



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

MISSION FOR PAKISTAN AND AFGHANISTAN

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THE DIRECTOR

September 22, 1993

George Laudato, Acting AA/Asia  
United States Agency for International Development  
Room NS 6212  
Washington, D.C. 20523-0064

Dear George,

For your record, I am enclosing a hard copy of the documents we prepared for the Special Donor Meeting consisting of the General Statement, Issues Paper, Country Economic Performance, USG Statement and SAP Comments. The package is identical to the material we E-Mailed to you earlier.

Sincerely,

John Stuart Blackton

Attachments: a/s

PAKISTAN  
Special Donor Meeting: Country Economic Performance  
Washington, September 26, 1993

**Structural Reform and Adjustment: 1988-1992**

In 1988 Pakistan's economic picture was bleak. The critical problems were mounting budget and balance of payments deficits, an industrial sector afflicted by a crisis of confidence, lack of discipline in the financial sector and a continuing legacy of public sector industries characterized by over-employment and inefficiency. While the GOP's poverty alleviation efforts had been quite successful, with the number of people below the poverty line falling from 43 percent in 1965 to 28 percent in 1988, Pakistan's social sectors remained badly neglected. This deprivation was even more marked in the rural areas, where access to such services was negligible. Rapid population growth and lack of income earning opportunities contributed to environmental degradation, rural-urban drift and urban decay.

In order to address the existing financial imbalances and structural weaknesses, the GOP embarked on an ambitious macroeconomic reform and structural adjustment program for the whole economy. The three-year reform package -- later extended to four years -- was designed to moderate the economy's growing fiscal and external imbalances and place it on the road to sustained medium-term growth in the context of financial stability. To this end, measures were introduced to deregulate economic activity; promote private sector investment and attract foreign direct and portfolio capital flows; rationalize the tariff and trade regimes; liberalize the exchange system, and reform the financial sector. At the same time, the GOP launched a program to privatize a large number of state-owned entities. These policies were supported by efforts to reduce aggregate demand pressures emanating from the public sector, and improve the structure of public finance.

Progress on the implementation of reforms over these four years was variable. In quantitative terms, Pakistan failed to meet -- indeed fell considerably short of -- designated target levels for the budget and current account deficits, inflation, savings and investment rates. The GOP's budget deficit was the main factor in these shortfalls. Thus, for instance, financing of the deficit crowded out private investment, generated inflationary pressures, depressed savings levels and strained the balance of payments. While poor macroeconomic management was the primary factor, a succession of natural calamities (floods), internal disruptions (ethnic disturbances, Sindh crisis) and external shocks (Gulf War, declining terms of trade) also contributed to the failure to meet specified targets.

On the other hand, the GOP proceeded aggressively in addressing structural adjustment issues, and can point to its significant achievements in the areas of exchange rate liberalization, industrial and investment deregulation, financial restructuring, tax and tariff reform and federal-provincial division of revenues. Structural reforms have laid the foundations for a large-scale privatization of economic functions, efficiency improvements and growth enhancement.

**Real Sector Development:** The structural reforms undertaken impacted positively on the real sectors. During the reform period (1987/88 - 1991/92), real GDP expanded on the average average by 5.6 percent per year, exceeding the rate of

population growth and allowing for a steady rise in per capita income. Real private investment increased from 7.7 percent of GDP to 9.4 percent, but these gains were almost completely offset by a fall in public sector investment. With defense expenditures, debt servicing and subsidies preempting an ever larger share of budgetary resources, development activities began to be adversely affected. Domestic savings as a percent of GDP increased from 10.5 percent to 12.9 percent. However, national savings remained unchanged at 13.5 percent due to a fall in net factor payments (remittances) from abroad. The deterioration of infrastructure and associated decline in the efficiency of investment means that Pakistan will need savings and investment levels of the order of, respectively, 18 percent and 23 percent of GDP in order to sustain the high growth rates it has been experiencing in the past.

**Internal Balance:** Efforts to restore internal balance during these four years included revenue enhancing and expenditure containment measures. Revenue enhancing measures aimed at eliminating tax exemptions/concessions and improving tax administration. In addition, the GOP sought to shift dependence away from international trade taxes and excise duties to direct and consumption-based indirect taxes. The recommendations of the National Finance Commission (NFC) Award began to be implemented in PFY 1991/92. Essentially, this is a quid-pro-quo arrangement where, in exchange for substantial federal transfers of tax and non-tax (electricity, oil and gas) revenues, development grants to the provinces would be terminated. The main purpose of this measure is to engender fiscal self-reliance at the provincial level.

The GOP's current expenditure patterns are characterized by certain rigidities which make containment difficult. For instance, defence expenditure, comprising 40 percent of the current budget, has traditionally resisted cuts. (While Pakistan's security concerns are the oft-cited rationale, more recently it has been recognized that the optics of defense expenditure comparisons need to be adjusted because Pakistan includes pensions and welfare benefits for military retirees in its budget, while many other countries do not. But adjustment notwithstanding, defense spending still remains prohibitively high). The structure of external resource inflows continued to shift from grant type to loan assistance and short/medium term commercial credit, leading to a rapid rise in debt servicing liabilities. However, despite its limited room for maneuver, the GOP attempted to restrict current expenditure levels so as to release resources for essential development needs.

These measures produced variable results over the adjustment period. The deficit, itself, fell to 7.7 percent of GDP in PFY 1991-'92, a decline of only 0.8 percent over four years. While this can be partly ascribed to external shocks and adverse internal developments which reduced revenues, revenue enhancement efforts also were not sufficiently forceful or effective. In particular, the GOP continued to vacillate on the issue of agriculture income tax. On a more positive note, the structure of taxation shifted in favor of direct taxes: these rose from 1.8 percent to 2.5 percent of GDP while indirect taxes fell from 11.4 percent to 10.5 percent, primarily due to a reduction in import tariff rates. Sales tax revenues under the Generalized Sales Tax (GST) also increased, but this increase was offset by reductions in surcharges from gas, petroleum and fertilizer. Overall, tax revenues remained almost static, close to the benchmark level of 13.8 percent of GDP.

Current expenditure fell by an insignificant 0.8 percent of GDP over four years, stemming from a reduction in both defence and subsidy outlays and only partially offset by an increase in debt (interest) repayments. The full scope of subsidy reduction, both explicit (wheat, fertilizer) and implicit (utilities, water), was not fully exploited. More important, persistently high defense outlays were the main reason for the failure to contain expenditure and divert resources to productive use. Development expenditure increased by 0.4 percent of GDP from the benchmark level of 6.8 percent. The overall reduction in expenditure over four years was, thus, only 0.4 percent.

Options used for financing the budget deficit were loans from the domestic banking system, loans raised abroad, private sector savings and inflationary financing. The cumulative impact of these financing measures was mostly adverse, as it crowded out private sector investment, led to an increase in domestic and foreign debt servicing liability and created monetary instability. Inflation, at an average rate of 10 percent during the four years exceeded the target rate of 6 percent.

**External Balance:** In the external sector, the current account deficit, as a proportion of GDP, reached 5.2 percent in PFY 1991/92. In statistical terms this represents a major slippage against the end-year target of 2.5 percent. However, it would be too simplistic to construe this as a complete failure of GOP policies since the underlying reality is much more complex. The deficit, in the first place, was a direct outcome of the structural adjustment process itself and, secondly, a series of adverse external shocks inhibited the deficit reducing effects of these adjustments. On the whole, reforms relating to exchange rate management, trade liberalization and foreign investment can be seen as having laid a stable basis for long-term improvements in the balance of payments.

Import and investment liberalization led to surging imports during the adjustment period. The important measures were tariff reductions, elimination of import licensing and removal of investment sanctions. Export growth averaged 12 percent during this period, stimulated by generous fiscal and financial incentives. Export volumes of traditional and some non-traditional items registered large increases. On the other hand, exports as a whole remained vulnerable to terms-of-trade shocks, underscoring Pakistan's high dependance on cotton and cotton-based products and reflecting its inability to move to the higher end of the value added spectrum. Exchange rate policy continued to be sound, maintaining a careful balance between inflation and external competitiveness, and partly offsetting the impact of adversely moving terms-of-trade on exports.

The improvement in the trade deficit -- from \$2.6 billion to \$2.2 billion over four years -- was swamped by the growing deficit on the services account. Factors contributing to this increase were declining remittances and an increase in invisible payments (interest, freight and insurance). Although the current account deficit worsened steadily, the modalities for its financing also changed. In the first place, remittances were diverted substantially into foreign currency accounts, providing a buffer to the GOP's foreign exchange reserves. However, these are short-term deposits and subject to erratic movements. At a more sustainable level, liberal foreign exchange and investment policies generated higher private capital inflows. The capital account surplus rose from 2.7 percent in PFY 1987-'88 to 4.7 percent of GDP in PFY 1991-'92, with net private

capital inflows (portfolio and direct investment) accounting for three-fourths of this surplus in the latter year. Conversely, official aid inflows and commercial borrowing declined during this period.

**Financial Sector Reform:** The financial sector reform agenda was wide ranging. It included: (a) curbs on domestic credit expansion -- aimed at bringing inflation down to 6 percent over the four-year period; (b) interest rate rationalization; (c) market-based management of the public debt; and (d) institutional strengthening of the financial sector.

The narrowing of interest rate differentials between various financial instruments and some reduction in concessional lending began to reverse the trend towards financial disintermediation, leading to an increased volume of bank deposits. GOP borrowing from the banking sector substantially replaced borrowing from the general public. This switch to less liquid assets dampened the inflationary effects of monetary expansion. However, concessional lending rates still remain below the rate of inflation. Also, discriminatory tax treatment and selective GOP guarantees prevented returns on bank deposits from matching those on various GOP instruments, such as Special Savings Certificates (SSCs), Foreign Exchange Bearer Certificates (FEBCs) and Federal Investment Bonds (FIBs).

Interest rate policies also underpinned the GOP's intention of introducing market-based management of its internal debt, as well as moving away from the existing regime of directed credit. An auction system for short-term treasury bills and FIBs is functioning well with a dealer network in place. However, a secondary market for these instruments failed to develop, partly due to restrictions on onward sales by banks and, partly, as a result of taxation at source for individual investors. The GOP's propensity for fiscal mismanagement (higher interest payments on short-term treasury bills were a new factor contributing to this deficit) indefinitely postponed phasing out of credit rationing, while private sector investment continued to be crowded out.

Despite high monetary growth, inflation was contained to an average annual 10 percent during the adjustment period. This was due to the switch from more liquid to less liquid assets and to the contractionary impact of net foreign assets on the banking system. The inflation rate would have been even lower but for increases in the administered prices of fertilizers, petroleum products and utilities.

The GOP privatized two nationalized commercial banks and sanctioned a number of new private sector banks and investment companies. The State Bank also issued prudential regulations to supervise and regulate the expanded financial sector. However, its operations continued to be hampered by intrusive bureaucratic controls, namely, by the GOP's Ministry of Finance and the Pakistan Banking Council. The contentious 'riba' (usury) issue was bypassed adroitly before it could snowball into a major foreign investment deterrent.

**Privatization:** In its approach to privatization the GOP adhered closely to two precepts: (a) its role should mainly be to regulate and facilitate private sector activities; and (b) public sector investment should be restricted only to areas of market failure and to provision of infrastructure. The ensuing record

on privatization was enviable. In a brief span of two years the GOP divested itself of close to 70 percent of public sector manufacturing units and two of the five public sector banks. Plans to privatize the remaining banks, a number of development finance institutions and large utilities (energy, telecommunications) were close to being finalized by the end of the period. Areas of investment formerly reserved for the public sector -- power generation, trade, utilities, banking, and air and sea transport -- were opened up to the private sector. Finally, comprehensive foreign exchange and investment deregulation measures were introduced. Both domestic and foreign investors responded quite enthusiastically: in PFY 1991/92 foreign investment at about \$650 million was twice the previous year's level and private domestic investment also picked up rapidly.

### **Economic Performance in PFY 1992-'93**

The PFY 1992/93 budget measures aimed to restore financial discipline and deepen the structural adjustment process. Identifying the fiscal imbalance as the key concern, the budget included measures to: widen the tax base through extension of existing direct taxes; further reduce indirect tax exemptions and; improve tax administration, auditing and accounting procedures. However, a decision on the agriculture income tax was deferred again. The scope for current expenditure reductions continued to be limited by defense and debt servicing compulsions. Planned development allocations focussed on the social sectors and a few infrastructural 'megaprojects,' primarily in road construction and telecommunications. External sector reform efforts continued with import duty reductions, simplification of the duty structure and further liberalization of imports. In the financial sector, the move towards market-based monetary management continued, with direct credit controls being replaced by deposit-credit ratios. By these measures, the GOP hoped to reduce the fiscal and current account deficits to, respectively, 5.5% and 2.5% of GDP. The GOP also planned to intensify its privatization initiatives. In particular, the focus was to be on divesting itself of unprofitable units -- with or without a reserve price, and privatizing the Water and Power Development Authority (WAPDA), Pakistan Telecommunications Corporation (PTC) and a third nationalized commercial bank.

The fiscal year, however, turned out to be a difficult one. The devastation wrought by the September floods arrested progress on many fronts. In fiscal terms, these floods caused a revenue loss of Rs.10 billion. Relief and reconstruction requirements, which added an additional Rs.13 billion to current and development expenditure, were mainly financed by bank borrowing. Widespread damage to the cotton crop adversely affected agricultural, industrial, export and, consequently, GDP growth which -- at 3% -- fell to its lowest level in almost two decades. Pakistan also suffered a sharp deterioration in its terms of trade which, combined with domestic supply shortfalls, led to export stagnation.

But external shocks and natural calamities notwithstanding, the GOP's own fiscal and financial excesses emerged as the main threat to its macroeconomic targets and, by the end of the year, came close to creating a financial crisis. Subsidies on wheat were increased while those on fertilizer (phosphate) were retained. Accelerated funding of road infrastructure and telecommunication

schemes severely constrained funding of social sector projects under the SAP. Bank resources were preempted by the Prime Minister's wasteful and capital intensive 'yellow cab' employment scheme to provide low interest loans for the acquisition of taxicabs, which also caused a heavy drain on foreign exchange (\$750 million expended and another another \$750 million in the pipeline by the caretaker government's estimate). Despite -- perhaps because of -- increased transfer of federal revenues to the provinces under the National Finance Commission Award, their financial indigence increased, resulting in heavy borrowing from the central bank. These factors contributed to an end year fiscal deficit of 10% of GDP, a current account deficit of over 5% and a visible slowing down of financial sector reform. The politically volatile situation in the latter half of the year created a crisis of confidence, depressing private domestic and foreign investment as well as stock exchange activity. Progress on privatization slowed down, primarily due to capital inadequacy, and the substantial foreign currency accounts were rapidly depleted. The inflation rate -- despite some structural changes in the financial sector -- remained high at almost 10%.

#### **The New Reforms: PFY 1993-'94**

Details of the caretaker government's reform agenda are available in Fund, Bank and GOP documents. The overall intent of these reforms is to restore fiscal and financial discipline in the economy, as well as to continue strengthening the ongoing structural adjustment process. However, the reform implementation strategy differs from previous efforts in two important respects.

First, it firmly posits macroeconomic stability as a precondition for successful structural adjustment. To this end, demand management measures have entailed: trimming defense spending, closing down or merging government departments, eliminating subsidies; containing and prioritizing development spending, by protecting core investments in irrigation and the social sectors (expensive road infrastructure schemes have been shelved). The other component of demand management, expenditure switching, has been encouraged by the recent sharp adjustments of the exchange rate.

Second, the lack of transparency and good governance, which undermined previous reform implementation efforts, is being comprehensively addressed. Some of the more important measures in this regard are, freeing the central bank from intrusive bureaucratic controls, restructuring and enlarging the mandate of the Privatization Commission; on a broader level, instituting steps to ensure greater financial and fiduciary accountability by legislators, government officials and industrialists. While the need for these reforms was always self-evident, previous governments were stalled from doing so by political considerations. Freed from this constraint, the caretaker government has been quick to seize the initiative and has established certain vital precedents but, by the same token, the institutional sustainability of these initiatives remains open to question. Reform implementation needs to be carefully monitored by the donor community and lapses swiftly countered.

The caretaker government has also accelerated structural reforms in the areas of taxation. Agricultural income has been brought within the tax net, the GST scheme has been broadened and the rate increased, tariff rates are being harmonized and

reduced under a phased program, and tax accountability has improved. The aim is to broaden the tax base and improve the balance between direct and indirect taxation. Pricing reforms apply to utilities as well as administered items. Other structural reforms pertain to credit and privatization. The generic intent of these measures is to free production and prices, thereby minimizing resource allocation distortions.

While it would be premature to evaluate the impact of these reforms, some early signals are apparent. Pakistan's trade deficit has been reduced and foreign exchange reserves have built up to former secure levels. The drain on foreign currency accounts is being reversed. Surprisingly, the perceived inflationary impact from removing price controls has not generated much social unrest. If the elected government maintains the present tight monetary stance, actual inflation could be checked. The donor community's response to the reform agenda -- as typified by the IMF's Standby Loan and the world Bank's PSAL -- should further improve its credibility.

PAKISTAN  
Special Donor Meeting: USG Statement  
Islamabad, September 26, 1993

The United States strongly supports the Government of Pakistan's efforts to ensure fair and free elections, and applauds its courage in tackling the problems which have arisen from insufficient transparency in earlier years. Clearly, there are risks in challenging vested interests, and enormous difficulties in trying to ensure administrative and financial accountability. But the potential gains manifested in the form of social cohesion and confidence in national leadership more than justify the effort.

We wish to underscore our interest in and deep concern for Pakistan's social and economic development and commend the caretaker government's decisiveness in instituting an ambitious and comprehensive policy reform agenda. The government's efforts to strengthen the environment for reform, as well as its firm support for democratic processes are critical to making these reforms durable and sustainable. The documents prepared for the Special Donor meeting and the associated policy framework papers prepared for the World Bank reflect the strong and continuing commitment of the Government of Pakistan to aggregate demand management, structural reform and economic liberalization.

These reforms are to be commended for their great foresight. We especially congratulate the caretaker government's decision to tax agricultural income and wealth, as well as its other administrative measures aimed at broadening the tax base. In the same vein, the measures taken to impart more transparency in the privatization process are also critically important.

We are especially pleased that there continues to be sustained commitment to the Social Action Program, and that recent budget realignments have increased funding availability for the program during the current fiscal year.

We recognize the concern which major donors and the Government of Pakistan share, regarding the effective and timely utilization of donor-provided funds and the provision of counterpart resources. However, the U.S. economic assistance to Pakistan has not been significantly affected by the bottlenecks which others have experienced. This is primarily due to the fact that our assistance is supported by commensurate staffing levels working full-time with government counterparts to avoid or overcome implementation constraints. By tailoring our financing and implementation modes to the system of the Government of Pakistan we have experienced very satisfactory rates of AID utilization.

In concluding, we wish to reiterate that the caretaker government's reform package contains many bold steps. However, much still remains to be done. We hope that the future elected government will continue to build upon the new measures while maintaining the principles and the spirit in which they were undertaken.

PAKISTAN  
Special Donors' Meeting: Issues  
Washington, September 26, 1993

Issue 1: Narcotics

Issue Statement. Despite a public stand against narcotics, including the declaration of a "Crusade Against Drugs" in 1993, previous administrations have failed to mount an effective counternarcotics strategy to tackle the manufacturing and distribution of heroin within Pakistan's borders and to overseas markets. It is encouraging that the caretaker government has taken significant and long overdue steps to deal with these critical issues. However, these efforts should be continued by the elected government and supported by the international community. In this context, we strongly support the UN proposal to place narcotics on the agenda of next years consultative group meeting.

Discussion. By U.S. estimates, Afghanistan and Pakistan produce over 800 metric tons of raw opium annually and together comprise the second largest source of this material in the world. Other estimates are even higher and give Southwest Asia the dubious distinction of being the world's largest opium producer. Much of this production is converted into heroin in the tribal areas of Pakistan's Northwest Frontier Province, over half of which is consumed by a growing domestic addict population. The narcotics situation, in all its manifestations -- including illicit cultivation, drug trafficking and domestic addiction -- has clear and undeniable negative implications for Pakistan's development, its security, its democratic institutions and its society at large.

Although not readily quantifiable, the adverse impact of narcotics on Pakistan is certainly significant. Domestic drug addiction, affecting over 2 million people, has clear implications for the health, education, and social sectors. The enormous profits generated by drug traffickers lead to corruption of public institutions -- particularly the police and judiciary -- and inhibit economic growth and productive investment. Pakistani officials point out that the country's legitimate exports are being singled out for rigorous search and inspection for drugs, resulting in the importers of Pakistani goods shifting to less controversial suppliers. Countries in the Gulf, long a source of overseas employment and worker remittances, are threatening to limit future employment of Pakistani workers.

Recognizing that the drug situation is a development problem, Pakistan could benefit from continued assistance from the international donor community. Over the past decade, the U.S. has contributed approximately \$120 million in assistance, specifically designated for community-based development activities and infrastructure projects in the poppy growing areas of the Northwest Frontier Province, as well as assistance to awareness and education projects. Over the next three to five years, the U.S. State Department's Bureau of International Narcotics Matters (INM) plans to invest approximately \$25 million in similar projects in the Tribal Agencies of Bajaur and Mohmand, with the aim of eliminating poppy cultivation. USAID projects in the Northwest Frontier Province and Tribal Areas -- focused on public awareness and the replacement of poppy cultivation with legitimate economic activity -- are currently promoting community efforts to maintain the long-term sustainability of heretofore successful efforts. These projects will be phased out in 1994 under the Pressler Amendment.

The sustainability of U.S. and other international donor crop substitution efforts will ultimately be determined by the political will of the authorities to expand the no-poppy zone and to enforce the ban in a consistent and unambiguous manner. Success in coping with the narcotics problem in all its facets will also require the political will of the authorities and assistance from the international community in the fields of law enforcement, public awareness and demand reduction, and drug rehabilitation. While the international community is willing to assist, the GOP must understand that without its strong initiative and leadership, resolution of the drug problem will remain an elusive goal.

Recommended Position. Recognizing that the narcotics problem will continue to remain an impediment to development activities, the U.S. supports the UN proposal to include narcotics as a "major theme" on next year's agenda for the Consultative Group meeting. The United States also supports the UN proposal to undertake a thorough study of the drug problem as soon as possible to provide a basis for reasoned decisions by the Consultative Group.

In the meantime, the United States should:

- applaud the Caretaker Government's efforts to highlight and tackle the narcotics problem as one of its first initiatives in office;
- encourage the subsequently elected government to make more resources available for counternarcotics efforts such as expanding and enforcing the ban on poppy cultivation;
- encourage the government to shut down heroin laboratories and bring major narcotics traffickers to justice;
- encourage the Government to foster increased donor coordination and increased community participation in planning and managing sustainable development programs in the previous, present, and potential poppy-producing areas;
- encourage the Government to strengthen its commitment to demand reduction and education awareness efforts, including formally integrating the Drug Abuse Prevention Resource Center into the Narcotics Ministry, in order to tackle the escalating drug addiction problem in Pakistan;
- encourage the Government to take measures to prevent money-laundering;
- encourage the Government to support regional cooperation in eliminating the narcotics menace; and

Support should be given to a regional heroin strategy which would: (1) include a campaign to elicit greater commitment from international donors and host country governments; and (2) focus coordination through country and regional plans for anti-narcotics activities.

## **Issue 2: Social Action Program (SAP)**

Issue Statement. In the past year, the federal and provincial governments have made good progress in defining key problems in the social sectors and proposing

plans for their resolution. However, the overall pace has been slow. Much more remains to be done to assure the budgetary and policy support necessary for the Social Action Program (SAP) to succeed.

Discussion. The Government of Pakistan took the first concrete steps in PFY 1992-'93 to make the SAP a reality. Each province committed to allocate a greater share of its development and recurrent budgets to primary education, primary health care, population and rural water supply and sanitation. However, serious funding constraints at the federal and provincial levels slowed program implementation. This deficiency has been rectified in PFY 1993-'94. Cautious fiscal and monetary policies, combined with reaffirmation of commitment by the caretaker government, have ensured that the SAP will be more than adequately funded during the current fiscal year.

Although launching of the Eighth Five-Year Plan had been unavoidably delayed, the SAP continues to be an integral part of it. Significantly, despite the frequent changes in government in the recent past, the SAP has enjoyed uninterrupted political support. This was an important factor in ensuring that World Bank funding preparations for program assistance remained firmly on track. Also, other multilateral and bilateral donors have pledged additional financing. The donor coordination mechanism is firmly in place which, among other things, will channel technical assistance for SAP implementation.

The policy reform implementation aspect of SAP will prove key to removing distortions in priorities, improving program delivery and correcting institutional anomalies. Some of the issues the provinces have begun to address are: gender discrimination in primary education; induction of more females as teachers and health providers; incentives for women employees; integration of health and family planning services; delegation of administrative authority; personnel transfers and site selection criteria; privatization of education and health services and; user cost-recovery.

However, there is little doubt that without sustained political and budgetary support for the SAP the social sectors risk lapsing into their customary state of neglect. Enlightened and dedicated leaders are needed at the federal and provincial level, to demonstrate the political will to make social services better and more available to the people of Pakistan. The policy reform agenda is now in place and the momentum of activities is picking up rapidly. A critical and immediate need is that administrative decision-making be freed from political interference and that the decentralization and privatization of social services provision be expedited.

**Recommended Position:** The United States and other consortium members should congratulate the Pakistan Government for its sustained commitment to the SAP. We consider the SAP as the best instrument available to make a significant difference in the social sector profile of Pakistan. The success of the SAP will depend on the government's providing greater political leadership as well as sustained policy support and budgetary resources

### **Issue 3: Aid Utilization**

Issue Statement. In order for the Government of Pakistan (GOP) to improve the expenditure rate and utilization of donor assistance, it is imperative that certain financing/expenditure, institutional, and procedural

reforms be implemented.

Discussion. Improved utilization of donor assistance is not a pressing issue for the USG vis-a-vis its own economic development assistance package. However, we are sensitive to problems faced by other donors, and we strongly support the reforms which are being discussed.

In the course of implementing (and now winding up) a \$2 billion assistance package, USAID has in general been extremely pleased with the rate of expenditure, the availability of counterpart resources and the utilization of the funds provided by the U.S. Government. This is not to say that constraints to smooth implementation have not been faced from time to time at the project level. Certainly there have been such bottlenecks; but the organizational structure within both USAID and the GOP has allowed for timely resolution in virtually every case. USAID worldwide operates with a staffing pattern which includes a strong mix of U.S. and local technical and administrative expertise, and this has been particularly true in Pakistan which has enjoyed staffing levels commensurate with one of the world's largest bilateral assistance programs. Unlike the "thin" staffs of other donor programs, USAID personnel have been able to work on a daily basis with counterparts in close professional relationships which have assured quick problem resolution. And, on the GOP side, overall management of the USAID program has been headed by a separate and highly competent staff within the Economic Affairs Division (the U.S. Wing) of the Ministry of Finance. This separate entity was justifiable (and necessary) given the size of the portfolio, and was key in assuring that counterpart resources were budgeted for and made available. During the last two years of phasing out, implementation of our projects has been at the forefront of concern for the GOP; least valuable resources simply lapse as no reprogramming is now possible. So, even during this close-out period close scrutiny and quick problem solving have typified the GOP's role.

Nonetheless, it is true that, given shrinking donor budgets, recipients will be asked to assume an ever growing share of project cost, and every means must be taken to make these resources available on a timely basis. Also, in a global environment where operating resources and staff sizes are shrinking, neither USAID nor other donors are likely to have a very large in-country presence. Therefore, it is imperative that recipient countries take greater responsibility for fully managing donor-aided activities. We believe the reforms which Pakistan is proposing are timely and most appropriate. These include better planned budgeting of counterpart resources for the Annual Development Plan, timely release of funds, application of user fees (to better assure financial sustainability), development of institutional structures with clearly designed authorities and responsibilities, limiting of staff turnover, and a stronger GOP role in design and monitoring. Such reforms, if implemented, will clearly have a positive impact on aid utilization and overall economic development.

Recommended Position. The United States strongly endorses the implementation of the Action Plan agreed to between the GOP and the World Bank, which recommends specific financial, institutional and procedural changes aimed at improved aid utilization. We support these reforms, which if rigorously implemented, will result in a more efficient bureaucracy focused more clearly on rapid economic growth.

**Issue 4: Environment**

Issue Statement. Although Pakistan has achieved impressive growth during the past decade, it has done so at the expense of the natural environment. The quality of cropland is deteriorating, pollution is becoming a major problem, energy is wasted, low water quality is a health risk to much of the population, watersheds are rapidly being degraded and irrigation water is inefficiently used. The challenge facing the country is to confront effectively environmental and conservation issues while still maintaining acceptable growth.

Discussion. To address these concerns a National Conservation Strategy (NCS), developed with substantial support from Canada, is ready for implementation. Integrated with the soon-to-be released Eighth Five-Year Plan, the NCS is a comprehensive blueprint, which will hopefully guide Pakistan's environmental and conservation efforts for years to come. The NCS proposes a partnership between public and private sectors with full involvement of NGOs and community organizations. It addresses 14 core areas and 68 activities which, if implemented, would have a positive and significant effect on Pakistan's environment.

The GOP appears to be taking the NCS seriously, with planning and implementation units already established. Donor coordination meetings are held regularly and there seems to be momentum to initiate implementation. There are some areas which indicate that progress to reverse environmental degradation is being made. For example:

- Modest inroads to increase energy conservation have been carried out under the National Energy Conservation Center (ENERCON)
- The number of environmental NGOs is increasing rapidly and the GOP recognizes the need to work in concert with them.
- The social forestry activities of a number of donors have increased tree cover in marginal agricultural areas, thus partially reducing the pressure on fragile highland coniferous forests.
- In pilot activities, managed felling and replanting efforts in coniferous forests show promise as a way to retard and reverse the critical deforestation trend.

While these examples are encouraging, a much larger number of problem areas are still waiting to be tackled. Additional commitments are needed to:

- Reverse the deforestation trend in public sector forests and prevent overgrazing of fragile arid and alpine lands.
- Conserve and maintain the cropland base.
- Reduce water pollution from raw sewage, industrial effluents, and agricultural chemical runoff.
- Recycle and manage solid waste.
- Further expand and improve energy conservation.

The NCS has a \$6 billion price tag. Are the resources to implement the NCS

available? The NCS suggests increased national investment from its current 4 percent level to 8 percent by 2001. Will that investment be available? Is it enough? Is the current 4 percent level being used effectively? The answers to these questions are still unclear.

Other issues relate to the GOP's ability to implement such a massive and ambitious program. The Ministry of Environment and Urban Affairs is grossly understaffed and as yet only limited technical staff are available to assist in NCS implementation. Continued efforts are needed to further prioritize activities falling under the NCS. As donors make commitments, there is a need for caution to avoid the problems which have plagued past projects, e.g., shortages of counterpart staff, shortages of counterpart funds and inordinate delays in approval of PC-Is and other documentation.

Recommended Position. The United States and other consortium members should acknowledge the positive thrust of the NCS. The donor community can provide invaluable financial and technical support. But for the NCS to be successful it is essential that the Government of Pakistan take the lead in demonstrating total financial and institutional commitment towards its execution.

**PAKISTAN**  
**Special Donors Meeting: General Statement**  
**Washington, September 26, 1993**

Despite the suspension of government-to-government development assistance to Pakistan, the United States maintains its interest in and deep concern for Pakistan's social and economic development. The caretaker government has acted forcefully to accelerate and broaden the scope of on-going reforms in the social and economic sectors. Its efforts to strengthen the environment for reform, as well as its firm support for democratic processes, are critical to making these reforms durable and sustainable. We hope that the concurrent manner in which Pakistan has chosen to address its social, economic and political problems will place it on the path to broad-based sustainable development.

We strongly support the government's efforts to ensure free and fair elections. The publication of the list of bank loan defaulters is an unprecedented and courageous step. Election monitoring and supervision arrangements are also more transparent than they have been in the past. These measures, aimed at disqualifying corrupt and self-serving candidates, will lend more credibility to the democratic process. In this context, we are encouraged to note that the caretaker government stands firm in its resolve not to continue in office beyond its appointed time.

The reforms aimed at restoring macroeconomic stability and ensuring structural adjustment of the economy show great foresight. Admittedly, such reforms will impose short-term hardships on the people but are necessary to avert greater economic crises at a later stage. In order to allay their harsh effects, the succeeding elected government needs to proceed rapidly with putting social safety nets in place. The utilization of 'Zakat' and 'Ushr' funds may be considered for this purpose. Appropriately, the stress on market forces has been accompanied by measures to redress income inequality and improve social welfare. In particular, we refer to the small but symbolically important tax on agricultural income and the increased budgetary allocations for the Social Action Program (SAP).

We applaud the government for its courage in tackling the ingrained evil of corruption. There is little doubt as to how pervasive and malign its influence can be. Clearly, there are risks in challenging Pakistan's powerful and corrupt elements, and enormous difficulties in trying to ensure administrative and financial accountability. But the potential gains manifested in the form of social cohesion and confidence in national leadership more than justify the effort.

We also feel bound to express our concerns regarding the political, financial and institutional sustainability of these reforms. The best plans can go astray in the absence of an effective institutional delivery capability. In particular, the importance of good governance cannot be sufficiently emphasized, whether it be in the domain of law and order, tax administration, or implementation of economic and social sector programs. This will continue to remain a critical concern and a test for Pakistan's reform efforts. We admit to the possibility that an elected government may reverse certain policy reforms despite its best intentions -- especially when confronted by an economically burdened public, or by traditionally entrenched groups. On the

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other hand, Pakistan's chequered political record clearly demonstrates that there is no viable long-term substitute for elected, representative government. Such a form of government remains Pakistan's best hope for social and economic change, for the continuity of its reform efforts and for addressing governance issues on a sustainable basis.

Changes in the geo-political climate have afforded donors greater opportunity to address genuine development concerns in Pakistan. We should take advantage of this opportunity to leverage a more effectual response to pressing social, economic and human rights issues.

**Privatization:** The previous elected government achieved impressive successes in implementing its privatization agenda. The underlying premise of this agenda -- that the government's role be restricted to creating an enabling policy and regulatory framework, compensating for market failures and strengthening the country's social and physical infrastructure -- remains unchanged. This is underscored by the care-taker government's renewed commitment to privatization of major utilities, services, infrastructure and export bodies. The management record of the divested units and financial institutions continues to improve with the change in their ownership.

Regrettably, there is mounting dissatisfaction with the lack of transparency as demonstrated by the pre-selection of beneficiaries, and an unhealthy drift towards industrial concentration. Reconstitution of the Privatization Commission -- with an honest and able official at its head -- is an encouraging move towards ensuring greater transparency. The Monopoly Control Authority has been invested with greater powers to prevent collusive behavior. Also, privatization proceeds will, henceforth, be solely used to retire the public debt. We hope that the new government will continue with such strengthening of its institutional response capabilities.

**Fiscal Deficits:** Other important initiatives of the previous government aimed at restoring private sector confidence and investment included import, investment and exchange rate liberalization. An immediate response was exhibited by the surge in investment, import and stock exchange activity and by the rapid growth in foreign currency accounts. This trend, however, proved to be short-lived, a victim to political in-fighting, law and order problems, and intimidation of the elected government by the establishment. However, the main hindrance to macroeconomic stability, economic investment and growth proved to be the government's own fiscal excesses.

The GOP/World Bank/Fund Policy Framework Paper, August 1993, indicates that Pakistan's budget deficit stood at an alarming 7.7% of GDP in PFY 1992-'93. While the floods in the summer of 1992 led to unforeseen revenue losses and additional expenditures for rehabilitation and reconstruction, the elected government greatly exacerbated the problem through its absence of fiscal restraint. In a climate of reduced foreign resource inflows and stagnant tax revenues, it resorted increasingly to inflationary financing and bank borrowing, which crowded out private sector investment and created inflationary pressures. Pakistan's inter-generational debt liability continued to build up rapidly, posing a threat to macroeconomic stability and to future investments in physical and human resources.

We are relieved that the caretaker government has rapidly instituted immediate and necessary fiscal checks. These include a combination of tax and institutional measures designed to broaden the tax base, increase its yield and reduce its bias against the poor. The most important and politically courageous of these measures is the tax on agricultural income and wealth. Continued political commitment will be required to tap the full potential of this revenue source. If this will can be demonstrated, the current trend towards improvement of the balance between direct and indirect taxes will be accelerated.

Improvement of tax administration and documentation of economic transactions are further aimed at increasing transparency, effectiveness and accountability of the tax collection process. The government has initiated a survey of urban property aimed at evaluating its tax potential. It is examining the implications on the industrial sector of reducing maximum tariff rates to 35%. These studies are expected to yield additional tax recommendations that will, clearly, need sustained commitment to be implemented.

**Government Spending Priorities:** We strongly endorse the interim government's efforts to contain recurrent expenditure. This is a category where the previous government was routinely extravagant, despite Pakistan's traditionally high defense and debt servicing requirements. Trimming recurrent expenditures through closure of superfluous foreign missions, reduction of federal departments, user-cost recovery and elimination of subsidies are -- under present circumstances -- critically necessary decisions. We hope they will remain politically and administratively viable.

With regard to development expenditure, the elected government had demonstrated a strong commitment to the SAP. In addition, its success in off-loading state enterprises freed up funds for development. Still, on balance, its development plans lacked rationality, with the SAP becoming a casualty of financial extravagance. We are pleased by the caretaker government's realistic approach in deferring some of the larger construction projects. This will release funds for the implementation of the SAP, which continues to remain a high priority on the development agenda. The government's enlarged mandate for privatization also indicates that it expects and encourages the private sector to participate actively in the critical areas of energy, transport and communication.

The Policy Framework Paper stresses that the need to restore macroeconomic stability takes precedence over -- and is a pre-condition to -- attempting reforms of a structural or sectoral nature. Fiscal and current account deficits, already at unsustainable levels, became even larger in PFY 1992-'93, further increasing Pakistan's internal and external indebtedness. The recent fiscal measures and spending controls aim to reverse this trend. A further requirement of macroeconomic stabilization is price stability, as it strengthens business confidence and prevents the erosion of real incomes. In this regard, the recent rise in interest rates was appropriate. It also underscores the caretaker government's resolve to allow the State Bank more autonomy in pursuing independent monetary policies. We hope that future governments will not allow a reassertion of Finance Ministry controls on monetary policy or a reversion to traditional inflationary financing practices.

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**Price Controls and Subsidies:** We are encouraged that the caretaker government has continued with earlier initiatives taken in decontrolling the prices of utilities, fuels and foodstuffs. There is growing recognition that subsidies are fiscally unsustainable, preempt scarce credit, impact marginally on the poor, and distort the allocation of resources.

With the discontinuation of federal funding for WAPDA's development schemes, higher electricity prices are a logical self-financing recourse and will also allow WAPDA to cover higher fuel costs. This does not, however, absolve management of the responsibility to cut transmission and distribution losses.

Tying petroleum prices to exchange rate movements is appropriate in the light of Pakistan's high import dependence on fuel. The increase in petroleum and gas prices is also a necessary incentive, aimed at producing long-term self-sufficiency in energy production.

The previous government was committed to increasing prices of wheat and edible oil and fertilizer prices to international levels, but was unable to do so because of political exigencies. The caretaker government's decision in this regard represents a move towards border prices and provides the right signals to farmers to increase production.

Devaluation of the exchange rate by 20% over the last six months has proved controversial in view of the perceived inelasticity of Pakistan's imports and exports. It is too early to gauge the impact of this measure on the trade balance, but the effect on domestic prices has been noticeable and immediate. Although partly driven by the textile industry's desire to retain its export market share, the primary purpose of this measure is to arrest the appreciation of the real exchange rate which occurred over the past three years as a result of a surge in domestic inflation.

We share the concern that the increases in administered prices and exchange rates will generate cost-push inflation in the short-term. But freeing prices and production are key elements of a sound structural adjustment strategy. It is also important that these policies not be reversed once an elected government assumes power and that inflationary tendencies be essentially curbed through monetary adjustment. The focus should be on extending the inflation adjustment measures currently being initiated, such as the institution of social safety nets and tariff reductions -- as for instance, in the case of sugar.

**Population Growth:** A strengthened political commitment to family planning has been evident since 1991, which is reflected in increased budgetary allocations for the federally funded Population Welfare Program. The caretaker government has reinforced this commitment by protecting the Ministry of Population Welfare budget for PFY 1994, when other ministry programs are being slashed as part of its efforts to restore fiscal balance. (Even more important, such fiscal restraint has allowed substantially increased funding for the GOP's high-priority SAP.)

Important policy initiatives include integration of family planning into the health delivery system to increase client accessibility, and launching of an Accelerated Family Planning Program. This program aims to recruit and train village workers to provide family planning information and services in their

communities. But several critical measures still need to be taken to increase the deplorably low contraceptive prevalence rate, as well as to assure institutional sustainability. These include:

- An uninterrupted supply of contraceptives
- Decentralization of programmatic control by the federal government to provincial and district level implementing bodies
- Application of functional monitoring and program implementation techniques at the federal, provincial and district level
- Relaxation of controls on private sector activities, to enable both non-profit and for-profit organizations to contribute fully to the program. In this context, this means privatizing the NGO Coordinating Council (NGOCC), thereby allowing it to make administrative, financial management and programmatic decisions independently for the NGO community

**Health:** Although impressive progress had been made in the past decade in establishing programs for immunization, control of diarrheal diseases, management of acute respiratory infections and malaria, the gains that have been made are now clearly at risk. GOP funding for the health sector continues to be far too low. Further, the vertical organization of health programs is neither efficient nor cost-effective.

Most of the government's health budget continues to be allocated for expensive high-level care, rather than for simple preventive health programs, for which funding is desperately needed. The GOP, with USAID support, recently completed a series of studies on health financing. The studies identified ways in which the private sector can assume more of the responsibility for higher-level care, so that the government can reallocate more of its own budget for primary health care and improve the quality, coverage and sustainability of child survival programs.

Assured funding for SAP for PFY 1993-'94 will partly redress the financial neglect of the health sector as well as ensure more attention to preventive health programs. This should dovetail neatly with and support the independent programs of donors focussing on primary interventions.

**Education:** Overall education indicators for Pakistan remain extremely poor. In 1990, the officially stated literacy rate was approximately 35% and for females it was 21%. With population growing over 3%, there is increasing pressure on an education system already plagued by deficiencies and scarcity of resources.

The SAP has begun to address the major anomalies in the education system, which are not only of a financial and administrative nature, but reflect stifling cultural inhibitions as well. The policy reform agenda, which seeks to address these constraints, has made a promising start. Across provinces, progress has been reported on reversing gender discrimination in primary school enrolments, unifying the administration of male and female education, accelerating recruitment and training as well as providing incentives for female teachers. However, more transparency needs to be

assured, for example, through strict adherence to objective school site selection criteria.

These are some of the preliminary building blocks of a strong and sustainable edifice in the education sector. Also, financing of education under the SAP has improved appreciably in PFY 1993-'94. However, successful implementation of structural reforms initiated will require a strong and ongoing political commitment as well as good governance at the departmental level.

The report on SAP, prepared by the government of Pakistan for the Special Donors Meeting, confirms the increased financial allocations for SAP in PFY 1993-'94, reiterates the government's commitment to the policy reform and implementation agenda, and affirms that the SAP will remain an integral part of the soon-to-be released Eighth Five Year Plan.

**Narcotics:** Narcotics matters remain a grave concern to the United States Government. In this regard, we applaud the aggressive and bold actions of the caretaker government, not only to highlight the problem but to confront the difficult and politically sensitive issues related to it head on. Political will is the cornerstone of a successful counter-narcotics agenda. The USG is hopeful that the elected government will not only maintain, but accelerate the positive momentum generated under the caretaker government.

Over the long haul, the track record of production, interdiction and apprehension is extremely troubling. We continue to be distressed by the low incidence of drug seizures, the disturbing re-emergence of poppy cultivation in areas which have been recipients of significant levels of donor assistance, and the freedom allowed to major drug traffickers to acquire economic and political influence. The elected government must proceed more aggressively to resolve these issues.

At the same time, we encourage greater attention of the donor community to these concerns, which we recognize adversely affect overall development efforts and our efforts to help develop and strengthen democratic institutions. We support the proposal to examine the narcotics issue thoroughly at next year's meeting.

**Environment:** We recognize that Pakistan's development depends heavily on its environmental and natural resource base. The country's future food, shelter and clothing needs must be met from existing resources now under increasing stress from rapid population growth. Pakistan's National Conservation Strategy (NCS) puts forward a blueprint to advance development while conserving and preserving scarce resources. The NCS stresses conservation, sustainability and efficient management of resources while recognizing the importance of reduced population growth. Strong and well orchestrated commitments by the GOP and donor community are needed to ensure a successful NCS implementation.

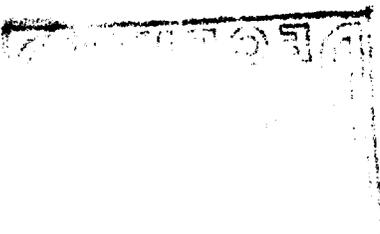
**Aid Utilization:** We recognize the concern which major donors and the Government of Pakistan share, regarding the effective and timely utilization of donor-provided funds and the provision of counterpart resources. The United States Government's economic assistance to Pakistan has by-and-large not been affected by the bottlenecks which others have experienced. This is due primarily to the fact that our large assistance packages of the 1980s were

supported by commensurate staffing levels, which allowed us the luxury of having on the ground an adequately sized administrative and technical staff of Americans and Pakistanis working full-time with government counterparts to avoid or overcome implementation constraints. At the central level, the GOP had also provided for an entire and well-staffed unit (the U.S. Wing) within the Economic Affairs Division to assure close coordination and, importantly, the allocation of counterpart resources. During this phase-out period, we have continued to benefit from these earlier circumstances, as both parties are focussed on rapid drawdown of our grant pipeline, lest it simply lapse and become unavailable for use in Pakistan.

But these circumstances are essentially of times past. Increasingly, governments are being asked to contribute more in the way of counterpart funding. And in a global environment where operating resources and staff sizes are shrinking, or at best remaining small, no donor is likely to enjoy access to a large pool of specially designated donor-employed personnel to work full-time on project implementation. This support must be provided by the Government and, indeed, this is as it should be, given that technical expertise is increasingly available within recipient countries and within governments. And certainly this is true of Pakistan.

The reforms aimed at improved aid utilization which the GOP has proposed are timely and most appropriate. Using the talent that already exists within the GOP and organizing it better by clearly designated authorities and responsibilities, by timely appointments, and by limiting staff turnover will all promote better utilization. Such improvements, combined with improved financial, budget and procedural reforms, will certainly promote more rapid economic growth. The U.S. Government strongly endorses the implementation of the Action Plan agreed between the GOP and the World Bank which recommends these and other important changes.

**Conclusion:** In concluding, we express our strong support for the caretaker government's economic package aimed at ensuring macroeconomic stability, and thus creating a more conducive climate for structural and social sector reform. The package includes many bold steps which previous elected governments were prevented from taking, fearing resistance from both the public as well as from vested interests. But popular resistance to the package has been minimal. This is primarily due to the government's image of incorruptibility which has touched a responsive chord among the people. For, perhaps, the first time in Pakistan's history they are witnessing a cleansing process which has struck fearlessly at the rich and the powerful. While this process has in many ways engendered a climate favorable to the sustainability of reforms, Pakistan's economic and social problems remain far from over. We hope that the future elected government will continue to build upon the new measures while maintaining the essence and spirit in which they were undertaken.



SOCIAL ACTION PROGRAM  
COMMENTS ON THE SAP DOCUMENT PRESENTED TO THE  
SPECIAL DONORS' CONFERENCE  
26 SEPTEMBER 1993

It is with real pleasure that we take this opportunity today to reflect upon the remarkable progress we have seen in Pakistan's the Social Action Program (SAP). At the last consortium meeting, the SAP was discussed as a good idea. Today, it is a reality. The document prepared by the GOP for this special donors meeting lays out the tangible fiscal and physical progress each province has made on implementing SAP in the last year. The credit for that progress lies primarily with the federal and provincial governments that have spent a great deal of time and effort in transforming that "good idea" into specific policy initiatives and budget items. Credit also goes to the donors, under the leadership of the World Bank, who for the first time have organized themselves to work collaboratively in the social sectors and to join forces with the federal and provincial governments in a coherent and concentrated program.

The focus of the SAP on the areas of primary education, primary health care, family planning and rural water supply and sanitation has always been clear. The funding for the program, particularly the question of donor-government additionality, was, at the beginning, a cause of some confusion. Today, however, it is clear that each province will allocate a greater share of its development and recurrent budgets as described in the soon-to-be released Eighth Five Year Plan to the priority programs of the SAP. And the donors, principally the World Bank and Asian Development Bank, are appraising how much additional support will be necessary to meet the annual requirements of the program.

By way of briefly introducing this topic, I would like to highlight a few points:

- First, correcting policies that hinder growth in the social sectors need not wait for additional resources. Indeed, several provinces have made notable progress in removing restrictive regulations and practices. The decision in almost all the provinces to open enrollment at all primary schools to both boys and girls is an example of what can be done to improve access without increasing costs.
- Secondly, much more can be done now by enlightened and dedicated leaders, at both the federal and provincial level, to demonstrate the absolute imperative of making social services better and more available to the people of Pakistan. For example, continued progress in the population program requires more open and visible commitment by political leaders, relaxation of government control of private sector family planning activities and more attention to public information programs.
- Third, another important action that can happen now in the education and health sectors, as well as in population, is to reduce the interference by politicians in program operations. For example, the involvement of politicians in recruitment, transfers and promotion of field staff, as well as in selection of sites for schools and health facilities results in poor performance, high absenteeism and the absence of facilities in areas where they are most needed.

I have chosen, quite deliberately, to highlight three points that do not require additional funds. We are all aware that the social sectors in Pakistan have been neglected and that additional government and donor funds are needed to catch up. Hopefully, over the course of the next year we will see specific evidence that that budgetary imbalance is being corrected. However, the Social Action Program will fail, even with additional resources, if the commitment and political leadership of the Government of Pakistan falters.

The United States and other assistance donors congratulate the Government of Pakistan on the seriousness and dedication with which it has pursued the initiation of the Social Action Program. We consider the SAP the best instrument available to make a significant difference in the social sector profile of Pakistan. We pledge to work energetically with you over the next year to implement the plans that you have prepared over the past several months and have presented today.

