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STRATEGY STATEMENT
FOR
U. S. ECONOMIC ASSISTANCE
TO
PAKISTAN
(FY 1983 - FY 1987)

USAID/Pakistan
January 1983



EMBASSY OF THE
UNITED STATES OF AMERICA

January 20, 1983

Mr. Charles W. Greenleaf, Jr.
AA/ASIA - Room 6212 N. S.
Agency for International Development
Washington, DC 20523

Dear Mr. Greenleaf:

As agreed with AID/W, this document is not intended to perform the usual CDSS role. A.I.D.'s program in Pakistan for the period FY 1982 through FY 1987 was largely determined in August 1981, during negotiations between the Government of the United States and the Government of Pakistan.

Although a full CDSS is neither needed nor required in these circumstances, it is important, just over a year after the program was initiated, to underscore the strategic concerns which led to the renewal of a major assistance effort, to assess their relevance for the planning period, and to take account of any new developments which could influence planning and assistance strategy. This document performs these functions usefully in my judgement.

I should like to emphasize the following points:

1. The renewal of economic assistance to Pakistan, along with an FMS program designed to upgrade its defense capabilities, reflected one of the Administration's first and most important decisions in the foreign policy area. The considerations which led to that decision are no less valid today. The security and stability of Pakistan are central to U.S. interests in South Asia and the Persian Gulf. Pakistan's important role in diplomatic efforts to attain a negotiated settlement of the Afghanistan problem involving the withdrawal of Soviet forces, and its leadership on this issue at the United Nations and in the Islamic Conference are vital in the effort to contain Soviet expansion in this critical region. Moreover, Pakistan's role in seeking an improvement of Indo-Pakistan relations, a mediated solution to the Iran-Iraq war, and a peaceful solution of the Arab-Israeli conflict also support or parallel U.S. efforts. Pakistani confidence in the durability and credibility of our commitments is central to sustaining our new relationship here.

I am convinced that our long-run objectives in the region are congruent with our more immediate goals of stability and security, and with the role we can help Pakistan play in securing these goals. Thus, I consider vigorous, effective execution of our six year economic assistance program to Pakistan to be an indispensable element in the execution of our foreign policy in the region and beyond.

2. In view of U.S. objectives here, USAID/Pakistan's major task in the next several years is to use the resources at its disposal to contribute to Pakistan's economic growth and stability. In this period, balance of payments considerations are dominant. However, for the longer term, success depends on maximizing the development impact of our program. In that connection, I believe A.I.D.'s approach, reflected in this strategy statement, is appropriately balanced to achieve both long and short-term policy objectives. It reflects the specific development constraints and unique features of Pakistan's economy and society, including the development plans and priorities of the GOP.

I am gratified that the program drawn up in 1981 effectively responds to U.S. foreign policy objectives and to Pakistan's own development plans and priorities.

3. Since August 1981, both the GOP and our government have given even higher priority to the problems created by opium poppy production, heroin processing, and narcotics trafficking in Pakistan. These problems require appropriate responses from all U.S. agencies working in Pakistan.

In accordance with U.S. legislation and the Federal Strategy for Prevention of Drug Abuse and Drug Trafficking, and in line with A.I.D.'s policy and explicit decisions by the A.I.D. Administrator, I support the activity now being designed to mount an integrated rural development program in an opium poppy growing area in Pakistan's North West Frontier Province. It is important that this effort be implemented as soon as possible.

4. This submission calls attention to one of Pakistan's most fundamental constraints to development, namely, the low educational level of a large majority of its population. It indicates USAID's intention to keep open the possibility of financing an activity in the education sector during the planning period.

I agree with this position because Pakistan increasingly will have to rely on the enhanced productivity of its human resources for its economic well-being.

5. This Strategy Statement does not discuss A.I.D.'s program in FY 1988 and beyond. The composition and management of the six-year economic assistance program may have to be reshaped during the last few years of the effort, depending upon what the USG decides concerning possible assistance after FY 1987. For example, we may have to consider as yet unplanned activities to be carried on beyond FY 1987. Economic developments, Pakistan's balance of payments position, the political situation in the region, and other considerations will obviously influence decisions on these matters, but it is not too soon to begin to think about the nature of the USG-GOP relationship after FY 1987. Next year may be an appropriate time to initiate systematic analysis of these issues.

6. The GOP regards the Afghan refugee situation as temporary. It is presumed that the refugees will return to their homeland within the next few years. Our approach to economic assistance in Pakistan may, however, need to consider the impact of their longer term presence in Pakistan, depending upon developments in the next few years. This situation will be monitored closely by the Embassy, since its evolution could have implications for USG policy and for how our resources should ultimately be allocated in Pakistan and in the region. For the immediate future, however, and pending clarification of the prospects for a political solution in Afghanistan, we continue to believe this problem should be addressed multilaterally.

Finally, let me add a word on staffing. Despite my conviction that it is prudent to maintain a low American profile, I have approved a doubling of U.S. direct hire A.I.D. staff since my arrival in October 1981, and an increase in the number of A.I.D. contractors. I have carefully scrutinized each request for additional personnel and will continue to do so. A.I.D. has been given a job and the USAID should be staffed to do it well. Accordingly, I urge you to continue to lend your support to efforts to fill vacant positions promptly and, just as importantly, with qualified people.

Sincerely yours,

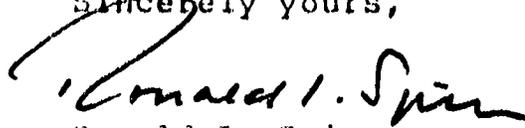

Ronald I. Spiers
Ambassador

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FY 1983 - FY 1987

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I. BACKGROUND

This Strategy Statement updates the discussion of A.I.D.'s program contained in the September 1981 paper on "A.I.D. Assistance To Pakistan: FY 1982", the FY 1984 ABS and the FY 1983 and FY 1984 Congressional Presentations. It presents the Mission's current thinking on its program objectives and the strategy for meeting them.

A. Strategic Concerns

1. August 1981 Negotiations

The United States suspended economic assistance to Pakistan in 1979. However, the strategic national interests of the United States in the Middle East and Southwest Asia and the deteriorating political situation and instability in the area prompted the United States to undertake a major reassessment of its position in this part of the world. As a result, agreement was reached between the USG and the GOP on the current economic and military assistance programs.

Pakistan has similar and parallel interests. It is interested in the preservation of a nonaligned, independent Afghanistan and the continuance of independent Islamic societies in the region. Pakistan has chosen to maintain its nonaligned status, provide sanctuary to more than two million Afghan refugees, and work diligently with the international community to achieve a peaceful, negotiated withdrawal of Soviet forces from Afghanistan and the restoration of a domestically selected Afghan government.

Beginning in early 1980, the United States sought an acceptable formula for assisting Pakistan to sustain the role it wishes to play. It was not until August 1981, however, that a mutually acceptable agreement was reached on a package of economic and military assistance to Pakistan.

The agreement reflected the joint realization that the basis for the renewed relationship was the coincidence of strategic national interests. Both governments recognized that stability and strength come from a sound economy and that a stronger foreign exchange and balance of payments position was essential.

A.I.D.'s Administrator headed the USG team which reached agreement with the GOP on the broad outlines of the \$1.625 billion FY 1982 to FY 1987 program of U.S. economic assistance to Pakistan. Explicit in that agreement were the understandings that Economic Support Fund (ESF) funded assistance would be provided in the proportion of one-third loan and two-thirds grant, that balance of payments support and local cost financing would form an important part of the economic assistance package, and that U.S. assistance would be targeted on mutually agreed development activities.

The exceptional circumstances and strategic considerations surrounding the decision to renew U.S. economic assistance to Pakistan were explicitly understood and accepted by Congress when it authorized a resumption of assistance to Pakistan.

2. Changes Since 1981

a. Narcotics

The narcotics situation has become more important for U.S.-Pakistan relations and for the A.I.D. program. During consideration of the proposed new U.S. economic assistance for Pakistan in the U.S. Congress, the increasing role of the Golden Crescent (Iran, Afghanistan and Pakistan) as a source of heroin for the U.S. market became an important issue. Accordingly, the initially proposed U.S. assistance program will be modified in FY 1983 and in succeeding years to directly address the narcotics problem. Fortunately, the GOP has begun to move much more forcefully against opium and heroin production and against drug trafficking, and has indicated its wish for continued and additional help from the USG in these efforts.

b. Coordination With Other Donors

Close collaboration with the IMF and World Bank in supporting agreements reached in developing their Extended Fund Facility and Structural Adjustment assistance was not discussed during the negotiations of the renewed economic assistance program. However, USAID recognizes that a coordinated approach in addressing Pakistan's macroeconomic situation and policies is important in establishing the basis for Pakistan's self-sustaining economic growth. USAID, therefore, cooperates closely with the IMF and World Bank, particularly in the macroeconomic policy area, and with the World Bank family and other donors on specific projects.

c. Private Sector

USAID support for the private sector was contemplated during the 1981 negotiations. Discussions of the Sixth Five-Year Plan have indicated that the private sector is to play an increasing role in Pakistan's economy and in meeting the GOP's development targets over the next five years. Therefore, even greater emphasis is being placed on encouraging private sector involvement in the activities being supported by USAID.

3. Current Circumstances

a. Continued Validity of Strategic Concerns

The underlying reasons for the U.S. program in Pakistan have not changed since the \$1.625 billion U.S. economic assistance package was negotiated: the Soviets remain in Afghanistan and the GOP remains firm; the number of refugees continues to grow; Iran and Iraq remain at war; the region remains unstable and vulnerable. The urgent need for political stability in the region remains. The economic and balance of payments situation of Pakistan has not changed significantly, and the health of the economy is still vital for continued political stability.

b. Continued Validity of Development Concerns

Pakistan's socioeconomic conditions continue to fully justify a significant U.S. economic assistance program. Pakistan has the world's tenth largest population, approximately 86 million people, which is increasing at an annual rate of three percent. Pakistan's GNP per capita and quality of life indicators place Pakistan among the world's poorer LDC's. For

example, food production per capita over the last decade has advanced at a rate which is below the weighted average for all low income countries. Life expectancy at birth is only 52 years. The 24 percent adult literacy rate is lower than the weighted average for low income countries.

4. Prospects for the Future

Southwest Asia and the Middle East will continue to be an unstable and critical area for the foreseeable future. Even if the situations in Iraq, Iran and Afghanistan improve, the importance of oil from the Gulf and free sea lanes will not change. The interests of the USG and GOP coincide in that both governments want to see Pakistan play a positive and stabilizing role in the region. For all these reasons, the outlook for the next several years is a continuation of USAID's strategy and implementation of the assistance program essentially as it was designed in August 1981.

B. Objectives

The USAID economic assistance program has both short and long-term objectives.

The short-term objectives are to:

- Manage and implement the agreed upon U.S. economic assistance program to support the strategic national interests of the U.S. and Pakistan;

- Establish the basis for long-term, self-sustaining economic growth and development which will permit Pakistan to increasingly finance its development needs and foreign exchange requirements;

- Provide assistance in ways which will support Pakistan's balance of payments in order that the GOP can continue to service its foreign debt and make necessary defense purchases;
- Support development activities which will limit and/or reduce the cultivation of opium poppies; and,
- Support USG assistance to the UNHCR and WFP to help the GOP provide the food and shelter needs of the refugees from Afghanistan.

The long-term objectives are to:

- Maintain an independent, nonaligned Pakistan;
- Contribute to regional stability;
- Promote self-sustaining economic development;
- Strengthen Pakistan's ability to service its foreign debt and meet other foreign exchange needs;
- Reduce the amount of absolute poverty; and,
- Improve the economic status of the least developed rural areas, especially in the provinces of Baluchistan and NWFP.

C. Approach to Meeting Objectives

1. Development Focus

Agreement was reached during the 1981 negotiations that U.S. economic assistance would focus on both balance of payments and development needs. The Executive Branch initially intended to finance the economic assistance package from DA, ESF, and PL 480 resources. However, to date, only ESF and PL 480 resources have been authorized.

Projects are being designed and implemented in essentially the same way as they would be if they were funded with DA resources. Commodities financed under the PL 480 Title I program are integrated within the economic assistance portfolio and local currency generated thereunder will be programmed to support priority development programs. To the extent U.S. owned local currency is made available, it is used to finance project costs.

2. Strategy

a. Balance of Payments Support

Pakistan has a substantial deficit in its balance of trade and a relatively smaller, though still large deficit in its current account. Activities under the A.I.D. program have been designed to help alleviate these deficits, which could grow even larger when the Extended Fund Facility ends in 1983. Balance of payments support is achieved with: (1) dollar funded commodity imports; and (2) dollar financing of local costs. The PL 480 Title I and the Agricultural Commodities and Equipment programs are the principal means of providing needed commodities, thus saving foreign exchange. Most of the other projects, e.g., Rural Electrification, Malaria Control, and Social Marketing of Contraceptives, also have significant, though smaller commodity import components. Financing of local costs with dollars is important because it provides untied foreign exchange.

b. GOP Priorities and U.S. Strengths

The 1981 agreement, with its indicative areas of assistance, was the result of high level negotiations that considered the needs of the Pakistan economy and the ability of

the U.S. to meet those needs. Since then, the project development process has been and will be refining designs that more carefully respond to perceived needs as found in the Three-Year Development Plan and the Sixth Five-Year Plan (which begins in 1983).

The other major factor in the agreed upon program is the ability of A.I.D. and the U.S. to respond to particular needs. A careful effort was and is being made to emphasize sectors where the U.S. has a comparative advantage in technology or experience or where USAID can build on past experience in Pakistan. This means, for example, that the program's greatest emphasis is on rural development and agriculture. Similarly, A.I.D. experience in fertility reduction, institutional development, training, and technical assistance have directed project design efforts in these directions. Projects are being phased in a way that emphasizes early and sustained balance of payments support while longer run technical assistance is getting underway.

c. Emphasis on Lagging Areas

Pakistan is a federated nation of four distinct provinces which vary both economically and ethnically. These differences are reflected in the federated federal government-provincial government system, which coincides generally with regional and ethnic differences. The USG and GOP agreed that the USAID program would give special emphasis to the more backward provinces of Baluchistan and North West Frontier Province (NWFP). Until a few years ago, these two provinces received less attention and funds from the Federal Government than the other

two. Separatist movements have occurred in both. They border Iran and Afghanistan and are the first areas to be affected by developments in those countries. The emergence of large scale narcotics trade also has served to focus USAID attention on these regions, especially the NWFP.

d. Equity

The unequal distribution of wealth and income in Pakistan is significant, and is particularly evident in rural areas, where absolute poverty is substantial. For this reason also, USAID has heavily concentrated its projects in agriculture, rural development and energy to provide maximum benefits to the rural poor.

3. Implementation Thrusts

Even before the Administrator's CDSS guidance message (82 State 305746) the Pakistan program incorporated the Agency's four major themes and the two additional emphases. The overall Mission strategy for each of these areas is sketched briefly below.

a. Policy Dialogue

The Mission's strategy in this area is to use each program and project action, as appropriate, as an opportunity to discuss GOP policies (see 82 Islamabad 17394 and Section II for more details). Because most of the GOP's announced developmental policies are considered by the donor community to be acceptable, and leading in the proper directions, USAID's emphasis is on discussing the implementation of these policies. Mission policy

discussions with the GOP are supportive of agreements reached with the World Bank and IMF on macroeconomic policies as well as more general policies in each sector.

b. Private Sector

USAID's program has a strong private sector bias both to support announced GOP policies and to give expression to the importance of a vital and growing private sector to national economic growth and development. This emphasis has become even more critical as indications are that the private sector is expected to play a key role in moving forward Pakistan's economic development during the period of the Sixth Five-Year Plan. The Mission's approach to the private sector initiative is three-pronged: through the policy dialogue; through each of the individual projects; and through a separate "private sector" project. Agriculture, energy, and population projects are designed to provide major opportunities for private sector participation.

c. Institutional Development

The lack of effective and cohesive governmental, research, business, economic and instructional institutions is a major constraint facing Pakistan. Almost all of the projects in USAID's portfolio have an institutional development focus. Training and direct technical assistance are the primary mechanisms being used to strengthen existing institutions. Although USAID's assistance program stresses the role of private enterprise and non-governmental institutions rather than

increasing the role of government and public enterprises, USAID also is using training and technical assistance to improve governmental institutions essential to Pakistan's development.

d. Technology Transfer and Research

All the projects in USAID's portfolio call for the introduction of new and better ways to accomplish sector and project goals. Specific examples of the technology being employed and the research being undertaken are given in Section III, "Sectors and Sub-sector Objectives and Strategy", below. For example, operations research and the development of improved methods of mosquito control are essential elements of the Malaria Control II Project; proper combinations of distribution equipment will be important elements of the Rural Electrification Project; and introduction of new equipment and management techniques will be key elements of the Irrigation Systems Management Project. Technology transfer and research, of course, are essential ingredients of USAID's agriculture program. The emphasis of these activities is to transfer existing knowledge and to support applied research rather than to establish a greater theoretical research and development capability.

e. Training

Although Pakistan has a large number of highly trained people in absolute terms, the number of skilled managers and administrators is small relative both to the population and to Pakistan's requirements. USAID's strategy is to provide training where it is necessary to implement various projects and where it is required to enhance the capacity for Pakistanis to continue

to design and implement development activities once outside assistance ceases. Most training financed under the \$1.625 billion program is financed through the individual projects. However, one project (Development Support Training) is devoted entirely to training, with a focus on management in the public and private sectors.

f. Integration of PL 480

The PL 480 Title I Program serves as an effective mechanism for a continuing dialogue with the GOP on policies needed for a dynamic agriculture sector as well as on issues of importance to successful development and implementation of A.I.D.-assisted projects. For the current FY 1982 Agreement, these macro policy issues relate to input-output pricing; reliance on market forces for wheat distribution; additional wheat storage; and private sector participation in the production, processing, and marketing of oilseeds. (See also 82 Islamabad 17394.)

The Mission also has used the PL 480 Title I Program as a means of highlighting needed GOP support for A.I.D.-assisted activities. For example, in the FY 1982 PL 480 Agreement, the GOP committed itself to support an in-depth study of edible oils which is setting the stage for the Agriculture Production, Distribution, and Storage Project scheduled to commence in FY 1983. The developmental aspects of the PL 480 Program will be strengthened further as U.S. economic assistance continues, for example, through the anticipated joint programming of sales proceeds.

Local currency generated under the PL 480 Program will be mutually programmed, guided by the following criteria, in order of priority:

1. Approved USAID projects where U.S.-owned rupees are inadequate to meet rupee requirements;
2. Narcotics activities proposed by USAID and approved by the GOP;
3. Appropriate GOP projects, including, wherever possible, those in the Baluchistan and Tribal Areas Special Development Plans; and,
4. Other donor projects, especially if related to sectors and/or projects financed by USAID.

The PL 480 program, in addition to continuing to be a significant force in promoting private sector involvement in the agricultural sector, in the policy dialogue, and in agricultural development initiatives, also is central to the short-term objective of strengthening the balance of payments.

g. Staffing

The 1981 negotiations were carried out with an understanding that A.I.D. would implement its mandated program with the minimum level of U.S. Direct Hire personnel possible. That decision has created a heavy burden for the Agency's regional and central staffs by requiring AID/W to field large numbers of TDY design and consultant personnel. This support has been superb. However, the Mission's workload will continue to grow as the program grows, previously designed activities come on stream, and implementation responsibilities mushroom. Approved staff adjustments will need to be made as expeditiously as possible.

II. POLICY

A. General Approach

The Mission uses all its contacts with Pakistani officials to promote discussions of key policy issues and of approaches to bolster economic and social development. Those contacts include formal meetings on specific issues, activities, or projects, as well as a variety of informal exchanges.

USAID's leadership regularly meets with high level policy makers, e.g., the Deputy Chairman of the Planning Commission, and the Secretaries of the Finance and Economic Affairs Divisions of the Ministry of Finance and Economic Affairs, to discuss policies and approaches which have extensive implications for Pakistan's development prospects. Those meetings also are used to discuss discrete topics such as specific implementation problems.

The Mission's staff works closely with all levels of Pakistani public and private sector officials in developing sectoral priorities and in designing and implementing projects. Policy issues are raised at those times as well as at the various meetings which take place to negotiate and reach agreement on projects. The Mission's staff also negotiates policy, design, and implementation issues with federal government secretaries and provincial level ministers, and participates in the preparation of staff papers which are used to provide important information for high level officials.

Policy and developmental concerns are discussed across project and sectoral lines. For example, self-help measures and conditions precedent under both the PL 480 Title I and

Agricultural Commodities and Equipment programs deal with relaxing the regulatory restrictions which have made it difficult for the private sector to play an active and independent role in Pakistan's economy and encourage more realistic prices for agricultural inputs and produce. Those programs also provide an opportunity to discuss the in-country cost financing requirements of all USAID supported activities, such as energy, narcotics and family planning, since expenditures of local currency generated under those programs are to be jointly programmed.

Using conversations on projects as a framework for policy dialogue has proved to be particularly beneficial since they provide a ready entree and a clear focus for discussing policy concerns. Policy requirements are included in Project Agreements and, when appropriate, are made conditions precedent to disbursements or follow-on funding tranches. Islamabad 17394 (dated November 15, 1982) provides additional discussion of USAID/Pakistan's approach to carrying out the policy dialogue with the GOP.

It should be noted, however, that there are definite constraints to the ability of USAID, or any other donor in Pakistan, to influence the GOP to radically change or alter policies. Neither USAID nor other donors are in a position, obviously, to make policy changes. They are in a position only to suggest, encourage, and support policy changes. To the extent that policy changes which USAID wishes to encourage are in the general directions which the GOP hopes to move, USAID can be effective in accelerating the rate of policy change. These

constraints on donor influence, which exist in most developing countries, necessarily have shaped the manner of our dialogue with the GOP. In addition, USAID's ability to change radically the policies of the GOP is influenced by the underlying strategic rationale for the USG's economic assistance program and the very active role already adopted, and accepted, by the international donor community. The fact is that beyond the acceptance of U.S. assistance, there were no policy or other quid pro quo's attached to the program.

Since most of the GOP's announced developmental policies are sound and provide a solid basis for economic and social development, USAID's efforts are focused upon encouraging the rapid and effective implementation of those policies, rather than simply attempting to identify policy areas which require attention. The following part of this section lists some of the areas where the GOP has made important modifications to its policies. The final part of this section summarizes areas of continuing concern to the Mission which are being addressed in its sectoral programs discussed in Section III.

B. GOP Policy Shifts

Based on its assessment of the needs of the economy and encouraged by IMF and World Bank assistance, the GOP has announced and has initiated a number of policy changes. These changes should place the country on a much stronger footing to meet future development and investment needs. Actions taken to date include measures to improve monetary and fiscal performance which have reduced inflation, reduced budget deficits, increased

public revenues, and slightly increased savings. Shifts have been made in the planning process to increase allocations to: rural development; the least developed geographic areas; the social sectors, e.g., programs in health and education which particularly benefit females; and to energy.

The GOP's increased market orientation and focus on private enterprise has been demonstrated by the limits placed on public sector investments, the commitment to turn activities over to the private sector (e.g., tube well ownership and pesticide procurement), the delinking from the dollar of the rupee, and modest liberalization of imports. The GOP has increased foreign exchange allocations for the private sector and is seeking to reduce regulatory constraints on private enterprise.

The GOP also has undertaken a number of steps in areas of direct interest to the programs being financed by USAID.

In agriculture, GOP actions include: increasing farmgate prices for major agricultural crops (e.g., sugar, cotton, rice, wheat, and oilseeds); increasing irrigation water user charges; increasing allocations for maintenance of the irrigation system; and decreasing subsidies for fertilizers and pesticides. The GOP has constituted an Agricultural Prices Commission to review all input and output pricing policies.

The Population Welfare Plan provides for measures which will provide effective means for couples to reduce voluntarily their fertility. The GOP has accepted the need for greater involvement of the private sector in increasing the availability and awareness of contraceptives.

In the energy area, the GOP has modestly raised gas prices at the wellhead, the price of oil from new wells, and electric service rates. It has placed tighter controls on the indiscriminate use of natural gas for certain industries and power generation. The government is accelerating consideration of increased reliance on coal and fuelwood as energy sources. It is undertaking a major program to conserve energy by reducing power system losses and improving the efficiency of energy use in industries.

In view of the significant advances the GOP already has made on its own and with the urging of the IMF, the World Bank and A.I.D., as illustrated above, the Mission's principal focus will be on monitoring, encouraging, and supporting the efforts needed to implement the evolving policies. In addition, there are several policy areas of specific concern to the Mission's sectoral programs. These are closely followed and energetically pursued by the Mission's staff. Some of the major areas of concern are summarized below. They are elaborated upon in Section III below.

C. Specific Policy Areas

Although useful policy advances have been made by the GOP in several sectors, each sub-sector in the Mission's program deals with policy concerns of specific interest to that sub-sector. In addition, there are many policy concerns which cut across sub-sectors. Among the latter category are issues relating to narcotics, recurrent costs, private enterprise development, assistance to the least developed areas of Pakistan, and energy policies.

As discussed in Sections I and IV, narcotics is a special concern of this Mission. The increasing importance of the Golden Crescent, which includes Pakistan, as a source of heroin reaching the U.S. market makes it necessary for the Mission to review each project in its portfolio to assure that A.I.D.-financed developmental benefits do not reach opium poppy producers. In addition, a major development project is being designed for implementation starting in FY 1983. That project, in conjunction with GOP enforcement efforts supported by the State Department's Narcotics Affairs Unit and the Department of Justice's Drug Enforcement Agency, is intended to provide alternatives to opium poppy production in a major poppy growing area.

The recurrent costs of supporting a population which is growing extremely rapidly, maintaining Pakistan's extensive irrigation system, providing subsidized agricultural inputs and produce, providing traditional high cost curative health services, conducting extensive insecticide spraying campaigns to control malaria, and inadequate and inappropriately priced energy make it unlikely, without considerable changes, that Pakistan will achieve its development objectives and establish a firm base for self-sustaining economic growth. As a result, wherever possible, each of the activities in the Mission's portfolio is designed to help the GOP to focus on policies that are needed to reduce or offset recurrent costs and increase the efficiency with which existing services are provided. Technology transfer, institution building and institutional development, supported by extensive in-country and overseas training programs and by

technical assistance, therefore, are key elements of activities under all of the sub-sectors being supported by USAID/Pakistan.

A reduction of the government's involvement in the economy and greater private enterprise activity are key elements of the GOP's and USAID's strategy. Each activity in the Mission's portfolio is reviewed and designed to assure that it makes its maximum potential contribution to enlarging the role of the private sector in Pakistan. For example, the Agricultural Commodities and Equipment and PL 480 Title I programs are encouraging an expansion of private sector procurement and marketing of fertilizers, and production of edible oils. The Rural Electrification Project is helping to provide energy for productive private sector uses and to increase private sector activity in producing supplies and equipment. The Irrigation Systems Management Project will encourage increased privatization of tube well ownership and greater private sector involvement in the decisions affecting watercourses and their maintenance. The Social Marketing of Contraceptives Project will substantially expand the role of the private sector in the family planning field. The Mission's portfolio also includes a project specifically directed at stimulating Pakistan's private sector, and encouraging positive GOP policy changes in this area.

Baluchistan Province and North West Frontier Province (NWFP) are both far behind Punjab Province and Sind Province in the economic and social infrastructure they need for self-sustaining development. At the request of the GOP and in accordance with A.I.D. and Congressional injunctions, each

activity in the Mission's portfolio is reviewed to assure the greatest practical benefit to Baluchistan and NWFP. There also is an area development project earmarked for each of those provinces.

The inability of industries and households to receive adequate and reliable energy is harming existing industries, constraining the expansion of investments, and limiting employment opportunities and the improvement of living standards. The promotion of sounder energy pricing and allocation decisions and increased supply and availability of energy through USAID's energy projects will contribute to advances in all areas being supported by A.I.D.

Some of the policy concerns being addressed in each of the portfolio's sub-sectors are summarized below.

1. Health and Population

Coordination and integration of the family planning activities of Pakistan's health delivery and family planning organizations are essential if necessary support is to reach the people so that they can make intelligent choices regarding their family size. In addition, the public sector's contraceptive delivery system has not yet been able to effectively promote and provide the contraceptives desired by the people. As a result, USAID is providing the technical assistance and training needed by Pakistan's health and family planning organizations to effectively coordinate their activities and efficiently provide family planning services. The Mission also is supporting the distribution of contraceptives through private sector channels.

USAID is expanding on the experience gained under the completed Basic Health Services Project to establish a three-tiered primary health care delivery system that can provide quality health services to rural areas at a cost which the GOP and the people can afford. This approach will be a significant departure from the GOP's current policy of concentrating on providing curative services by medical graduates.

Pakistan's dependence on massive insecticide spraying campaigns to control malaria is a serious concern to USAID as well as to many Pakistani authorities. USAID, therefore, is supporting operations research which seeks to develop effective and affordable alternatives, as well as encouraging the technologically and scientifically sound use of insecticides.

2. Agriculture

Greater reliance on market forces is essential if the conditions are to exist which will permit Pakistan's great agricultural potential to be a driving force in its development. This includes increased freedom for the private sector to be actively involved in agribusiness and the production and marketing of agricultural inputs such as water, machinery, fertilizer and insecticides. Commodity and input prices which are more in line with real costs and market forces also are needed. USAID uses the PL 480 and Agricultural Commodities and Equipment programs as well as other projects in the agricultural sector as vehicles for discussion and promotion of policies which will stimulate greater private sector activity.

The proper management of water resources and irrigation and drainage systems is indispensable to raising agricultural productivity in Pakistan. USAID is encouraging the GOP to adopt modern management practices and economic pricing policies to permit effective utilization of this resource.

Support also is needed to provide the technologies which are required to increase Pakistan's currently very low rates of productivity and to meet its food security needs in the future. USAID will be supporting the establishment of a modern agricultural university to help Pakistan meet its future agricultural education, research and extension needs.

Farmers with small to medium sized holdings suffer the most from the lack of adequate infrastructure which would enable them to receive necessary inputs and market their produce. Many roads suffer from the lack of adequate maintenance which the GOP has difficulty in providing due to limited funds and the absence of plans which could establish proper priorities. USAID will provide assistance to help overcome these deficiencies.

3. Energy

Although the GOP has begun to consider major shifts in its approach to this sector, a number of difficult policy choices remain to be made in order to create the environment needed for meeting Pakistan's energy potential.

Further adjustments are needed in the wellhead price for natural gas if private petroleum exploration companies are to seek the additional conventional energy resources required by Pakistan's industries and households. The efficiency of the

power distribution authority must be increased to meet current and future energy demand. Energy losses must be brought down to the levels experienced in other countries. The full potential of energy sources such as coal must be exploited to decrease the dependence on imported petroleum and to provide a fuel mix which offers optimum economic returns to the country. Sounder criteria for supplying power and making energy investment allocations also are needed to facilitate the most effective use of available energy. Effective methods must be found to replenish the fuelwood supplies relied upon for heating and cooking by the majority of Pakistan's households. Greater use must be made of other renewable sources of energy to meet the future energy demand of Pakistan's growing population. USAID's projects in the energy sector respond to these needs.

III. SECTORS AND SUB-SECTOR OBJECTIVES AND STRATEGY

A. Health and Population

1. Fertility Reduction

a. Objective

A continuing long-term reduction in population growth rates.

b. Strategy

Broad socio-economic factors, such as infant mortality, age at marriage, social status of women, household income levels, female employment, and levels of educational attainment, are all part of a "beyond family planning" approach to reducing population growth rates. These factors, along with the provision of family planning services, are crucial

considerations in trying to influence changes in growth rates.

USAID/Pakistan, therefore, views its entire portfolio as contributing to a socioeconomic environment conducive to fertility reduction and compatible with the GOP's population plan. This long-term strategy for reducing population growth is supplemented as well by a shorter-term strategy of assisting the GOP to provide an improved comprehensive system for providing family planning services to the general public.

The first target of the GOP's Population Welfare Plan is to bring the annual population growth rate down from the current rate of approximately 3 percent to 2.7 percent by 1984, largely through improvements in family planning services. Although the Plan's initial demographic target is probably optimistic, a reduced growth rate is achievable within a few years.

The GOP and USAID have learned from mistakes made in the past when overly simplistic approaches were used in providing family planning assistance. As a result, the current Plan calls for a much more comprehensive and integrated approach for providing family planning services. USAID's approach in assisting Pakistan's family planning program is to support the areas of Pakistan's Family Welfare Plan "assigned" to A.I.D. and to stand ready to consider expansion of that support should any of the other donors not be able to fulfill their commitments to areas of particular interest to A.I.D. USAID is providing support so as to maximize institution building and technology transfer. For

example, the GOP's Population Development Centre will be receiving additional staff, training, technical assistance, contraceptive prevalence survey technology, and data analysis equipment. The National Institute for Fertility Control also will receive technical training for staff members and some medical testing equipment.

In addition, USAID is supporting a GOP program which will market contraceptives through the private sector at subsidized rates. Entirely implemented through the private sector, this effort will draw upon the formidable strengths of an existing, well established and geographically comprehensive commercial system of retail outlets. Through those outlets, the commercial distribution system, and the private sector's creativity in product promotion, the availability, accessibility and use of contraceptives in Pakistan should substantially increase.

2. Primary Health Care

a. Objective

To improve the quality and expand the coverage of primary health care services in rural areas, thereby reducing infant and child mortality, malnutrition, and deaths due to diarrheal diseases. To the extent that the Primary Health Care Project achieves the goal of substantially reducing infant and child mortality, the project should help reduce one of the causes of high birth rates.

b. Strategy

USAID is encouraging the GOP to adopt an efficient, affordable health delivery system which will meet Pakistan's health needs by expanding the three-tiered rural health delivery system previously developed with A.I.D. assistance. This system emphasizes the use of mid-level para-medical workers to deliver preventive and curative services to the community.

USAID is supporting a comprehensive analysis of primary health care management systems in order to identify the deficiencies which must be addressed if health services are to be expanded in the rural areas of Pakistan. This analysis will include a comprehensive recurrent costs study seeking alternative ways to finance health care systems. An effective system for recruiting, training, supervising, and deploying health workers will be institutionalized. Special recruitment campaigns and workshops will be held to involve women and support women health workers.

Support will be provided for intensive training activities concentrated on curriculum revision and training materials development. Over 200 workshops will be held at the community, district, provincial and federal levels.

Proven, cost effective technologies and programs, such as oral rehydration, immunization, family planning and nutrition surveillance, will be introduced and/or expanded with support provided by A.I.D. In addition, USAID activities in this sector will include the collection of baseline and subsequent health indicator data in order to eventually measure the impact

of the activities supported by A.I.D. as well as to improve project management and design.

3. Malaria

a. Objective

To reduce the morbidity and mortality attributed to malaria by containing or reducing further the incidence of the disease, and to establish a more modern and cost effective system of malaria control. This should reduce losses in productivity due to malaria.

b. Strategy

Pakistan has a long history of costly massive spraying campaigns to control the cyclic epidemics of malaria. Resurgence of malaria has occurred with the development of mosquito insecticide resistance or is seen whenever insufficient funds are available for insecticide imports or for local operating costs. USAID, therefore, is encouraging a major shift in the GOP's policy for dealing with malaria. The essential elements of USAID's strategy in this area are the modification of the government's approach to program management and operations research.

USAID is encouraging the GOP's Directorate of Malaria Control to decrease reliance on widespread residual spraying as a method of malaria control by supporting the search for innovative alternative methodologies to insecticides and by introducing new surveillance techniques which will permit a more focused and selective approach in spraying campaigns. The National Malaria Training Center in Lahore is being strengthened

in order to meet the in-service training and field research needs of the Directorate of Malaria Control. Epidemiological skills are being developed, especially at the provincial and district levels, to gather the information and make the decisions needed to concentrate residual spraying campaigns only in those areas which require spraying.

Operations research is an essential element of USAID's support to Pakistan's malaria control activities. Although initial activities will concentrate on monitoring the effectiveness of various organophosphate compounds, other assistance will permit the collection of reliable epidemiological data that will have long-term significance in other respects. Such data are critical for the better understanding of the dynamics of malaria transmission which is needed to guide the selection of alternative malaria control measures.

B. Agriculture

1. Production and Income Generation

a. Objective

To enhance production and income generation in Pakistan's agricultural sector by supporting the establishment of a coordinated and integrated system of agricultural education, research, and extension networks and by supporting policies which will encourage the growth of viable private sector service and production enterprises in agriculture.

b. Strategy

To work with the GOP to develop, strengthen, and maintain the requisite institutions, human skills and knowledge

necessary for generating, managing, and implementing the technologies necessary for the self-sustaining development of Pakistan's agricultural sector. To implement this strategy, USAID/Pakistan will concentrate assistance in the areas of: food security; irrigation water resources management; agricultural science and technology, human resources and institutional development; and roads.

i. Food Security

a. Objective

To increase and improve the production, distribution, storage, and availability of basic staples.

b. Strategy

USAID's strategy for promoting greater food security for Pakistan is to engage the GOP at all levels in discussions of general and project-specific policies leading to improved agricultural incentives and opportunities for greater agricultural production and productivity. Project development and implementation facilitate these discussions and allow for incremental changes.

The PL 480 Title I Program also has been carefully integrated into the Mission's program to support positive movements in the GOP's policies which allow more food to be produced and made available.

USAID will continue to encourage the GOP to permit greater involvement of the private sector in agribusinesses and to proceed with its decisions to reduce subsidies on fertilizers and rationalize input and output prices.

Assistance will be provided to strengthen food research and policy planning institutions so they can effectively examine food policy alternatives, calculate economic and social trade-offs among various policy alternatives, and develop effective long-term strategies and operational programs to increase the production and productivity of Pakistan's agricultural sector. Technical assistance and training will be provided to Pakistani institutions to strengthen their capacity to undertake food policy research and develop strategies for implementing policy. Assistance will include improvement of the methods and systems for collecting and organizing information and data to effectively perform ongoing analyses.

USAID also is exploring ways in which storage efficiency can be increased, especially via the private sector. The objective is to develop a system for handling and storing basic agricultural staples which can withstand periods of acute food shortages and help to limit the price fluctuations which have occurred in the past.

ii. Irrigation Water Resources Management

a. Objective

Increase the efficiency of irrigation water use and improve the distribution and management of irrigation water resources.

b. Strategy

USAID is concentrating on three areas. Support is being provided to strengthen the capabilities of institutions involved in irrigation planning, design, operation,

and research. The GOP is being encouraged to adopt policy changes regarding the ownership, operation, and prices to be charged for various elements of the irrigation network to promote viable growth, stability and maturity in the effective management of Pakistan's irrigation resources. Finally, USAID is expanding on the efforts initiated under the On-Farm Water Management Project to involve greater user participation in the design, construction and maintenance of irrigation works.

USAID's primary emphasis in this area is to encourage the adoption of modern management techniques to replace the traditional administrative system that has been used for centuries to manage the world's largest inter-connected irrigation system. USAID intends to support an integrated strategy to link the programs of provincial irrigation and agriculture departments.

The design capability of provincial irrigation departments will be improved so they can take advantage of recent advances in canal design to minimize recurring maintenance problems. The productivity of irrigation departments will be enhanced by the introduction of modern canal building equipment. Over 1,800 staff members will be trained in managerial and technical skills. Research to improve the utilization of water resources for agriculture within and outside the Indus irrigation system will be conducted. Resulting efficiencies in the distribution system will benefit thousands of families who, heretofore, have been poorly served by the irrigation network.

iii. Agricultural Science and Technology, Human Resources and Institutional Development

a. Objective

To strengthen the capability of Pakistan's agricultural institutions to expand knowledge, to insure that available technology is being applied appropriately, and to increase the productivity and income in Pakistan's agricultural sector.

b. Strategy

USAID will provide support to two major areas.

First, assistance will be provided to examine institutional alternatives to the present discrete agricultural research, education and extension functions. The objective is to improve the institutional relationships between the various organizations active in each of these areas and improve the operating procedures of the principal organizations in the national network. A high level Pakistan-American team may be constituted to examine and, if appropriate, propose changes to the relationships and functions of the various organizations involved in agricultural research, education, and extension.

Second, USAID will support an expansion of the research programs currently coordinated at the national level. Technologies will be tested under various institutional arrangements and, if found to be promising, adapted to Pakistani conditions.

Two elements of USAID's strategy in this area warrant particular mention. These are the establishment of an agricultural university in Peshawar, in the North West Frontier Province, as a model to develop a service oriented teaching faculty with well established linkages to research and extension. The second deals with the chronic problem of oilseed production.

There is a tremendous diversity in the agronomic conditions found in various parts of Pakistan. However, only the universities at Faisalabad in Punjab Province and Tandojam in Sind Province are available to train the people and conduct the research required to meet the needs of Pakistan's population, which is predominately rural. Nor is there a strong, integrated research and extension program in the arid and high altitude non-irrigated areas which constitute 47 percent of Pakistan's land area. Support of the efforts to upgrade the Agricultural School at Peshawar to a full university will help overcome some of these shortcomings.

With Pakistan's edible oil imports approximating \$300 million a year and steadily rising demand, there appears to be significant potential for substantial income and employment generation in the production and processing of oilseeds, as well as a major need to reduce the balance of payments burden created by edible oil imports. In addition, greater domestic production of oilseeds would provide important opportunities for increased private sector investments and activities, as well as the establishment of a high protein feed industry that can be important for human and animal nutrition.

USAID is conducting an in-depth assessment of Pakistan's ability to produce oilseeds at economic prices.

iv. Roads

a. Objective

To better integrate rural areas into the national economy by contributing to the infrastructure needed to permit inputs and services to reach farms and farmers and their produce to reach markets.

b. Strategy

USAID will achieve the above objective by strengthening the GOP's institutional capability to plan, construct, and maintain its rural road network.

Support will be provided to develop a framework for establishing investment priorities which can compare the relative merits of maintaining or upgrading established rural roads or constructing new ones. An inventory of priority rural road maintenance requirements will be developed. A national rural roads plan will be developed with the assistance of provincial and local governments. Financing also will be provided to construct some essential farm to market roads.

The federal government is the primary source of financing for rural roads. However, resource allocations have been insufficient to meet demand for better access to rural areas. Although provincial and local governments have traditionally been responsible for implementing small rural works such as roads, their limited revenues have not permitted

them to provide the necessary levels of resources beyond those provided by the federal government. Since local governments and the private sector are being given increasingly more prominent roles to play in planning and implementing rural development activities such as roads, USAID will help explore alternative financial mechanisms for meeting the infrastructure requirements of rural areas.

2. Lagging Areas

a. Objective

To accelerate the integration of the relatively less developed areas of Pakistan into the economic life of the nation.

b. Strategy

USAID, will concentrate a significant amount of assistance on Baluchistan Province and the North West Frontier Province (NWFP). These are the two least developed provinces of Pakistan. Quality of life indicators demonstrate that these two areas fall considerably below even the modest levels of development of Pakistan's other two provinces.

USAID reviews each project in its portfolio to determine the extent to which efforts could be undertaken to meet the special needs of Baluchistan and NWFP. In addition, there are two area development projects which are specifically focused on these provinces.

One focus of USAID's activities in these lagging areas will be on strengthening the technical capabilities, administration, and management of the institutions involved in

planning and implementing development activities. Support will be provided for infrastructure requirements such as irrigation water and farm-to-market roads. Assistance provided for infrastructure will be used as opportunities for increasing the institutional capacity of organizations working in these areas. Special efforts will be made to support smaller rural development schemes (e.g., schools, health center, flood control structures) which are often by-passed by nation building ministries. These efforts often will be channelled through the district and union councils to insure increased local participation in project activities.

C. Private Sector

1. Objective

To enable the private sector to play a more active role in Pakistan's development and to encourage increased reliance on market forces to accelerate Pakistan's growth and development.

2. Strategy

USAID/Pakistan has adopted a three-pronged approach to encouraging greater participation of Pakistan's private sector in the economy.

First, discussions with high level Pakistani officials and entrepreneurs stress the unique ability of the private sector to respond rapidly to challenges and opportunities with the managerial and other necessary resources which are not readily available to the public sector, and stress the need for appropriate policy changes.

The second element of USAID's strategy for meeting its objective in this area is to assure that each activity in its portfolio carefully considers the use of private sector organizations and methods for implementation. For example:

--The Social Marketing of Contraceptives Project will establish the institutional framework necessary for the private sector to play a significant role in promoting and marketing contraceptives.

--Institutional, regulatory, and policy modifications to permit increased private sector involvement in the importation, distribution, and marketing of fertilizer are being explored in the context of the Agricultural Commodities and Equipment and the PL 480 Title I programs.

--The use of private sector light engineering firms in fabricating and field testing mini-hydro and bio-mass digesters is being explored in designing the Energy Planning and Development Project.

--User organizations which will take an active role in the operation and maintenance of tube wells are being supported under the On-Farm Water Management Project and increased participation in discussions regarding water policy by farmers using irrigation water will be encouraged under the Irrigation System Management Project.

--The Rural Electrification Project will directly benefit the private sector by providing an essential ingredient for production, energy, and by its concentration on providing electricity for productive uses. The private sector will also benefit from the increased economic activity resulting from the opportunity to manufacture equipment and supplies for the project.

--The Forestry Planning and Development Project will expand the growing of trees for fuelwood on private land.

--The private sector will be eligible for training opportunities financed under the Development Support Training Project.

The third prong of USAID/Pakistan's approach is to direct support to the private sector and institutions servicing the private sector through the Private Sector Mobilization Project. During project preparation, several alternative

approaches will be examined, including support to improve technical and managerial expertise, the preparation of information on marketing and technology, and training. Project options also include the promotion of joint ventures and the strengthening of provincial small industry bodies for providing services to private enterprises (marketing, accounting, technology, etc.). The advisability of establishing technical advisory centers to assist firms in a variety of areas -- financial analysis and management, marketing, technology, labor relations, industrial engineering, and export promotion and development -- will be explored. The feasibility of establishing a wholly private sector owned investment and finance company is already being explored. Possible assistance in areas of equity capital, long-term debt capital, working capital, capital markets, and foreign exchange and local currency financing also will be investigated.

D. Energy

1. Planning

a. Objective

To strengthen Pakistan's capability to undertake integrated energy analysis and to improve national energy policy formulation, investment planning, and decision making.

b. Strategy

Pakistan faces a large and increasing imbalance between energy supply and energy demand. Attempts to satisfy past and projected demands for energy for social and productive uses have led to debateable decisions regarding the choice of

fuels, prices for fuels, and prices for energy. Substantial gaps between the supply and demand for electric power and natural gas now exist. Early depletion of natural gas reserves is anticipated. Pakistan has become heavily dependent on imported fuels which, in the absence of corrective action, could result in a balance of payments financing gap of between \$3.3 to \$4.5 billion by 1990.

USAID will finance the technical assistance, training, and hardware required to develop and to institutionalize the analytical skills and technologies that are necessary for sound energy policy formulation and investment planning. The economic alternatives to various fuels for energy generation such as petroleum, natural gas, coal, hydro and other renewable sources of energy will be analyzed. Consideration will be given to the time needed to bring each source into use, relative capital costs and the trade-offs (e.g., fertilizer and agricultural production or electricity) of various approaches.

An important element of investment planning will be assessment of the potential for greater private sector involvement in the energy sector. One area that already has been identified for potentially greater private sector activity is coal mining.

2. Supply

a. Objective

To increase the availability of reliable and affordable energy in rural areas in ways which will decrease Pakistan's dependence on imported energy supplies and increase its energy self-sufficiency.

b. Strategy

USAID's strategy for bolstering the supply of energy involves activities in six major areas. These are: encouraging the modification of the policies which affect prices paid for indigenous energy resources and charges to consumers; increasing installed electric generating capacity by funding feasibility studies and co-financing the design and installation of new generating plants; promoting the development and use of indigenous energy supplies such as coal and renewable energy sources (e.g., fuelwood, solar, small hydro generating plants, and biogas); developing new energy sources; expanding private sector involvement in the energy sector; and, promoting conservation and the efficient use of energy.

Conservation activities and activities directed at the more efficient use of energy will include energy audits and pilot programs directed at the more efficient use of energy in industrial processes, improved designs for energy generating equipment such as wood burning stoves and gas turbines, and the reduction of losses in the energy delivery system. Activities in these areas will make an important contribution to enhancing Pakistan's energy position and the use of domestic energy

supplies.

3. Delivery

a. Objective

To provide reasonably priced useable and reliable energy to rural areas for domestic uses, agricultural and commercial enterprise production purposes, and the delivery of health, educational and other social services.

b. Strategy

Energy supply, discussed above, and delivery are closely related. Most countries, however, seldom coordinate investment planning for these two energy sub-systems. USAID is providing assistance to integrate decision making in these areas so that expansion of the national power grid and the capacity of power generation facilities are kept in line with available supplies of fuel and power and growth in energy demand.

Technical assistance, training and capital assistance will be used to: encourage improvements in Pakistan's energy distribution systems; integrate energy planning and policy formulation; and develop appropriate energy technologies and methods for the delivery of energy. Major activities include: development of a national rural electrification master plan; energy delivery marketing studies; the expansion of private sector oriented marketing systems and coal mining operations; improvement of the human resources, administrative efficiency, and institutional capacity of organizations involved in the energy sector; and, improvement of the efficiency of the national power distribution grid. Expansion of fuelwood production, including the

use of private sector land and marketing techniques, also will be supported.

E. Human Resources Development

1. Objective

To develop the potential of Pakistan's population so that it can contribute to and benefit from the country's development.

2. Strategy

Human resources development in the broad context of institution building, and improvement of management and project preparation and implementation abilities is an essential element of each activity in USAID/Pakistan's portfolio. The desirability of supporting development training needs outside the context of sectoral projects was recognized during the discussion of renewed U.S. economic assistance to Pakistan in 1981 and agreement was reached at that time for A.I.D. to finance a separate training project. However, a discrete human resource development or education activity was not proposed during the discussions of the six-year program.

Since August 1981, requests have been received from various parts of the Government of Pakistan for USAID to support education, which is an important element of the GOP's new emphasis on social development. The educational level of Pakistan's population also has been identified as a major constraint to self-sustaining development. Pakistani officials in all the areas being assisted by A.I.D. (e.g., agricultural research and extension, primary health care, population, and

malaria control) have mentioned the difficulties they face in getting their messages out and understood due to the lack of basic education of their clients. The importance of elementary education to all aspects of development is well understood. For example, the evidence indicates that fertility is inversely related to the levels of female education. However, USAID's workload and staffing limitations are not likely to permit a meaningful response to those requests and to this critical constraint before FY 1984 or FY 1985. USAID is financing limited studies of needs in this area to be in a position to consider what action, if any, might be appropriate at that time.

Preliminary indications are that primary education, vocational education, and education for women are the areas of greatest need. These are also the areas where the U.S. and A.I.D. have a great deal of experience. The educational needs of females are particularly acute due to their role in affecting the attitudes and interests of future generations. Assisting primary education, with a special emphasis on the needs of girls and women, and vocational education for women appear to afford the greatest opportunities for using the unique capabilities of the U.S. to make the greatest impact on Pakistan's development.

In the meantime, human resource/institution-building activities, supported throughout USAID/Pakistan's portfolio, will be supplemented by the Development Support Training Project. That project focuses on management, supervision, and project/investment design and implementation needs important to the overall implementation of USAID's portfolio and to Pakistan's development.

IV. Narcotics

A. Background

Until 1979 refining of opium into heroin in Pakistan was virtually unknown and Pakistan played a negligible role in supplying the U.S. heroin market. As the effects of enforcement activities in the Golden Triangle and regional instability in Iran and Afghanistan made themselves felt, Pakistan began to account for a larger percentage of the heroin reaching the U.S. market. It is estimated that approximately 55 percent of the heroin now reaching the U.S. is manufactured from opium grown in the Golden Crescent area. Opium poppy production in Pakistan reached an all-time high of approximately 800 metric tons in 1978/79. Since the 1978/79 crop year, acreage in poppy cultivation in Pakistan has dramatically declined to a level in the 1981/82 crop year of perhaps only a tenth of its peak level. Until recently, the causes for this impressive drop in production, in order of importance, have been: very low opium prices; existing stocks; supplies from Afghanistan; bad weather; and, GOP enforcement activities. Imports of opium from Afghanistan and significant reserve stocks of semi-dried opium gum in Pakistan also have helped keep the price offered to the Pakistani farmer at its lowest level in recent memory.

B. Analysis

The ability of the GOP to control opium poppy cultivation is constrained by several factors. These factors include: the lack of strong administrative infrastructure which inhibits enforcement activities in some areas; the importance of this cash

crop to subsistence farmers in marginal agricultural areas; and, the lack of suitable agricultural and other alternatives to compete economically with the opium poppy, which tends to make the GOP and provincial authorities reluctant to enforce the ban on opium poppy cultivation.

All recorded acreage of poppy production in Pakistan is within the North West Frontier Province (NWFP). There are three different administrative systems operating within the NWFP, each with its own distinct level of GOP involvement and control. The different administrative systems are important in that they influence the extent of possible GOP enforcement action against opium poppy cultivation.

First, there are the "Federally Administered Tribal Areas (FATA)" which are administered through a separate FATA government structure. In the FATA region, the GOP administers and provides some services when there is unlimited entry (Protected Areas) or negotiated entry (Tribal Territories). In the Tribal Territories, both civil and criminal acts are judged and penalties are prescribed by tribal leadership councils, called Jirga. These and other complex administrative arrangements were inherited from the British, who maintained an uneasy truce with the tribal people through a series of treaties which limited British sovereignty. The GOP, with few alterations, accepted most of these same restrictions.

Second, there are "Provincially Administered Tribal Areas (PATA)" including the ex-princely states of Chitral, Dir, and Swat which were incorporated into Pakistan only in 1969. In these

areas, the GOP has extended many routine civil and criminal codes. In the more remote areas, however, the judicial reach of the government is limited and forceful actions -- such as restricting individual access to traditional forest land -- often are met with violent opposition. While legally all Pakistan government codes, systems and laws technically apply, the local government representative is allowed considerable freedom to interpret how and when administrative and judicial action will be taken.

Finally, there are what are called "settled areas". Pakistan's administrative and judicial systems, complete with criminal and civil codes, are enforced in settled areas.

Although some poppy continues to be grown on land with other significant cropping alternatives, most of the total production is on marginal land and rainfed hillsides, where transport is limited to donkeys, camels, and people. Under these conditions no single crop can compete with the opium poppy.

For the Pakistani farmer working steep hillsides on marginal land under rainfed conditions, the opium poppy often represents the only known cash crop. At the current low price of approximately \$30 to 40 per kilo, no single cash crop now available can match the return on opium poppy cultivation in some locations. Even if the price were to become more depressed, no single cash crop could compete in these areas. Only a concerted effort to increase total family income -- a farming systems approach -- can begin to provide significant benefits.

Enforcement of the GOP's ban on opium poppy production is

an important concern to USAID. Under the 1979 Haad Order, the cultivation, sale, and use of narcotics is a penal offense in Pakistan. While USAID proposes to work in areas where opium poppies are cultivated, in order to help provide economic alternatives to their cultivation, it is understood that A.I.D. is not and by legislative mandate cannot be an enforcement agency. It is essential, however, that enforcement activities against opium poppy cultivation be vigorously pursued in concert with development efforts. Enforcement of the ban on opium poppy cultivation must be the responsibility of the GOP, assisted by State's Narcotics Affairs Unit (NAU) and Justice's Drug Enforcement Agency (DEA), both of whose mandates specifically cover assisting host governments with enforcement activities. The GOP must also act aggressively against heroin manufacturing and drug trafficking since USAID's activities to develop alternatives to opium poppy cultivation will have little direct impact against these activities.

C. Objectives

To discourage the expansion of opium poppy cultivation into new areas and to encourage the elimination of opium poppy production in identified poppy growing areas.

D. Strategy

USAID has devised a two part strategy to deal with the issue of opium poppy cultivation in Pakistan.

First, each project in USAID's portfolio is reviewed during project preparation and design and during implementation as appropriate to assure that A.I.D. financed benefits do not accrue

to areas in which opium poppies are cultivated. This is done through Poppy Clauses, whereby specific language of the project agreement prohibits the benefits of A.I.D. funded activities to poppy growing areas or calls for termination of such benefits if poppies are grown.

The second part of USAID's strategy is that of providing a broad variety of A.I.D. financed development interventions which would provide, in conjunction with vigorous enforcement, developmental alternatives to the production of opium poppies in a principal growing area, thereby reducing poppy cultivation. This will involve an area development strategy aimed directly at one or more known major poppy growing areas. This strategy requires investment in both financial and human resources. It would require the strengthening of local institutions, i. e., the union councils and local government bodies, and then using their leaders and members to persuade local farmers to cease cultivating opium poppies and to become involved in this alternative economic activity. Various types of training of a technical as well as human resource development nature would also be necessary. Policy dialogues will have to be continued at the federal, provincial, and local levels to assure complete understanding not only of the goals and objectives of the development effort but, more importantly, what policies, at all levels, would be effective and how. The scope for possible funding of appropriate activities with PL 480 and other generated rupees is being investigated.

Enforcement by the GOP and provincial officials is a critical part of this strategy. Even when alternatives to poppy production are provided, farmers generally will resist giving up poppy production. Active involvement of both NAU and DEA to assist and encourage government authorities in their enforcement efforts is an essential aspect of USG efforts to curtail opium poppy cultivation.

This strategy requires intensive use of USAID personnel, since there must be coordination across different sectors and numerous functional ministries, from the federal level to the sub-district level. This is the approach that appears most feasible in areas of poppy production which have no promising income alternatives. If USAID is to have a major role in reducing opium poppy production in Pakistan, the area development strategy is the one most likely to accomplish this task. To this end, USAID has commissioned and received a study entitled "Recommendations for a Revised Narcotics Strategy for USAID/Pakistan". This study provides more in-depth detail on the possible strategies mentioned above and has been reviewed and approved by the Embassy Narcotics Coordinating Committee and in AID/W. Preparations have begun for the Project Paper for a major area development project in a poppy growing area. The Mission plans to have the project ready for initiation late in FY 1983 or early 1984.

V. Resource Requirements

A. Introduction

Reflecting the strategic concerns mentioned in Section I, the United States Government and the Government of Pakistan have embarked on a renewed and strengthened effort to increase their economic and development cooperation.

In August 1981 the USG committed itself to seek \$1.625 billion in economic assistance for Pakistan during the period FY 1982 through FY 1987 and agreed that any Economic Support Fund (ESF) account resources would be provided in the proportion of one-third loan to two-thirds grant. PL 480 Title I assistance comprises \$0.3 billion of the package. In accordance with current Congressional guidance, the entire non-PL 480 portion of the package, \$1.325 billion, is to be funded from the ESF account.

The economic assistance component of the package was designed to maximize development impact and short-term balance of payments support. The balance of payments objective reflects two critical purposes of the agreed upon economic assistance program:

1. To lighten the burden created by Pakistan's increased defense expenditures; and,
2. To reduce the constraints on development imposed by balance of payments problems.

Based on security considerations, development and balance of payments requirements, agreement was reached on the broad outline of the assistance program through FY 1987. Project activities fall in the areas of agriculture, population, health, and energy as well as in the private sector. Training, institu-

tion building, and technology transfer are emphasized in the program. Built in to the package are unprogramed reserves and incremental funding to allow flexibility to meet unforeseen needs.

B. FY 1983 through FY 1987 Funding Requirements

The USG met its initial commitment of \$150 million in FY 1982. Unlike most A.I.D. recipients, the GOP is aware of the overall six year funding level and yearly funding levels for the program, its major project components, and basic goals and objectives. Baring unforeseen changes in the policies of the USG or the GOP, USAID/Pakistan will have the following levels of funding available from FY 1983 through FY 1987:

U.S. ECONOMIC ASSISTANCE TO PAKISTAN

(\$ MILLIONS)

	----- FY 1983 -----	----- FY 1984 -----	----- FY 1985 -----	----- FY 1986 -----	----- FY 1987 -----
Total ESF	200.0	225.0	250.0	275.0	275.0
Loan	(67.0)	(75.0)	(83.0)	(92.0)	(92.0)
Grant	(133.0)	(150.0)	(167.0)	(183.0)	(183.0)
PL 480					
Title I/III	50.0	50.0	50.0	50.0	50.0
	=====	=====	=====	=====	=====
GRAND TOTAL	250.0	275.0	300.0	325.0	325.0

C. Staffing Implications

USAID/Pakistan has one of the largest A.I.D. programs in the world. Staffing is a paramount concern as the Mission commences implementation of the activities designed in FY 1982 and prepares for the next stage of project design. Filling the

approved vacancies in Mission staffing with highly experienced and qualified people and the provision of TDY support are essential if USAID is to continue to carry out USG policy and objectives effectively and responsibly.

The Mission has instituted a number of steps to help minimize the requirements for increased staffing. These include but are not limited to:

-- the development, to the extent possible, of large projects rather than a large number of small projects;

-- where appropriate, seeking to use outside non-U.S. direct hire resources (e.g., Title XII institutions, PVOs, private contractors, Pakistani firms, etc.) in the development, implementation and evaluation of projects;

-- where appropriate and consistent with our development strategy, building on existing programs or on previous USAID activities where impact and project design have been tested and found effective; and,

-- coordinating closely with other donors, relying as much as possible on their project development and implementation inputs to achieve the objectives of the program.

Despite these efforts, USAID believes some increases in Mission staffing will be necessary in order to properly design, develop, implement, and manage this program, and projects U.S. Direct Hire staffing needs (excluding RIG/A and RIG/II) and Foreign National Direct Hire staff at the following levels:

	FY 83	FY 84	FY 85	FY 86	FY 87
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USDH	37	39	42	42	42
FNDH	37	37	37	37	37

USAID currently has an approved AID/W ceiling of 36 USDH positions of which only 23 were filled as of December 31, 1982. The Ambassador has made it clear that he is concerned about

overall U.S. Mission manning levels and will review all proposed increases on a case by case basis and may reach the point that he would prefer to curtail the program rather than increase direct hire staff.

It is USAID's view that by any meaningful standards, these staffing levels are moderate, if the size and complexity of the USAID/Pakistan program are considered. An illustrative point is that, with these levels, the Mission must select, support, and supervise over 100 long-term contractors. Staff increases in Pakistan understandably will be difficult to arrange at a time of world-wide A.I.D. staff reductions. However, given the strategic importance of succeeding in this effort and the structure of the Pakistan program, the levels shown above are believed by USAID to be the minimum necessary. Any increase above the currently approved level will, of course, have to be approved by the Ambassador and AID/W. In any case, experienced, qualified individuals to fill these positions should be assigned to Pakistan on a priority basis.

To date the outstanding efforts made by AID/W to provide excellent TDY assistance has enabled the Mission to provide necessary and timely project documentation. Without this TDY assistance, the Mission staff could not have been as responsive to the GOP or AID/W. Continued TDY assistance of this quality and quantity will be necessary for the foreseeable future.