The Mission is considering the use of sector grants to reinforce the dialogue.

The Mission has identified a key institution in the National Institute for Health (NIH), and proposes to strengthen its ability to mount nation-wide health campaigns with funds, technical assistance, training and commodities.

Millions of people need to change attitudes and behavior if the health objectives are to be reached. The Mission will finance Pakistani specialists, with minimal expatriate help, to design and communicate messages in the appropriate format and language for media campaigns and training courses for mothers, doctors and traditional healers.

c. Program: The Mission plans a large child survival project that will build on NIH success to date and extend the coverage of the national immunization program. The project will make oral rehydration salts more widely available and train parents and health practitioners in proper use of Oral Rehydration Therapy. A tetanus toxoid campaign reaching 80-90 percent of all women of child-bearing age should eliminate most of the 100,000 neo-natal tetanus deaths occurring annually.

In the area of malaria the Mission will continue to provide insecticide while seeking to develop alternative methods of malaria control to reduce the level of insecticides currently used in Pakistan. Infrastructure

needed to detect and rapidly treat malaria will also be developed. Training, operations research, and commodities will be coordinated with anticipated commodity support from the Japanese.

The Mission also plans to replicate the success of the social marketing of contraceptives project by providing financial assistance through the National Development Finance Corporation (NDFC) to private sector firms to develop the marketing of socially beneficial products such as oral rehydration salts and iodized salt.

III. B. 7. Increasing Primary Enrollment Ratio

a. Objectives: Since the Mission has not yet taken a decision to commit major resources to primary education, it lacks the analytical detail needed to state quantified objectives. The following are speculative:

- (1) Increase rural primary enrollment to 70 percent for boys and 40 percent for girls.
- (2) Improve the qualifications and training of primary teachers.
- (3) Rehabilitate and construct primary schools.

The enrollment objectives are ambitious for a country where rural attendance now is at 60 percent and 20 percent for boys and girls respectively. Even so, they fall considerably short of AID guidelines which call for 90 percent primary school enrollment for both girls and boys, and at least 70 percent of all appropriately aged children completing at least four years of schooling. Pakistan is so far behind that these guidelines are well beyond the scope of any imaginable program over the CDSS period.

b. Strategy: The CDSS analysis indicates the importance of education as a vital element in attaining equitable economic growth and improved social services. However, before moving into this entirely new sector the Mission wants to be sure that the GOP is serious about its own efforts to upgrade a system which is far below even minimum levels of effectiveness. The short-run Mission strategy is to undertake relatively

small, self-contained pilot activities to the extent possible within the existing program framework. If the government does its part to improve physically inadequate schools, undertrained teachers and the almost complete lack of instructional materials, and USAID-financed inputs could usefully be added without affecting pressure on overall domestic resource mobilization, a program may be considered. The Mission would coordinate its approach with other donors.

c. Program: Further analysis is required before appropriate interventions could be designed. Current concepts include the possibility of investing in buildings and equipment, teacher training and school materials, with a strong emphasis in all cases on improving education for females. Through policy dialogue, the Mission would encourage decentralization of primary education below the provincial level to the district and local levels and analyze the potential for raising local revenues to improve the schools.

III. B. 8. Improving Quality of Key Institutions

a. Objectives: This problem area covers three related activities: training, support for centers of research and teaching excellence and institutional strengthening of selected government agencies. The respective objectives are:

- (1) Some 9000 people from a wide range of public and private institutions will have received overseas training in management and technical fields, and will return to Pakistan to enhance the nation's ability to manage resources.
- (2) At least ten institutions, identified as outstanding sources of higher education, training and research, will improve their high standards and serve as a demonstration for existing public colleges and universities and potential new private institutions.
- (3) At least ten line agencies of the GOP or provincial governments will be streamlined and equipped to allow them to work efficiently to meet the increasing demand for their services.

The objective is to improve the Pakistani ability to generate and manage human and physical resources in both the public and private sectors.

b. Strategy: The Mission has chosen to improve Pakistan's management capability through a massive training program because of AID's experience in participant training that gives it a comparative advantage over other donors. The U.S. higher education system offers more than those of most other Western countries in terms of range of institutions, flexibility of course-work and level of technical teaching and equipment.

In selecting institutions of excellence, the Mission intends both to reward performance during a time of general institutional decline and to ensure that at least a few indigenous institutions continue to produce top quality technicians and managers. The strategy is to demonstrate how excellence can be maintained even in the face of widespread and serious student disruption and politicization of the campuses. In strengthening government institutions and agencies the Mission will apply moderate amounts of technical assistance, training and commodities and vigorous policy dialogue.

c. Program: Participant training will be financed through a portfolio-spanning project coordinating technical and management training for all USAID sectors. To this end, USAID intends to identify and provide appropriate training for over 9000 technical, managerial and professional people. Additionally, programs designed to meet the special training needs of the lagging areas will be expanded.

A new project, Institutional Excellence, will provide financing, equipment, training, professional exchanges, study tours and possibly performance disbursements to public and private institutions that offer exceptionally high levels of professional development-related service, be it in education, research or outreach. A separate grant will be pursued to assist further the private sector Lahore University of Management Sciences. The Special Development Fund will support institutional development of NGOs and community level organizations, with particular emphasis on women's development.

The important first policy steps to disaggregate WAPDA, to develop small but effective organizations in energy and agriculture planning areas and

to update hundred year old procedures in irrigation have already been taken. These steps must now be followed by sustained implementation. Projects in agriculture, energy and area development will continue to provide technical assistance, training, and other assistance to the Agricultural University at Peshawar and the NWFP agricultural research network, ENERPLAN and ENERCON, WAPDA, Provincial Irrigation Departments and key provincial agencies in the lagging areas such as Planning and Development and Communications and Works. These efforts will be carefully coordinated with other donors.

III. B. 9. Integrating Lagging Areas

a. Objectives: USAID's goal in the strategic lagging areas is to help ameliorate the gap in development between these areas and those that have achieved greater economic progress. The affected areas are the NWFP, Baluchistan, interior Sind and urban slum areas experiencing communal tension, all of which share a lack of economic integration and perceptions of estrangement. USAID's objectives are:

- (1) To overcome isolation by providing physical infrastructure that the GOP could not provide alone.
- (2) To assist key institutions to manage development activities better.
- (3) To increase the supply of trained manpower.
- (4) To help identify and support the development of agricultural, mineral and other resources that might provide employment and incomes in economically depressed areas.

b. Strategy: The Mission's strategy is to upgrade physical infrastructure and human capital to stimulate local economic progress and facilitate linkages to the mainstream national economy. Improvement of social service facilities such as schools, health centers and potable water systems is an important element. A number of on-going USAID activities (research, institutional strengthening, energy, etc.) provide benefits to people in the NWFP, Baluchistan and the concentrated poverty areas of Sind, but these benefits often are not readily apparent. A portion of USAID's planned activities in the lagging areas therefore will consist of large, highly-visible physical infrastructure projects.

Since the lagging areas have weaker educational institutions, USAID has made exceptions to its training policy and provided special English language training and overseas technical courses for students from Baluchistan. Language training in the U.S. may occasionally be financed for candidates from lagging areas. These exceptions will continue during the CDSS period when slots in the training components of many projects will be earmarked for students from NWFP, Baluchistan and slum areas. Training and technical assistance will be used to build key institutions so that provincial agencies are able to manage their resources better.

In identifying potentially exploitable agricultural, mineral and other resources, the Mission will build on its own work and assessments being carried out by others. For example, the World Bank is already financing a mineral survey in NWFP; if its results prove economically interesting, the Mission may consider financing follow-on activities.

c. Program: The USAID program will be tailored to the specific needs of individual lagging areas. In rural Sind, USAID will support potential industrial development and improve agricultural access through a rural roads project and development of coal resources. USAID also may support one or more power generation projects in the Sind to help transform the employment picture of some of the most economically depressed districts of the country and supply vitally needed electricity.

The Mission proposes a special emphasis on NWFP and Baluchistan during the 1988-1993 period that will include initiatives in health, agriculture, horticulture and forestry, infrastructure development, resource assessment and training.

In Baluchistan, the Mission expects to continue to focus on the remote and underdeveloped division of Makran, bordering Iran and lying along the Arabian Sea. Small projects involving school and market construction, feeder roads and bridges, water and sanitation and other infrastructure needs will be financed. USAID will reserve funds for supporting other attractive project ideas that may be developed, including large, highly visible infrastructure projects in the province. An example would be completion of the paving of the Turbat-Bela highway connecting the Makran to Karachi.

The Mission's commitment to the development of the NWFP is expected to increase. The centerpiece of USAID support for agriculture in the province is the merger of provincial research and teaching activities in the Agricultural University at Peshawar. The Mission will continue its support of general rural and area development activities in the tribal and poppy growing regions of the province. The Mission will continue efforts to improve surface transportation in the NWFP, including support for all-weather road and tunnel access to Chitral, an area of lagging economic progress which occupies a strategic place on Pakistan's border with Afghanistan and is cut off from the rest of the country for six months each winter. A project to improve the administrative and planning capability of provincial agencies, notably the departments of Planning and Development and Communications and Works, is under consideration.

Awaiting further analysis is the possibility of addressing needs for basic urban water and sanitation infrastructure in the growing urban slums of Karachi, working through NGOs.

III. B. 10. Reducing Narcotics Production

a. Objective: Narcotics production and trafficking must be controlled if the real development agenda of the country is to be implemented. The single most important USAID objective is the eradication of poppy cultivation. CDSS targets are:

- (1) Elimination of all poppy production in the settled areas and to the extent possible in tribal areas, by 1993.
- (2) Implementation of a Special Development and Enforcement Plan (SDEP) in the tribal areas through supporting projects started by 1989.
- (3) Institutionalization of the national narcotics awareness program.

b. USAID Strategy: The key to obtaining these objectives will be our continued support of the existing Special Development and Enforcement Plan executed by the Special Development Unit of the NWFP Planning and Development Department. This plan sets out a program to continue progressive elimination of poppy cultivation in NWFP by

providing development programs to improve living conditions in traditional growing areas and areas to which cultivation might move as the ban is enforced. The next focus of federal and provincial efforts should be on the tribal areas which have escaped serious attention so far. The creation of popular support for poppy eradication is of major importance to the success of the Plan, so the Mission will support anti-narcotics publicity campaigns. USAID will coordinate its support of the GOP with other donors through the Paris Consortium, as well as with the United Nations Fund for Drug Abuse Control (UNFADC) and the U.S. Department of State's Bureau for International Narcotics Matters (INM).

c. Program: The Mission will finance follow-on activities in the poppy growing areas of Gadoon-Amazai in the NWFP to ensure that substitute planting continues and that the population is aware of the government's continued concern for their economic betterment. Phase II of the Mission's Area Development Project in NWFP will support more rural development activities through construction, commodities, finance and technical assistance. The Mission expects to consider at least one additional poppy area development project as part of its FY 88-93 program.

USAID will help PNCB establish a National Drug Abuse Prevention Resource Center, with additional contributions from USIS, INM and UNFADC. The Center, to be headquartered in Islamabad with branches eventually planned for all provinces, will greatly advance the process of educating the population about the dangers of heroin and other drugs.

IV. RESOURCES

FY 1982-1987 and 1988-1993 Program

A. Preliminary Allocations to Projects

Annex A sets out in tables the ongoing six-year program and the outline of resources currently required for the CDSS period. There are several hundred million dollars of additional shelf items that are not shown. The tables show as mortgage from the current package unobligated

planned amounts based on the expansion of projects that have been discussed with AID/W. Several successful existing projects will receive add-ons during the CDSS period. The major changes in program composition are a reduction in the share going to the agricultural sector and an expansion in allocations for education and lagging areas. Energy, health and population shares change very little. Final allocations must be cut back from the demand since they exceed available resources.

B. PL 480 Title I Program

The PL 480 Title I program, beginning in 1988, amounts to \$80 million per year out of total U.S. assistance of \$380 million or 21 percent. Although its major use is balance of payments support and the funds can only be used for the importation of certain agricultural commodities, the Mission will continue to use PL 480 to pursue policy objectives both inside and outside the agricultural sector.

During the previous six years \$309 million in edible oil will have been imported into Pakistan--about 15 percent of Pakistan's import needs. Edible oil is the largest single import item after petroleum and the shortfall in domestic production is a principal shortcoming of the agricultural sector. To increase the demand for and supply of domestic oilseeds, the Mission has successfully worked to liberalize prices and increase privatization. The private sector supplies half the market for ghee (up from 10 percent five years ago), buys most of the local cottonseed oil and may import unlimited quantities of edible oil regardless of sanctioned capacity. Future objectives include the removal of the remaining barriers to entry to the industry, the establishment of an edible oil commodity exchange with links to the world market and possible assistance for the divestiture of some public sector companies. The expansion of the PL 480 program probably will result in the importation of corn, soybeans, tallow, dried pulses and possibly wood products in addition to edible oil. The policy dialogue may develop an additional focus on the livestock sector. Pakistan is likely to face problems in meeting the UMR for U.S. edible oil and absorbing additional commodities without disrupting domestic production and existing international supplies.

C. Local Currency

The PL 480 program and the commodity import programs result in the generation of local currency, which is an important revenue source for the government. The Mission does not attempt to achieve additionality in the expenditure of counterpart funds nor to use these funds in support of its projects. The Mission meets with the GOP to decide on the attribution of counterpart funds and uses these programming sessions for discussion of larger budget issues.

D. Centrally Funded Projects

The Mission has participated in two centrally funded activities during the last two years: Women in Development and the Bridges education planning project. The Mission will continue to examine potential involvement in centrally funded projects carefully to ensure that activities are directly beneficial to Pakistan and do not excessively strain Mission staff resources. The Mission is thinly staffed for a portfolio of this size and cannot accommodate many centrally-funded projects.

V. WORK PLAN (See the Action Plan for greater detail.)

A. Analytic Requirements

The Mission has carried out a number of major studies from 1981-87 supporting the design and implementation of the program. Twelve studies (listed below) will support the CDSS and are either completed or underway. These include major sector strategies in agriculture, energy, and child survival. Parameters surrounding our involvement in education are also presented in a paper. The Mission needs to undertake additional studies to complete the design of the program, facilitate its implementation and provide further information for the policy dialogue. A list of planned studies and likely sources is attached. Experience in the 1982-87 program has shown that the GOP responds positively to detailed analytical and implementation studies on policy reform topics.

ANALYTIC REQUIREMENTSIn Process

Employment Analysis	consultant
Equity and Income Distribution	consultant
Deregulation/Privatization	consultant
Land Tenure	consultant
Urban Growth Patterns	consultant
Agriculture Strategy	in house
Energy Strategy	in house
Education/Institution Analysis and Strategy	in house
Health/Population Strategy	in house
Social Stability Analysis	in house

Planned

Decentralized Administration Analysis	consultant
Rural Poverty and Equity Analysis	consultant
Regional Economic Development Study	consultant
Other Studies Generated by Ongoing Analysis	consultant

B. Evaluation

By the end of FY1987, most projects initiated under the FY1982-FY1987 program will have been evaluated at least once. The FY1987 evaluation schedule in particular is heavy, with no less than eight project or programs scheduled for external review. Initial evaluations tend to focus on management and implementation issues, although questions of broader program impact are also being addressed. For example, the upcoming ACE/ECE evaluation will look at balance of payments and policy dialogue issues along with assessing overall program implementation and management effectiveness. In every instance, evaluations are playing an important role in determining the extent to which ongoing projects are carried over into the Post 1987 period. Many of the evaluations conducted under the FY1988-FY1993 program will either be close-out evaluations or take place late in the project life cycle, providing

further opportunities to more fully examine the impact of projects started during the FY1982-FY1987 period.

C. Staffing Requirements and Technical Assistance

USAID/Pakistan is executing AID's second largest development program. We are in the midst of implementation with disbursements approaching obligations. At the same time, we are designing major new projects as well as various amendments, two of which exceed \$100 million. USAID/Pakistan relies heavily on contractors, TDYs and a highly qualified FSN staff for both design and implementation, and will continue to use these resources to the maximum extent possible. The size and scope of the program will continue to require a minimum of 42 fulltime USDH staff. Some change in the staff mix may be necessary with the additional emphasis on policy dialogue and lagging areas.

Security concerns and a desire to hold expatriate technical assistance at moderate levels limit the total number of Americans. The current total of 100 contractors is expected to decline gradually. The Mission will use Pakistani consultants to a larger degree to help fill the gap. The Mission intends to use policy dialogue and conditionality to bring about many institutional changes that previously required large technical assistance groups.

U.S. ECONOMIC ASSISTANCE PROGRAM FOR PAKISTAN
 UNITED STATES FISCAL YEAR 1982 TO 1993
 (Millions of United States Dollars)

Sector/Project Title & No.	FY 1982		FY 1987		FY 1988		FY 1993	
	Planned Total	Percent of Total	Mortgage	Proposed Add-on	Total Demand	Percent of Total	Total Demand	Percent of Total
SECTOR SUMMARY:								
1. Agriculture & Rural Dev.	597.00	45.50	406.70	345.50	752.20	34.50		
2. Energy & Environment	343.50	26.18	201.50	435.00	636.50	29.27		
3. Health, Population & Nutrition	156.05	11.89	8.95	228.05	237.00	10.90		
4. Human Resource Development	25.00	1.91	.00	205.00	205.00	9.43		
5. Area Development	90.60	6.90	46.40	287.00	333.40	15.34		
6. Other Projects	100.00	7.62	10.00	.00	10.00	0.46		
TOTAL ESF/DA PROGRAMED/PROPOSED	1312.15	100.00	673.55	1500.55	2174.10	100.00		
PL 480 TITLE I	309.00		480.00		480.00			
GRANT TOTAL:	1621.15		673.55	1980.55	2654.10			
SECTORAL DETAIL:								
Agriculture & Rural Development	597.00	45.50	406.70	345.50	752.20	34.60		
-On-Farm Water Management	10.00	.00	.00	.00				
-Irrigation System Management	55.90		24.10	140.00	164.10			
-Agriculture Commodities & Equip.	411.00		64.00	.00	64.00			
-Forestry Planning & Development	18.00		7.00	17.00	24.00			
-Food Security Management	27.00		8.00	.00	8.00			
-Agricultural Research	3.20		.00	.00	.00			
-Transformation & Integration of the NWFP's Provincial Ag. Network	33.00		2.50	38.50	41.00			
-Management of Agricultural Research and Technology	20.00		10.00	.00	10.00			
-Agricultural Sector Support Project	8.90		291.10	.00	291.10			
-Supporting Provincial Agricultural Production				150.00	150.00			

<u>Energy:</u>									
-Rural Electrification	343.50	26.18	201.50	435.00	636.50				29.27
-Lakhra Coal Power Generation	<u>198.50</u>		<u>141.50</u>	<u>.00</u>	<u>141.50</u>				
-Energy Planning & Development	45.00		60.00	125.00	125.00				
-Energy Commodities & Equipment	100.00			.00	60.00				
-Private Sector Power				150.00	150.00				
-Large Scale Power				160.00	160.00				
<u>Health, Population & Nutrition:</u>	<u>156.05</u>	<u>11.89</u>	<u>8.95</u>	<u>228.05</u>	<u>237.00</u>				<u>10.90</u>
-Population Welfare Planning	65.05		8.95	35.05	44.00				
-Social Marketing of Contraceptives	20.00		.00	53.00	53.00				
-Malaria Control-II	41.00		.00	25.00	25.00				
-Primary Health Care	30.00		.00	.00	.00				
-Child Survival			.00	65.00	65.00				
-Commercial Humanitarian Initiatives in the Private Sector			.00	50.00	50.00				
<u>Human Resource Development:</u>	<u>25.00</u>	<u>1.91</u>	<u>.00</u>	<u>205.00</u>	<u>205.00</u>				<u>9.43</u>
-Development Support Training	25.00		.00	45.00	45.00				
-Educational Development *			.00	100.00	100.00				
-Lahore University of Management Sciences			.00	10.00	10.00				
-Institutional Excellence			.00	50.00	50.00				
<u>Area Development:</u>	<u>90.60</u>	<u>6.90</u>	<u>45.40</u>	<u>287.00</u>	<u>333.40</u>				<u>15.34</u>
-Tribal Areas Development	22.00		2.00	30.00	32.00				
-Baluchistan Area Development	35.60		3.40	.00	3.40				
-North-West Frontier Area Development	30.00		.00	22.00	22.00				
-Road Resources Management	2.00		41.00	.00	41.00				
-Regional Infrastructure Improvement			.00	200.00	200.00				
-NWFP Initiative			.00	35.00	35.00				
<u>Other Sectors:</u>	<u>100.00</u>	<u>7.62</u>	<u>10.00</u>	<u>.00</u>	<u>10.00</u>				<u>0.46</u>
-Project Design & Implementation	20.00		10.00	.00	10.00				
-Balance of Payment Support/SDF	80.00		10.00	.00	10.00				
<u>Excess Demand:</u>									<u>-17.21</u>
<u>PL-480 Title I:</u>	<u>309.00</u>				<u>480.00</u>				

* Subject to later decision: see CDSS text for details.

SOURCES OF GOVERNMENT DEVELOPMENT FINANCE

Figures from the World Bank and the Institute of Policy Studies illustrate trends in government finance. Revenue surpluses became deficits, financing by autonomous entities declined, and repayments on foreign borrowings reduced the net inflows from that source. The Government now relies increasingly on domestic bank and non-bank sources of financing. The report notes "the large increase in non-bank borrowings may also not have been entirely non-inflationary in view of the "crowding out" effect and resultant diversion of savings from the private sector to Government, thereby forcing the private sector to resort to debt financing on a larger scale than would have otherwise been necessary. Moreover, since the rates of return offered on non-bank borrowings are generally very high the internal debt-servicing liability of the Government has also increased steeply." The 1986/87 projection is optimistic in terms of revenues and the expected deficit.

PERCENTAGE OF TOTAL GOVERNMENT DEVELOPMENT EXPENDITURES										
Sources of Development Financing	78-79	79-80	80-81	81-82	82-83	83-84	84-85	85-86	86-87 est.	
Revenue surplus/deficit	11	15	29	23	-2	-2	-24	-23	-9	
Self-financing by Autonomous Corporations	5	8	9	8	8	9	8	9	8	
Domestic non-bank sources	10	7	23	2	32	42	41	56	53	
Banking system	42	33	10	22	22	28	59	17	11	
External Sources (net of Repayments)	33	37	30	22	19	22	16	31	37	
TOTAL	100	100	100	100	100	100	100	100	100	

DEFENSE AND DEBT SERVICE EXPENDITURES

The following figures illustrate the high share of current government expenditures being devoted to defense and the enormous increase of debt service (principally related to domestic bank and non-bank borrowing).

PERCENTAGE OF CURRENT EXPENDITURES										
Budget Category	78-79	79-80	80-81	81-82	82-83	83-84	84-85	85-86		
Defense	40.1	43	48	49.2	47.8	41.7	41.3	38.6		
Debt Service	21.1	25.6	24.9	25.6	26.9	36.6	39.2	42.8		
Total Defense and Debt Service	61.2	68.6	72.9	74.8	74.7	78.3	80.5	81.4		

SECTORAL SHARES OF GDP, EMPLOYMENT
AND INVESTMENT, 1984/85
(PERCENT)

Sectors	Share in GDP	Distribution of Employed Workforce	Fixed Capital Formation
Agriculture	23.3	50.6	21.5
Manufacturing	17.5	13.8	38.7
Construction	4.2	5.6	1.5 <u>/b</u>
Services <u>/a</u>	41.2	30.0	38.3 <u>/b</u>

/a Includes transport, communications, public administration and defense, financial institutions, housing and trade

/b Private only

AVERAGE GROSS SAVINGS AND INVESTMENT RATES

	<u>1974/75 - 1979/80</u>	<u>1980/81 - 1985/86</u>
Average Gross Domestic Savings Rate <u>a/</u>	6.8	4.7
Average National Savings Rate <u>b/</u>	11.0	12.4
- public	1.2	2.0
- private	9.8	10.4
Average Foreign Savings	6.2	3.5
Average Gross Total Investment Rate <u>b/</u>	17.2	15.9
Average Gross Fixed Investment Rate <u>b/</u>	16.4	14.2
- public	10.9	8.6
- private	5.5	5.6

a/ Percent of GDP
b/ Percent of GNP

BALANCE OF PAYMENTS, 1981/82-1986/87
(US\$ million)

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87 Projected
Current Account Balance	-1,609	-557	-1,031	-1,685	-1,236	-1,000
Trade Balance	-3,430	-2,989	-3,324	-3,372	-3,042	-2,565
Exports (f.o.b)	2,319	2,627	2,669	2,457	3,942	3,278
Imports (f.o.b)	-5,769	-5,616	-5,993	-6,009	-5,984	-5,843
Services (net)	-346	-607	-714	-822	-1,016	-1,026
Private transfers (net)	2,382	2,032	2,092	2,609	2,822	2,591
of which: workers' remittances	(2,324)	(2,886)	(2,737)	(2,446)	(2,596)	(2,300)
Capital Account Balance	966	983	843	770	1,229	985
Official Transfers (net)	421	322	296	380	478	329
of which: refugee assistance	(293)	(178)	(155)	(130)	(135)	(150)
Long-Term Capital (net)	543	871	458	329	611	536
of which: project, food and other commodity loans (net)	437	592	388	363	419	403
Disbursement	(929)	(1,009)	(880)	(876)	(1,073)	(1,120)
Amortisation/a	(-492)	(-417)	(-492)	(-513)	(-654)	(-717)
Other public (net)/b	25	191	5	95	7	15
Private (net)	83	88	65	141	185	118
Short-Term Capital (net)	-9	-233	56	-215	166	72
Official (net)/c	-9	-233	56	-215	18	50
Foreign Exchange	-	-	-	-	148	29
Bearer Certificates	-	-	-	-	-	-
Errors and Omissions	9	18	33	6	-26	0
Basic Balance	-643	426	-188	-915	-7	-15
Net Foreign Assets (Increase--)	643	-426	188	915	7	15
IMF (net)	374	426	-15	-84	-236	-349
Purchases	505	507	0	0	0	0
Repurchases	-131	-81	-15	-84	-236	-349
Other Central and Commercial Banks (Increase--)	269	-852	203	999	243	364
Gross reserves (-increase)	249	-1,107	180	1,059	-146	254
Foreign Currency Deposits,	63	273	102	-50	496	190
Other (net)/d	-43	-23	-79	-10	-107	-80
Memo Items:						
Gross official reserves	809	1,911	1,731	672	926	719
Reserves in weeks imports of goods and services	5.9	13.9	11.7	4.5	6.0	4.7
Current account deficit as % GNP	4.9	1.8	3.1	5.0	3.5	2.7

/a Adjusted for debt relief.

/b Mainly commercial bank borrowing of over one year maturity.

/c Commercial bank and Islamic Development Bank borrowing of one year maturity or less.

/d Includes deposits of foreign monetary authorities and other items (net).

Source: Ministry of Finance and Economic Affairs and staff estimates.

SUMMARY OF CONSOLIDATED PUBLIC FINANCES
1980/81 - 1986/87
(million rupees)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86 Budget	1985/86 Revised	1986/87 Budget
Revenue	42,002	51,930	59,181	72,290	77,412	92,542	88,967	104,824
Tax ^{/a}	18,846	43,003	49,029	58,246	61,217	73,446	71,830	87,983
Non-Tax	8,156	8,927	10,152	14,044	16,200	19,096	17,109	21,841
Contribution of Autonomous Bodies	2,019	1,909	2,186	2,565	2,639	4,802	3,411	3,724
Net Lending & Equity Participation	-	-	-	-	-	2,000	-	2,000
Expenditures	63,639	71,013	82,121	100,002	116,828	132,822	132,853	152,104
Current ^{/b}	40,296	46,370	59,718	74,429	85,279	97,902	97,726	110,914
Development	23,343	24,643	27,403	25,573	31,549	37,990	35,127	44,190
Overall Deficit	-14,618	-17,174	-25,654	-25,147	-36,777	-36,548	-40,495	-44,556
Financing								
Ext. Resources (net)	7,741	5,355	5,162	5,001	5,162	18,772	11,032	16,307
Ext. Resources (gross)	11,374	11,263	14,434	13,517	14,200	28,548	21,795	26,944
Project Aid	(3,602)	(3,686)	(4,833)	(4,589)	(7,378)	(10,454)	(10,406)	(12,928)
Non-Project Aid	(7,772)	(7,577)	(9,601)	(8,923)	(6,822)	(18,094)	(11,309)	(14,016)
Debt Repayment (external)	3,633	5,918	9,272	8,511	9,031	9,775	10,762	10,637
Domestic non-bank (net)	4,522	6,313	14,368	12,280	12,873	17,795	23,365 ^{/c}	23,402
Domestic bank borrowing (net)	2,355	5,516	6,124	7,866	10,735	-20	6,097	4,766
Memo Items (as % of GDP at current prices)								
Total revenue	16.9	16.1	16.7	17.3	16.5	17.0	16.9	17.7
Tax revenue	14.0	13.4	13.4	13.9	12.9	13.5	13.6	14.0
Expenditure	22.9	22.1	23.8	23.9	24.7	25.0	25.2	26.2
Overall deficit	5.3	5.3	7.0	6.0	7.8	6.7	7.7	7.5
External financing (net)	2.8	1.7	1.4	1.2	1.1	3.5	2.1	2.7
Domestic non-bank financing	1.6	2.0	3.9	2.9	2.7	3.3	4.4	4.0
Domestic bank financing	0.8	1.7	1.7	1.9	4.0	-	1.9	0.8

^{/a} Includes surcharges.

^{/b} Includes fertilizer subsidy and excludes irrigation expenditures, which are offset against irrigation charges and included in non-tax revenue.

^{/c} The proceeds from sales of special National Fund Bonds, which were financed by bank credit to private sector purchases totalling Rs 11 billion, were used to repay outstanding bank credit for government commodity operations. To maintain data comparability with earlier years, such credit has not been included in the definition of credit to Government for budgetary purposes.

Source: Ministry of Finance and Economic Affairs