

U N C L A S S I F

AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROGRAM ASSISTANCE
APPROVAL DOCUMENT
(PAAD)
AMENDMENT 1

PAKISTAN: Special Development
(391-0500)

September 18, 1988

U N C L A S S I F I E D

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

PART ONE - PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

September, 1988

AID 1120-1 (18-66)	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT	1. PROGRAM NO. 391-0500	Amendment # 1
		2. COUNTRY Pakistan	
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT	3. CATEGORY Cash Transfer	
		4. DATE -	
5. TO: The Director, USAID/Pakistan		6. OYB CHANGE NO.	
7. FROM The SDF Project Officer (O/PRO), USAID/Islamabad		8. OYB INCREASE	
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 30,000,000		10. APPROPRIATION - ALLOTMENT	
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
15. COMMODITIES FINANCED			

16. PERMITTED SOURCE U.S. only: Limited F.W.: Free World: Cash: 30,000,000	17. ESTIMATED SOURCE U.S.: Industrialized Countries: Local: Other:
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18. SUMMARY DESCRIPTION

Balance of Payments Support and Special Development Fund

The Balance of Payments Support will use a U.S. dollars Thirty Million (\$30,000,000) grant to assist Pakistan in addressing its serious balance of payments concerns in a context of significant GOP policy performance. The balance of payments support will provide an incentive for the GOP to capitalize a non-governmental rupee Fund dedicated to the strengthening of NGOs and community based organizations, and to finance grants for women in development and participatory community development activities in the social sector. The purpose of the Fund is to provide support to entities and activities consistently neglected by the GOP because they are too small and/or too remote to access to GOP's budgetary process. The result of the cash transfer will be needed balance of payments support and a GOP policy initiative in establishing a grant-making mechanism apart from and additional to the Federal and provincial government development budgets. Such a grant making mechanism will focus on grass root initiatives by NGOs and community organizations important but previously neglected areas of development concern.

This PAAD amendment will serve to supersede in full the previous PAAD for this activity which was approved by USAID/PAKISTAN on September 22, 1967.

19. CLEARANCES	20. ACTION
Nancy Ely, PRO <i>FUT bon</i> <u>5 Sept 68</u>	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
E. Wayne Tate, PRO <i>FUT</i> <u>5 Sept 68</u>	<i>James A. Norris</i>
R. W. Nachtrieb, PD <i>W</i> <u>30 Nov 68</u>	James A. Norris
A. D. Pratt, EM <i>W</i> <u>9/16/68</u>	4/18/58
T. B. Carter, BLA <i>W</i> <u>9/18/68</u>	
Peter Davis, (A)DD <i>W</i> <u>9/18/68</u>	
	Director, USAID/Pakistan
	TITLE

SPECIAL DEVELOPMENT FUND PROGRAM (391-0500)

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LIST OF ABBREVIATIONS

ADB	Annual Development Budget
ADP	Annual Development Plan
AID/W	Agency for International Development/Washington
ANPAC	Asian Near East Project Advisory Committee
APWA	All Pakistan Women's Association
BOP	Balance of Payments
CIDA	Canadian International Development Agency
CIP	Commodity Import Program
FSN	Foreign Service National
GDP	Gross Domestic Product
GNP	Gross National Product
GOP	Government of Pakistan
HB	A.I.D. Handbook
ICRW	International Center for Research on Women
ILO	International Labor Organization
IQC	Indefinite Quantity Contract
LG&RD	Local Government and Rural Development
LOP	Life of Project
MAF	Mission Administered Fund
NGO	Non-Governmental Organization
OPP	Orangi Pilot Project
PA	Per Annum
PAAD	Project Assistance Approval Document
PC-I	Planning Commission (GOP Planning document) Document I
PVO	Private and Voluntary Organization
SDF	Special Development Fund
SPO	Small Projects Office
TA	Technical Assistance
UNICEF	United Nations International Children's Emergency Fund
USAID	United States Agency for International Development in Pakistan
USG	United States Government
WID	Women in Development

I. SUMMARY

A. Recommendations

Funding

USAID/Pakistan recommends the FY 1988 authorization of \$30 million grant to assist Pakistan in addressing its balance of payments concerns in the context of significant GOP policy performance. The balance of payments support will provide an incentive for the GOP to capitalize a non-governmental rupee Fund dedicated to the strengthening of NGOs and community-based organizations, and to finance grants for women in development and community development activities in the social sector.

B. Summary Program Description

The program assistance will furnish balance of payments support to the Government of Pakistan. The assistance will serve as an incentive to the Grantee to create a Special Development Fund (SDF), which shall be established by the Grantee in the amount of 520 million Pakistan rupees. The Special Development Fund (SDF) Program will institutionalize an indigenous grant-making capacity outside the GOP and its PC-1/ADP/Ministerial process. The Fund, through its implementing agency, will provide grants and technical assistance to NGOs to promote institution building and professionalism among the NGO community in Pakistan and support meritorious project proposals, especially in the area of women in development (WID) and community-level participation in the social sectors.

C. Statutory Criteria

The program meets all applicable statutory criteria. Appropriate statutory checklists are included in Annex A.

D. Program Issues

The ANPAC review of this program proposal raised no issues regarding the rationale for a cash transfer.

A number of issues relating to the proposed SDF program were dealt with in finalizing the PAAD. Resolution of issues relating to the operation of SDF are summarized in Annex F, Part Two, Special Development Fund, Section V-E.

II. BACKGROUND

A. Choice of Modality

A balance of payments modality is appropriate for several reasons. First, the balance of payments mode provided the GOP incentive to adopt and implement the program at a time when budgetary demands are extremely high and resources scarce. Second, one of the main purposes is to remove operation of the fund from the usual governmental constraints and day-to-day control. The GOP wants to ensure that this does not mean direct USAID oversight as would have been the case under the traditional bilateral project model. Interest in achieving policy dialogue success and in establishing a degree of independence for SDF thus determined the choice of modalities.

B. Justification for Cash Transfer

1. General Considerations

With a 2:1 ratio of imports to exports since 1975, Pakistan's Balance of Payments (BOP) position has been weak and often under stress. The large deficits in the current account balance--worker's remittances notwithstanding--reflect the need to strengthen the country's BOP position. Although the 1987/88 current account deficit of \$985 million dollars is an improvement over the 1985/86 deficit of \$1.2 billion, most of this improvement was not because of concerted GOP efforts, but rather because of falling prices of Pakistan's major imports--including petroleum--along with surprisingly (and probably temporarily) buoyant workers remittances and probably unsustainable export growth.

Given the increasingly protectionist tendencies in world trade, the failure of Pakistan to diversify and sustain its export growth, the slackening of labor demand in Middle Eastern countries, with a concomitant fall in projected workers remittances and a deteriorating foreign exchange reserve position, the GOP will need assistance to maintain, if not improve, its precarious BOP position. While Pakistan's recent trade performance is laudable, uncertainty shrouds its long-term performance. For instance, the recent improvement in exports is due to better international prices of cotton and cotton yarn--Pakistan's principal exports. Imports have shown a decline in value terms primarily because of the lower prevailing prices of Pakistan's major imports--petroleum, tea, and edible oils. The more disappointing feature continues to be the composition of Pakistan's exports, which continue to be heavily concentrated in rice, cotton, textiles and other agriculture-related commodities. The export base continues to be narrow with no appreciable movement towards manufactured exports. Meanwhile, some commodity prices of Pakistan's imports have started to rise again, and sooner or later their impact will be reflected on the trade balance. Even more serious in the short run is the combination in 1987/88 of high capital outflows to the IMF, Saudi Arabia, and repayment of foreign military sales credits.

Pakistan's domestic budget situation is also a cause of alarm. With revenues falling short of current expenditures, the budget deficit has risen to over 7 percent of Gross Domestic Product (GDP) in recent years (PFY 87/88 budget deficit was 8.9 percent of GDP - see Tab 7). Given the scarcity of resources, and the fact that the entire development program is financed by borrowings, miniscule amounts are being allocated for the development of social sectors. As the budgetary pressures increase, it is the funding for these social sectors that is bound to be cut first.

Under these circumstances, the proposed \$30 million cash transfer program would be welcome relief for the Government of Pakistan even though it would be associated with the establishment of a rupee Special Development Fund (SDF), focused on the needs of the social sectors. The cash transfer and the resulting new social sector facility would provide the GOP much needed foreign exchange and simultaneously benefit neglected social interests by making available funds outside of the GOP's cumbersome PC-1/ADP/ministerial approval process, and thus facilitating grass-roots access to this resource.

2. Balance of Payments Analysis

The following analysis of Pakistan's balance of payments highlights the assessment that pressure on the balance of payments position will intensify in the medium term.

a. Trade Balance

While Pakistan's recent export performance is commendable, a number of facets of export performance over recent years are causes for concern (Table 1). First is the rising concentration of Pakistan's export base, most particularly in products which are susceptible to substantial year to year variations in price and volume. For instance, rice, cotton, and textiles account for over two-thirds of all exports (Table 2). Second is the increasing degree of protectionist measures, such as quotas, which are being levied against Pakistan's exports. Third, the meager growth of non-traditional exports retards the Sixth Plan's thrust towards greater diversity and hence greater stability in export performance.

Imports have been declining at 2 percent per annum in value terms during the past three years. Falling prices of Pakistan's major imports--petroleum, edible oils, fertilizer--and large increases in domestic production of wheat, cement, petroleum and fertilizer have largely been responsible for restricting the growth rates of imports in recent years. As a significant proportion of imports are intermediate and capital goods, it will be difficult to compress them further (Table 3). Imports of nitrogenous fertilizer have resumed and prices of major imports have started to rise.

Table 1: BALANCE OF PAYMENTS, 1981/82-1986/87
(US\$ million)

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87 Projected
<u>Current Account Balance</u>	<u>-1,609</u>	<u>-557</u>	<u>-1,031</u>	<u>-1,685</u>	<u>-1,236</u>	<u>-1,000</u>
<u>Trade Balance</u>	<u>-3,450</u>	<u>-2,989</u>	<u>-3,324</u>	<u>-3,552</u>	<u>-3,042</u>	<u>-2,565</u>
Exports (f.o.b)	2,319	2,627	2,669	2,457	2,942	3,278
Imports (f.o.b)	-5,769	-5,616	-5,993	-6,009	-5,984	-5,843
Services (net)	<u>-546</u>	<u>-607</u>	<u>-714</u>	<u>-822</u>	<u>-1,016</u>	<u>-1,026</u>
Private transfers (net)	<u>2,387</u>	<u>3,039</u>	<u>3,007</u>	<u>2,689</u>	<u>2,822</u>	<u>2,591</u>
of which: workers' remittances	(2,224)	(2,886)	(2,737)	(2,446)	(2,596)	(2,300)
<u>Capital Account Balance</u>	<u>956</u>	<u>983</u>	<u>843</u>	<u>770</u>	<u>1,229</u>	<u>985</u>
Official Transfers (net)	<u>421</u>	<u>327</u>	<u>296</u>	<u>380</u>	<u>478</u>	<u>370</u>
of which: refugee assistance	(293)	(178)	(155)	(150)	(135)	(150)
<u>Long-Term Capital (net)</u>	<u>345</u>	<u>871</u>	<u>458</u>	<u>599</u>	<u>611</u>	<u>536</u>
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)
Amortization/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
<u>Short-Term Capital (net)</u>	<u>-9</u>	<u>-233</u>	<u>56</u>	<u>-215</u>	<u>166</u>	<u>29</u>
Official (net)/c	-9	-233	56	-215	18	50
Foreign Exchange Bearer Certificates	-	-	-	-	148	29
<u>Errors and Omissions</u>	<u>9</u>	<u>18</u>	<u>33</u>	<u>6</u>	<u>-26</u>	<u>0</u>
<u>Basic Balance</u>	<u>-643</u>	<u>426</u>	<u>-188</u>	<u>-915</u>	<u>-7</u>	<u>-15</u>
<u>Net Foreign Assets (increase--)</u>	<u>643</u>	<u>-426</u>	<u>188</u>	<u>915</u>	<u>7</u>	<u>15</u>
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	-1,102	180	1,059	-146	254
Foreign Currency Deposits,	63	273	102	-50	496	190
Other (net)/d	-43	-23	-79	-10	-107	-80
<u>Memo Items:</u>						
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.

Table 2: COMPOSITION OF EXPORTS, 1976/77 - 1986/87 /a
(million rupees)

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Raw cotton	292.1	1,102.0	655.2	3,321.0	5,203.4	2,938.2	3,896.6	1,771.8	4,368.0	8,290.5	7,675.7
Cotton yarn	1,171.7	1,059.5	1,956.1	2,038.0	2,050.0	2,074.9	3,145.9	2,938.8	3,973.5	4,511.3	8,709.1
Cotton cloth	1,603.3	1,741.2	2,135.2	2,416.0	2,389.6	2,949.1	3,579.0	4,856.1	4,637.8	5,083.0	5,931.1
Rice	2,477.9	2,408.5	3,180.0	4,179.3	5,601.6	4,127.9	3,682.6	5,688.4	3,339.7	5,527.2	5,052.6
Fish and fish preparations	381.3	341.4	462.0	530.5	559.2	789.2	897.1	1,007.1	1,231.0	1,334.9	1,929.7
Tanned leather	647.4	636.5	1,247.3	1,264.4	891.9	1,152.2	1,195.0	1,971.7	2,325.2	2,900.0	4,079.0
Carpets and rugs	911.9	1,170.8	1,754.7	2,198.4	2,242.8	1,678.5	1,912.9	2,322.7	2,030.7	2,692.7	3,439.0
POL products	268.5	625.9	607.9	1,764.2	1,675.2	2,047.3	985.0	543.0	525.0	507.1	443.7
Sports goods	199.1	194.9	212.1	244.6	312.3	319.5	442.0	665.0	673.6	786.6	1,000.1
Raw wool	76.2	- 72.7	100.0	95.0	50.0	112.0	169.0	171.4	261.2	274.0	314.8
Others	3,264.5	3,627.1	4,404.5	5,358.7	8,303.5	8,081.1	14,536.6	15,410.6	14,613.7	17,684.9	24,693.2
Total	11,291.9	12,980.5	16,925.0	23,410.1	29,279.5	26,269.9	34,441.7	37,338.6	37,979.4	49,592.2	63,268.0

/a On shipment basis; data differ from the balance of payments values due to leads and lags in payments.

Source: Federal Bureau of Statistics.

Table 3: COMPOSITION OF IMPORTS, 1974/75 - 1986/87 /a
(million rupees)

Item	1974/75	1975/76	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Capital Goods	6,152	7,158	8,750	9,316	10,970	16,679	15,882	17,503	21,135	24,419	28,958	31,195	33,841
Iron and steel bars	58	45	38	57	30	100	76	65	82	85	99	108	115
Plates and sheets of iron and steel	690	512	775	768	1,067	1,542	1,512	1,514	1,730	2,200	2,059	1,727	1,883
Hoop and strip iron	-	53	17	21	29	28	26	44	42	64	73	143	147
Rails and railway track	4	93	78	26	78	207	58	60	5	1	78	41	-
Iron and steel wire	53	60	53	59	79	82	50	55	66	65	78	108	115
Tubes, pipes and fittings	147	412	366	139	222	270	281	410	425	297	539	945	902
Power generating machinery other than electric	21	129	259	204	458	414	560	852	1,312	1,285	2,826	2,738	2,281
Agricultural machinery	295	534	837	939	1,090	1,480	1,048	1,428	1,943	2,226	1,891	1,583	1,588
Textile and leather machinery	14	714	581	573	501	635	739	812	877	997	1,393	1,658	2,034
Machine for special industries	205	407	547	573	528	540	828	837	1,070	2,307	1,912	1,820	2,147
Electric power machinery	272	433	383	532	633	561	742	604	736	999	940	1,629	997
Road motor vehicles	505	843	1,059	1,141	1,598	2,299	2,345	3,030	3,077	4,560	4,552	5,258	5,539
Others	3,888	2,941	3,757	4,284	4,657	8,521	6,617	7,792	9,770	9,333	12,528	15,406	16,093
Consumer Goods	4,714	4,337	3,651	5,555	7,842	7,500	7,775	8,407	9,593	10,746	14,372	16,432	16,713
Wheat	2,461	1,785	660	1,337	3,505	1,041	633	800	873	858	2,750	4,720	1,184
Other food	931	1,281	1,386	2,078	1,871	2,517	2,983	3,148	3,618	4,459	5,210	5,131	7,851
Petroleum products	424	390	601	723	926	1,886	1,774	1,661	2,118	1,984	2,418	2,053	1,862
Medicines and drugs	186	272	348	513	601	751	936	1,222	1,390	1,800	1,974	2,252	2,638
Printed matter	34	21	24	49	71	167	100	97	92	98	110	134	186
Others	678	588	632	855	868	1,138	1,340	1,479	1,802	1,547	1,910	2,142	2,492
Raw Materials	10,059	8,970	10,611	12,944	17,576	22,750	30,887	33,571	37,423	41,542	46,438	41,319	42,372
Crude petroleum	2,145	2,526	2,711	3,380	3,046	5,857	9,840	12,121	12,891	12,149	14,374	10,640	7,883
Petroleum products /b	745	827	772	815	1,274	2,940	3,535	4,264	5,524	5,028	4,970	4,082	5,031
Edible oil	1,297	1,047	1,478	1,353	2,953	2,295	2,625	3,450	3,670	6,518	6,954	6,129	4,062
Chemicals	625	483	550	648	814	895	1,212	823	1,132	1,532	1,591	2,070	2,878
Dyeing and tanning materials	203	208	208	363	311	392	462	493	578	613	682	728	1,042
Fertilizers	960	559	623	1,048	2,808	2,711	3,537	893	2,117	1,539	1,790	2,079	3,247
Chemical materials, M.E.S.	388	449	629	449	429	444	550	754	875	1,201	1,802	2,090	2,657
Pig iron, sponge forms of iron	280	64	39	47	96	146	120	53	65	88	108	99	75
Ingot & primary forms of iron	481	134	243	295	330	329	383	369	207	117	24	31	122
Non-ferrous metals, M.E.S.	7	3	4	5	2	2	5	3	1	2	2	4	5
Iron and steel forgings	17	48	18	11	14	15	20	9	11	22	18	31	36
Copper	127	42	50	86	78	133	184	145	178	222	227	292	328
Aluminum	106	35	188	140	135	211	234	356	282	322	407	384	486
Others	2,678	2,545	3,098	4,304	5,286	6,380	8,130	9,847	9,896	12,189	13,489	12,694	15,325
Total /c	20,925	20,465	23,012	27,815	36,388	46,929	53,544	59,482	68,151	76,707	89,778	90,946	92,431

/a On arrival basis (Customs data).

/b Petroleum Products other than consumer goods.

/c Differ from balance of payments figures mainly due to the exclusion here of military imports.

Source: Federal Bureau of Statistics.

b. Invisible Balance

As compared to FY 83, the invisible balance has deteriorated in recent years. This is largely due to a decline in worker's remittances especially from the Middle East where employment opportunities are shrinking due to low oil prices and resultant low economic growth. Worker's remittances make a very important contribution to foreign exchange earnings (Table 1). These remittances grew by an average of \$333 million annually from 1975-83. Inflow of remittances amounted to \$2.6 billion in FY 86 compared to the peak level \$2.9 billion in FY 83, or the more representative \$2.2 billion in FY 82. For FY 87, remittances totaled \$2.3 billion--down by 12 percent over FY 86 level, and 21 percent from their peak level. They are projected to decline by \$100-200 million per year for the next four years.

c. Services

The deficit in services (e.g. freight, insurance, travel, and interest payments) has increased rapidly since 1981--averaging an increase of \$100m annually (Table 1). A significant proportion of this increase is due to the growth in interest payments on external debt. The services account will deteriorate further as Pakistan's debt services liabilities increase.

d. Current Account Balance

In recent years there has been some improvement in the current account due largely to rising prices of Pakistan's major exports, and lower prices of its imports. However, given the declining trend in workers remittances, and the firming up of Pakistan's import prices, the current account balance may again come under strain, especially if there is a major crop failure, or a softening of cotton prices in the international market. The current account deficits of the past three years have been running higher than levels projected in the Sixth Five Year Plan--averaging 3.7 percent of GNP instead of 2.7 percent.

e. Balance of Payments

Over the last six years, 1981/82 - 1986/87, the overall balance of payments was in surplus for one year and in deficit for five (Table 1). The deficits total \$ 1.7 billion and surpluses \$426m, with the net deficit over the period averaging \$200m annually. There was no evidence of an improving trend in Pakistan's balance of payments for this period.

f. External Debt Servicing

Debt service payment requirements have been steadily rising in the past few years and are expected to approach \$1.1 billion for 86/87 including repayments to IMF for the 1980/81 Extended Fund Facility. World Bank projections show debt servicing liability rising (Table 4) up to 1989 and then tapering off quite slowly. External debt

TABLE 4

PROJECTED SERVICE PAYMENTS ON EXTERNAL PUBLIC DEBT
 CONTRACTED THROUGH DECEMBER 31, 1985/^a
 (million US\$)

	1986	1987	1988	1989	1990	1991
<u>Suppliers' Credits</u>	<u>29.9</u>	<u>28.6</u>	<u>26.8</u>	<u>26.0</u>	<u>21.0</u>	<u>16.2</u>
<u>Financial Institutions</u>	<u>134.4</u>	<u>216.1</u>	<u>197.8</u>	<u>125.6</u>	<u>57.5</u>	<u>38.3</u>
<u>Consortium</u>						
<u>Bilateral Members</u>	<u>380.8</u>	<u>360.1</u>	<u>368.6</u>	<u>325.8</u>	<u>321.1</u>	<u>334.7</u>
Belgium	1.2	1.2	1.2	1.5	1.5	1.6
Canada	9.2	11.1	13.0	13.7	14.4	16.8
France	10.4	11.8	12.2	12.5	12.6	12.7
Germany, Fed. Rep.	43.8	48.2	50.2	53.4	51.6	54.3
Italy	4.9	4.1	9.2	9.2	8.6	8.0
Japan	48.4	54.8	66.8	71.3	75.3	83.0
Netherlands	9.1	9.6	10.1	10.4	10.6	10.8
Switzerland	0.5	0.5	0.5	1.6	1.5	1.3
United States	253.3	218.8	205.4	152.2	145.0	146.0
<u>Multilateral Agencies</u>	<u>165.6</u>	<u>198.3</u>	<u>225.1</u>	<u>246.5</u>	<u>273.0</u>	<u>287.1</u>
Asian Development	69.6	82.1	93.3	103.8	118.6	117.7
IBRD	73.7	89.9	100.9	109.3	118.1	130.4
IDA	22.3	26.3	30.9	33.4	36.3	39.0
<u>Non-Consortium</u>						
<u>OPEC</u>	<u>175.4</u>	<u>175.0</u>	<u>175.1</u>	<u>174.3</u>	<u>148.5</u>	<u>80.1</u>
Iran	81.0	79.0	76.9	74.9	46.5	19.1
Kuwait	10.7	11.0	12.1	13.9	13.7	13.4
Libya	2.2	2.2	2.2	2.2	2.1	2.1
Saudi Arabia	66.0	67.4	68.7	68.4	68.0	27.6
UAE	11.5	11.4	11.2	11.0	10.7	10.5
OPEC Special Fund	4.0	4.0	4.0	3.9	7.5	7.4
<u>Other Lenders</u>	<u>170.5</u>	<u>177.6</u>	<u>174.4</u>	<u>156.2</u>	<u>139.1</u>	<u>98.2</u>
China, P.R.	12.2	12.5	12.0	11.4	11.0	0.6
USSR	59.0	73.4	77.2	76.9	73.3	71.2
IMF Trust Fund/ ^b	51.1	51.1	43.6	29.2	15.9	0.2
Others	48.2	40.6	41.6	18.7	38.9	26.7
<u>Total</u>	<u>1,056.6</u>	<u>1,155.7</u>	<u>1,167.8</u>	<u>1,054.4</u>	<u>960.2</u>	<u>854.6</u>

^a Debt with a maturity of over one year guaranteed directly or indirectly by the Government, excluding the effects of debt relief agreed to in January 1981, but including debt service payments to private creditors.

^b Table does not otherwise include service payments to IMF.

Source: World Bank Debt Reporting System, based on detailed reports provided by the Government of Pakistan.

TABLE 5

Table 2.12 Net Transfer of Resources
(Long & Medium term)

(US \$ million)

Year	Gross Disbursements ¹	Debt Service Payments Interest	Payments Amortization	Net Capital Inflow	Net Transfers	Net Transfers as % of Gross Disbursements
(1)	(2)	(3)	(4)	5-(2+4)	6-(5+3)	7-(6+2)
1977-78	856	162	165	691	529	62
1980-81	861	248	365	496	248	29
1981-82	809	203	288	521	318	39
1982-83	1,123	246	388	735	489	44
1983-84	1,021	276	453	568	292	29
1984-85	1,107	287	539	568	281	25
1985-86	1,393	303	603	790	487	35
1986-87	1,268	378	723	545	167	13
1987-88(RE)	1,382	429	725	657	228	16

RE Revised Estimates

Source: Economic Affairs Division.

¹ Gross disbursements are exclusive of relief assistance for Afghan refugees.

outstanding at the end of the current fiscal year is estimated at \$11 billion. External debt as a percentage of GNP is estimated at approximately 31.4 percent, while debt servicing as a percentage of exports of goods and services is 23 percent.

g. Net Transfer of Resources

Because of the steady rise in debt servicing requirements and a gradual shift to project loans rather than more quickly disbursing program loans, the net inflow of foreign assistance is declining despite rising inflow of foreign capital. Net transfers which were 56 percent of gross disbursement in 1977-78, dipped to 13 percent for 1984-85 (Table 5). However, due to larger gross disbursement of \$1.3b in 1985-86, the share rose to 24 percent of gross disbursement but is estimated to fall again to 12 percent in 1986-87. Given the firming up of capital inflows at existing levels and large repayment requirements to the IMF, this situation will further deteriorate in the coming years.

h. Capital Account & Reserves

The capital account may be cause for alarm during the foreseeable future. As noted in the recent World Bank Country Economic Memorandum, Pakistan's capital account performance has been characterized by shortfalls in net aid inflows against Sixth Plan projections, and an increased reliance on new short-term instruments to mobilize foreign resources. Since FY83, net aid inflows (excluding refugee assistance) have been quite flat in nominal terms (Table 1) as compared with the sixth plan projected growth of nearly 14 percent per annum.

In recent years the GOP has placed increasing reliance on short-term instruments e.g. foreign exchange bearer certificates (FEBCs) and foreign currency deposits (FCDs) by non-resident banks, as a means of mobilizing foreign resources. Foreign exchange bearer certificates are negotiable, rupee denominated instruments carrying high rates of interest and encashable in rupee or foreign currency at the exchange rate on date of encashment. Foreign currency deposits, brought in by foreign commercial banks, entitle these Banks to an increase in their credit ceilings under the Annual Credit Plan. While both vehicles have attracted substantial resources, they are also highly volatile and dependent upon holders' perceptions of exchange rate movement and other economic factors. These liabilities, coupled with deposits of some Middle Eastern monetary authorities, are now quite substantial relative to gross official reserve holdings. These could be the source of a large reserve drain should their owners withdraw funds.

With steady or even declining real aid inflows and amortization payments running around \$900 million (excluding \$300 million annual repayments to the IMF for the 1981 Extended Fund Facility), there will be a need for external financing of approximately \$400 - \$500 million annually. The GOP has been relying on reserve draw-downs with the result that, as of mid May 1988, Pakistan's approved foreign exchange reserves of around \$700 million were sufficient for only about six weeks worth of imports. If short-term liabilities (like foreign currency deposits of non-resident

TABLE C

BASE CASE BALANCE OF PAYMENTS PROJECTIONS, 1985/86 - 1994/95
(US\$ million)

	1985/86	1986/87	1987/88	Projected			
				1988/89	1989/90	1992/93	1994/95
Current Account Balance	-1,236	-1,000	-800	-819	-829	-1,116	-1,295
Trade Balance	-3,042	-2,565	-2,153	-2,130	-2,094	-2,205	-2,211
Exports (f.o.b.)	2,942	3,278	3,824	4,240	4,710	6,743	8,250
Imports (f.o.b.)	-5,984	-5,843	-5,977	-6,370	-6,804	-8,948	-10,461
Services (net)	-1,016	1,026	1,047	1,049	-1,055	1,216	1,389
Private Transfers	2,822	2,591	2,400	2,360	2,320	2,305	2,305
Workers' Remittances	2,596	2,100	2,100	2,050	2,000	2,000	2,000
Capital Account Balance	1,229	985	1,527	1,334	1,285	1,529	1,538
Official transfers	478	370	381	393	404	400	400
Long-term Capital (net)	611	536	1,145	942	881	1,087	1,077
Project, food & other commodity loans (net)	419	403	459	495	525	1,023	880
Disbursements	1,073	1,120	1,129	1,163	1,198	1,640	1,819
Amortization Payments	-654	-717	-670	-668	-673	-617	-939
Other public (net)	7	15	-25	-	23	70	100
Private (net)	185	118	125	125	125	-6	97
Other Financing (net)	-	-	586	322	208	-	-
Disbursements	-	-	586	334	233	-	-
Amortization	-	-	0	-12	-25	-	-
Short-term Capital	166	80	0	0	0	52	6
Official (net)	18	51	-	-	-	52	6
Foreign exchange bearer certificates	148	29	-	-	-	-	-
Errors and Omissions	-26	0	-	-	-	-	-
Basic Balance	-7	-15	727	515	466	423	24
Net Foreign Assets (-increase)	2	15	-227	-515	-466	-423	-24
IMF (net; increase--)	-236	-349	-299	-212	-166	-24	-
Purchases	-	-	-	-	-	-	-
Repurchases	-236	-349	-299	-212	-166	-24	-
Other central & commercial bank	243	365	-428	-303	-300	-399	-2
Gross reserves (-increase)	146	254	-348	-263	-100	-450	-1
Other (net)/a	389	110	80	-40	-	51	-
Hemo Items							
Reserves, in weeks of imports/b	6.0	4.7	6.8	7.9	9.2	12.8	1
Current account deficit as % of GNP	3.5	2.7	2.4	2.7	2.1	2.3	

/a Includes foreign currency deposits and foreign monetary authorities.

/b Gross reserves in weeks of imports of goods and all services.

Source: Planning and Development Division and staff estimates.

banks and foreign exchange bearer certificates totaling together around \$600 million) are netted out, these approved reserves are worth only around 2.5 weeks of imports. Given this volatility in Pakistan's balance of payments position, and the large potential claim on reserves posed by foreign currency deposits by banks, non-banks, and foreign monetary authorities as well as by foreign exchange bearer shares, Pakistan's reserve position is far less than comfortable.

i. Future Prospects

The World Bank Country Economic Memorandum presents a projection of Pakistan's balance of payments position (Table 6), developed from base case assumptions of 5.5 percent GDP growth rate, export growth of 7.1 percent and import growth of 3.8 percent. Under these base case assumptions, the World Bank estimates that for the remainder of this decade (FY87-90), a total of \$8.3 billion is needed to cover current account deficits, amortization payments, IMF repurchases, and a gradual reserve buildup providing import cover of 13 weeks by 1995. Debt servicing and IMF repurchases account for about three quarters of this requirement. Disbursement of official grants and concessional and non-concessional loans are projected at \$6.1 billion for FY 87-90 (or 73.5 percent of total requirements), with commercial financing adding \$1 billion to this total. This still leaves a financing gap of \$1.2 billion for the three-year period, i.e. an average of \$400 million per annum for each of the next three years that may have to be filled by commercial borrowing.

We consider the World Bank's base case assumption of a 7.1 percent growth in exports to be overly optimistic. Moreover, the repayments of military sales credit--which are not discretely shown in the accounts--may further exacerbate Pakistan's balance of payments difficulties. Lower export growth will also result in a financing gap larger than the \$400 per annum outlined in the World Bank's base case scenario.

3. Internal Financial Analysis

Prior to the transfer of funds, the Government of Pakistan will agree to capitalize the SDF over a five year period at approximately rupees 520 million, with the first 100 million rupee installment to be transferred to a fund account on signing of the SDF Agreement. This allocation is expected to be in addition to the normal investments which the GOP will undertake for development of its social sectors. As the cash transfer will be in foreign currency (dollars), and the rupee fund capitalization requirement will be spread over a five-year period, no important inflationary effects are anticipated on Pakistan's economy from this cash transfer.

The following analysis presents a more detailed picture of Pakistan's budgetary difficulties.

Public Finance: Pakistan's budgetary position has been deteriorating markedly during the past few years with no significant improvement in sight (Table 7). With expenditure increases significantly exceeding revenue expansion, budgetary savings have turned negative and overall

Table 9: FINANCING OF BUDGETARY DEFICITS
(Percentages)

	1983/84	1984/85	1985/86	1986/87	1987/88
<u>Financing</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
External borrowing (net)	19.9	14.1	27.2	21.0	21.9
Domestic borrowing (net)	<u>80.1</u>	<u>85.9</u>	<u>72.8</u>	<u>78.8</u>	<u>78.0</u>
Non-bank borrowing	48.8	35.0	57.7	56.9	63.6
Bank borrowing	31.3	50.9	15.1	21.9	14.4

Source: Ministry of Finance and Economic Affairs.

Table 7: SUMMARY OF CONSOLIDATED PUBLIC FINANCE, 1980/81 - 1986/87
(Million Rupees)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Revenue	47.002	51.930	59.795	72.290	77.403	89.877	99.550
Tax ^a	38.846	43.003	49.240	58.255	61.212	72.636	78.187
Non-Tax	8.156	8.927	10.555	14.035	16.191	17.241	21.363
Contribution of Autonomous Bodies	2.019	1.909	2.286	2.565	2.639	2.942	2.788
Net Lending & Equity Participation	-	-	-	-	-	-	400
Expenditure	61.619	71.011	87.637	100.002	116.819	134.502	156.413
Current ^b	40.296	46.338	60.201	73.411	85.270	97.094	113.544
Development	23.343	24.675	27.436	26.591	31.549	37.408	42.869
Overall Deficit	-14.618	-17.174	-25.556	-25.147	-36.777	-41.683	-53.675
Financing Ext. Resources (net)	7.741	5.345	5.700	5.001	5.169	8.584	11.327
Ext. Resources (gross)	11.374	11.263	14.434	13.512	14.200	19.346	23.081
Project Aid	(3.602)	(3.686)	(4.833)	(4.589)	(7.378)	(10.486)	(12.943)
Non-Project Aid	(7.772)	(7.577)	(9.601)	(8.923)	(6.822)	(8.860)	(10.138)
Debt Repayment (external)	3.633	5.918	8.734	8.511	9.031	10.762	11.754
Domestic non-bank (net)	4.522	6.313	11.732	12.280	12.873	27.001/c	30.601
Domestic bank borrowing (NET)	2.215	5.516	6.124	7.866	18.735	6.098/c	11.747
Memo Items (as % of GDP at current prices)							
Total revenues ^d	17.6	16.7	17.1	17.9	16.7	17.1	17.1
Tax revenues	14.0	13.4	13.6	13.9	12.8	13.4	13.0
Non-tax revenues	2.9	2.8	2.9	3.4	3.4	3.2	3.6
Expenditures	22.9	22.1	24.2	23.9	24.4	24.8	26.1
Current	14.5	14.4	16.6	17.6	17.8	17.9	18.9
Development	8.4	7.7	7.6	6.4	6.6	6.9	7.1
Overall deficit	5.3	5.3	7.1	6.0	7.7	7.7	8.9
External financing (net)	2.8	1.7	1.6	1.2	1.1	1.6	1.9
Domestic non-bank financing	1.6	2.0	3.8	2.9	2.7	5.0	5.1
Domestic bank financing	0.8	1.7	1.7	1.9	3.9	1.1	2.0

^a Includes surcharges.

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

^c Proceeds from sales of Special National Fund Bonds (SNFBs) which were financed by bank credit to the private sector (Rs 11 billion) were used to repay outstanding Bank credit for commodity operations. These transactions have been excluded from the budget so as to maintain comparability with earlier years.

^d Includes contributions of autonomous bodies and receipts of sale from public enterprises.

Source: Ministry of Finance.

Table 8: COMPOSITION OF TOTAL EXPENDITURES, 1980/81 - 1986/87
(% of GDP)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87
Consumption Expenditures	10.3	10.7	12.2	12.7	12.9	12.6	13.2
General Admin. & Law & Order	1.7	1.8	2.0	2.3	2.3	2.2	2.2
Defense	5.5	5.8	6.4	6.4	6.7	6.6	6.7
Community Services	0.5	0.5	0.6	0.7	0.7	0.7	0.7
Social Services	1.4	1.4	1.7	2.0	1.9	2.0	2.3
Economic Services [∆]	1.2	1.2	1.5	1.3	1.3	1.1	1.2
Transfer Payments	4.5	4.1	4.7	5.4	5.6	5.9	6.1
Subsidies [∆]	1.8	1.3	1.3	1.5	1.4	1.5	1.7
Interest payments	2.1	2.4	3.0	3.4	3.5	3.7	4.0
Foreign	1.0	1.0	1.3	1.4	1.4	1.4	1.5
Domestic	1.1	1.4	1.7	1.9	2.1	2.3	2.5
Grants to Local Authorities	0.2	0.1	0.1	0.2	0.4	0.4	0.4
Social Services [∆]	0.4	0.3	0.3	0.3	0.3	0.3	0.3
Development	8.4	7.7	7.6	6.4	6.6	6.9	7.0
TOTAL EXPENDITURES [∆]	23.2	22.5	24.5	24.5	25.1	25.4	26.0

[∆] Irrigation expenditure is included in Table I.5 but not in Table I.4.

[∆] Includes fertilizer subsidy.

[∆] Refers to pensions and education stipends.

Source: Finance Division

budgetary deficits have risen from about Rs. 15 billion (5.3 percent of GDP) for FY81 to over Rs.50 billion (8.9 percent of GDP) for the past two years (Table 7). With rising deficits has come an increased dependence on borrowing, especially from domestic non-bank sources. The growth in public domestic indebtedness is accelerating and debt servicing is absorbing an increasing share of government expenditures.

Current expenditures, which have grown by about 12 percent per annum in real terms since FY81, presently account for over three-fourths of all expenditure. The expansion of current expenditures is due mainly to defense, subsidies, and debt servicing (Table 8). Together, these three items account for over three-quarters of the increase since FY83. Defense expenditures are Pakistan's single largest budget item, amounting to 40 percent of current expenditures or the equivalent of the entire Pakistan FY86 Annual Development Plan.

Since the mid-1970s, the expansion in development expenditures has been modest, with their share in Gross Domestic Product falling steadily from 10 percent to the present 6.7 percent. Pakistan also has the peculiar distinction of financing its development budget exclusively through reliance on borrowings--both domestic and foreign. For instance the 1987-88 budget proposed to finance fully 51 percent of its development program from foreign assistance--and the rest from domestic borrowings. Such a heavy reliance on external assistance can prove disastrous given the uncertainties surrounding foreign capital inflows.

During the past few years, government revenues have fallen short of even current expenditures, thereby leading to a deficit in the revenue account (Table 7). Revenues have remained in the range of 16-17 percent of Gross Domestic Product with no evident upward trend. The stability of the tax/GDP ratio in the face of numerous government ad hoc measures in each budget to raise revenues, suggests the basic underlying inelasticity of the revenue system. Five basic flaws of the tax system in Pakistan can be identified: (1) tax revenues are relatively small--for 1985/86 tax revenues were 11.6 percent of GDP and financed only 46 percent of total public expenditure; (2) the tax structure is inelastic; (3) the tax base is narrow--agricultural income, although one-fourth of GDP, is tax-exempt; (4) considerable tax evasion exists; and (5) there is a high degree of skewness in the tax structure--i.e. an overwhelming reliance on indirect rather than direct taxes.

The rising budget deficit has been financed by borrowing--foreign and domestic (Table 9). In recent years, the budget share covered by domestic non-bank borrowings has been increasing quite rapidly--up from 37 percent in 1981/82 to 53 percent in 1986/87. As a consequence, government domestic debt has been growing at over 20 percent per annum since FY80, and domestic interest payments by more than 27 percent per annum. Domestic debt as a share of GDP increased from 25 percent to 34 percent over this same period and domestic interest charges as a share of current expenditure have risen from 9 percent to 14 percent. The marginal cost of domestic borrowing has remained in the range of 15-16 percent for the past several years. It is quite likely that government borrowings at such high interest are diverting resources that might have gone into private investment.

4. Summary

Pakistan's budgetary situation has deteriorated since 1983. Expenditures have grown faster than receipts, resulting in rising budget deficits. Recurrent expenditures are laden with subsidies, defense costs, and debt servicing. As result, the government is unable to address the known and critical needs of the social sectors. Moreover, the external account situation can be no source of comfort for the GOP. With rising indebtedness, declining worker remittances and dwindling reserves, the balance of payments position will come under increasing stress during the next few years.

Given the above analysis, the proposed \$30 million cash transfer is amply justified. It will not only help to reduce balance of payment constraints but also serve as an incentive to the GOP to capitalize a rupee fund outside the government and its complex processes, making much needed resources available to the social sector of Pakistan.

III. DETAILED PROGRAM DESCRIPTION

The proposed balance of payments support program is designed to assist the Government of Pakistan in addressing its serious balance of payments concerns in a context of significant policy performance. The U.S. dollars 30 million balance of payments support will provide an incentive for the creation and GOP funding (in rupees) of a Special Development Fund (SDF) (or Fund) dedicated to strengthening NGOs and community administrative units, and to financing grants for women in development and participatory community development activities in the social sector. The Fund will be non-governmental and, therefore, not subject to the ADP/PC-1/Ministerial approval process. It will make funds available for entities and activities consistently neglected by the GOP because they are too small and/or too remote to access the GOP's budgetary process. The SDF will be a precedent-setting GOP commitment to decentralized development financing and will assure greater allocation of local resources to NGOs, community administrative units for WID and community participatory development activities in the social sector.

The Grant Agreement for Cash Transfer to be entered into between the two Governments will provide for an immediate transfer of \$30 million to the Government of Pakistan conditional upon (a) the GOP and USAID entering into a "Special Development Fund Agreement" establishing the modalities of the Fund, (b) the GOP establishing an SDF account to receive over the program period Rs. 520 million, non-lapseable, at the State Bank of Pakistan or other institution acceptable to A.I.D., and (3) the GOP transferring rupees 100 million of that total rupee amount to an interest bearing (or profit and loss) SDF account. Upon fulfillment of these three primary conditions, as well as additional technical conditions (naming additional representatives and designating depository bank accounts), USAID will notify AID/W to transfer the sum of \$30 million to the account of the GOP. The \$30 million will be deposited in a separate account and may not be commingled with other funds. The permissible uses of the dollars will be agreed upon by USAID and the GOP. They will include financing of essential goods and services, imports and servicing of external debts. Use of the dollar funds for military or para-military purposes is prohibited.

The Special Development Fund Agreement will provide for: (a) a description of the dedicated purposes of the Fund as described above; (b) a scheduled inflow of rupees from the GOP to the Fund for a total of not less than Rs.520 million in five approximately equal installments over a period of five years, commencing with the date of first signing of the SDF Agreement; and (c) substantial operational autonomy for the Fund outside the two Governments but within AID-GOP policy parameters. A detailed description of the SDF activity is attached as Annex F, Part Two, Special Development Fund.

IV. IMPLEMENTATION SCHEDULE/PLAN - ILLUSTRATIVE

The cash transfer of \$30 million will be made to the GOP when the policy conditions for the cash transfer are met. The following is an illustrative schedule of necessary actions and the responsible party.

	<u>Action</u>	<u>Date</u>	<u>Responsible Party</u>
A.	Signing the Cash Transfer Agreement	Sep. 21, 1988	GOP and USAID
B.	Signing the SDF Agreement	Oct. 06, 1988	GOP and USAID
C.	Technical Conditions Precedent met. GOP notified of compliance with standard Conditions Precedent.	Oct. 13, 1988 Oct. 16, 1988	GOP USAID
D.	SDF non-lapseable account for receipt of Rs. 520 million over the program.	Oct. 16, 1988	GOP
E.	100 million rupees of Rs.520 million transferred to non-lapsable interest (or profit and loss) bearing account. USAID notified.	Oct. 16, 1988	GOP
F.	GOP requests cash transfer.	Oct. 16, 1988	GOP
G.	USAID notifies GOP of compliance with substantive Conditions Precedent.	Oct. 22, 1988	USAID
H.	USAID notifies AID/W to transfer \$30 million to account of GOP.	Oct. 22, 1988	USAID
I.	Cash Transfer completed.	Oct. 30, 1988	AID/W

V. NEGOTIATING STATUS, CONDITIONALITY

The cash transfer and its policy conditionality (GOP agreement to, and capitalization of, the SDF) has been reviewed at the highest levels of the GOP. Since concept approval has been achieved prior to the need to obligate funds, the Cash Transfer Program Agreement will contain the following Conditions Precedent to disbursement, in addition to standard conditions precedent.

Except as USAID may otherwise agree in writing, prior to the disbursement of the United States dollars thirty million (\$30,000,000) provided for in this Agreement or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the GOP shall, in form and substance satisfactory to USAID:

A. Execute an "SDF Agreement" with USAID which shall, at a minimum include:

1. a description of the dedicated purposes of the SDF to strengthen Pakistani NGO's and community based administrative units, and to support meritorious project proposals in the areas of women in development and community-based participatory development in the social sector;

2. a scheduled inflow of rupees to the SDF from the GOP for a total of not less than Rs. 520 million in five (5) nearly equal installments over a period of five (5) years, commencing with the signing of the SDF Agreement; and

3. substantial operational autonomy of the Fund outside the two Governments but within AID-GOP negative lists and policy guidance.

B. Provide documentation to AID that the GOP has established a non-lapseable SDF account at the State Bank of Pakistan or other institution acceptable to A.I.D. to receive an amount of not less than Rs. 520 million over a five-year period for the purposes of and subject to the terms of the SDF Agreement.

C. Provide documentation to AID that the GOP has transferred from the aforesaid account to an interest (or profit and loss) bearing account at the National Bank of Pakistan or other institution acceptable to A.I.D., in an amount not less than rupees 100 million for the purposes of and subject to the terms of the SDF Agreement.

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Fund assistance and the criteria applicable to Development Assistance. Selection of the criteria will depend on the funding source for the program.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED? Yes Yes

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1987 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

Through Congressional Presentation and Congressional Notification.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

No further legislative action is required within Pakistan.

3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No. This is a Pakistan specific cash transfer and Pakistan specific Special Development Fund.

FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to:

- (a) increase the flow of international trade;
- (b) foster private initiative and competition;
- (c) encourage development and use of cooperatives, credit unions, and savings and loan associations;
- (d) discourage monopolistic practices;
- (e) improve technical efficiency of industry, agriculture, and commerce; and
- (f) strengthen free labor unions.

The provision of US dollars will make funds available to increase international trade. The rupee fund which will be established as a result of the cash transfer will support private, non-governmental initiatives by making rupee resources available to NCOs outside the GOP budgetary process. Cooperatives will be eligible to receive funds. It is expected that NCOs and community-based units will seek to support innovative techniques and attitudes (especially re: Women), will benefit industry (e.g. increased female employment and training) and agricultural (e.g. labor saving devices for women).

FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The cash transfer will make dollars available which may be used for US private trade. US PVOs will be eligible to apply to the rupee SDF for grants conditional upon the US PVO having obtained GOP approval

of the PVO and its proposed project. It is expected that US

FAA Secs. 612(b), 636(h); FY 1987 Continuing Resolution Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

PVOs will also provide selective TA at the level of the Implementing Organization and indigenous grantees.

As a condition of the cash transfer, the GOP will be required to fully fund the SDF.

FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

Yes. However these funds will not be utilized as the GOP is fully rupee funding the SDF.

FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

The dollar cash transfer delinks dollars from US competitive selection procedures. The GOP rupee contributions to the SDF be used in accordance with reasonable commercial procedures to be established are not subject to USG procurement regulations.

FY 1987 Continuing Resolution Sec. 532. If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

N/A

FY 1987 Continuing Resolution Sec. 532. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?

No

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

Yes. The cash transfer will provide balance of payment support to assist in promoting stability. This consistent with the FAA.

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities?

No. It will be precluded by the Cash Transfer Program Agreement.

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

This is not a CIP program. There are no local currency "generations". The GOP financed rupee fund will, however, support activities consistent with the objectives of FAA Sections 103 through 106.

d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?

N/A. This is not a commodity import program.

e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

N/A

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost-effective way;

N/A

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development; N/A

(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products; N/A

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions; N/A

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses; N/A

(vi)(A) 75 percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA; N/A

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

N.A

f. ISDCA of 1985 Sec. 207. Will EDF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country (1) is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), (2) cooperates fully with the IAEA, and (3) pursues nonproliferation policies consistent with those of the United States?

No.

g. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

No commodities are to be granted which will result in sale proceeds accruing to the recipient country.

h. FY 1987 Continuing Resolution. If assistance is in the form of a cash transfer to any country which receives in excess of a total of \$5 million as cash transfer assistance in the current fiscal year: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available)?

(a) Yes.

(b) There are no "generation-skipping" Rupee Deposits to SDF required by the GOP will be used in accord with the purposes of the FAA to support NGOs, community-based administrative and WID activities and community participating activities. The SDF is a separate, auditable account.

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a).

Extent to which activity will (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

N/A

This Project is entirely ESF funded.

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

N/A

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value;

N/A

improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

N/A

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

N/A

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

N/A

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

N/A

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development organizations;

N/A

(iii) research into, and evaluation of, economic development processes and techniques;

N/A

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

N/A

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

N/A

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

N/A

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multi-donor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

N/A

c. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

d. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

N/A

e. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

N/A

collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

N/A

(ii) technical cooperation and development activities, especially with U.S. private and voluntary, or regional and international development organizations;

N/A

(iii) research into, and evaluation of, economic development processes and techniques;

N/A

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

N/A

(vi) for special development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

N/A

(5) [107] is appropriate effort placed on use of appropriate technology? (Relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)

N/A

c. FAA 118(c) and (d). Does the assistance comply with the environmental procedures set forth in AID Regulation 16. Does the assistance take into consideration the problem of the destruction of tropical forests?

N/A

d. FAA Sec. 281(b) Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

N/A

e. FAA Sec. 122(b) Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

N/A

SDF file

SJS elson

June 23, 1987

Mr. Aftab Ahmed Khan
Additional Secretary
Economic Affairs Division
Ministry of Finance and Economic Affairs
Government of Pakistan
Pakistan Secretariat
Islamabad

Dear Mr. Khan:

As you are aware, the Mission Director and I have discussed the Cash Transfer and the Special Development Fund with the Minister for Planning and Development. These discussions have resulted in a number of "informal" understandings which address some basic concerns as to this activity.

These "informal" understandings were developed with Mr. Kareem Iqbal who has been assigned to work on this matter as the Consultant to the Minister.

I understand that Mr. Iqbal will be providing you with a copy of our "informal" Summary of Understanding.

Please feel free to call me if you have any questions.

Thank you.

Yours sincerely,

sd/-

Stephen J. Spielman
Regional Legal Advisor

c.c. Mr. Kareem Iqbal
Consultant to the Minister for Planning
and Development
Islamabad

SDF
Lee (a)



Telegram: ECONOMIC
Telex: ECDIV No: 05-634

JOINT SECRETARY
Phone: 821437

ANNEX B

No. 2(2)US-I/87

Government of Pakistan
MINISTRY OF FINANCE AND
ECONOMIC AFFAIRS
(ECONOMIC AFFAIRS DIVISION)

Islamabad, the 11th August, 1988.

Dear Mr. Norris,

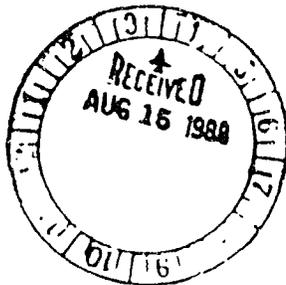
Please refer to USAID's letter dated June 23, 1987 relating to "Special Development Fund" and the proposal for cash transfer of US\$ 30 million as balance of payment support grant to the Government of Pakistan under the post 1987 Economic Assistance Programme.

LC # 3841

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I am pleased to inform you that the Government of Pakistan have decided to establish a "Trust for Voluntary Organizations" (TVO) to provide financial support to the NGOs. It has also been decided that :-

- a) The Trust will receive donations from the Federal/Provincial Governments, private sector and foreign donor countries.
- b) The donations/contributions made to the Trust will be completely exempt from tax.
- c) The Trust shall be administered by a Board comprising 13 members i.e. 10 from the private sector and 3 representatives of the Government i.e. Economic Affairs, Finance and Health & Social Welfare Divisions. The representatives of the Provincial Governments shall be coopted as members as and when required.
- d) The Trust will function as a completely autonomous organizations. The foreign assistance/sid to the Trust shall, however, be negotiated and channeled through Economic Affairs Division.
- e) Funds available with the Trust will not be used for the purpose of charity. Notwithstanding



the generality of its charter, the priority objectives of the Trust shall be as follows:

- i) Provide technical assistance to professionalize the indigenous NGOs community by up-grading skills and improving its capacity to provide services on self sustaining basis.
 - ii) Bring private sector in the fields of Health and Education and help in establishing centres of excellence in these fields.
 - iii) Assist in establishment of new innovative institutions in Science and Technology.
 - iv) Support community based development programmes emphasizing development of women's centres, construction of rural roads, provision of potable drinking water and development of basic sanitation services.
- f) The Standing Committee on NGOs comprising Secretaries of Economic Affairs, Finance, Planning, Education, Health and Population Welfare Divisions shall continue to perform its allocative functions for channelization of aid to the above Trust as well as other Trusts and large institutions. The Committee would not, however, be involved in the management of the recipient institutions.
- g) The requests for foreign assistance from NGOs may be received by the Trust directly or from the concerned Ministries/Provincial Government.

3. It is requested that necessary action may now be taken for the cash transfer of \$ 30 million to Government of Pakistan for assistance to NGO's as discussed earlier.

With best regards,

Yours sincerely



(A. GHAFUOR MIRZA)

Mr. James A. Norris,
Director,
USAID
Islamabad.

PROPORTIONS OVER THE SHORT AND MEDIUM TERM. INCREASINGLY, PROTECTIONIST TENDENCIES IN WORLD TRADE, RAISING WORLD PRICES, SLACKENING LABOR DEMAND IN MIDDLE EASTERN COUNTRIES AND DECLINE IN WORK REMITTANCES ARE LIKELY TO LEAD TO A CONTINUING DETERIORATION OF PAKISTAN'S FOREIGN EXCHANGE RESERVE POSITION FOR THE REMAINDER OF THE 1980S.

PAKISTAN'S DEVELOPMENT HAS BEEN CHARACTERIZED BY A RAPIDLY DETERIORATING AND CHRONICALLY UNDER FUNDED SOCIAL INFRASTRUCTURE. THE CONSEQUENCES OF THIS NEGLECT ARE PARTICULARLY STRIKING IN PAKISTAN'S FAILURE TO UTILIZE OR DEVELOP NGOS OR GRASS-ROOTS ADMINISTRATIVE UNITS, AND ITS FAILURE TO ADDRESS THE SERIOUS CONSTRAINTS TO IMPROVING THE STATUS OF WOMEN. AS A RESULT OF THE GOP CENTRALIZED APPROACH TO DEVELOPMENT PROGRAMING, SMALL SCALE DEVELOPMENT ACTIVITIES, SUCH AS THOSE TYPICALLY UNDERTAKEN BY NGOS AND/OR COMMUNITY ADMINISTRATIVE UNITS, CAN SELDOM BECOME REALISTIC CANDIDATES FOR GOVERNMENT FUNDING. SIMILARLY, ACTIVITIES IN SUPPORT OF WOMEN IN DEVELOPMENT CONTINUE TO BE A SUBJECT OF LOW BUDGETARY PRIORITY FOR THE GOP.

PROGRAM DESCRIPTION: THE PROPOSED PROGRAM WILL PROVIDE A US DOLS THIRTY MILLION ESF CASH GRANT TO THE GOP FOR BALANCE OF PAYMENT SUPPORT CONDITIONED UPON THE GOP ENTERING INTO A FORMAL AGREEMENT WITH AID ESTABLISHING AND FINANCING A NON-GOVERNMENTAL SPECIAL DEVELOPMENT FUND. THE PROGRAM WILL PROVIDE MUCH NEEDED BALANCE OF PAYMENT RELIEF TO THE GOP PUT IN THE CONTEXT OF A SIGNIFICANT POLICY INITIATIVE BY THE GOP. THE CREATION AND GOP CAPITALIZATION OF A SPECIAL DEVELOPMENT FUND (SDF) TO OPEPATE OUTSIDE GOVERNMENTAL BUDGETARY AND DEVELOPMENT PROGRAMING PROCEDURES IS THAT INITIATIVE.

THE OBJECTIVES OF SDF ARE TO STRENGTHEN THE PROGRAMING AND MONITORING CAPABILITIES OF THE NON-GOVERNMENTAL ORGANIZATIONS (NGOS) AND COMMUNITY ADMINISTRATIVE UNITS, AND TO SUPPORT SPECIFIC WOMEN IN DEVELOPMENT AND COMMUNITY PARTICIPATORY DEVELOPMENT ACTIVITIES. THE MISSION ENVISAGES AN ARRANGEMENT UNDER WHICH SDF IS IMPLEMENTED PURSUANT

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TO A FORMAL SDF AGREEMENT AND IN ACCORD WITH PERIODIC GUIDANCE FROM A GOP-USAID-NGO POLICY BOARD. THE IMPLEMENTATION AND ADMINISTRATION OF SDF WILL BE UNDERTAKEN BY A PRIVATE SECTOR COMPANY, REPORTING TO THE GOP, AID AND THE POLICY BOARD. THE POLICY BOARD AND THE IMPLEMENTING ORGANIZATION WILL BE ASSISTED BY A GOP-USAID-NGO ADVISORY COUNCIL WHICH WILL SERVE AS A BODY OF EXPERTS TO THE SDF. THE IMPLEMENTING ORGANIZATION WILL HAVE PRIMARY RESPONSIBILITY FOR SOLICITATION, REVIEW, SELECTION, DISBURSEMENT AND MONITORING OF GRANTEEES. THE SDF WILL, AMONGST OTHER THINGS, MAKE FUNDS AVAILABLE FOR (A) GRANTS AND/OR LOANS TO NGOS AND COMMUNITY BASED ADMINISTRATIVE UNITS, (B) COSTS ASSOCIATED WITH DEVELOPING AND UTILIZING AN SDF IMPLEMENTING ORGANIZATION, (C) TECHNICAL ASSISTANCE AND TRAINING FOR THE IMPLEMENTING ORGANIZATION AND GRANTEEES, AND (D) LOCAL COMMODITIES FOR THE IMPLEMENTING ORGANIZATION AND GRANTEEES.

THE PROGRAM IS DESIGNED TO: (A) PROVIDE BALANCE OF PAYMENT SUPPORT TO THE GOP IN THE CONTEXT OF A SIGNIFICANT POLICY INITIATIVE BY THE GOP AND (B) CREATE A NON-GOVERNMENTAL INSTITUTION WHICH WILL PROVIDE FUNDING AND EXPERTISE IN SUPPORT OF WID AND SOCIAL SECTOR ACTIVITIES THROUGH NGOS AND COMMUNITY ADMINISTRATIVE UNITS.

RELATIONSHIP OF PROJECT AID COUNTRY STRATEGY: THE BALANCE OF PAYMENT SUPPORT PROVIDED THROUGH THIS US DOLLAR CASE GRANT IS IN ACCORDANCE WITH THE ESF OBJECTIVES OF THE AID PROGRAM. THE CONDITIONING OF THIS CASH GRANT ON THE DESCRIBED GOP POLICY INITIATIVE IS IN FURTHERANCE OF AID'S COUNTRY STRATEGY TO ADDRESS PREVIOUSLY NEGLECTED IN THE USAID/PAKISTAN PORTFOLIO, E.G. NGOS, LOCAL INITIATIVES AND WOMEN IN DEVELOPMENT. THIS PROGRAM ALSO SERVES TO FURTHER AID'S INTEREST IN STIMULATING THE GOP TO CONSIDER AND EXPERIMENT WITH DECENTRALIZED DEVELOPMENT PROGRAMING AND UTILIZATION OF THE NON-GOVERNMENT SECTOR.

BENEFICIARIES: THE PRINCIPAL BENEFICIARIES OF THIS PROGRAM WILL BE PAKISTAN'S POOR AND UNDERPRIVILEGED POPULATION AND/OR AREAS, ACROSS ALL THE SOCIAL SECTORS OF THE ECONOMY INCLUDING HEALTH AND SANITATION, HOUSING, COMMUNICATION, EDUCATION, AND SOCIAL WELFARE.

HOST COUNTRY AND OTHER DONORS: AS A CONDITION OF THE CASH TRANSFER, THE GOP IS EXPECTED TO CONTRIBUTE APPROXIMATELY RS. 520 MILLION TO A SPECIAL DEVELOPMENT FUND. AS PRESENTLY STRUCTURED, NO OTHER DONOR CONTRIBUTION TO THE FUND IS REQUIRED. IT IS EXPECTED, HOWEVER, THAT THE IMPLEMENTING ORGANIZATION, THE GOP AND USAID WILL EXPLORE THE POSSIBILITY OF OTHER BILATERAL DONORS, MULTILATERAL DONORS AND PRIVATE PHILANTHROPISTS CONTRIBUTING TO

THE FUND.

MAJOR OUTPUTS: (1) MODEST BALANCE OF PAYMENTS SUPPORT TO THE GOP, (2) CREATION OF AN INDIGENOUS GRANT-MAKING ENTITY TO SUPPORT SOCIAL SECTOR PROGRAMING OUTSIDE THE GOP DEVELOPMENT PROGRAMING/BUDGETARY PROCESS, (3) INCREASED FUNDING FOR SOCIAL SECTOR ACTIVITIES, (4) INCREASED GOP UTILIZATION OF DECENTRALIZED DEVELOPMENT PROGRAMING FOR THE SOCIAL SECTOR, (5) INCREASED NGO AND COMMUNITY BASED DEMAND FOR CONTINUED DECENTRALIZED DEVELOPMENT PROGRAMING, (6) STRENGTHENING AND INCREASED NGO AND COMMUNITY BASED ACTIVITY IN THE SOCIAL SECTOR, (7) A SIGNIFICANT NUMBER OF GRANTS TO STRENGTHEN NGOS AND COMMUNITY ADMINISTRATIVE UNITS, AND IN SUPPORT OF NGO ACTIVITIES FOCUSED ON THE DEVELOPMENT OF STATUS OF WOMEN AND COMMUNITY BASED PARTICIPATORY ACTIVITIES IN THE SOCIAL SECTOR.

AID-FINANCED INPUTS - LIFE OF PROJECT DOLLARS. CASH TRANSFER - US DOLS THIRTY MILLION. RAPHEL

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ANNEX C

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ON: 19629

CHRG: AID

DIST: AID

ADD:

AIDAC

E.O. 12356: N/A

TAGS: N/A

SUBJECT: 391-05UU, SPECIAL DEVELOPMENT FUND

1. THE HOUSE APPROPRIATIONS COMMITTEE RELEASED THE CONGRESSIONAL NOTIFICATION FOR SUBJECT PROJECT IN THE AMOUNT OF ESF GRANT DOLS 30,000,000 ON AUGUST 3, 1987.

2. WHEN FUNDS ARE APPORTIONED THE BUDGET ALLOWANCE WILL BE ISSUED. SHULTZ

BT

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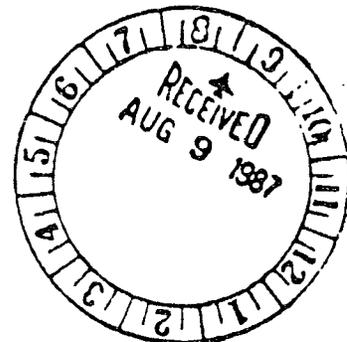
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ACTION AID INFO AMB DCM ECON AREP

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UNCLAS SECTION 01 OF 02 STATE 150072

17-MAY-87

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ADD:

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OFF FILE: RLA

ACTION: RLA

INFO: DD, PRO, PEN,

FM, RF, CH

E.O. 12356: N/A

TAGS: N/A

SUBJECT: PAKISTAN: ANPAC REVIEW, SPECIAL DEVELOPMENT FUND PARD (391-2522)

1. ANPAC REVIEWED SUBJECT PARD FEBRUARY 24, DAA NORRIS CHAIRING. SINCE THAT TIME, SUBSTANTIAL EFFORT HAS GONE INTO CONSIDERING WHETHER AND IN WHAT FORM CASE TRANSFER MODE SHOULD BE CONSIDERED IN PAKISTAN PORTFOLIO. AGREEMENT HAS BEEN REACHED TO PURSUE THIS AS A CASE TRANSFER, AT A DOLS 30 MILLION LEVEL, BASED ON BALANCE OF PAYMENTS NEED AND GOP POLICY PERFORMANCE. CONSULTATION WITH CONGRESS WERE HELD BY DIRECTOR STAPLES DURING MAY TDY.

ACTION	
Due Date:	5/18
Act on:	
Initial:	NZ
Date:	5/18
Initial:	

MAIN DISCUSSION POINTS FROM ANPAC REVIEW AND GUIDANCE FOR FURTHER DESIGN WORK FOR-OW. SINCE MAJOR POLICY CONCERNS HAVE BEEN IDENTIFIED AND DISCUSSED, MISSION APPROVAL OF PAAD IS APPROPRIATE.

Handwritten: 5/18

2. PROGRAM RATIONALE: ANPAC STRONGLY ENDORSED THE MISSION'S EFFORTS TO DEVELOP MECHANISMS TO WORK WITH THE NEGLECTED SOCIAL SECTOR AREAS OF WOMEN IN DEVELOPMENT, NGO ACTIVITIES AND COMMUNITY DEVELOPMENT, INCLUDING LOCAL GOVERNMENT EFFORTS. ACTIVITY SHOULD BE DESIGNED

TO TAKE FULL ADVANTAGE OF OPPORTUNITIES TO MAXIMIZE VISIBLE IMPACT. PROGRAM SHOULD RESPOND TO BALANCE OF PAYMENTS NEEDS, AND REQUIRE A SIGNIFICANT POLICY CHANGE; I.E., GOP RESOURCE ALLOCATION OUTSIDE THE BUDGET PROCESS TO NGOS AND COMMUNITY ORGANIZATIONS FOR IMPORTANT BUT NEGLECTED SOCIAL ACTIVITIES, ESPECIALLY ACTIVITIES WHICH BENEFIT WOMEN.

3. ACCOUNTABILITY: UNDER TERMS OF THE FY 87 CONTINUING RESOLUTION, BOTH FK AND LOCAL CURRENCIES GENERATED BY CASE TRANSFER ACTIVITIES MUST BE PLACED IN SPECIAL ACCOUNTS AND THE USES TRACKED. ANY INTEREST WHICH ACCRUES SHOULD BE APPLIED BY THE GOP TO THE PROGRAM PURPOSES. STATE 02616 PROVIDES GUIDANCE ON THIS REQUIREMENT. OUR UNDERSTANDING IS THAT FUNDS WOULD BE DEPOSITED IN SUCH AN ACCOUNT AT THE TIME OF DOLLAR DISPURSEMENT, AND WOULD BE TRANSFERRED TO THE TRUST FUND



ON AN ANNUAL BASIS. BEYOND THIS LOCAL EQUIPMENT, AID'S ACCOUNTABILITY, THE DEGREE TO WHICH LOCAL CURRENCIES ARE TO BE TRACED AND THE APPROPRIATE LEVEL OF CONTROL ARE ISSUES WHICH NEED TO BE ADDRESSED DURING DESIGN. IF A TRUST FUND IS TO BE CREATED, IS AID OR THE POLICY BOARD TO SERVE AS TRUSTEE? THE DEGREE TO WHICH AID UNDERTAKES MONITORING AND ACCOUNTABILITY RESPONSIBILITIES FOR THE IMPLEMENTING AGENCY AND FOR THE SUBGRANTS SHOULD BE CAREFULLY CONSIDERED, AS THESE WILL BE THE STANDARDS AGAINST WHICH PERFORMANCE WILL LATER BE JUDGED.

4. ABSORPTIVE CAPACITY OF THE SOCIAL SECTOR: ALTHOUGH THE NEED FOR FINANCING IN THE SECTOR IS VERY GREAT, THE EFFECTIVE ABSORPTIVE CAPACITY OF THE NGO COMMUNITY NEEDS TO BE CAREFULLY ASSESSED DURING DESIGN. THE NUMBER OF PROSPECTIVE SMALL GRANTS ANTICIPATED IN THE PARC COULD BE OVERWHELMING FOR A NEW IMPLEMENTING ENTITY, AND DEPENDING ON AID'S FINAL OVERSIGHT ROLE, A MAJOR ADMINISTRATIVE BURDEN FOR THE MISSION AS WELL. THE MISSION DIRECTOR INDICATED THERE MAY BE SOMEWHAT FEWER BUT LARGER GRANTS THAN DESCRIBED IN THE PARC, AND THAT THE PROGRAM COULD CONCENTRATE ON ASSISTANCE TO ONGOING GRANTEE WHERE A SPECIFIC NEED, SUCH AS LACK OF FACILITIES FOR WOMEN, COULD BE EASILY IDENTIFIED AND FUNDED. THE FINAL DESIGN SHOULD PROVIDE A BASIS FOR THE LIFE OF PROGRAM AMOUNT, BALANCING THE LAUDABLE OBJECTIVE OF FUNDING INNOVATIVE ACTIVITIES WITH SMALL ORGANIZATIONS AGAINST THE NEED TO IMPLEMENT THE PROGRAM IN A REASONABLE TIME FRAME.

5. CREATION OF NEW NGOS: THE PARC INDICATES THAT SIX NEW NGOS WILL BE DEVELOPED BY THE SDF. THIS APPEARS TO ADD A SIGNIFICANT LEVEL OF COMPLICATION TO THE ALREADY COMPLEX TASK OF THE IMPLEMENTING ENTITY. THE ANPAC RECOMMENDS THAT THE PROGRAM CONCENTRATE FIRST ON WORKING WITH EXISTING ORGANIZATIONS, AND ONLY IF INITIAL EXPERIENCE INDICATES THAT THE EXTRA EFFORT CAN BE ABSORBED BY THE IMPLEMENTING ENTITY SHOULD CREATION OF NEW NGOS BE UNDERTAKEN.

6. GRANTEE SELECTION: THE PARC DESIGN SHOULD INCLUDE SELECTION CRITERIA FOR GRANTEES WHICH ASSURE THAT ALL RECIPIENTS HAVE THE ORGANIZATIONAL CAPACITY TO CARRY OUT THE PROGRAM BEING FUNDED, AS WELL AS BEING RESPONSIBLE, FINANCIALLY ACCOUNTABLE AND SUBJECT TO AIDIC. NORMAL AID POLICY ON NGO/PRO ACTIVITIES REQUIRES A FINANCIAL OR IN-LINE CONTRIBUTION BY THE RECIPIENT, ALTHOUGH WE UNDERSTAND THAT THE FINANCIAL STATUS OF SOME OF THE POTENTIAL RECIPIENTS, AND THE LIMITED LIABILITY IN EXERCISING THIS POLICY. WE RECOMMEND THAT THE MISSION

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TRY TO ENFORCE THIS REQUIREMENT, AND THAT IN THOSE CASES WHERE IT IS NOT PRACTICAL, A PHASED APPROACH BE CONSIDERED, OR THE REQUIREMENT SHOULD BE WAIVED ON A CASE BY CASE BASIS. US PVOS: US PVOS WHICH ARE ABLE TO OBTAIN GOP REGISTRATION FOR WORK IN PAKISTAN SHOULD BE ELIGIBLE TO PARTICIPATE IN THE PROGRAM.

7. IDENTIFICATION OF IMPACT BY GENDER: SINCE THE PROGRAM'S IMPACT ON WOMEN IS OF DIRECT INTEREST IN THIS ACTIVITY, IT IS RECOMMENDED THAT THE MISSION ASK PARTICIPATING GRANTEEES TO GIVE SPECIAL ATTENTION TO TRACKING THE NUMBER AND GENDER OF THEIR BENEFICIARIES, SO THE IMPACT OF THE OVERALL ACTIVITY CAN BE ASSESSED.

8. WHEN MISSION IS READY TO APPROVE PAAD, YOU SHOULD REQUEST FUNDS RESERVATION. SINCE PAAD FACESHEET SERVES AS FUNDS RESERVATION DOCUMENT, FM CONCURRENCE IS NECESSARY PRIOR TO SIGNATURE. CONGRESSIONAL NOTIFICATION REQUIREMENT WILL BE THE SAME AS FOR ANY OTHER ACTIVITY. SFULTZ

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ACTION: PRO
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UNCLAS SECTION 01 OF 02 STATE 052018

AIDAC NAIROBI FOR REDSO/EA ABIDJAN FOR REDSO/WCA

E.O. 12356: N/A

TAGS:

SUBJECT: ESF CASH TRANSFER ASSISTANCE - NEW STATUTORY PROVISIONS.

ACTIS
Date: 2-7-87
Author: [Signature]
Topic: [Signature]
Date: 2-7-87
Priority: [Signature]

1. FOLLOWING IS AN A.I.D. POLICY INSTRUCTION REGARDING IMPLEMENTATION OF THE FY 87 CONTINUING RESOLUTION PROVISION REQUIRING SEPARATE ACCOUNTS FOR DOLLARS AND LOCAL CURRENCY UNDER ESF CASH TRANSFERS IN CERTAIN INSTANCES. THESE GUIDELINES APPLY ONLY TO ESF CASH TRANSFERS AND NOT OTHER FORMS OF DISBURSEMENT UNDER ESF ASSISTANCE (PROJECTS, CIPS).

2. IN ACCORDANCE WITH STATUTORY PROVISIONS CONTAINED IN THE FY 1987 CONTINUING RESOLUTION, ALL COUNTRIES RECEIVING CASH TRANSFER ASSISTANCE IN EXCESS OF DOLLARS 5 MILLION OBLIGATED AFTER FEBRUARY 1, 1987, WILL BE REQUIRED TO ESTABLISH SEPARATE ACCOUNT(S) INTO WHICH WILL BE PLACED THE DOLLAR ASSISTANCE AND, IF AND AS REQUIRED BY THE CASH TRANSFER AGREEMENT, SPECIAL ACCOUNT(S) FOR DEPOSITS OF LOCAL CURRENCY. (WEST AFRICA CFA FRANC ZONE AND CARIBBEAN EC COUNTRIES WHICH HAVE THEIR CASH TRANSFER AGREEMENTS DENOMINATED OR DISBURSED IN LOCAL CURRENCY REPRESENT SPECIAL CASES ON WHICH AID/W WILL BE FORWARDING ADDITIONAL GUIDANCE.) THE HOUSE

APPROPRIATIONS COMMITTEE REPORT ACCOMPANYING THE CONTINUING RESOLUTION ALSO DIRECTS THAT DEPOSITED LOCAL CURRENCY BE TRACKABLE AND NOT BE COMMINGLED.

3. DISBURSEMENT OF FUNDS SHALL BE MADE BY A.I.D. UPON THE REQUEST OF RECIPIENT AFTER SATISFACTION OF CONDITIONS PRECEDENT. RECIPIENTS OF CASH TRANSFERS WILL BE EXPECTED TO ACCOUNT FOR THE DISPOSITION OF FUNDS AFTER SUCH FUNDS ARE DISBURSED BY A.I.D. ACCOUNTABILITY FOR FUNDS WILL VARY FROM RECIPIENT TO RECIPIENT, DEPENDING UPON THE NATURE OF THE ASSISTANCE, THE



INTEGRITY OF THE RECIPIENT'S ACCOUNTING SYSTEM, THE POLITICAL ENVIRONMENT AND OTHER FACTORS. (SEE ALSO PARAGRAPH 2 BELOW.) IN ALL CASES, THE DOLLAR ACCOUNT INTO WHICH THE FUNDS ARE DEPOSITED AND FROM WHICH THE FUNDS ARE DISBURSED FOR AGREED-UPON USES MUST BE SEPARATE, AND THE FUNDS MAY NOT BE COMMINGLED. A.I.D.

AND THE RECIPIENT WILL AGREE UPON DISPOSITION OF THE FUNDS BEYOND THE SEPARATE ACCOUNT AND SUCH USES WILL BE IDENTIFIED IN THE CASH TRANSFER AGREEMENT, SIDE LETTERS OR OTHER DOCUMENTATION RELATED TO THE AGREEMENT. AGREEMENTS SHOULD ALSO EXPRESSLY STATE THAT ANY INTEREST EARNED ON DOLLAR OR LOCAL CURRENCY ACCOUNTS SHOULD BE PROGRAMMED AS THOUGH IT WERE PRINCIPAL.

4. WE RECOGNIZE THAT SPECIFYING THE DISPOSITION OF THE FUNDS IS INCONSISTENT WITH THE NATURE OF CASH TRANSFERS, BUT THE AGENCY AND A.I.D.'S CONGRESSIONAL COMMITTEES HAVE BECOME INCREASINGLY CONCERNED ABOUT THE DIVERSION OF FOREIGN EXCHANGE. THE STATUTE AND THE LEGISLATIVE HISTORY RECOGNIZE THE DISTINCTION BETWEEN THE CASH TRANSFER MODE AND OTHER FORMS OF ASSISTANCE, AND MAKE IT CLEAR THAT STATUTORY PROVISIONS THAT APPLY TO PROJECT AID AND CIPS (EG. CARGO PREFERENCE, STRICT SOURCE/ORIGIN/COMPONENTRY RULES, THE COMPETITION IN CONTRACTING ACT, AND SO ON) DO NOT APPLY TO CASH TRANSFER AID. HOWEVER, JUDGMENTS DO HAVE TO BE MADE AS TO WHICH, IF ANY, USES SHOULD BE INCLUDED OR SPECIFICALLY APPROVED IN THE AGREEMENT. ACCEPTABLE PURPOSES WOULD NORMALLY INCLUDE THE FINANCING OF ESSENTIAL GOODS AND SERVICES IMPORTS, SERVICING OF EXTERNAL DEBT, AND OTHER PURPOSES OR USES RELATED TO BALANCE OF PAYMENTS RATIONALE. A NEW OR EXISTING AUCTION SYSTEM WHICH UNDER ITS RULES PLACES A REASONABLE LIMITATION ON THE USES OF THE AUCTIONED FOREIGN EXCHANGE, SUCH AS FOR NON-MILITARY PURPOSES ONLY, WOULD BE AN APPROPRIATE MEANS FOR DISPOSITION OF DOLLAR CASH TRANSFERS AS WELL, AND MAY BE AN EFFECTIVE ALTERNATIVE TO HOST GOVERNMENT/CENTRAL BANK FOREIGN EXCHANGE

RATIONING. (NOTE FOR MISSION DIRECTORS: IN SOME CASES IN ORDER TO AVOID POTENTIAL CONTROVERSIAL USES OF FUNDS, IT MAY BE APPROPRIATE FOR YOU TO FURTHER LIMIT THE DISPOSITION OF FUNDS VIA RESTRICTIONS ON ELIGIBLE SOURCES AND USES. THIS TYPE OF JUDGMENT FLOWS FROM YOUR DELEGATED AUTHORIZATION AND MUST BE CAREFULLY EXERCISED.) IN ALL CASES, USE OF THE DOLLAR FUNDS FOR MILITARY OR PARAMILITARY PURPOSES IS NOT PERMITTED AND SHOULD BE EXPLICITLY EXCLUDED IN THE AGREEMENT.

5. THE MORE SPECIFIC THE ARRANGEMENTS ARE ON PERMITTED DOLLAR USES, SUCH AS FOR FINANCING IMPORTS, THE MORE EXTENSIVE DOCUMENTATION MAY BE REQUIRED TO ENSURE THAT ONLY PERMITTED USES HAVE BEEN MADE. THESE ARRANGEMENTS SHOULD PROVIDE APPROPRIATE AUDIT AND REDEPOSIT PROVISIONS WHICH WILL SUFFICIENTLY PROTECT THE AGENCY. THE AGREEMENT SHOULD REQUIRE A REDEPOSIT TO THE SEPARATE ACCOUNT OF FUNDS APPLIED TO A DISALLOWED USE, THUS

THE AGREEMENT SHOULD REQUIRE A REDEPOSIT TO THE SEPARATE ACCOUNT OF FUNDS APPLIED TO A DISALLOWED USE, THUS PERMITTING SUCH FUNDS TO BE REPROGRAMMED FOR A PERMITTED USE. RECIPIENTS WILL BE REQUIRED TO PERIODICALLY REPORT ON THE DISPOSITION OF DOLLAR FUNDS. TYPICALLY, THE REPORT SHOULD ATTEST THAT FINANCIAL DOCUMENTATION, BOOKS AND RECORDS COVERING THE USE OF DOLLAR FUNDS ARE BEING MAINTAINED OR CAUSED TO BE MAINTAINED, IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND PRACTICES CONSISTENTLY APPLIED, AND ARE AVAILABLE FOR INSPECTION BY A.I.D. OR ANY OF ITS AUTHORIZED REPRESENTATIVES AT ALL TIMES AS A.I.D. MAY REASONABLY REQUIRE FOR A PERIOD OF THREE (3) YEARS AFTER THE DATE OF LAST DISPURSEMENT BY A.I.D. UNDER THE CASH TRANSFER. FINANCIAL RECORDS SHALL BE SUITABLE, AT A MINIMUM, TO DOCUMENT THE WITHDRAWAL AND DISPOSITION OF DOLLAR FUNDS FROM THE SEPARATE ACCOUNT FOR ACCEPTABLE PURPOSES. FOR EXAMPLE; BANKING DOCUMENTS DEMONSTRATING THAT A.I.D. FUNDS WERE TRANSFERRED FROM A HOST COUNTRY CENTRAL BANK-CONTROLLED ACCOUNT TO AN ACCOUNT IDENTIFIED FOR EXTERNAL DEBT REPAYMENT, AND THAT DEBT REPAYMENTS WERE MADE AT LEAST EQUIVALENT TO THE AMOUNT OF AID FUNDS, WOULD BE SUFFICIENT DOCUMENTATION TO SUPPORT THE RECIPIENT'S REPORTS IN AN AGREEMENT PROVIDING FOR SUCH USE.

6. A PATTERN OF CORRUPTION, INADEQUATE BUDGETARY AND ACCOUNTING PROCEDURES, AND SIGNIFICANT CAPITAL FLIGHT ARE EXAMPLES OF CONDITIONS WHICH WOULD RECOMMEND A CLOSE SCRUTINY AND TRACKING OF THE DOLLAR ASSISTANCE. IN SUCH CASES, A.I.D. WILL HAVE TO JUDGE, PREFERABLY DURING THE PAAD APPROVAL PROCESS, THE APPROPRIATE DOCUMENTATION, REPORTING AND VERIFICATION SYSTEM WHICH WILL ENABLE

TRACKING OF THE ASSISTANCE. IN THE EVENT THAT IMPORTS FINANCING IS ANTICIPATED, THE SYSTEM OF CENTRAL BANK PRICE CHECKING AND TRANSACTION VALIDATION USED IN THE EL SALVADOR PROGRAM MAY BE A USEFUL MODEL WHERE DOUBTS ON ULTIMATE USES OF FOREIGN EXCHANGE EXIST. (DETAILS ARE OBTAINABLE FROM REGIONAL BUREAU GC'S OR PD OFFICES.)

7. LOCAL CURRENCY DEPOSITS MUST BE USED IN ACCORDANCE WITH SECTION 609 OF THE FOREIGN ASSISTANCE ACT. AS NOTED ABOVE, THE HOUSE APPROPRIATIONS COMMITTEE REPORT DOES CALL FOR TRACKING AND AVOIDANCE OF COMMINGLING. IN A.I.D.'S VIEW, CONTRIBUTIONS TO A FUND, BUDGET CATEGORY OR SECTOR PROGRAM, IN WHICH BY DEFINITION ALL SOURCES ARE COMMINGLED, ARE PERMITTED IF A.I.D. IS SATISFIED THAT THE FUND'S, BUDGET'S OR PROGRAM'S DEVELOPMENT OBJECTIVES ARE SOUND AND WORTHY OF SUPPORT.

8. THE EXTENT TO WHICH A.I.D. MUST MONITOR THE ACTUAL USES OF THE LOCAL CURRENCIES WILL DEPEND ON THE AGREEMENT WITH THE RECIPIENT GOVERNMENT. IF, FOR EXAMPLE, A.I.D. AND THE RECIPIENT GOVERNMENT AGREE THAT LOCAL CURRENCIES WILL BE WITHDRAWN FROM THE SEPARATE ACCOUNT TO MEET DEVELOPMENT BUDGET REQUIREMENTS OF, SAY, THE MINISTRY OF AGRICULTURE, THE ROLE OF A.I.D. MAY BE

LIMITED TO ENSURING THAT DOCUMENTATION EXISTS DEMONSTRATING THAT THE LOCAL CURRENCIES INDEED WERE TRANSFERRED TO THE MINISTRY'S DEVELOPMENT ACCOUNT. IF A.I.D., BY AGREEMENT WITH THE RECIPIENT GOVERNMENT, CHOOSES TO ACCEPT A GREATER RESPONSIBILITY OVER HOW THESE LOCAL CURRENCIES ARE USED, THEN A.I.D.'S MONITORING RESPONSIBILITIES WILL EXPAND ACCORDINGLY. THIS MIGHT, FOR EXAMPLE, REQUIRE APPROVAL AND SUBSEQUENT MONITORING OF INTERMEDIATE FINANCIAL INSTITUTION SUBLOANS IF THE OBJECTIVE OF THE LOCAL CURRENCY SUPPORT IS DEFINED IN TERMS OF THESE END USE OUTPUTS.

9. IN SHORT, A.I.D.'S MONITORING, APPROVAL, AND REDEPOSIT RIGHTS, AS WELL AS THE RIGHT TO RECEIVE REPORTS, ARE DIRECTLY RELATED TO THE PROGRAMMING BURDEN THAT A.I.D. ASSUMES FOR ITSELF IN THE AGREEMENT DESCRIBING HOW LOCAL CURRENCIES WILL BE DISPOSED OF. RETENTION OF THESE RIGHTS IN THE AGREEMENT SHOULD BE CONSISTENT, THEN, WITH THE AGREED UPON PROGRAMMING RESPONSIBILITIES OF A.I.D. PUT, AT A MINIMUM, SHOULD BE ADEQUATE TO ENSURE THAT A.I.D. CAN TAKE AN INDEPENDENT LOOK AT SUPPORTING DOCUMENTATION TO VERIFY THAT THE AGREEMENT ON USES OF LOCAL CURRENCIES HAS NOT BEEN VIOLATED.

10. AS NECESSARY, REGIONAL BUREAUS WILL FOLLOW UP WITH COUNTRY-BY-COUNTRY GUIDANCE. AID/W AS A WHOLE WILL ALSO CONTINUE TO EVALUATE THE IMPLEMENTATION OF THIS GUIDANCE TO ENSURE CLARITY, CONSISTENCY, AND CONSONANCE WITH LEGISLATIVE INTENT, AND MAY COMMUNICATE ADDITIONAL GUIDANCE AT A LATER DATE. MEANWHILE MISSIONS ARE INVITED TO PROVIDE COMMENTS ON THE CONTENT OF THIS GUIDANCE. AID/W WILL RESPOND EXPEDITIOUSLY TO INQUIRIES AND SUGGESTIONS. WHITEHEAD

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ACTION AID INFO AMB DCM FCON AREP

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UNCLAS SECTION 01 OF 05 STATE 325792

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E.O. 12356: N/A

ACTION	
Due Date:	10/22
Action Taken:	NA.V
Date:	10/22
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SUBJECT: ESF CASH TRANSFER ASSISTANCE - AMPLIFIED POLICY GUIDANCE

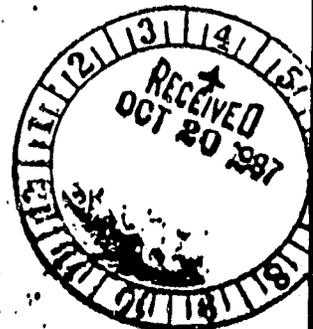
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(C) STATE 246904

1. FOLLOWING IS A REVISED AND AMPLIFIED AID POLICY INSTRUCTION REGARDING ESF CASH TRANSFERS. IT IMPLEMENTS THE STATUTORY REQUIREMENTS REGARDING SEPARATE ACCOUNTS FOR (A) DOLLARS AND (B) ANY LOCAL CURRENCY WHICH THE RECIPIENT GOVERNMENT MAY BE REQUIRED TO DEPOSIT PURSUANT TO ESF CASH TRANSFER AGREEMENTS. IT APPLIES ONLY TO ESF CASH TRANSFERS AND NOT OTHER FORMS OF DISPURSEMENT UNDER ESF ASSISTANCE (CIPS, PROJECTS). EFFECTIVE IMMEDIATELY, THIS GUIDANCE SUPERSEDES REFERENCE (A) IN ITS ENTIRETY, AS WELL AS ANY OTHER GUIDANCE ON CASH TRANSFER SEPARATE ACCOUNTS ISSUED TO DATE.

2. WHEN USING THE TERM TO CHARACTERIZE A MODE OF AID ASSISTANCE, AID DEFINES CASH TRANSFERS AS THE FURNISHING OF RAPID-DISPURSED BALANCE OF PAYMENTS ASSISTANCE ON A CASH BASIS TO A RECIPIENT IN FURTHERANCE OF UNITED STATES NATIONAL SECURITY, ECONOMIC AND DEVELOPMENTAL OBJECTIVES. SPECIFIC PURPOSES VARY AMONG RECIPIENT COUNTRIES AS SET FORTH IN DOCUMENTATION, USUALLY A P/AD, ACCOMPANYING THE CASH TRANSFER REQUEST. CASH TRANSFER ASSISTANCE FOR BALANCE OF PAYMENTS SUPPORT PURPOSES IS TO BE DISTINGUISHED FROM PROGRAM SECTOR ASSISTANCE AS CHARACTERIZED IN REF (C), AS WELL AS CONTRIBUTIONS TO INTERNATIONAL FUNDS. CONGRESS HAS TRADITIONALLY RECOGNIZED THE UNIQUE AND VALUABLE CHARACTERISTICS OF CASH TRANSFER ASSISTANCE, AND HAS EXPLICITLY RECOGNIZED THE DISTINCTION BETWEEN THE CASH TRANSFER AND COMMODITY ASSISTANCE PROGRAM MODES. VARIOUS LEGISLATIVE REQUIREMENTS, SUCH AS CARGO PREFERENCE, NORMALLY APPLICABLE TO OTHER FORMS OF ASSISTANCE, E.G. CIPS, SECTOR PROGRAMS, AND PROJECTS, HAVE NEVER APPLIED TO CASH TRANSFERS. THE FY 87 CR MAINTAINED THIS LONG-STANDING RULE WHEN IT ESTABLISHED SEPARATE ACCOUNTS BY SPECIFYING THAT FUNDS MAY BE OBLIGATED AND EXPENDED AS CASH TRANSFERS NOTWITHSTANDING OTHER PROVISIONS OF LAW.

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WHICH ARE INCONSISTENT WITH THE CASH TRANSFER NATURE OF SUCH ASSISTANCE. ESF CASH TRANSFER ASSISTANCE AGREEMENTS, THEREFORE, CONTINUE TO BE EXEMPT FROM THE PROCUREMENT REGULATIONS APPLICABLE TO PROJECT ASSISTANCE AND COMMODITY IMPORT PROGRAMS WHICH ARE INCONSISTENT WITH THE NATURE OF THE ASSISTANCE. AT THE SAME TIME, BOTH AID AND THE CONGRESS ARE CONCERNED ABOUT THE POTENTIAL FOR INAPPROPRIATE USE OF FOREIGN EXCHANGE PROVIDED UNDER CASH TRANSFERS.

3. IN ACCORDANCE WITH STATUTORY PROVISIONS CONTAINED IN THE FY 1987 CONTINUING RESOLUTION, ALL COUNTRIES RECEIVING CASH TRANSFER ASSISTANCE IN EXCESS OF DOLLARS 5 MILLION OBLIGATED AFTER FEBRUARY 1, 1987, WILL BE REQUIRED TO ESTABLISH A SEPARATE ACCOUNT OR ACCOUNTS INTO WHICH WILL BE PLACED THE DOLLAR ASSISTANCE AND A SEPARATE ACCOUNT OR ACCOUNTS FOR DEPOSITS OF LOCAL CURRENCY. THE LEGAL REQUIREMENT FOR SEPARATE ACCOUNTS IS MADE APPLICABLE TO FY 1988 BY THE CONTINUING RESOLUTION. (SPECIAL INSTRUCTIONS FOR DOLLAR ACCOUNTABILITY IN THE CASE OF WEST AND CENTRAL AFRICAN MONETARY UNIONS ARE INCLUDED IN REF (B) AND ARE UNDER REVIEW, AS ARE SOUTHERN AFRICA AND EASTERN CARIBBEAN CURRENCY UNION CASES. FURTHER GUIDANCE FOR

CASES SUCH AS THESE IS BEING DEVELOPED. NOTE ALSO THAT IF THE CASH TRANSFER ASSISTANCE AGREEMENT DOES NOT PROVIDE FOR LOCAL CURRENCY DEPOSITS, SEPARATE LOCAL CURRENCY ACCOUNT(S) ARE NOT REQUIRED.) THE HOUSE APPROPRIATIONS COMMITTEE REPORT ACCOMPANYING THE CONTINUING RESOLUTION ALSO DIRECTS THAT DEPOSITED LOCAL CURRENCY BE TRACKABLE AND NOT BE COMMINGLED. THE SENATE APPROPRIATIONS COMMITTEE REPORT EXPRESSES CONCERN OVER THIRD COUNTRY COMPETITION WITH U.S. EXPORTS WITH REFERENCE TO THE USE OF CASH TRANSFER DOLLARS.

4. DISEURSEMENT OF DOLLARS SHALL BE MADE BY AID UPON RECIPIENT'S REQUEST AFTER SATISFACTION OF ANY CONDITIONS PRECIDENT. RECIPIENTS OF CASH TRANSFERS WILL BE EXPECTED TO ACCOUNT FOR THE DISPOSITION OF DOLLARS AFTER DISEURSEMENT BY AID. IN ALL CASES, THE DOLLAR ACCOUNT INTO WHICH THE FUNDS ARE DEPOSITED AND FROM WHICH THE FUNDS ARE RELEASED FOR AGREED-UPON USES MUST BE SEPARATE, AND THE FUNDS MAY NOT BE COMMINGLED. PRIOR TO THE USE OF ANY DOLLARS FROM A SEPARATE ACCOUNT, AID AND THE RECIPIENT WILL AGREE ON THE GENERAL USES OF THE DOLLARS AND SUCH USES WHEREVER POSSIBLE WILL BE IDENTIFIED IN THE CASH TRANSFER ASSISTANCE AGREEMENT. DOCUMENTATION PURSUANT TO THE AGREEMENT MAY AMPLIFY REQUIREMENTS, BUT PREFERABLY SHOULD NOT SUBSTITUTE FOR AN UNDERSTANDING ON USES IN THE PRINCIPAL AGREEMENT.

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AGREEMENTS SHOULD ALSO REFLECT THAT, AS A MATTER OF AID POLICY, DOLLAR OR LOCAL CURRENCY SEPARATE ACCOUNTS ARE TO BE INTEREST-BEARING, TO THE EXTENT SUCH ACCOUNTS ARE PERMITTED UNDER HOST COUNTRY LAW OR REGULATION AND, IN THE CASE OF LOCAL CURRENCY ACCOUNTS, DO NOT UNDERMINE INTERNATIONALLY SUPPORTED STABILIZATION AGREEMENTS OR SOUND MONETARY POLICY. ANY INTEREST EARNED ON DOLLAR OR LOCAL CURRENCY ACCOUNTS MUST BE PROGRAMMED AND USED AS IF IT WERE PRINCIPAL.

5. THE FAA AND FY 87 APPROPRIATIONS BILL AND THEIR LEGISLATIVE HISTORY RECOGNIZE THE DISTINCTION BETWEEN THE CASH TRANSFER ASSISTANCE MODE AND OTHER FORMS OF ESP ASSISTANCE, AND MAKE IT CLEAR THAT STATUTORY PROVISIONS THAT APPLY TO PROJECT AID AND CIP ASSISTANCE (EG. CARGO PREFERENCE, STRICT SOURCE/ORIGIN/COMPONENTRY RULES, THE COMPETITION IN CONTRACTING ACT, AND SO ON) DO NOT APPLY TO CASH TRANSFER AID, SINCE THEY ARE INCONSISTENT WITH THE CASH TRANSFER NATURE OF THE ASSISTANCE. HOWEVER, JUDGEMENTS DO HAVE TO BE MADE AS TO WHICH USES OF DOLLARS IN THE SEPARATE ACCOUNT SHOULD BE PERMITTED AND SPECIFICALLY APPROVED IN THE AGREEMENT. APPROPRIATE

PROCEDURES FOR SPECIFYING AND TRACKING USES OF DOLLARS RELEASED FROM THE SEPARATE ACCOUNT, AND ASSOCIATED ACCOUNTABILITY ARRANGEMENTS, WILL VARY, DEPENDING UPON THE NATURE OF THE ASSISTANCE, THE RECIPIENT'S FOREIGN EXCHANGE AND IMPORT REGIMES, THE INTEGRITY OF ITS ACCOUNTING SYSTEMS, THE POLITICAL ENVIRONMENT, AND OTHER FACTORS. (SEE ALSO PARAGRAPH 6 BELOW.) THE BASIC SPECTRUM OF FOREIGN EXCHANGE AND ACCOUNTABILITY REGIMES IS ESSENTIALLY CHARACTERIZED IN THE FOLLOWING SUBPARAGRAPHS. AID'S OVERALL PREFERENCE IS FOR U.S. IMPORT FINANCING WITH ESP CASH TRANSFER DOLLARS, WHETHER THROUGH DIRECT DISBURSEMENT, REIMBURSEMENT OR AUCTION ARRANGEMENTS. DEBT SERVICE IS AN ALTERNATIVE, AS IS A BLENDING OF IMPORT FINANCING AND DEBT SERVICE IN SOME INSTANCES. IN CONCEPT WITH THE RELEVANT REGIONAL BUREAU, PREFERABLY DURING THE PAAD APPROVAL PROCESS, MISSIONS SHOULD REVIEW THESE REGIMES AND MAKE A JUDGMENT AS TO WHICH MOST CLOSELY REFLECTS THE SITUATION IN THEIR RESPECTIVE HOST COUNTRIES, AND THEN PROCEED TO TAILOR DOLLAR USE AND ACCOUNTABILITY ARRANGEMENTS TO SUIT THE INDIVIDUAL COUNTRY CONTEXT WITHIN THE PARAMETERS OF THE BASIC REGIMES PROVIDED. NOTE THAT EACH OF THE APPROACHES REQUIRES ADEQUATE MONITORING AND AUDIT RIGHTS AGREED TO BY THE RECIPIENT, A MONITORING COMMITMENT BY AID STAFF, PERIODIC SUBSTANTIVE REPORTING BY THE RECIPIENT, AND DOLLAR REDEPOSIT OR OTHER REMEDIAL ACTION IN CASES OF NONCOMPLIANCE WITH THE AGREEMENT ON USES.

(A) IN THOSE RECIPIENT COUNTRIES WHERE IMPORTS, FOREIGN EXCHANGE ALLOCATIONS, AND, PRESUMABLY, EXCHANGE RATES ARE STRICTLY CONTROLLED BY GOVERNMENT OR MONETARY AUTHORITIES, AND WHERE SUBSTANTIAL LIBERALIZATION OF

SUCH CONTROLS IS NOT UNDERWAY OR ANTICIPATED, AID PREFERS THAT CASH TRANSFER DOLLARS BE USED TO FINANCE IMPORTS EITHER DIRECTLY OR ON A REIMBURSABLE BASIS. IN THE EVENT THIS IMPORTS FINANCING ARRANGEMENT IS USED:

(I) PRIORITY SHOULD BE GIVEN TO IMPORTS FROM THE U.S., WITH IMPORTS PERMITTED BY THE MISSION FROM OTHER SOURCES ON A CASE BY CASE BASIS.

(II) DOLLAR USE SHOULD NORMALLY BE LIMITED TO RAW MATERIALS, INTERMEDIATE AND CAPITAL GOODS, AND ESSENTIAL CONSUMER GOODS IMPORTS AS APPROVED BY THE MISSION, AND DOLLARS MUST NOT BE USED TO FINANCE IMPORTS, SUCH AS MILITARY OR POLICE EQUIPMENT, THAT AID COULD NOT PROCURE DIRECTLY.

(III) WHERE NEEDED, THE IMPORT APPROVAL AND VERIFICATION PROCESS SHOULD INCLUDE A PRICE CHECKING ARRANGEMENT TO ASSURE THAT U.S. FUNDS ARE NOT BEING USED TO EFFECT CAPITAL FLIGHT THROUGH OVERINVOICING.

(IV) REIMBURSEMENTS MUST BE FOR SPECIFIC IMPORT TRANSACTIONS AND SHOULD BE PART OF A TIMELY SEQUENCE FOR COMPLETING SUCH TRANSACTIONS. THIS TYPE OF REIMBURSEMENT IS TO BE DISTINGUISHED FROM EX POST ATTRIBUTION MADE AFTER RELEASE OF DOLLARS FROM THE SEPARATE ACCOUNTS, A PROCEDURE EMPLOYED IN SOME ISF RECIPIENT COUNTRIES.

THIS APPROACH APPROXIMATES THE ONE CURRENTLY USED IN THE EL SALVADOR PROGRAM AND MAY BE APPLICABLE TO OTHER CASH TRANSFER RECIPIENTS WITH SIMILAR FOREIGN EXCHANGE/IMPORTS CONTROL ARRANGEMENTS WHERE CASH TRANSFERS ARE A SUBSTANTIAL COMPONENT OF AVAILABLE FOREIGN EXCHANGE. IMPLEMENTATION PROCEDURES DEVELOPED FOR THE EL SALVADOR PROGRAM MAY BE USEFUL AS GUIDANCE FOR OTHER MISSIONS, AND ARE AVAILABLE UPON REQUEST.

(P) IN THOSE RECIPIENT COUNTRIES WHERE SUBSTANTIAL

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LIBERALIZATION OF FOREIGN EXCHANGE AND IMPORTS CONTROLS IS UNDERWAY OR IS AT A RELATIVELY ADVANCED STAGE OF NEGOTIATION, AND AID WISHES TO AVOID IMPEDING OR WISHES TO SUPPORT HOST COUNTRY MOVES TOWARD OPEN MARKET FORCES. USE OF AN AUCTION OR AUCTION-LIKE MECHANISM TO DISBURSE CASH TRANSFER DOLLARS MAY BE APPROPRIATE. MANY AUCTION SYSTEMS HAVE BEEN DEVELOPED AS PART OF A SUCCESSFUL MULTIJONOR DIALOGUE WITH THE HOST GOVERNMENT, AND ARE SUPPORTED BY THOSE DONORS AND GENERAL FOREIGN EXCHANGE RESERVES OF THE RECIPIENT GOVERNMENT. AID CASH TRANSFER DOLLARS CAN BE USED TO SUPPORT AN AUCTION OR AUCTION-LIKE SYSTEM IF:

(I) CASH TRANSFER DOLLARS CAN REMAIN SEGREGATED UNTIL UTILIZED AND CAN BE TRACKED TO IDENTIFIABLE IMPORT TRANSACTIONS.

(II) AUCTION PROCEDURES PERMIT THE IMPLEMENTING AUTHORITY TO ENSURE THAT AID CASH TRANSFER DOLLARS ARE NOT USED FOR MILITARY, PARAMILITARY, OR LUXURY IMPORTS. THIS NEGATIVE LIST SHOULD BE AT LEAST AS LIMITING AS THE AID HANDBOOK 1, SUPPLEMENT B, CHAPTER 4D LISTING OF INELIGIBLE COMMODITIES (I.E., MILITARY EQUIPMENT, SURVEILLANCE EQUIPMENT, POLICE AND LAW ENFORCEMENT

COMMODITIES AND SERVICES, ABORTION EQUIPMENT AND SERVICES, LUXURY GOODS AND GAMBLING EQUIPMENT AND WEATHER MODIFICATION EQUIPMENT).

(III) THE RECIPIENT GOVERNMENT AGREES TO USE CASH TRANSFER DOLLARS, FOLLOWING EACH INDIVIDUAL AUCTION, FOR FINANCING OF U.S. IMPORT TRANSACTIONS APPROVED AT THE AUCTION AS FIRST PREFERENCE AND OTHER FREE WORLD TRANSACTIONS AS SECOND PREFERENCE. PREFERENTIAL FINANCING OF IMPORTS WILL NOT BE USED, AND IS NOT MEANT TO REDIRECT THE ALLOCATION OF FOREIGN EXCHANGE TO ANY SPECIFIC TYPES OF SOURCES OF IMPORTS IN A MANNER INCONSISTENT WITH THE MARKET-DETERMINED NATURE OF THE FOREIGN EXCHANGE AUCTION.

BECAUSE OF THE ABOVE PROVISIONS, TOTALLY UNRESTRICTED AUCTION SYSTEMS ARE NOT APPROPRIATE MODES FOR THE USE OF CASH TRANSFER DOLLARS. ANY AUCTIONS OF AID CASH TRANSFER DOLLARS MUST PERMIT THE USE OF SEPARATE ACCOUNTS AND PROVIDE FOR TRACKABILITY.

(C) IN CERTAIN INSTANCES WHERE RECIPIENT COUNTRY DEBT SERVICE IS A SIGNIFICANT BARRIER TO GROWTH AND DEVELOPMENT, OR WHERE INSTITUTIONAL ARRANGEMENTS MAY PRECLUDE THE TRACEABLE USE OF CASH TRANSFER DOLLARS OTHERWISE, CASH TRANSFER ASSISTANCE MAY BE USED TO EFFECT DEBT SERVICE PAYMENTS. THE USE OF CASH TRANSFER DOLLARS FOR DEBT SERVICE MAY BE PARTICULARLY JUSTIFIED WHEN SUCH SERVICING WILL HAVE A SIGNIFICANT EFFECT ON LEVERAGING ADDITIONAL FLOWS OF DEVELOPMENT FINANCE. HOWEVER, AID DOES NOT CONSIDER APPROPRIATE THE USE OF

CASH TRANSFER DOLLARS FOR SERVICING OF CERTAIN CATEGORIES OF DEBT WHICH MIGHT BE PERCEIVED AS HAVING A NON-DEVELOPMENTAL CHARACTER. THEREFORE, DEBT SERVICE IS PERMITTED SUBJECT TO THE FOLLOWING PROVISOS:

(I) CASH TRANSFER DOLLARS MAY NOT BE USED TO COVER THE SERVICE OF LOANS OR CREDITS THAT ORIGINALLY FINANCED MILITARY IMPORTS OR OTHER MILITARY REQUIREMENTS, E.G. FMS DEBT, UNLESS, AS DETERMINED BY THE ADMINISTRATOR, SUCH USE OF CASH TRANSFERS IN INDIVIDUAL COUNTRY CASES IS RECOGNIZED BY STATUTE AS AMPLIFIED BY LEGISLATIVE HISTORY AS VALID.

(II) SERVICE OF DEBT KNOWN TO HAVE BEEN INCURRED TO FINANCE OTHER (NON-MILITARY) ITEMS THAT AID COULD NOT FINANCE BECAUSE OF SPECIFIC LEGAL PROHIBITIONS, E.G., AERONAUTIC EQUIPMENT, IS PRECLUDED. THIS PROHIBITION HAS

PARTICULAR APPLICATION TO CURRENTLY OR RECENTLY CONTRACTED DEBT WHERE RELEVANT INFORMATION IS OR SHOULD BE READILY AVAILABLE TO THE MISSION AND WHERE IT MIGHT BE INFERRED THAT CASH TRANSFER FINANCING OF DEBT SERVICE COULD HAVE BEEN ANTICIPATED. IT IS NOT INTENDED TO REQUIRE A REVIEW OF THE DOCUMENTS RELATED TO THE LOANS TO BE SERVICED, A REQUIREMENT WHICH WOULD NOT BE ADMINISTRATIVELY FEASIBLE.

(III) CONSISTENT WITH THE AGREED RESTRUCTURING ARRANGEMENTS AND PAYMENTS SCHEDULING OF THE PARIS AND LONDON CLUBS, WHERE APPLICABLE, SERVICE OF DEBT OWED TO THE U.S. GOVERNMENT (EXCLUSIVE OF FMS DEBT) SHALL HAVE FIRST PRIORITY.

(IV) CASH TRANSFER DOLLARS MAY BE USED FOR SERVICING OF DEBT OWED TO MULTILATERAL DEVELOPMENT BANKS AND THE IMF, SUBJECT TO PRIOR CONCURRENCE OF THE APPROPRIATE REGIONAL ASSISTANT ADMINISTRATOR.

(V) SERVICING OF DEBT OTHER THAN THAT COVERED IN

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SUPPARAGRAPHS (I) THROUGH (IV) MAY BE APPROVED ON AN EXCEPTIONAL, CASE BY CASE BASIS BY THE APPROPRIATE REGIONAL ASSISTANT ADMINISTRATOR IN CONSULTATION WITH PFC.

(I) IN THE CASE OF THE RELATIVELY-ADVANCED EBF RECIPIENT COUNTRIES WHICH HAVE ESSENTIALLY MARKET-DETERMINED FOREIGN EXCHANGE ALLOCATION SYSTEMS, LIBERAL IMPORT REGIMES, AND WELL-ESTABLISHED STANDARDS OF FINANCIAL ACCOUNTABILITY, SEPARATE ACCOUNTS AND TRACKABILITY ARE STILL REQUIRED, BUT AID SHOULD AVOID ANY ACCOUNTABILITY PROCEDURES WHICH WOULD HAVE THE EFFECT OF REIMPOSING FOREIGN EXCHANGE OR IMPORT CONTROLS. EXAMPLES OF SUCH COUNTRIES INCLUDE THE NATO ALLIES WHICH AFFORD THE UNITED STATES WITH BASIC OR ACCESS RIGHTS AND DEVELOPING COUNTRIES WHICH HAVE LARGELY LIBERALIZED POLICIES AND INSTITUTIONS AROUND MARKET-ORIENTED PRINCIPLES. PROCEDURES USED, DETERMINED ON A CASE BY CASE BASIS, SHOULD BE SIMPLIFIED AND BE MINIMAL BUT STILL PERMIT SEGREGATION AND TRACKING OF DOLLARS; USE OF CASH TRANSFER DOLLARS FOR DEBT SERVICE OR LARGE-SCALE IMPORT TRANSACTIONS WOULD USUALLY BE APPROPRIATE IN THESE INSTANCES. SIMPLIFIED MONITORING PROCEDURES ARE ALSO APPROPRIATE IN THOSE COUNTRIES WHERE AID DOES NOT HAVE A DEVELOPMENT PRESENCE.

6. THE CASH TRANSFER ASSISTANCE AGREEMENT SHOULD

PROVIDE APPROPRIATE AUDIT AND REDEPOSIT PROVISIONS WHICH WILL SUFFICIENTLY PROTECT THE AGENCY. THE AGREEMENT SHOULD REQUIRE A REDEPOSIT TO THE SEPARATE ACCOUNT OF FUNDS APPLIED TO A DISALLOWED USE, THUS PERMITTING SUCH FUNDS TO BE REPROGRAMMED FOR A PERMITTED USE. RECIPIENTS WILL BE REQUIRED TO PERIODICALLY REPORT ON THE DISPOSITION OF DOLLAR FUNDS. TYPICALLY, THE REPORT SHOULD ATTEST THAT FINANCIAL DOCUMENTATION, BOOKS AND RECORDS COVERING THE USE OF DOLLAR FUNDS ARE BEING MAINTAINED OR CAUSED TO BE MAINTAINED, IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES AND PRACTICES CONSISTENTLY APPLIED, AND ARE AVAILABLE FOR INSPECTION BY AID OR ANY OF ITS AUTHORIZED REPRESENTATIVES AT ALL TIMES AS AID MAY REASONABLY REQUIRE FOR A PERIOD OF THREE (3) YEARS AFTER THE DATE OF LAST DISBURSEMENT BY AID UNDER THE CASH TRANSFER. FINANCIAL RECORDS SHALL BE SUITABLE, AT A MINIMUM, TO DOCUMENT THE WITHDRAWAL AND DISPOSITION OF DOLLAR FUNDS FROM THE SEPARATE ACCOUNT AND THEIR TRACKING TO FINAL ACCEPTABLE USES. FOR EXAMPLE, THIS MAY INCLUDE CENTRAL BANK AND COMMERCIAL BANK DOCUMENTS DEMONSTRATING THAT AID FUNDS WERE TRANSFERRED FROM A HOST COUNTRY CENTRAL BANK-CONTROLLED ACCOUNT TO AN ACCOUNT IDENTIFIED FOR EXTERNAL DEBT REPAYMENT, AND THAT DEBT SERVICE PAYMENTS ACTUALLY WERE MADE WITH THE TRANSFERRED DOLLARS.

7. LOCAL CURRENCY DEPOSITS MUST BE USED IN ACCORDANCE WITH FAA SECTIONS 531(D) AND 609. SECTION 531(D)

REQUIRES THAT AT LEAST 50 PERCENT OF LOCAL CURRENCY GENERATED BY ESF CIPS OR OTHER PROGRAM ASSISTANCE SUPPORT ACTIVITIES CONSISTENT WITH SECTION 103106 OBJECTIVES. SECTION 609 REQUIRES THAT LOCAL CURRENCIES ASSOCIATED WITH ESF GRANT CIPS AND--BY THE PROVISIONS OF THE FY 87 CR--CASH TRANSFER ASSISTANCE BE USED TO CARRY OUT THE PURPOSES FOR WHICH NEW FUNDS AUTHORIZED BY THE FAA WOULD THEMSELVES BE AVAILABLE.

8. THE EXTENT TO WHICH MISSIONS MUST MONITOR THE ACTUAL USES OF THE LOCAL CURRENCY WILL DEPEND ON THE AGREEMENT WITH THE RECIPIENT GOVERNMENT.

(A) IF AID SHOULD CHOOSE TO DIRECTLY ASSOCIATE JOINTLY PROGRAMMED LOCAL CURRENCY WITH HOST GOVERNMENT PROJECTS OR PRIVATE SECTOR ACTIVITIES, THE MISSION SHOULD HAVE REASONABLE ASSURANCE THAT THE ACTIVITIES HAVE BEEN DESIGNED IN ACCORDANCE WITH SOUND TECHNICAL, FINANCIAL, AND ENVIRONMENTAL PRACTICES, THAT IMPLEMENTATION AND MONITORING CAPABILITIES OF THE IMPLEMENTING ENTITIES ARE

ADEQUATE, AND THAT PERIODIC AUDITS OF RELEVANT ACTIVITIES WILL BE UNDERTAKEN. PROJECTS THAT ARE FUNDED AND MONITORED BY AID WOULD PROVIDE SUCH EVIDENCE. PROJECTS FUNDED AND MONITORED BY OTHER DONORS ALSO USUALLY PROVIDE SUCH ASSURANCES; THE SAME APPLIES TO PROJECTS UNDERTAKEN BY STRONG, HIGHLY RESPECTED HOST GOVERNMENT OR PRIVATE SECTOR INSTITUTIONS. OTHERWISE, MISSIONS SHOULD BE PREPARED TO TAKE A MORE ACTIVE ROLE IN IMPLEMENTATION OVERSIGHT IN ADDITION TO REVIEWING THE PROJECT DOCUMENTATION AND HOST GOVERNMENT PROCEDURES PRIOR TO APPROVAL OF FUNDING FOR THE ACTIVITY. IF AND WHEN SUBSEQUENT ALLOCATIONS OF JOINTLY PROGRAMMED LOCAL CURRENCY FOR PROJECT LEVEL ACTIVITIES ARE BEING CONSIDERED, THE MISSION SHOULD TAKE THIS OPPORTUNITY TO REVIEW PROGRESS IN MOVING TOWARD PROJECT COMPLETION. PERIODIC REPORTING BY THE HOST GOVERNMENT SHOULD BE REQUIRED, AND FIELD VISITS MAY BE USEFUL IN MONITORING.

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(E) IF AID AND THE RECIPIENT GOVERNMENT PROGRAM THE LOCAL CURRENCY FOR MORE GENERAL PURPOSES, FOR EXAMPLE, AN AGREEMENT THAT LOCAL CURRENCY WILL BE USED TO MEET DEVELOPMENT BUDGET REQUIREMENTS OF, SAY, THE MINISTRY OF AGRICULTURE, THE ROLE OF AID MAY BE LIMITED TO ENSURING THAT DOCUMENTATION EXISTS DEMONSTRATING THAT THE LOCAL CURRENCY INDEED WAS TRANSFERRED TO THE MINISTRY'S DEVELOPMENT ACCOUNT. THE MISSION NEED NOT TRACE THE FUNDS TO SPECIFIC BUDGETARY OR END-USE ITEMS SINCE AID'S DEVELOPMENT GOAL IS A LEVEL OF OVERALL FINANCIAL SUPPORT TO A PROGRAM OR INSTITUTION; INDEED, ONCE TRANSFERRED FROM A SEPARATE ACCOUNT TO A PROGRAM OR INSTITUTION, THE FUNDS WILL GENERALLY HAVE BEEN COMBINED WITH OTHER BUDGETARY FUNDS AND WILL NOT BE TRACEABLE. HOWEVER, THE MISSION SHOULD GENERALLY BE SATISFIED OF THE QUALITY OF OVERALL PROGRAM ACTIVITIES AND THE TECHNICAL AND ADMINISTRATIVE CAPABILITY OF THE IMPLEMENTING ENTITY OR ENTITIES TO CARRY OUT THE PROGRAM. FURTHERMORE, PERIODIC REPORTS ON BUDGETARY ALLOCATIONS SHOULD BE REQUIRED OVER THE PERIOD OF THE AGREEMENT TO ENABLE THE MISSION TO ASSESS COMPLIANCE WITH AGREED PRIORITIES. FINALLY, THE MISSION SHOULD ASSURE ITSELF POST HOC THAT THE GOVERNMENT HAS ACCORDED AN APPROPRIATE EMPHASIS TO PRIORITY PROGRAMS. THIS CAN THEN BE USED AS A BASIS FOR MAKING JUDGMENTS ABOUT FUTURE LOCAL CURRENCY ALLOCATION DECISIONS.

9. TO REITERATE, AID'S RETENTION OF MONITORING AND APPROVAL RIGHTS, AS WELL AS THE RIGHT TO RECEIVE REPORTS, IS DIRECTLY RELATED TO THE PROGRAMMING BURDEN

THAT AID ASSUMES FOR ITSELF IN THE AGREEMENT DESCRIBING HOW LOCAL CURRENCY WILL BE USED. RETENTION OF THESE RIGHTS IN THE AGREEMENT SHOULD BE CONSISTENT, THEN, WITH THE AGREED UPON PROGRAMMING RESPONSIBILITIES OF AID BUT, AT A MINIMUM, SHOULD BE ADEQUATE TO ENSURE THAT AID WITH TIMELY ACCESS CAN TAKE AN INDEPENDENT LOOK AT SUPPORTING DOCUMENTATION TO VERIFY THAT THE AGREEMENT ON USES OF LOCAL CURRENCY HAS NOT BEEN VIOLATED.

10. AS NECESSARY, REGIONAL BUREAUS WILL FOLLOW UP WITH COUNTRY-BY-COUNTRY GUIDANCE. AID/W AS A WHOLE WILL ALSO CONTINUE TO EVALUATE THE IMPLEMENTATION OF THIS GUIDANCE TO ENSURE CLARITY, CONSISTENCY, AND CONSONANCE WITH LEGISLATIVE INTENT, AND WILL AMEND OR UPDATE GUIDANCE AS CIRCUMSTANCES WARRANT. MISSIONS ARE INVITED TO PROVIDE COMMENTS ON THE CONTENT OF THIS GUIDANCE. AID/W WILL RESPOND EXPEDITIOUSLY TO INQUIRIES. WHITEHEAD

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UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

PART TWO - SPECIAL DEVELOPMENT FUND (SDF)

September, 1988

SPECIAL DEVELOPMENT FUND PROGRAM (391-0500)

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PART TWO: SPECIAL DEVELOPMENT FUND (SDF)

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(ii)

SPECIAL DEVELOPMENT FUND (SDF) PROGRAM

I. SUMMARY SDF DESCRIPTION

The SDF's objectives are to institutionalize an indigenous grant making capacity outside the GOP and its PC-1/ADP/Ministerial process, to strengthen the programming and monitoring capabilities of Non-Governmental Organizations (NGOs) and community administrative units, and to support specific women in development and community participatory development activities in the social sector. The Mission envisages an arrangement under which the GOP will issue a decree forming a Trust for Voluntary Organizations (TVO) dedicated to support of NGOs. USAID will undertake a US dollars thirty million grant to Pakistan conditional upon the GOP agreeing to transfer rupees five hundred and twenty million to a subsidiary Special Development Fund in five annual installments. All interest will be returned to the Fund. A private company will be formed to run the TVO and the Trust. The Board of Directors of this private company will consist of ten private sector notables and three government representatives (Economic Affairs, Finance, and Health and Social Welfare Divisions). (An indicative list of candidates for the ten private sector positions includes noted activist judges, important local philanthropists, a number of women prominent in WID and leaders of the NGO community.) The private company will solicit, review, select and monitor grantees. The purpose of the support provided through SDF is to make funds available for the above described entities and activities overlooked by the GOP because they are of relatively low priority and/or are too small or remote to access the normal government budgetary process. The SDF program constitutes a significant GOP policy initiative. The establishment of the Trust and subsidiary Fund will be a precedent setting commitment to decentralized development financing and promises greater allocation of local resources to NGOs and community administrative units for WID and community participatory development activities in the social sector.

II. BACKGROUND

A. The Human Problem

1. Status of Women

Pakistan's development, as measured by the growth of GNP/GDP, has been impressive, especially compared to neighboring countries in South Asia. This development, however, has been accompanied by a rapidly deteriorating and chronically underfunded social infrastructure. For example, Pakistan has never allocated as much as two percent of its GNP or as much as eight percent of total public expenditure to education. By contrast, in most other Asian countries education receives from three to six percent of GNP and from 12 to 15 percent of total public expenditure. Similarly, Pakistan continues to allocate less than one percent of GNP for health care. The consequences of this neglect are striking, especially for females.

The statistics speak for themselves:

- Female life expectancy at birth is 48.8 years as compared with 53.7 for males.
- Female mortality rates are higher than for males in all age groups between one and 44 years.
- 56 percent of the disabled population is female, including 66 percent of the blind and 60 percent of the deaf and dumb.
- Female literacy is less than 16 percent, compared with 35 percent literacy for males. Female rural literacy is seven percent, compared with 26 percent for males. (These figures may well be overly optimistic; in some provinces rural female literacy is as low as 1.8 percent).
- Female primary school enrollment is 31 percent compared with 69 percent for males. Female middle school enrollment is 24 percent, compared with 76 percent for males. Female high school enrollment is 24 percent, compared with 76 percent for males. The female primary school drop out rate is at least 50 percent.
- Rural women typically work a 16-18 hour day with an average time allocation as follows:

Activity	Time Spent (Hours)	Proportion of Working Time Percent
Care and feeding of livestock	5.50	35
Milking and churning	1.00	7
Cooking	1.75	11
Carrying food to fields and feeding children	1.50	10
House cleaning and making dung cakes for fuel	.75	5
Carrying water	.50	3
Child care	.50	3
Other domestic chores (food processing, craft)	3.00	19
Afternoon rest	1.00	7
	<u>15.50</u>	<u>100</u>

2. Lagging Social Sector Support

Virtually all government expenditures in the social sectors are channeled through the formal government budgeting process. (See Annex A-1 and A-2). This process is unwieldy and time consuming, leaving large segments of the population untouched. Although there is considerable institutional and individual interest within the GOP in finding

mechanisms to support decentralized social sector programming. The understandable GOP focus has been on large scale investments in such areas as power generation, agricultural production, communication and transportation infrastructure. The government budgeting process simply discourages social investment, especially smaller efforts.

To date, the GOP has seen itself as the point of departure and control for all development activities. External donor assistance is almost always programmed through the GOP's Annual Development Plan (ADP) and Annual Development Budget (ADB). Consequently, existing government institutions are generally not equipped to support the numerous grass-roots and community-based entities that are often better suited to promote social development.

The Ministry of Health, for example, has constructed and staffed a network of health centers at the district or higher level. However, medicines and services at the village or household level are also required. This need has not been addressed effectively and, consequently, only 16 percent of Pakistanis are reported to be using government health facilities to meet their health needs. The Ministry of Education constructed and staffed a network of schools but has neither personnel, mandate nor funds to ensure effective community participation, provide the necessary network of community literacy classes, or even promote the wider and multi-purpose use of existing facilities.

B. The Role for NGO and Community-Based Development

As a result of the GOP's centralized approach to development programming, small-scale development activities, such as those typically undertaken by NGOs and/or community administrative units, can seldom become realistic candidates for government funding. There is, nonetheless, an acute interest in the developmental and political benefits that accrue from relatively small scale, innovative, flexible NGO programs and from community demand-driven participatory development initiatives. The creation of Women's Division in 1979 with its NGO orientation and considerable research effort (See Annex B), and the vigorous NGO Coordinating Council (Population) established in 1985 and evidence of this interest.

1. The NGO Community

For purposes of the program, NGOs are those various indigenous institutions outside of public administration that contribute to development research, program preparation and service delivery at the intermediate and local level. This definition includes all non-profit voluntary agencies providing development services but established outside the government. This definition also includes a wide variety of agencies and institutions such as cooperatives, professional and special interest organizations, service and social clubs, research institutes, and charitable, religious and neighborhood groups found throughout the country. Formal registration is not a prerequisite to being included as an NGO.

Approximately 4,000 NGOs are formally registered with the Social Welfare Department. The Punjab, representing about seventy percent of Pakistan's population, also provides the largest concentration of NGOs and NGO activities with 3,000 formally registered organizations.

Throughout Pakistan, approximately 3,000 NGOs are viewed as voluntary organizations "of women," with perhaps 90 engaged in definite improvement programs. These numbers, however, do not take into account the large number of NGOs (such as kareze owner's associations, village committees, ward or neighborhood groups and other community-based entities) that are not formally registered. For example, a soon-to-be-released UNICEF study of NGOs in Sind identified approximately 900 non-registered organizations in the Karachi area. The registered NGO community, although primarily urban, includes a number of organizations in rural areas with potential for support of rural development programming. In addition, urban-based NGOs are increasingly aware of the need to reach rural areas and have in recent years been making efforts to do so. These NGOs are typically constrained by funds and access to transportation required to work in villages.

NGOs in Pakistan are characteristically multifunctional, with a range of common objectives and activities related to health, skills training and income-generation, particularly aimed at women and youth. More recently, some NGOs have become more highly specialized. (See Annex C-1).

A second generation of NGOs is moving from the traditional social welfare to a stronger developmental orientation. Although staffing continues to be predominantly volunteer, there are an increasing number of professionals working for NGOs. Indeed, some originally social welfare organizations are now actively recruiting technical staff in an effort to change orientation and improve delivery of services. A newly established foundation in Lahore is staffed exclusively by professionals in fields such as sociology, economics, and social survey analysis. Similarly, the All Pakistan Women's Association (APWA), one of the oldest and most well respected Pakistani NGOs, has stated its commitment to having a professional project or executive director if funds can be obtained. Funding for institutional development and project support could be highly effective in promoting professionalism nascent among existing NGOs actively seeking to expand into more effective development programs.

2. Community-Based Development

While highly centralized, the administrative structure of Pakistan provides potential for community participation and responsiveness to local needs through the lowest end of its organizational structure, i.e. the union councils, district councils, tehsil councils, village committees, town committees and their urban equivalents. It is these units of administration, most frequently elected, that village and urban neighborhood groups look to for development support whenever funds are available from federal and provincial patronage or, on occasion, from donor support and local revenue raising (See Annex C-2 for examples).

Energizing this level of administration through the SDF's direct funding mechanism is attractive because institutional structures may already be in place to support community participatory implementation.

C. The Social Context of the SDF Program

Many Pakistanis are disillusioned and frustrated by a perceived inability of the Federal and provincial Governments to provide sustained social services. Some believe that the state education system has deteriorated, hospital services are unsatisfactory, and promised rural health cells are without personnel or medicine. Although government assistance is still commonly sought and expected, there is a heightened recognition of the need for private sector and self-help efforts, especially at the "mohallah" (urban neighborhood) level, and within villages with strong community leadership. There have been some notable successes such as the Orangi Pilot Project (OPP) and the Shah Kot village training and income-generating project for women. The SDF Program, by making funds directly available to NGOs and community units such as district councils, village committees and town committees, seeks to reinforce these self-help initiatives.

Pakistan's complex social and political fabric discourages efforts to generalize as to the acceptability of women in development program. What is apparent, however, is a growing public awareness, evidenced in political speeches, newspaper articles, local and regional conferences, that efforts to improve the status of women are critically necessary. The statistical disparity in male versus female status in health, literacy, and labor participation is a subject of public embarrassment. The existence of this awareness should not, however, suggest even the beginnings of a unanimity of opinion as to appropriate WID interventions. The subject is very much in its experimental stage with NGOs necessarily in the forefront of that experiment. NGO women-oriented activities, generated from their own sense of cultural appropriateness and acceptability, range from the traditional to the innovative. These include:

- household skills improvement such as cooking classes, sewing and embroidery for dowry articles;
- child care training;
- nutrition education;
- maternal and child health education/training;
- family planning and child spacing education and clinics;
- training to improve home-based production that reduces the need for household cash expenditure (e.g. kitchen, garden plots, sewing, food processing);
- training in home-based production of goods for sale (e.g. carpet weaving, spice and masalla preparation);

- basic literacy and adult education programs;
- training for employment outside the home (e.g. secretarial skills, midwifery, small appliance repair);
- information programs on management techniques, access to credit for women;
- hostels to house working women;
- information on business strategies for women entrepreneurs;
- consumer advocacy seminars;
- education regarding women's legal rights and inheritance under Islamic law;
- trade union development and organization;
- community-based development and improvement of low-income housing and sanitation.

The range of these indigenous initiatives suggest an environment capable of exploring social change, albeit with great care and selectivity. The SDF program is designed to strengthen, financially support and expand these indigenous initiatives.

D. Constraints

There are important constraints affecting the ability of Pakistan's NGOs and community administrative units to deliver effective social sector programs. The primary constraints are:

1. the lack of an institutionalized indigenous merit-based grant-making capacity outside the GOP;
2. the GOP's established policy of centralized development financing for all sectors with the resultant inability of NGOs and community-based administrative units to obtain development funds; and
3. the relative weak tradition of NGO activities and/or community participation in social sector development.

Related secondary constraints are that:

1. NGOs and community-based administrative units frequently lack the professional orientation and staffing to produce fundable and implementable projects. This constraint begins with proposal preparation and runs through budgeting, implementation, monitoring and evaluation;

2. NGOs and community-based administrative units, in keeping with the feudal context and patronage tradition, often maintain a social welfare focus without developing and sustaining a wider development orientation;
3. NGOs and community-based administrative units rarely broaden their constituencies or actively seek wide outside support through professional fund raising or in-kind community participation; and
4. NGOs tend to be fragmented and, at times, inappropriately competitive. Efforts made by one NGO are sometimes duplicated by another. The explanation for this may be in the limited access to limited resources, charismatic rather than institutional leadership, volunteer rather than professional staffing, and an absence of a coordination mechanism.

E. Absorptive Capacity of the NGO Community

Despite its considerable potential, the absorptive capacity of Pakistan's NGO community remains limited. Early grants under the SDF, therefore, will focus primarily on strengthening indigenous NGOs as well as supporting specific project activities. Such "strengthening" grants may be used to finance a wide range of activities including training, infrastructure, recurrent costs, selective commodities and technical assistance.

In addition, SDF may be used to support an NGO Resource Center which will serve to (a) identify training and technical assistance requirements of indigenous NGOs, (b) provide, on a fee, membership or cost basis, required training and technical assistance, (c) provide a forum for exchange of views and experiences between NGOs, (d) provide a data base to NGOs re donor programs and financing availability, technical assistance resources, and in-country and ex-Pakistan training, and (e) provide a library of literature, reports and similar materials relevant to NGOs. Creation of an NGO Resource Center is being explored by a number of Pakistani organizations including the Agha Khan Foundation and Shirkat-gah.

To address this acknowledged deficiency in absorptive capacity, the implementing organization will be expected to directly involve itself in NGO strengthening through provision of technical assistance (on a cost reimbursable basis) relevant to proposal writing, budgeting, cost accountability, monitoring etc.

Where available, intermediary offices or organizations may be utilized as the mechanism of grant coordination. Opportunities for using such intermediary organizations exist in the Punjab (through the Ministry of Social Welfare in support of social welfare agencies), in Sind and Baluchistan (through the highly trained Commissioner/Deputy Commissioner Civil Service in support of Union Councils and village committees) and through some overbranching NGOs such as Sind Rural Workers Cooperative Organization, APWA and Behbud.

While recognizing the important NGO strengthening function of the SDF, it is also expected that the SDF will fund specific projects of organizations requiring strengthening in order to promote the organizational sense of development participation and to stimulate its NGO constituency. The project grant activity, a collateral strengthening grant or TA will address the deficit areas. Strengthening without visible project activity is probably not desirable.

F. Absorptive Capacity of the Community-Based Administrative Units

Pakistan's civil administration and elected local bodies provide ample opportunities to work with local government/community-based administrative units. Below the Provincial and Divisional levels, there are approximately 86 District Councils with varying capacities and experience in development administration. The District Councils, in turn, are comprised of approximately 4,106 Union Councils, with each Union Council providing services for approximately 3-10 villages. These Union Councils have had access to modest development funding and have greatly varying capacities to deliver development benefits. Within each village, there may be a village committee which, although not a part of the formal administrative structure, may be capable of responsible utilization of modest funding. Villages frequently consist of 3-4 wards. Although experimentation with ward-based support is possible, it would appear that ward level development programming is inappropriate for the SDF. (See Annex D).

1. District Council: Until quite recently, District Councils played a major role in implementing community development related projects through funds made available to them through the Provincial Annual Development Plan. The 1985 decision to provide development funds to members of the Provincial and National Assemblies diminished somewhat the importance of the District Council as a provider of development benefits. With the dissolution of the National Assembly that program has been discontinued. The Deputy Commissioner or Chairman, District Council may be the appropriate point of SDF administrative contact for programming at this level.
2. Union Councils: The Provincial Annual Development Plans provide for very modest block allocations for Union Councils for community development work. The Provincial Local Government and Rural Development Department (LG&RD) oversees funding in monitoring. The execution of small sub-projects is undertaken by a Project Committee, determined by the Union Council. Modest technical assistance, if required, is provided by the Departmental engineers and sub-engineers. In almost all instances, the sub-projects are modest, e.g. small gravity flow drinking water supply schemes, hand pump schemes, rough roads, smaller causeways. The Deputy or Assistant Commissioner or Chairman, Union Council may be the appropriate point of SDF administrative contact for programming at this level.

3. Village Committees: Within many villages, there are village-based community organizations (Islahi Committees, Falahi Tanzeems, Behbud Committees, Small Cooperatives, etc.) which are formed by local residents to implement small-scale development activities. These organizations may or may not be registered. These organizations solicit periodic contributions from villagers to undertake small activities such as construction or improvement of katcha roads, pavement of local streets, installation of small pipelines, lining of water courses, repair and maintenance of water courses and drains etc. While some village committees are well organized and raise funds on a regular basis and keep proper accounts, others operate only on an ad-hoc basis in response to a specific need and submit accounts only on the eve of Eid.

Depending on level of sophistication and accountability, village-based organizations may be candidates for direct financing by SDF or for financing through local administration (Assistant Commissioner or Deputy Commissioner).

The innumerable Village Committees, 4000+ Union Councils and 86 District Councils provide both an opportunity and a challenge. The existence of a highly developed administrative/elected local body structure provides important access points for funding of grass-root initiatives. The greatly varying levels of financial and implementation experience, capacity and responsibility, however, require the greatest circumspection in selection and monitoring of grants to such community-based organizations. Technical assistance in support of potential grantees may prove important. In addition, the sheer number of potential applications for grant support from such organizations suggests a need for careful allocation of SDF assets, lest the NGO component unduly suffer. It may be appropriate to start a grants program for community based administrative units on a "pilot" basis to better assess effectiveness of this grant mechanism and to establish criteria to limit demand upon the Fund.

III. PROGRAM FACTORS

A. Conformity with Recipient Country Strategy

Establishment of the SDF would constitute a major policy and institutional reform in the neglected area of social sector development. Important GOP officials have often underscored the need for more innovative and effective social programming including support of local initiatives and grass-roots community development. These concerns were a major part of the 1985 budget speech by Finance Minister Mahbub Ul Haq:

"This budget aims at protecting the rights of our women. Without equal progress of women, our nation cannot maintain a steady pace of development. I have included a number of proposals in the budget to promote equal progress of our women:

- The annual development programme allocates about Rs. one billion for accelerating the programme of female education.
- On-going programmes for the training and welfare of women would be strengthened and a number of new programmes initiated. For this purpose, the allocation for Women's Division in development programme would be nearly doubled next year.
- We are fully aware that many of the problems of our female population cannot be resolved by government agencies. These require voluntary efforts of non-governmental organizations. It has, therefore, been decided to allocate Rs. 100 million in the development programme for initiating a Special Women's Action Programme for women. Under this programme, provision will be made for free legal advice, hostel accommodation, setting up of day care centres and availability of other facilities.
- This fund would be entrusted to a non-governmental Commission. Voluntary women's organizations and women members of the assemblies would be represented on the Commission. Our main objective is to support the efforts which are under way for securing equal rights for women by providing them the necessary financial resources." [English Translation of Dr. Mahbub Ul Haq, Finance Minister's Urdu Budget Speech (1985-86) Delivered in National Assembly on 23rd May, 1985].

This budget initiative, unfortunately, did not bear fruit although rupees were allocated to members of the National and Provincial Assemblies to help meet perceived community needs as an ad hoc response to the need for decentralized development.

SDF takes these declarations and seeks to translate them into action with an effective funding and support mechanism that deals with widely acknowledged but largely unaddressed official development concerns.

B. Role of the Program in USAID/Pakistan's Portfolio

The SDF will address previously neglected areas in the USAID/Pakistan portfolio. Under the FY82-87 program, the \$1.6 billion aid package was divided among agriculture (48 percent), energy (27 percent), area development (8 percent) and social sectors (15 percent). The package was almost entirely government-to-government, although some modest steps were taken to involve organizations and individuals outside the Government. For example, \$2 million was used to support the semi-autonomous NGO Coordinating Council (Population) in its funding of NGO-related activities in family planning. Similarly, limited training grants and support for a private sector business institute were accommodated under the Development Support Training Project. Many other interesting interventions involving NGOs or community-based organizations had to be rejected simply because of the absence of a financing and support mechanism. The SDF has been developed to deal with this recurring problem and represents the first Mission effort to provide

systematically support for local initiatives and community development outside the GOP budgetary process.

C. Relationship to USAID Policy

1. Local Initiatives & Decentralised Development

As articulated in its policy papers, USAID has an established commitment to decentralised social sector programing. Supporting this commitment, SDF will achieve the following policy objectives:

- SDF provides independent avenues for supporting private development initiatives by assisting a wide range of public and private local organizations (AID Policy Paper - Local Organizations in Development).
- SDF constitutes a major policy dialogue tool for achieving policy reform by working with the GOP to define (or, more properly, redefine) the relative roles and responsibilities of central authorities and local organizations and to assist local organizations in achieving greater flexibility and providing more effective services (AID Policy Paper - Local Organizations in Development).
- SDF facilitates PVO/NGO participation and enhances their contribution to AID's country programing goals (AID Policy Paper - Private and Voluntary Organizations).

2. Women in Development

SDF represents a major USAID WID initiative in Pakistan. Within a culturally sensitive context, it provides a mechanism for supporting a wide range of women's institutions and programs. In addition, it provides major support for the NGO community, one of the few sub-sectors in Pakistan which historically has been supportive of female leadership as well as WID concerns. (AID Policy Paper - Women in Development).

3. Policy Dialogue

Policy dialogue and policy reform is the heart of the SDF Program. The Program does not exist without a GOP commitment to an experiment in decentralized social sector funding and programing. GOP acceptance of the SDF concept - a Fund outside the normal government budgetary process and unencumbered by the customary ADP/PC-1/Ministerial process would, in itself, constitute a clear policy dialogue success.

4. Institution Building

Institution-building of a merit-based indigenous grant-making capacity in Pakistan and among Pakistan NGOs and community-based development organizations is a major investment of the SDF Program. SDF seeks to develop institutions at two levels. Through the creation and financing of a non-governmental, merit based grant-making capacity, SDF seeks to create an environment which may lead

to a self-sustaining foundation dedicated to non-governmental support of important social sector initiatives. It is conceivable that the SDF can be converted to an endowment or, alternatively, one or more NGOs endowed to support activities within the SDF mandate. Technical assistance and training will support this initiative as appropriate. At a second level, SDF seeks to strengthen Pakistani NGOs and community-based development organizations to make them more effective agents of development. Again, the SDF contemplates technical assistance and training to support the strengthening effort.

Institution-building will be for the most part outside the existing government structure, leading to a stronger and more vibrant network of community-based organizations.

D. Other Donor Assistance to the Sector

Other donor support for NGO and community-based development activities (a) is modest in terms of funding; (b) emphasizes projects rather than the strengthening of recipient organizations; and (c) offers only relatively short-term funding. As discussed above, SDF will make considerable investment in strengthening NGOs and local administrative units to generate a broader and more competent base not only for project activities but to strengthen the capacity and long-term sustainability of NGO and community-based development institutions.

1. Canada: CIDA provides C\$350,000 annually through its Mission Administered Fund (MAF) to support short-term seed projects, particularly those related to NGOs, WID and community development. This money is administered outside the GOP's Annual Development Budget but without a formal CIDA-GOP agreement. This money cannot be used for follow-on activities. CIDA has established a Social Sector Fund called the Small Projects Office (SPO). As presently conceived, this Fund will use CIP generations of approximately US\$ 13 Million to support social sector activities within the Annual Development Plan through GOP Ministries (US\$ 10.4 Million), and NGO activities approved by the EAD and concerned Ministries outside the Annual Development Budget (ADP) (2.6 Million). All funds, including support for small-scale projects, will be controlled by the Government of Pakistan with CIDA disbursing the GOP signed checks to NGO recipients. The CIDA SPO office will have significant monitoring responsibilities for both large and small projects.

2. Netherlands: Netherlands funding to the NGO sector has involved only two sizeable recent grants. The Aga Khan Foundation received \$100,000 and the Pakistani Institute of Labor Education and Research was given \$70,000. GOP approval was required either at the time of the bilateral talks or as each intervention was identified.

3. UNICEF: UNICEF's annual program is about US\$5 Million including US\$ 550,000 for WID. The funds are provided outside the Annual Development Budget. Although money is given to provincial governmental units, their governmental allocation may be correspondingly reduced. UNICEF also provides some very modest direct assistance to NGOs in Pakistan.

4. ILO: ILO has had limited participation in WID/NGO activities in Pakistan. Their primary recent project has been a crafts training project in Sind at a cost of US\$10,000. There has been some consideration of activities in management development or secretarial training projects.

5. OTHERS: Other bilateral donors are minimally involved in SDF-type activities. Some international PVOs have made attempts to support and strengthen the Pakistan NGO sector. These efforts, however, are for the most part too small and diffused to have significant long-term impact. Significantly, neither the major multilateral donors (World Bank and Asian Development Bank), nor the major bilateral donors (U.S. and Japan) have a formal mechanism for providing systematic support for NGO or community-based development in Pakistan although the Japanese are exploring such an initiative now.

E. Assessment of Host Country Capacity

It is generally acknowledged that the GOP will continue to concentrate its primary efforts on high value development initiatives which, in turn, generates this need to encourage decentralized social sector programming. There is, however, a willingness of the host country to make available its most senior officials to serve on the Board of Directors of the private company.

There is a strong private sector host country capacity to implement the SDF. Although there is no established professional grant-making expertise in Pakistan, USAID/Islamabad's experience is that there are Pakistanis and Pakistani organizations competent in areas which can serve as a base for developing the needed expertise, e.g. development financing, social research, project design, proposal preparation and presentation, marketing, budgeting, project monitoring and project implementation. USAID/Pakistan has recently undertaken a significant evaluation of these capacities in the context of selecting Pakistani firms to provide a wide range of services to the Mission under "IQC" - like arrangements.

Although the NGO sector in Pakistan is relatively embryonic, there are a number of highly competent professionals knowledgeable as to NGO and community-based activities who have expressed an interest in working with the SDF.

IV. PROGRAM DESCRIPTION

A. Program Goal and Purpose:

The goal of the SDF Program is to improve the quality of life of neglected segments of the Pakistani population. The primary purposes are to: (1) strengthen the contribution of NGOs and community-based administrative units to improving the status of women, and to community participatory development in the social sector; (2) institutionalize an indigenous neutral grant-making capacity in Pakistan; and (3) promote GOP institutional reform through decentralized programming for social sectors which historically have had limited access to the benefits of GOP central development financing.

B. Achievements: */

Expected achievements under the SDF Program include:

1. Creation of one indigenous grant-making entity to support social sector programming outside the GOP budgetary/PC-1/Ministerial approval process.
2. Increased funding for social sector activities.
3. Increased GOP utilization of decentralized development programming for the social sector.
4. Increased NGO and community-based demand for continued decentralized development programming.
5. Strengthened and increased NGO and community-based activity in the social sector. By way of illustration only, using a 7-year time frame:
 - Six new professionally staffed, development oriented NGOs expected to be stimulated by the availability of funds through the SDF.
6 NGOs x Rs 13,600,000 each LOP Rs 81,600,000 LOP
 - Strengthening of 20-30 existing NGOs having moderately strong volunteer/fund-raising capabilities (4-5 per year).
30 NGOs x Rs 3,630,000 each LOP Rs 108,900,000 LOP
(See Annex E for analysis prepared by ICRW)
 - Grant project support - 4-5 major NGO projects LOP (e.g. multipurpose centers, libraries) Rs 55,000,000 LOP
 - Grant project support - medium size NGO projects (15 per year)
105 Grants x Rs 450,000 each LOP Rs 47,300,000 LOP
 - Small NGO grants program (e.g. conferences, publications, one-time costs)
50 grants per year x Rs 125,000 each Rs 6,300,000 LOP
 - Strengthening of 20 community administrative units to carry out project proposal, implementation and monitoring process (2-3 per year)

*/ Although SDF is conceived of as primarily a grants program, loans or grant/loan mixes may be utilized.

	20 units x Rs 1,800,000 each LOP	Rs 36,000,000 LOP
-	Grant project support to community administrative units for small to medium activities (average 30 per year)	
	210 grants x Rs 540,000	Rs 113,400,000 LOP
-	Establishment and/or support of NGO/WID Research and Resource Center and ongoing funding for research and maintenance of library	Rs 18,000,000 LOP
-	Administrative Costs	Rs 53,500,000 LOP
	Total	<u>Rs 520,000,000</u>

It should be recognized that these figures are only illustrative. The decisions will be made by the private company administering the Trust and the grant activity oversight will be their responsibility.

C. Operation of the SDF Program

1. Fund Activities

The Fund, through the private company, will provide grants and technical assistance to NGOs and community-based administrative units to (1) strengthen and professionalize the NGO and/or administrative unit, and (2) support meritorious project proposals in the areas of WID and community-based participatory development in the social sector. Projects are to be demand-driven and, therefore, cannot be specified at this time. The experience of other donors, confirmed in a 1986 USAID-funded ICRW study of potential NGO/WID interventions, suggests a considerable range of NGOs and projects which could become grant candidates. (Annexes C-1 and C-2 list illustrative organizations and grant proposals which typically might be considered for funding.)

Based on experience with disbursement demand and fund raising capacity, the Fund may eventually consider converting all or part of the SDF to an endowment or, alternatively, endow one or more NGOs to further the SDF mandate.

2. Structure and Administration of the Fund

a. Rupee Funding

As presently conceived, the GOP will finance the Fund with Rs. 520 million. An SDF account line item in this amount will be established by the GOP at the State Bank of Pakistan upon

signing of the SDF Agreement by AID and the GOP. On each anniversary of the signing of the SDF Agreement, commencing with the date of first signing, approximately 1/5th of the total rupee amount shall be transferred to an interest bearing (or profit & loss), non-lapseable account at the National Bank of Pakistan. Interest or profit and loss earned on this account shall be made part of the principal SDF amount.

b. Board of Directors

The Fund would be under the general direction of a Board comprised of ten private sector notables and three government representatives. The Board will provide periodic policy direction to the implementing private company, approve the selection criteria and process of selection of grantees, approve periodic (e.g. annual) releases of funds to the private company for grant making, approve all grants of the implementing private company.

c. Implementing Organization

As presently conceived, the Fund is to be administered by a non-governmental body dedicated to NGO support. A private company will be formed to run the Fund. The company will recruit a staff of approximately 10-15 drawn from the private sector. It will be able to offer total compensation packages comparable to the banking sector, significantly greater than for government servants. Compensation levels for company staff shall be subject to prior approval of the Board of Directors and shall be established at reasonable levels.

iii. Functions of the Private Company

The functions of the private company will fall into the following basic categories:

(a) Development of selection criteria, selection process and grant-making instruments for approval by Board of Directors. USAID, upon request and subject to availability of funds, will assist the private company. Handbook 13 as well as other grant models (e.g. Ford Foundation, BCCI Foundation, MAF and the Aga Khan Foundation) may be used as guidance for these purposes.

(b) Grant-Making: To include solicitation of grant proposals, receiving grant proposals, processing and reviewing grant proposals, selecting grantees, disbursing advances and other funds to grantees, monitoring grantees and reporting to the Board of Directors.

(c) Technical Assistance: To include providing, directly or through subcontract, assistance to potential and actual grantees, e.g. proposal writing, organizational registration, development of financial/monitoring capacity and support for specific projects.

(d) Fund Raising and Publicity for SDF:

(e) Special Reports: To include providing, directly or through subcontract, reports in response to requests of the Board of Directors, e.g. sector assessments, activity areas, tracking of number and gender of beneficiaries.

d. Accountability

There are no sales or other activities which generate local currency from the cash transfer activity. As presently conceived, the GOP will agree to capitalize an SDF Fund with Rs. 520 million. An SDF account will be established by the GOP upon USAID and the GOP signing the SDF agreement. On each anniversary of the signing of the SDF Agreement, commencing with the day of first signing, approximately 1/5th of the total rupee amount shall be transferred to an interest-bearing (or profit and loss) non-lapseable account at the National Bank of Pakistan or other designated commercial bank. Interest (and profit and loss) will be added to the Fund principal. The Rs. 520 million will be utilized exclusively for SDF activities including costs of SDF administration. Accountability will be achieved through (a) GOP oversight (b) the private company's monitoring of grantee financial reports and activities, to include periodic audits of grantee records as required. There will also be an annual financial audit of the Special Development Fund by an independent local public accountant (financed from the SDF), and an annual audit report will be provided to the Board of Directors, the GOP and USAID.

An annual report of SDF activities will be furnished to the GOP and USAID.

3. AID and GOP Responsibilities

The SDF program constitutes a significant GOP policy change. The establishment of this Fund is a precedent-setting GOP commitment to decentralize development financing. By making these funds available to NGOs and community administrative units outside the established PC-1/ADP/Ministerial approval process, the GOP is foregoing much of its traditional control of development activities.

The GOP and USAID will each establish a negative list of prohibited activities under SDF. The AID List will include all AID prohibited assistance areas as earlier communicated to the GOP for the entire AID portfolio (Annex G). The GOP shall take those steps necessary to assure that an annual report of SDF activities is furnished to USAID. The GOP shall be responsible for monitoring the activities of the SDF.

4. Selection of Grantees

a. Eligibility of non-Pakistani PVOs

U.S. PVOs are eligible to apply to the SDF for rupee funding of proposed projects. As required by the Government of Pakistan for other sectors, (e.g. population) the U.S. PVO and its proposed project will require approval by the Government of Pakistan. It is expected that U.S. PVO projects that demonstrate a beneficial impact upon Pakistan's NGO sector and NGO activities may be favorably considered. Other foreign-based PVOs will not be eligible.

b. Eligibility of Indigenous NGOs and community-based administrative units:

The eligibility criteria for indigenous NGOs and community-based administrative units will be developed by the private company for approval of its Board. See Annex F for suggested definition of Pakistani NGO.

c. Selection Process:

The selection process shall be developed and implemented by the private company. It is expected that the following factors to be considered include:

i. The selection committee is to be drawn from officers and staff of the private company organization.

ii. The selection process must provide for full disclosure of potential or actual conflicts of interest, and address this concern.

iii. All selection committee deliberations and decisions are to be documented in writing.

d. Selection Criteria:

The organization will develop selection criteria for the approval of the Board. A balance is sought to be struck between objective and subjective criteria.

D. Fund Inputs

1. Technical Assistance/Training

Technical assistance will be required to help develop an indigenous private organization with the requisite conceptual orientation to administer a social sector grants program and address WID concerns. Developing these capacities may require short-term expatriate technical assistance which may, subject to availability of funds, be obtained through buy-ins to AID/W cooperative agreements, AID/W indefinite quantity contracts or through the company's own solicitation procedures. The private company may also require program management, financial management, accounting, monitoring and marketing skills which will be hired or subcontracted from within Pakistan. The skills are generally available within Pakistan but, if necessary, limited short-term technical assistance and out of country training can be provided to supplement indigenous capacity.

Although it is impossible to determine in advance what additional technical assistance requirement may be needed to strengthen NGOs and community administrative units and to support specific grant activities, it is expected that the company will provide technical assistance through its own resources or by subcontract.

In limited cases, U.S. and third country training may be required for these purposes and may be procured as described above. The Mission Project Design and Implementation Fund (391-0470) and Development Support Training Project (391-0474) on a funds available basis, may in appropriate cases be used, upon request of the company, to fund dollar cost required for such TA/training assistance.

V. IMPLEMENTATION CONSIDERATIONS

A. AID Support Requirements and Capability

No direct hire or additional expatriate presence in Pakistan is required for this program. It is expected that the program will be administered as an activity of an existing office within USAID/Islamabad. A local hire (possibly dependent employment or FSN) will serve as the project manager with overall administrative responsibility. One FSN professional, preferably with relevant NGO and/or local administrative unit experience, will be required to directly assist the project manager in working with the implementing organization to develop and monitor its capabilities and to review contract related documents. A second FSN professional will be required to assist in review of contract related documents and vouchers and field-monitor contractor and grantee performance.

B. Monitoring and Evaluation Considerations

The implementing entity will be required to develop its own monitoring capability, assisted where appropriate by outside technical assistance. In addition, the GOP will provide for periodic external audits, contractor performance review, if applicable, and selective assessment of grantee performance.

C. Environmental Guidelines

The SDF is entirely funded by the GOP and, therefore, the A.I.D. environmental procedures are not applicable. In any case, the activities are largely subject to the "Categorical Exclusion".

D. Gray Amendment

The SDF is entirely funded by the GOP and, therefore, the Gray Amendment is not applicable. In any case, technical assistance and commodity contracting opportunities for small disadvantaged and women controlled by U.S. firms will not likely exist under the SDF Program. No U.S. dollar funded technical assistance or commodity procurements are planned currently. However, U.S. technical assistance may be procured as required in support of the SDF under the Mission's Project Design and Implementation Fund. When such assistance needs are identified, they will likely be appropriate for contracting with minority and women controlled firms.

E. Program issues presented in PARD and by ANPAC Review

1. How can the Fund best address GOP socio-religious-political-cultural sensitivities?

The SDF has been conceptualized as a Pakistani undertaking, responding to initiatives from Pakistan's NGOs and local Government. The mandate, structure and grant approval process of the Fund, is preponderantly Pakistani, which should afford ample opportunity to identify and address sensitivities. Programming proposed by U.S. PVOs will be subject to this host country filtering process.

Although the Fund will stimulate, solicit and finance local initiatives, the Fund will not initiate proposals other than in the most exceptional of circumstances. This approach will allow the range of grant activities to be largely defined by that which potential grantees consider appropriate from their "grass-roots" perspective.

Negative lists established by the two governments will prohibit grants for activities which are identifiably contrary to the norms, laws and regulations of the two countries. (See Indicative Selection Criteria - Annex F)

2. How can opportunities for misuse of the Fund and pressures on the Fund be minimized?

It is recognized that the custom of "safari" (influence-peddling) is potentially injurious to the need for SDF to be perceived and operated as a merit-based grant-making organization. Although there can be no guarantee that untoward pressure will not be exerted upon the Fund, the following controls may serve to lessen that pressure:

Oversight by governing Board of Directors composed of highest level GOP and private sector notables. This Board, it is believed, can be used to insulate the organization from some pressures.

- A system of internal reporting to the Board, external audits and evaluations and "spot-checking" of the Organization and Grantee activities by the GOP.
- Mandatory eligibility criteria to be established by the Board of Directors.
- A statement of conflict of interest concern to be incorporated in the SDF Agreement.

3. What will be done to strengthen NGO recurrent cost self-sufficiency (e.g. fund raising capacity, endowments)?

The Board will consider a number of grant vehicles to encourage increased NGO self-sufficiency. It is probable that "matching" or "challenge" grants will be approved as one mechanism to encourage NGOs to develop a broader patronage base. In addition, it is expected that there will be strengthening grants and technical assistance focused on creation/augmentation of fund raising capacity. Strengthening grants and technical assistance will also be made available to develop the proposal writing and presentation skills of grantees and potential grantee to improve their capacity to access funds from the SDF, GOP, multilateral and bilateral donor agencies and private institutional sources.

The Fund may also consider endowing selective NGOs if fund experience so warrants and NGOs can be identified with sufficient long-term capacities.

To a limited extent, support will be encouraged for NGO activities which generate income to the NGO, e.g. commissions on sales of products and services. The

- A system of internal reporting to the Board, external audits and evaluations and "spot-checking" of the Organization and Grantee activities by the GOP.
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The Fund may also consider endowing selective NGOs if fund experience so warrants and NGOs can be identified with sufficient long-term capacities.

To a limited extent, support will be encouraged for NGO activities which generate income to the NGO, e.g. commissions on sales of products and services. The effectiveness of this approach must be carefully considered.

4. How can we reduce the risk of creating AID dependent organizations?

USAID will take steps to ensure that beneficiary NGOs will be as independently viable as possible and in any event, will not be reliant upon USAID support for their survival. It must be recognized that NGOs, to some extent, will always be dependent on donor support. In addition to improving the capacity of these organizations to access multiple sources of donor support, the SDF will seek to develop its own fund raising capacity and may explore the SDF converting to an endowment in order that the SDF, itself, become a self-sustaining donor resource. If appropriate, the SDF will also seek to fund an NGO Resource Center to broaden the exchange of information on, amongst other subjects, donor resource availability to Pakistani organizations.

5. What is the interest in and opportunities for activities through community-based administrative units?

See discussion, Section II-F

6. How can an accessible and sustainable NGO Resource Center be best developed or supported?

See discussion, Section II-E.

7. What should be considered for the long-term to stimulate other bilateral donors, multilateral donors and private donor support to the SDF?

Discussions to date suggest only a mild interest from other potential donors in providing financial support to SDF. This is to be expected given the parochial interests of many indigenous donor sources and the bilateral orientation of most country to country programs. It is unrealistic to expect significant non-US interest in the SDF until the Fund has a credible track record and donors are satisfied that the SDF is not totally United States interest dominated. Reason for some optimism are that (a) many donors lack implementation capacity for a grants program and the SDF implementation entity can provide this critical service, (b) the SDF will be a GOP approved model/precedent which others seek to utilize.

8. What is an "indigenous" NGO or activity for purposes of SDF eligibility?

See Indicative Selection Criteria Annex F.

9. What is the absorptive capacity of the relevant social sector (ANPAC cable para 4)?

See discussion, Section II B, E and F.

10. Does the creation of six new NGOs add a significant level of complication to the already complex tasks of the implementing entity (ANPAC cable para 5)?

See discussion, Section IV-B.

11. What arrangements have been made for accountability including (a) degree to which local currencies are to be tracked, (b) monitoring and accountability of the Implementing Agency, (c) monitoring and accountability of grants (ANPAC cable para 6)?

See discussion, Sections IV C2d and V-B.

12. What are the selection criteria for grantees as related to the capacity of recipient organization to carry out the programing funded, fiscal responsibility and accountability (ANPAC cable para 6)?

See Indicative Selection Criteria, Annex F

13. How will the selection criteria address a recommended requirement for financial or in-kind contributions by the grantee recipient (ANPAC cable para 6)?

See Indicative Selection Criteria - Annex F

14. What arrangements will be made to document beneficiary impact by gender (ANPAC cable para 7)?

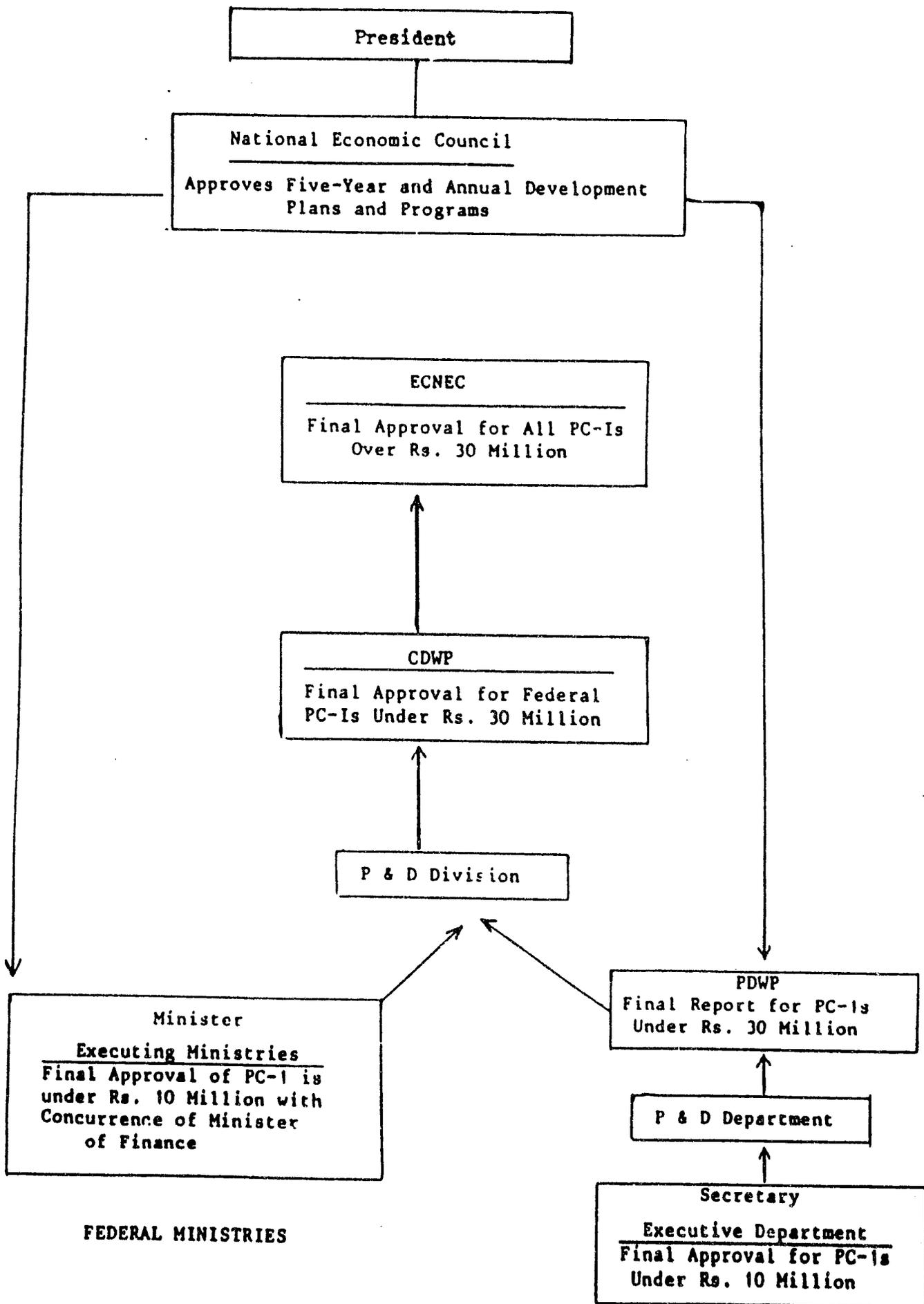
A reporting requirement as to beneficiary impact by gender will be made part of the special reports provided by the private company.

15. What arrangements will be made for U.S. PVO participation in the SDF (ANPAC cable para 6)?

See discussion, Section IV C4 and Indicative Selection Criteria Annex F.

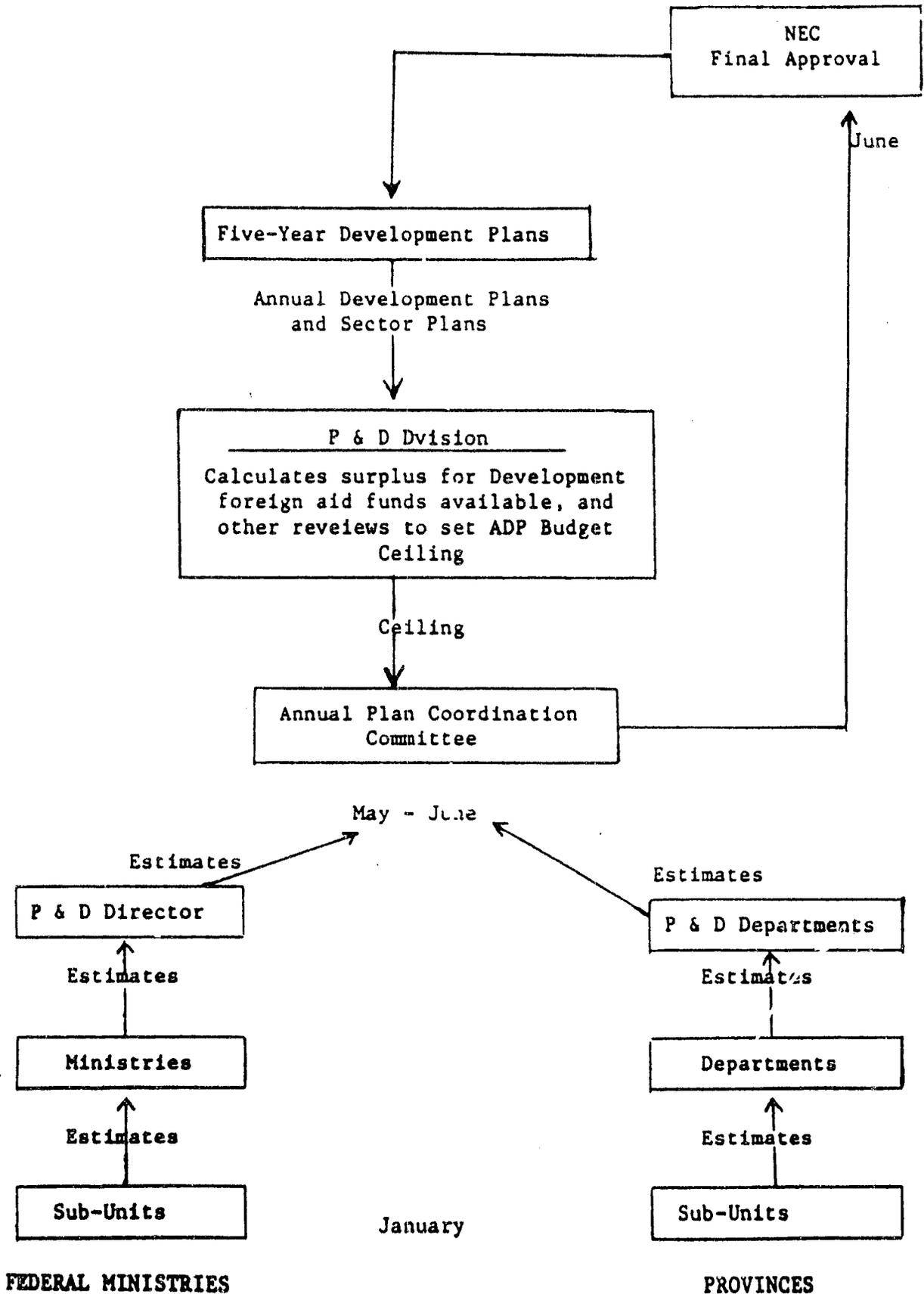
PROCESS OF APPROVING DEVELOPMENT PROJECTS

ANNEX A-1



FEDERAL MINISTRIES

PROCESS OF APPROVING DEVELOPMENT BUDGET



RESEARCH REPORTS REGARDING WOMEN IN PAKISTAN 1/

- 1) Socio-Economic Characteristics of Women in Sind Province.
- 2) The Performance of Female Teachers in Punjab.
- 3) Un-Organised Piece Work Labour Amongst Women - A Case study in Lahore Neighbourhood.
- 4) Female Crime in Urban and Rural Areas of Pakistan.
- 5) Training of Rural Women in Daudzai, District Peshawar.
- 6) An Investigation into the Patterns and Problems of Improving Skills of Rural Women.
- 7) An Investigation into the Problems of Reorganising the Village School System.
- 8) Socio-Economic Status of Women Labour Force Working in Industrial Homes.
- 9) Women in Islam.
- 10) Women in Industry.
- 11) Possibilities and Prospects of Agro-based Industries for Rural Women in NWFP.
- 12) Nutrition Status of Women and Children.
- 13) Women in Pakistan: A Statistical Profile.
- 14) Patterns of Female Employment in Mining and Construction Industries.
- 15) Women in Agriculture Sector in Sind.
- 16) Male Migration, Absentee Fatherhood and Changing Role of Women in Village Communities.
- 17) Access of Pakistani Women to their Legal Rights.
- 18) Directory of Social Scientists of Pakistan.
- 19) Participation of Women in Cottage and Small Scale Industries in NWFP.
- 20) Participation of Women in Rural Economic Activities in NWFP.
- 21) Training Programme of Dais in Pakistan.
- 22) Data Base on Women in Agriculture and Rural Households.
- 23) Development Planning and Women.
- 24) Profile of Women Voluntary Organizations.
- 25) A Directory of Women Scientists of Pakistan.
- 26) A Guide to Careers for Women in Pakistan.
- 27) Expansion of Literacy for Women (brochure).
- 28) Development of Income-Generating Skills for Women (brochure).
- 29) Establishment of Model Villages (brochure).
- 30) Setting-up of Marketing cum Production Centres (brochure).

- 31) Employment of Retired Women Teachers in Women's Programmes (brochure).
- 32) Voluntary Corps to motivate and organise projects in remote and less developed areas (brochure).
- 33) Women's Position in Pakistan: Sociocultural Effects of Islamization by Anita M. Weiss.
- 34) Analysis of Water Management Processes, Agricultural and Household Activities by Gender Roles in Four Villages, Punjab, Pakistan by Samina Khan and Carolyn Ater - 1985.
- 35) Focusing on Women: A Review of the USAID/Pakistan Portfolio by ICRW Consultants - March 1986.
- 36) Invisible Workers: Piecework Labour Amongst Women in Lahore by Farida Shaheed and Khawar Mumtaz.
- 37) The Marketing Approach: Planning Income and Employment Generation for Rural Woman by Susan Malick - 1984.
- 38) Rights and Responsibilities of Women by Jamila Siddiqui and Amatullah Abdur Rahman.
- 39) The Changing Status of Women in Islamic Pakistan by Lucy Helbock - 1975.
- 40) Women Workers in Rural Development by Zubeida M. Ahmad and Martha F. Loutfi - 1981.
- 41) Draft Report - The Dai (Traditional Midwife) in Rural Baluchistan: Tradition and Change by Pamela Hunte - 1984.
- 42) Self Employed Women's Association - Sewa Reception Centre, Ahmedabad (India)
- 43) World Conference of the United Nations Decade for Women: 1975-85 (Nairobi-Kenya) Pakistan Country Paper - 1985.
- 44) Draft Report on Women's Income Generating Activities in Rural Baluchistan by Pamela A. Hunte and Farhat Sultana - 1984.
- 45) Project Overview - Employment Opportunities for Rural Women Through Organization (Draft).
- 46) Nation Builders: Women in Pakistan by Z. Julia Paton - 1986.
- 47) Analysis of Mass Media Appealing to Women by Seema Pervaiz.
- 48) The National Conference of Muslim Women (Selected Papers - Part 1) - 1980.
- 49) Development Planning and Women by M.L. Jureshi.
- 50) Improving Women's Lives: A Survey of Projects in Punjab and Recommendations for USAID Involvement by Suzanne Fisher Staples - 1986.

- 51) An Assessment of Programs and Needs in the Field of Women in Development, Especially in Regard to Education and Training by Barbara D. Metcalf - 1983.
- 52) Report on Identification of Successful Projects for Improving the Employment Conditions of Rural Women - July 1983.
- 53) Papers on the National Conference of Non-Government Women's Organisations - 1982.
- 54) Women's Development Programmes in the Punjab - 1984.
- 55) Report of the Pakistan Commission on the Status of Women.
- 56) Report on Women's Development Forum - 1984.
- 57) Report on the Role and Status of Women in Pakistan - 1975.
- 58) Report on Islamization and Social Policy in Pakistan: The Constitutional Crisis and the Status of Women by J. Henry Korson and Michelle Maskiell - 1985.
- 59) Report on Tradition and Modernity at the Workplaces: A Field Study of Women in the Pharmaceutical Industry of Lahore by Anita M. Weiss.
- 60) A Study of Prostitutes in Pakistan by Dr. Sohail Abbas, Seema Pervez, Tahira Shamim and Mohammad Pervez (brochure).
- 61) Sex Role Images in the Text Books by Muhammad Anwar (brochure).
- 62) Portrayal of Women in Communication Media by Pakistan Women's Institute, Lahore (brochure).
- 63) Battered Housewives in Pakistan by Tahira Shamim, Mohammad Pervez, Dr. Sohail Abbas and Seema Pervez (brochure).
- 64) A Study of Abducted Women in Pakistan by Dr. Sohail Abbas, Mohammad Pervez, Tahira Shamim, Seema Pervez (brochure).
- 65) A Study of Destitute Women in Pakistan by Seema Pervez, Dr. Sohail Abbas, Mohammad Pervez and Tahira Shamim (brochure).
- 66) Psychological Profile of Rural Women by Dr. Iftikhar N. Hassan (brochure).
- 67) Studies on Rural Women in Punjab Sponsored by Women's Division (brochure).
- 68) Role of Women: Economic and Social Requirements (brochure).
- 69) Studies on Rural Women in Sind Sponsored by Women's Division (brochure).
- 70) Report on Integration of Women in Development by Shahida Sheikh - 1975.
- 71) Women's Division - Role and Functions (brochure).
- 72) National Conference on the Role of Women Councillors for Effective Participation in Local Government 1980 (brochure).

- 73) Protective Legislation for Factory Women and Mine Workers in Pakistan - Women's Division (brochure).
- 74) Roles and Responsibilities of NGOs in Urban Development Programmes by Naheed Aziz, Lahore - 1985.

INDICATIVE LIST OF CANDIDATE NGOS

1. Behbud Association
Rawalpindi, Karachi, Lahore
Contact: Mrs. Nighat Saeed Khan
2. Aurat Foundation
Lahore
Contact: Ms. Neghar Ahmed, Ms. Shehla Zia.
3. Family Welfare Cooperative Society
Lahore
Contact: Mrs. Mumtaz Karamat, Mrs. Sufiya Kasuri
4. College of Home Economics
Lahore
Dr. Farhat Shah
5. Pakistan Women's Institute
Lahore
Mrs. Singha
6. Gul-e-Rana
Karachi
Begum Mehrou Habib
7. Applied Socio-Economic Research
Lahore
Ms. Nighat Saeed
8. Orangi Pilot Project
Karachi
Dr. Hamid Khan
9. Rural Development Foundation
Islamabad
Dr. Sadiq Malik
10. Sindhi Women's Organization
Karachi
Mrs. Rashida Hussein
11. Pakistan Federation of Business and Professional
Women's Associations
Karachi, Lahore
Begum Salima Ahmed

12. Association of Business, Professional and Agricultural Women
Karachi, Peshawar, Quetta
Ms. Shamim Kazmi
13. All Pakistan Women's Association
Karachi
Begum Gul Minwala
14. Karachi Baldiya Project
Karachi
Ms. Qurrat-ul-Ain
15. Society In the Advancement of Higher Education
Lahore
Dr. Hamid Qizilbash
16. Nirali Kitaben Adult Basic Education Society
Lahore
Ms. Najma Faruqi
17. Punjab Economic Reseach Institute
Lahore
Dr. Jamil Khan
18. Simong Women's Collective
Lahore
Ms. Neelam Shah
19. Shirkat-gan Women's Resource Center
Karachi, Lanore
Ms. Khawar Mumtaz, Ms. Farida Shaheed
20. Family Planning Association of Pakistan
Lahore
Ms. Farida Sher, Ms. Mumtaz Begum
21. Technical Services Association
Lahore
Mr. Anthony Chaudhry
22. Anjuman-e-Khawateen
Lahore
Ms. Tabbasom
23. Pakistan Association of Women Entrepreneurs
Karachi, Islamabad
Begum Salma Ahmed

24. Sind Rural Workers Cooperative
Karachi
25. Pakistan Girls Guide Association
Lahore
26. Women's Social Organization of Multan
Multan
27. Pakistan Federation of University Women
Islamabad
28. Chamber of Commerce
(eg. Lahore, Rawalpindi, Karachi)

IDENTIFIED GRANT PROPOSALS*

<u>Project Description</u>	<u>Requesting Organization</u>	<u>Cost</u>	<u>Source of Information</u>
1. Katchi Abadi Research & Training Institute to undertake research and training in approaches to low cost housing and sanitation, formal and non-formal education, and cottage industries.	Urban NGO/Karachi	Capital Investment \$135,000 Recurring Cost (annual) \$ 29,000	Proposal submitted to USAID
2. Bridge across stream at village	Village Committee	US\$ 12,000	Canadian Mission Administered Fund (MAF)
3. Extension of girls primary school	Union Council	US\$ 21,000	MAF
4. News Bulletin and dissemination of information on women under Muslim Law	Urban NGO	US\$ 15,000 per year	MAF
5. Income generation schemes in tailoring, food production, secretarial skills etc.	NGO	Not available	Paper by A. Asghar (Family Welfare Cooperative Society)

* Prepared with assistance of Ms. Margaret Lycette, ICRW

<u>Project Description</u>	<u>Requesting Organization</u>	<u>Cost</u>	<u>Source of Information</u>
6. Mass media campaign to relieve oppressive social customs like dowry, attitudes towards remarriage of widows, treatment of victims of rape, etc.	NGOs	Undetermined at this time	National Conference of Non-Governmental Women's Organization - Pesnawar 1981
7. Craft training for rural women	Punjab Social Welfare Department/ Punjab Chambers of Commerce/NGOs/ILO and others	US\$ 160,000 for Phase I (Stipends, Training & limited commodities)	ILO
8. Upgrading Social Welfare Institute to train social welfare offices, community development, ancillary workers, managers and private voluntary organization personnel.	Provincial Ministry of Social Welfare	Estimated US\$ 175,000	Punjab Ministry of Social Welfare/ "Improving Women's Lives" Suzanne Fisher Staples (1986)
9. Employment opportunities for rural women through organization.	Union Council	Undetermined at this time	ILO Mission Report by Maria Tesselaa
10. Development of women entrepreneurial training with advisory service to NGOs for setting up and organizing of production oriented programs.	Women's Project Cell Planning & Development Department, Government of Punjab	US\$ 90,000	Punjab Women's Division
11. Multipurpose Centre HQ for well-established NGO	Established NGO (ARWA)	Up to \$270,000 (building only?)	Proposal submitted to USAID
12. Women's multi-purpose complex to house skills training centers, exhibition space, shops owned and managed by women, and a working women's hostel	Urban NGO	\$294,000 (2 years)	Proposal submitted to USAID
13. Women's Investment and Development Corporation to finance viable projects of women entrepreneurs	Urban NGO	Capital investment Yr.1:\$882,000 Yr.2:\$882,000 Yr.3:\$1,764,000 Self-financing thereafter	Proposal submitted to USAID

<u>Project Description</u>	<u>Requesting Organization</u>	<u>Cost</u>	<u>Source of Information</u>
14. Income generation for women in Sind - training in animal husbandry and poultry raising, sericulture activities, introduction of agro-processing technologies more efficient cookstoves, hand pumps	NGO/Sind	\$25-50,000	Proposal developed by/for ILO
15. Integrated Development Activities for women in Rawalpindi District including literacy, training for raising poultry, dairy goats, knitting, charpoys	District Council	\$16,500	Proposal submitted to UNICEF
16. Women's library and resource center focused on women's development needs/participation.	Provincial Gov't.	\$42,000	Proposal submitted to UNICEF
17. Training for women in entrepreneurial skills and management.	Provincial Gov't.	Capital Investment \$33,000 Recurring Costs (annual) \$51,000	Proposal for Provincial Gov't. funding
18. Skills training center for domestic and hotel workers	Urban NGO	\$117,597	Proposal submitted to USAID
19. Introduction of new training courses and to facilities at Women's Industrial Homes	Provincial Gov't.	\$396,675 (15 homes)	Proposal submitted GOP and U
20. Establishment of crafts emporium at Rawalpindi and Multan	Women's Division GOP	\$240,000	Proposal submitted to GOP and USAID
21. Establishment of Organization to market women's Industrial Homes products	Provincial Gov't.	\$ 65,000	- " -
22. Community development projects (100) at the market level	Provincial Gov't.	\$ 1.3 Million	- " -
23. New resource and training center	Large established NGO	\$ 1 million	Discussed with USAID

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DISTRICT COUNCILS AND UNION COUNCILS IN PAKISTAN

<u>S/No.</u>	<u>Territory</u>	<u>District Councils</u>	<u>Union Councils</u>
1.	Punjab	29	2367
2.	Sind	13	569
3.	N.W.F.P.	13	560
4.	Baluchistan	17	315
5.	Islamabad Capital territory	-	11
6.	Northern Areas	3	105
7.	FATA	*7	-
8.	Azad Kashmir	4	179
	Total:	86	4106

*called Agency Councils

ILLUSTRATIVE NGO STRENGTHENING COST ANALYSIS *

This illustrative analysis is based on the assumption that the typical NGO candidate for strengthening has a well-established cadre of volunteer staff who will continue their fund raising efforts for the NGO. Strengthening will be achievable primarily through funding key project development, monitoring and marketing staff since most NGOs are hindered by an inability to produce fundable project proposals, and/or lack of expertise in marketing products produced through training and income generation projects. Another major limitation to be addressed is lack of office facilities and transportation. Currently, most NGOs operate from headquarters donated on a temporary basis or from volunteers' homes. While NGO staff may have sensitivities and skills required for outreach to low-income and rural groups, they often cannot arrange for transport to the localities in which such groups are situated.

Illustrative Funding Year 1

Project Development Officer	=	\$ 10,000/year
Marketing Specialist/Financial Analyst	=	\$ 10,000
2 Marketing Assistants @ \$ 6,000	=	\$ 12,000
Fund-raising Activities	=	\$ 6,000
3 Vehicles @ \$ 5,000	=	\$ 15,000
Office Equipment (typewriters, desks, etc).	=	\$ 3,000
Office Rental	=	\$ 2,000
Supplies	=	\$ 1,200
3 Drivers @ \$ 1,000	=	\$ 3,000
		<u>\$ 59,200</u>
Annual funding years 2 + 3	=	\$ 59,200 less 15,000 vehicles 3,000 office equipment
	=	<u>\$ 41,200</u>
Total 3 Years	=	<u>\$182,800</u> to \$ 200,000

* Prepared by Margaret Lycette, ICRW

Indicative Selection Criteria - Support to Non-Government Organizations (NGOs)*

The private company will develop selection criteria for approval of the Policy Board. The following are suggestions as to criteria which may be applicable:

a. Negative List

The GOP and USAID will develop a list of prohibited and sensitive activities and topics to be used as guidance by company. Some items may represent non-negotiable prohibitions, and others cautionary areas to be referred to the board for decision. The company should not hesitate to consult the board on any questions regarding the negative list, AID should in any case refer all rejections of applications based on the list to the board for final decision.

b. Identity of Recipient

i. Pakistani NGOs

For purposes of the SDF, a Pakistani NGO is a private indigenous organization having its legal status created under the laws of Pakistan. Organizations created outside Pakistan but operating in Pakistan are not considered Pakistani for purposes of the SDF. The affiliates or subsidiaries of non-Pakistani organizations are similarly not considered Pakistani for purposes of the SDF unless the affiliate or subsidiary has been created under the laws of Pakistan. All incorporated, registered or otherwise legally constituted Pakistani NGOs are eligible. Should it be determined that unincorporated and unregistered entities are also to be eligible, it is necessary that their institutional identity be established through evidence of verifiable activity as a cohesive development-oriented entity or, in the absence of such history, documentation of systems in place for institutional existence and accountability. In all cases, the grant must be made to an accountable recipient which recipient agrees to accept the duties and responsibilities as provided for in the grant instrument.

ii. Non-Pakistani PVOs

U.S. PVOs are eligible to apply to the SDF provided that the U.S. PVO project has received the necessary GOP clearances for the U.S. PVO to operate in Pakistan. It is expected that U.S. PVO projects that demonstrate a beneficial impact upon Pakistan's NGO sector and NGO activities may be favorably considered. Other foreign based PVOs are not eligible to apply to the SDF.

*These may be applied, as appropriate, to grants for community-based administrative units and other community based organizations.

c. Activities within purposes of the SDF

To be favorably considered, recipient proposals must be within the purposes of the SDF. The purposes of the SDF are to (a) strengthen the programming and monitoring capabilities of NGOs; (b) strengthen the programming and monitoring capabilities of community administrative units; (c) support NGO projects specifically directed to women in development concerns; and (d) support community administrative unit projects specifically directed to community participatory activities, women in development activities or other activities in the social sector. No activities may be funded that are not within these purposes of the SDF.

d. Submission of grant proposals

Recipients are required to submit a grant proposal which addresses, at a minimum, the following areas:

i. Identity of recipient. If the recipient is incorporated or registered, copies of the documents of registration and/or incorporation are to be attached.

ii. Relevant financial and development programming experience of recipient.

iii. Purpose of Grant/Loan.

iv. Plan of implementation for grant/loan to include implementation schedule.

v. Financing plan for activity to include costing data, grantee contribution, SDF contribution, contribution of others.

vi. Plan for monitoring and accountability. The private company will develop appropriate grant proposal formats to facilitate presentation of necessary information.

e. Recipient contribution

Recipient NGOs are expected to provide a minimum 25% contribution to the grant activity, in rupees or in-kind. The recipient contribution may include volunteer staff and labor, land and buildings, equipment, office support etc. Although not mandatory, evaluation of proposals will consider a 25% contribution as indicative of a reasonable level of commitment of the recipient to the activity. This standard may be reduced or increased to reflect individual institutional circumstances/capacities and activities. In exceptional circumstances, the recipient contribution requirement may be waived in its entirety.

f. Recipient responsibility

SDF grants and/or loans may be made only to recipients that have accounting systems, monitoring systems and reporting systems appropriate to the grant/loan. These systems are, ideally, to be "in-place" prior to SDF funding. If necessary and desirable, the private company may provide direct technical assistance to potential grantees to develop these systems or, alternatively, provide strengthening grants/loans directed to these purposes.

g. Access to Alternative Sources of Funding

SDF seeks to give particular support to those NGOs and community organizations having limited access to governmental resources generally or having limited access to governmental resources for a specific WID or community participatory activity in the social sector. If alternative sources of funding are available, it may be appropriate to suggest that the recipient avail itself of that alternative source of funding.

h. In evaluating the development benefit of proposals, the following may be considered:

i. Cultural appropriateness and community receptivity. The activities being financed from SDF should be sensitive to Pakistan's religious, cultural and political milieu and be confident of reasonable community receptivity.

ii. Needs of the community. The project should be appropriate to address the most immediate needs of the community.

iii. Replicability. The project should have potential for replicability outside the immediate community.

iv. Sustainability. The project design should include mechanisms to assure financial, economic and managerial sustainability, if appropriate.

v. Number of beneficiaries. The project should be designed to maximize short-term and long-term beneficial impact.

vi. Women beneficiaries. The WID orientation of SDF gives special consideration to both strengthening and specific project activities having a significant beneficial effect on the status of women in Pakistan.

vii. Limited access to funding. The SDF seeks to provide support to those organizations having limited access to development funding. Strengthening and specific project support proposals from the lagging provinces and neglected areas (urban and rural) will be given special consideration.



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO PAKISTAN

Cable USAIDPAK

HEADQUARTERS OFFICE
ISLAMABAD

January 21, 1986

Mr. M. Riyazul Haque, Joint Secretary
Economic Affairs Division
Ministry of Finance and Economic Affairs
Government of Pakistan
Pakistan Secretariat - Block "C", Room 403
Islamabad

Subject: USAID Training Programs: Restricted or Sensitive Subject
Matters, Areas or Fields

Dear Mr. Haque:

As you know, A.I.D. operates under a variety of regulations, prohibitions, restrictions and statements of policy guidance that govern in many cases not only A.I.D. operations but also those of all other Government programs. Most of these concerns are dealt with in the design of individual projects and so they rarely become problems for day to day project implementation. In the case of our Development Support and Training project, however, we run the gamut of subject matters and topics for training and the potential exists for running afoul of our restrictions. Because of this, I thought it would be useful to state in consolidated fashion, for the guidance both of ourselves in USAID as well as the Government of Pakistan, the restrictions that we face with training.

I include here areas in which USAID assistance is prohibited, and also areas which for one reason or another touch on sensitivities and which, therefore, must be treated carefully. I present this list in very brief form for ease of reading. I would be happy, however, to provide further information on any or all of these items:

Training, advice or financial support:

1. Of any kind, to the military, or of any military benefit, character, implications or nature: PROHIBITED.
2. Of any kind, to the police, prisons, or other law enforcing agencies; and to any agency or agencies such that it could be used for internal intelligence or surveillance: PROHIBITED.
3. For or towards abortion as a method of family planning: PROHIBITED.
4. For or towards violation of human rights: PROHIBITED.

Mr. M. Riyazul Haque, Joint Secretary
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5. For or towards weather modification: PROHIBITED.
6. For or towards anti-U.S. policy or policies: PROHIBITED.
7. For or towards communism or communist countries: PROHIBITED.
8. For luxury goods or services and gambling facilities: PROHIBITED.
9. For or towards CIA activities: PROHIBITED.
10. For or towards religion and proselytizing: PROHIBITED.
11. For or towards bias, discrimination or prejudice of any kind against human beings: PROHIBITED.
12. For or towards nationalizing the economy or any part or parts thereof: PROHIBITED BY INFERENCE.
13. For or towards competition with U.S. enterprises by non-U.S. organizations: SENSITIVE.
14. For nuclear enrichment or reprocessing technology: SENSITIVE.
15. For or towards production of non-food crops of which there is a surplus: SENSITIVE.
16. For or towards destruction of forests: SENSITIVE.
17. For or towards production of agricultural crops grown in the U.S. and also grown for export in the beneficiary country: SENSITIVE.

If you wish, I would be happy to review with you the legal or policy underpinnings of these restricted and sensitive areas. I would be grateful if you could arrange to have these areas incorporated into the Government's review and clearance process for participant trainers, in order to help us avoid the unpleasant necessity of rejecting proposed participants for training in areas which conflict with these prohibitions or sensitivities.

With best personal regards.

Sincerely yours,



Jon A. Gant, Chief
Human Resources and Training

LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Factor Goal: The broader objective to which this project contributes: To support the social sectors and improve the quality of life of neglected segment of the population and social sectors.</p> <p>A-1</p>	<p>Measures of Goal Achievement:</p> <ul style="list-style-type: none"> - Increases in FGLI. - Increased value placed on self-help initiatives. <p>A-2</p>	<ul style="list-style-type: none"> - GDP federal, provincial and village level statistics. - Data generated by NGO and village-based entities. <p>A-3</p>	<p>Assumptions for achieving goal targets.</p> <ul style="list-style-type: none"> - GDP will continue to place emphasis on social sector development. - GDP establishes and continues to support NGO involvement in development activities. <p>A-4</p>
<p>Project Purpose:</p> <ul style="list-style-type: none"> - To support and expand the role and activities of NGO and decentralized development programming in neglected social sectors. - To improve the balance of payments situation and promote economic stability in Pakistan. <p>B-1</p>	<p>Conditions that will indicate purpose has been achieved. End of Project Status.</p> <ul style="list-style-type: none"> - Increased level of GDP interest in continuing decentralized programming efforts. - Increased number of NGOs. - Increased institutional strength of NGOs to be self-sustaining and to develop and implement MID and community level development programs. - Increased number and quality of self-help activities in Pakistan. <p>B-2</p>	<ul style="list-style-type: none"> - Policy pronouncement, planning and programming documents. - NGO sector survey. - Contractor reports and external evaluation and audits of NGOs. - Evaluation of NGO programs. <p>B-3</p>	<p>Assumptions for achieving purpose:</p> <ul style="list-style-type: none"> - NGOs and decentralized programming modes can effectively serve neglected social sectors. - Political neutral NGO activities can be identified for funding. - NGO leadership will be forthcoming and can be professionalized. <p>B-4</p>

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LOGICAL FRAMEWORK

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>Output:</p> <ul style="list-style-type: none"> - Increased GDP rupee funding and commitment to previously neglected social sectors. - Policy Board and management entity in operation. - NGOs strengthened. - Community-based development activities underway. <p>C-1</p>	<p>Magnitude of Outputs:</p> <ul style="list-style-type: none"> - GDP establishes fund and accepts off-budget programming experiment. - Policy Board and management staffed and functioning. - 5 new NGOs; 20-30 strengthened. - 100-150 activities underway. <p>C-2</p>	<ul style="list-style-type: none"> - Signed PAAD Agreement and GDP documents. - Policy guidelines established. - Record, reports prepared by management entity and participating NGO's. - Evaluations and audits. <p>C-3</p>	<p>Assumptions for achieving outputs:</p> <ul style="list-style-type: none"> - Incentive to GP to attempt institutional reform will be sufficient. - Management entity can be identified. - Policy Board can agree on selection criteria. - NGOs willing and able to participate. <p>C-4</p>
<p>Inputs:</p> <p>Balance of Payments support grant to establish rupee fund and finance management entity.</p> <p>D-1</p>	<p>Implementation Target (Type and Quantity):</p> <p>\$30 million (tranche)</p> <p>D-2</p>	<ul style="list-style-type: none"> - Comptroller's records <p>D-3</p>	<p>Assumptions for providing inputs:</p> <p>Policy dialogue will be successful</p> <p>D-4</p>