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EVALUATION REPORT

PAKISTAN AGRICULTURAL COMMODITIES AND EQUIPMENT
IMPORT PROGRAM (ACE) 391-0468

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PAKISTAN ENERGY COMMODITIES AND EQUIPMENT
IMPORT PROGRAM (ECE) 391-0486

for

United States Agency for International Development
Islamabad

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EXECUTIVE SUMMARY

A. Mission and Project Evaluated

USAID/ISLAMABAD; Evaluation of the \$475 million Agricultural Commodities and Equipment Grant/Loan Program, No.391-0468 (ACE) and the \$100 million Energy Commodities and Equipment Grant/Loan Program, No.391-0485 (ECE); report completed July 29,1987.

B. Purpose of the Activities Involved

These two sector-specific commodity import programs (CIPs) were designed to (1) provide balance of payments support to the Government of Pakistan (GOP) through rapid disbursements of program funds for imports by both the public and private sectors of sector-related commodities from United States sources; (2) increase agricultural productivity; (3) increase energy generation capacity; (4) strengthen the private sector in Pakistan. Later conditions were imposed through amendments to the program obligating documents, such as increasing to 60% the share of fertilizer distributed through the private sector. Agriculture and energy receive high priority in USAID's program and are high on the GOP's list of priorities in its Sixth (1982-87) and draft Seventh (1988-1993) Five Year Plans.

C. Purpose of the Evaluation and Methodology

This was a scheduled evaluation for each program. ACE was evaluated once several months after its inception in 1982; ECE has not been evaluated since its inception in 1984. ACE has disbursed over \$267 million out of \$390 million in obligations; ECE has disbursed \$9.7 million of \$100 million obligated. Both have performed poorly in the private sector-ACE has used only \$2.8 million of \$30 million obligated for that purpose; ECE has disbursed nothing out of \$20 million obligated. A primary purpose of the evaluation is to determine the causes for that non-utilization and recommend ways to increase the usage of those funds or recommend alternate uses for them. Other purposes are to examine alternatives to CIPs, to assess the economic and development impact of each program, the effectiveness of their management, and the effect on the four "pillars" of AID's current development strategy. The four-person team consisted of an economist, an agricultural specialist, an energy specialist and a procurement specialist (team leader). Asia Near East Bureau (ANE) staff briefed the team in Washington as did USAID staff in Islamabad. The team interviewed other USAID and Embassy staff, and World Bank and GOP officials in Islamabad, Lahore and Karachi as well as private sector importers in Lahore and Karachi; two members of the team spoke with officials of public and private sector banks in Karachi. Interviews were unstructured but used to elicit views on obstacles to the increased use of the programs, particularly in the private sector. Team members visited areas where program commodities were being used or warehoused. USAID made available extensive project and program documentation along with GOP and World Bank statistics. The team examined procurement and project files, audit reports, a previous evaluation and recent surveys and studies on the private sector problem plus macro-economic data. All sources were secondary and the team did not generate data independently.

It submitted a draft report for Mission comments, then revised that draft before its departure. The contractor submitted a final product after receiving the Mission's final comments in Washington. The total evaluation effort required 150 person days.

D. Findings, Conclusions and Recommendations (by Chapter)

1. The Private Sector Windows

Original expectations for private sector activity under the CIP were based on studies and assumptions which did not sufficiently take into consideration the volume of competing foreign exchange; decisions were made on the assumption that the superiority of U.S. products would overcome price differentials. Experience has proven otherwise. The Mission recently conducted in-depth interviews with private importers which indicate the following factors as major obstacles to the use of the private sector funds (these were confirmed by the team through its interviews with banks and importers):

(i) high U.S. product and transportation costs; (ii) unfamiliarity with U.S. products and suppliers; (iii) lack of manufacturers' representatives in country for service and technical information, particularly as compared to Japanese firms; (iv) high interest rates (14%) charged by local banks for rupee loans with which to buy dollars (including a 3% charge for foreign exchange risk cover); (v) lack of information about CIP, particularly in banks; (vi) difficulty in obtaining credit from the assigned banks if not a customer (high collateral); (vii) GOP slowness in approving import licenses, particularly for traders; (viii) limitations imposed by GOP Ministry of Commerce on amounts of transactions for traders under the Impact Policy Order (IPO).

Mission efforts to remove constraints began in early 1986 and increased markedly in 1987. During the course of this evaluation, the GOP agreed to lower the bank interest rate to 10% from 14%. But no one has yet calculated the weight to be given to each of the inhibiting factors noted above. The detailing of a Contract Office employee to the Commodity Management Office (CMO) has increased pressure on the GOP and is keeping the import community aware of the private sector fund availability.

Recommendations:

- That USAID continue pressing the GOP to exempt the ACE and ECE private sector windows from the restrictive provisions of the Import Policy Order.
- That the Commodities Management Office continue to publicize the program's recent interest rate decrease from 14 to 10 percent and continue its current media and information campaign to include local business groups and chambers of commerce.
- That the Commodities Management Office urge the GOP to expand the number of approved applicant banks to include domestic industrial financial institutions that cater to the private sector and have the ability to issue foreign exchange letters of credit acceptable to U.S. banks.

- That USAID continue both private sector windows for six months to test the response to the new lower interest rates. (5) That USAID management reexamine the objectives of the private sector window (e.g. should the targeted group be all firms or just small and medium firms in the rural area?). (6) That USAID consider contracting with a qualified Pakistani firm to determine the relative effects of each perceived constraint on the private windows. (7) That at the end of six months, USAID use the results of the two previous recommendations to reach a decision on whether to continue the private windows. (8) That if a decision is reached to close the private windows as now structured, USAID first consider utilizing the funds to develop alternative opportunities for promoting private sector participation. (9) That if private sector participation projects are not deemed feasible, both ACE and ECE private sector funds be transferred to public sector activities that support either stabilization efforts, if needed, or projects with high developmental impact as measured by internal rates of return.

2. Development Impact

ACE: To date 48% of ACE funds have been obligated for fertilizer imports, 25% for wheat, 21% for machinery, and 6% for cotton. Fertilizer imports have had the fastest delivery time and most immediate development impact through use by farmers; wheat and cotton imports had economic but no development impacts. Machinery imports have had a slower development impact because of longer procurement time and need to be integrated into the projects for which they were ordered. There was delayed utilization of some machinery because of slow project implementation, but those defects have been corrected. The potential impact of the machinery is extremely high as it is primarily for USAID-designed and implemented projects. Fertilizer has contributed to the policy dialogue with respect to private sector share of distribution and fertilizer pricing. There is still much room for improving the technology for more effective and efficient use of fertilizer by the farmers.

Machinery will have a direct impact on technology transfer and will contribute to institution building in those entities assisted through individual projects. There is little impact on the private sector per se as the projects are in the public sector. The private sector window has used only \$2.8 million dollars since 1984.

Overall, ACE has been effectively utilized to obtain the fullest development impact while not ignoring the CIP goal of rapid disbursements. Because ACE was purposely designed for disbursement and commodity infusion and not for conditionality, the recently approved Agricultural Sector Support Program (ASSP), which includes a CIP-type activity, will have more conditions built in from the beginning, including a unique cash transfer element.

Recommendations:

- That USAID arrange an observational trip to the United States and other countries in which both the public and private sector can

together observe and compare the interaction and respective roles of the two sectors in fertilizer supply, distribution and use.

- That the GOP make such policy changes (import, pricing, subsidy reduction, transport costs, interest rate reforms to reflect market rates, and easing of collateral requirements) as necessary to encourage and facilitate the private sector's participation in promoting efficient fertilizer use and the supply or provision of other prerequisite production inputs and services.
- That USAID encourage the private sector fertilizer industry to utilize the training resources offered to the private sector as a means for preparing the industry for an expanded role in agricultural development.
- That, to the extent possible, future equipment procurement be made through regular GOP procurement channels.

ECE. Unlike ACE, the commodities imported under ECE are destined not for projects but for specific agencies in the public energy sector, including generation, transmission and distribution entities and research institutes. The emphasis is on development of the energy sector, with secondary emphasis on short-run rapid disbursements. The first commodities arrived in 1986, but given the vital role energy plays in Pakistan's industrial and development growth and the pent-up demand for energy by all sectors, the presumed development impact will be of the highest order. ECE also plays an important part in the policy dialogue re energy sector concerns. Technology transfer and institution building are concomitant goals of the ECE program. Even though the private sector window is as yet unused, GOP resources are insufficient to fill the expected energy gap into 1993, and donors will not fill that gap. Increasingly, private firms will be called on to supply needed generation resources. ECE is providing support for the private sector through public sector development of research institutes; USAID energy sector projects also stress the involvement of the private sector.

Recommendations:

- That USAID continue to place the highest priority on the ECE import program and continue to fund the public agencies based on the critical need for U.S.-made equipment and spare parts. The final level of future funding for the post-1987 period should be based on the evaluation in the last recommendation herein.
- That USAID encourage GOP to support private sector development through the public sector institutions.
- That the next evaluation of ECE specifically assess the benefits of ECE equipment to KESC and WAPDA predicted in the Stone and Webster report of October 1985.

- That E&E develop plans to encourage the use of private sector ECE funds to implement the results of EP&D feasibility studies on energy conservation.
- That ECE be focused on the areas where U.S. equipment and technology are superior, such as mining and drilling.
- That USAID provide technical assistance to the GOP for preparing standardized notices of intention and application for certification for private generating facilities.
- That USAID provide technical assistance in developing standard offer contracts for capacity and energy delivery to WAPDA and KESC by private energy project developers.
- That USAID provide technical assistance to the GOP to develop private power plant siting regulations.
- That USAID maintain close coordination with other donor agencies' commodity equipment programs so that ECE may shift its emphasis accordingly.
- That USAID schedule an evaluation for ECE for the spring of 1988 which will assess the utilization of equipment and machinery imported for the public sector agencies and its actual impact on development goals.

3. Economic Impact

Because each commodity element carries its own balance of payments impact, the Mission must determine the appropriate mix to achieve its particular economic goals. ACE achieved a high rate of disbursements with bulk commodities, the largest portion of its imports, and a lower rate with machinery, which, however, had a much higher development impact. The design of both ACE and ECE, with the exception of the private windows, was most appropriate to the situation in Pakistan. Many of the commodities imported did not have a true balance of payments effect because they were not commodities which the country would have purchased in absence of the USAID funds, but the same commodities will have a longer-range effect through import substitution and export promotion.

Both CIPs provide an important stabilizing effect on the market by their availability and flexibility, which is also a positive political gain. Both CIPs are important factors in the policy dialogue with the GOP concerning energy and agricultural sector issues.

Recommendations:

- That USAID continue both the ACE and ECE programs in the public sector, retaining sufficient flexibility in ACE to help stabilize the market when faced with unexpected shocks to the economy.
- That USAID retain the sectoral CIP in preference to a cash grant or general CIP.

4. Management Effectiveness

Overall management of the two CIPs is good; the presence of an experienced commodities officer is a definite plus, although the Commodities Management Office is understaffed. Both the agriculture and energy divisions have technical experts available to advise on specific commodity requirements (the ACE program machinery and equipment procurement is actually based on project designs). There is good coordination among the technical divisions, the Program Office and the CMO, but with the CMO being moved from the Legal Advisor's office to the Contracts Office and new division heads coming soon for ARD and E&E, there is need for a reexamination of each office's responsibilities. A single source of relevant information for tracking and monitoring both the commodity flows and financing status is lacking, although that information is available in the several relevant offices. The team questions how much longer the USAID/Karachi Liaison Office should continue to clear CIP commodities consigned to GOP agencies. The most serious management bottlenecks exist in the GOP offices and ministries. Delays of six months or more in the procurement process are caused by the time consumed in drafting specifications and evaluating bids, which may be alleviated by appropriate training. There are also significant delays attributable to AID/Washington clearance of specifications and approval of certain bids. Programming of local currency generations is accomplished through negotiations with GOP officials prior to the finalizing of the annual budget with respect to budget sectors to be strengthened by allocation of the generated rupees. The GOP then is required to report semi-annually on deposits and withdrawals, but is not current in its reporting. The advantage in the programming process is the opportunity USAID has to review the GOP budget with the government and give its views on allocations for development purposes. It is another aspect of the policy dialogue.

Recommendations:

- That the Contracting Officer meet with the new ARD and E&E chiefs and Project Officers, the Commodity Management Officer, and the Program Officer to establish the lines of communication within the Mission and with the GOP.
- That USAID establish one more U.S. direct hire position in CMO and retain for six months the person on detail to concentrate on private sector matters.
- That the CMO design and install a single tracking and monitoring system for ACE and ECE on a priority basis.
- That USAID promote the use of the existing training project so that GOP specification writers and contract evaluators receive on-the-job training and participant training in their specialties from a firm that has an energy equipment specification data base and technical assistance capabilities.

- That USAID and GOP utilize the services of a team of public administration/procurement experts to help the GOP streamline the procurement approval process at the Federal level.
- That USAID devise a plan for gradually phasing over to GOP agencies the responsibility for clearing CIP-funded commodities for their use.
- That USAID urge the GOP to comply with the semi-annual reporting requirements for deposit and allocation of CIP sales proceeds.

5. Lessons Learned

- Planners of a private sector CIP should take into account competitive foreign exchange sources in the host country.
- Neither U.S. products nor dollars enjoy the favored position of the past. Japanese firms in particular outsell and outservice U.S. firms.
- Bulk commodity shipments offer the fastest disbursing rates but not always maximum balance of payments support; the latter depends on whether CIP-funded imports substitute for planned imports using government's own foreign exchange.
- An important aspect of balance of payments support is the stabilizing effect a well-funded CIP lends to the market-place.
- There is a tendency to load CIPs with differing goals and objectives, which could result in policy and management conflicts.
- The existence of the ACE program provided the necessary framework and flexibility for meeting unexpected demands for wheat and cotton.
- ECE provides a mechanism for importing commodities for the energy sector without having to develop and design new projects. ACE provided a method to import commodities for projects in the design stage, thus insuring better coordination between commodities and other elements.
- An experienced commodity management officer should be on board when a CIP is designed and initially implemented.
- The commodities office should have a significant voice in implementation and policy decision making.
- Institution building is defeated when CIP commodities for the government continue to be cleared by the USAID in the name of expediency.
- So long as government rules concerning import policy, licensing, and financing limitations exist, a private sector-focused CIP's direction and efficiency will be subject to the government's whim.

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- AID's legislative and regulatory restrictions concerning CIP programs may be waived in specific cases with ample justification, but the basic framework will be slow to change.

INTRODUCTION

A. Project Being Evaluated

This is a joint evaluation of USAID Pakistan's two commodity import programs (CIPs), Agricultural Commodities and Equipment (ACE) and Energy Commodities and Equipment (ECE).

AID authorized ACE in March 1982 as a proposed \$300 million program over the period FY 1982-FY 1986. The first tranche was \$60 million, part loan and part grant. As a result of four amendments since 1982, \$475 million has been allocated for the life of the project (LOP) of which \$390 million has been obligated through loan and grant agreements. Of the LOP funding, \$60 million has been planned for the private sector, of which only \$2.8 million has been committed thus far. Except for wheat, cotton and fertilizer, ACE public sector imports are largely for seven USAID agriculture projects.

ECE was authorized in August 1984 as a \$100 million program over the period FY 1984-FY 1986. It consists of \$50 million in loan funds and \$50 million in grant funds. A total allocation of \$20 million has been made available for the private sector, but none of that money has been committed or disbursed.*

In addition to providing commodities for specific categories within each sector, both programs stress the importance of providing balance of payments support to the Government of Pakistan.

The ACE program was evaluated in December 1982. Those conclusions and recommendations have been taken into consideration herein. The team has also examined a Regional Inspector General's Audit of the ACE program and several USAID end-use reviews of ACE commodity utilization.

No prior evaluation of ECE has been undertaken and there have not been any end-use reviews.

* A note for the uninitiated: life of project funding is a proposed total for a program, always subject to Congressional approval and appropriation. That figure may be authorized by the AID Administrator in the PAAD and all or part of it may be obligated by a loan or grant agreement signed by both governments. Then, as the program actually commences operations, a portion of the obligated funds may be earmarked (or reserved) for a sector, committed to a transaction through the issuance of a letter of credit (L/C) or a letter of commitment (L/COM), and then finally disbursed to the U.S. supplier. The pipeline is the difference between obligated and disbursed amounts. The rate of disbursement is the speed at which obligated funds are disbursed.

B. Scope of Evaluation and Methodology

The full scope of work is found at Annex A. Each topic has a separate chapter in the report, but there is some overlapping as particular points are examined from different perspectives. Chapter I examines the myriad reasons why neither program has been successful in attracting meaningful participation from the vibrant and growing private sector in Pakistan. In Chapter II, there is an analysis of the effects of the various commodities on development, particularly in light of AID's "four pillars," policy dialogue, technology transfer, institution building and privatization. In Chapter III, the report assesses the economic impact of the programs in an aggregate sense, including their contribution to balance of payments support, and then as a function of the particular commodities imported. How the programs have been managed - by both governments - is the topic for Chapter IV. Included are discussions of bottlenecks in the process, rates of disbursements, the efficiency of the procurement process for those using it and local currency uses.

In each chapter the authors have made specific recommendations for consideration by the relevant entities.

Lessons Learned is a gathering together of the team's observations which may be applied to similar programs now being planned or in the initial phases of implementation.

The evaluation team, formed under the auspices of Development Associates in response to USAID's request for specific disciplines, is comprised of the following:

C. Blair Allen, Agricultural Specialist, Private Consultant,
Retired AID Foreign Service Officer;

Shibu B. Dhar, Energy Specialist, Private
Consultant and Member of the California Energy Commission;

Stanley J. Siegel, Procurement Specialist,
Principal Author of AID's Handbook on CIP Evaluation,
Retired AID Foreign Service Officer, and Team Leader;

Richard H. Sines, Economist, Private Consultant,
Former Professor of Economics and Author, formerly in AID's
REDSO office in the Ivory Coast.

All of the team has had extensive experience in Third World countries. Mr. Allen and Mr. Siegel were stationed in Pakistan from 1958-1963 and 1960-1962, respectively, with USAID's predecessor agency.

After an initial briefing by AID/W officials, the team flew directly to Islamabad where an intensive schedule of meetings was held beginning May 4 with GOP officials, USAID and Embassy staff. On May 13, the team went to Lahore for a series of meetings with GOP officials and private sector individuals, including a fertilizer seller and end user. From May 16-20, the team interviewed government and private sector officials in Karachi, the commercial hub of Pakistan.

The interviews were non-structured, but designed to elicit opinions on the utility of the program, the difficulties encountered, and reasons for non-utilization by the private sector. AID staff in Islamabad, Lahore and Karachi made appointments based on suggestions from the team as to the mix thought desirable. Members of USAID's staff accompanied the team members to the various interviews, assisting in introductions and expediting the process. Their presence did not inhibit the frankness of the respondents.

Because over \$80 million in agricultural machinery and equipment is being imported under ACE for seven USAID agricultural projects, it became incumbent on the team when evaluating ACE's development impact to examine the effectiveness of the imported items in the several projects. This required a detailed review of ARD project goals and purposes and an assessment of the extent to which the machinery and equipment contributed to the achievement of those ends. The team had the advantage of Mr. Allen's evaluation of the Irrigation System Management project in 1985; ISM alone is the recipient of \$52 million in ACE equipment.

Even though ECE commodities are not imported for specific USAID projects, the PAAD makes it clear that ECE is in support of USAID's total energy program, which includes several innovative projects. Those projects, too, were examined to determine the development linkage between the ECE commodities and the USAID energy sector program.

The team has relied heavily on documentation provided by the Mission, particularly project material and statistical information, including the April 1987 CDSS. A list of persons contacted and documents used are found in Annexes B and C.

The first draft of the report was submitted to USAID on June 3. On June 4, USAID staff gave the team their initial reactions and comments, and the team made revisions.

The team left a final draft with the Mission on June 8, prior to departure on June 9. The contractor delivered the final product to USAID on July 29 after incorporating the Mission's detailed comments.

C. Acknowledgements

The team wishes to express its thanks to all in USAID, both in headquarters and the field, who gave unstintingly of their time and knowledge. The cooperation received was vital to the completion of the team's efforts.

Without in any way detracting from the contribution of those whose names are not noted here, the team wishes to acknowledge especially the help of the following:

- Tanvir A. Khan, Program Specialist and Acting Evaluation Officer, who coordinated USAID efforts and guided the team through the administrative brambles;

- Abdul Wasay, Project Officer ACE and Acting Chief of the Economic Marketing and Policy Analysis Section (EMPAS), Office of Agriculture and Rural Development (ARD), who provided information, statistics and insight in an efficient and professional manner;
- Syed Mahmood, Program Manager, Energy Commodity and Equipment Program, in the Office of Energy and Environment (E&E), and David Samson, Program Assistant in the same office, both of whom helped coordinate interviews and field trips and accompanied the team to Lahore and Karachi. Their assistance and detailed knowledge of the energy sector was particularly welcome.

Finally, this report would not have been produced without the assistance of the many USAID secretaries and their ability to unscramble the varied handwritings of four drafters and turn it all into a presentable product. The team especially wishes to acknowledge the valuable contributions made by Mohammad Ilyas, E&E, and Sheikh F. Rahman, ARD, in the final corrections and merging of the material for the final draft report.

The team received many helpful suggestions from USAID staff on specific recommendations and approaches to the report. Not to have taken those suggestions seriously and factor them into the final report would have been to turn a blind eye to the insight and experience developed by the staff in their collective years of work in Pakistan. But in the end, the responsibility for each conclusion and recommendation is entirely that of the team and the contractor.

Development Associates, Inc.,
Stanley J. Siegel
Senior Associate

PREFACE

Commodity Import Programs - General

Long a staple of AID assistance, commodity import programs have been used in one way or another in most AID countries. Sometimes called commercial import programs, they have involved the private as well as the public sector. Traditionally they were designed to provide the commodities needed by a country to develop its industrial sector and conserve scarce foreign exchange. They provided the flexibility to meet the important demands of the economy through relatively rapid disbursements. An important facet of such programs is the requirement that only U.S. commodities be purchased with the funds (with some limited exceptions for host country shipping and Third World purchases).

Funds are provided to the host government on either a grant or loan basis, and often are mixed in a single program, but in either case the funds remain in the United States. When loaned to a host government with a provision for repayment in dollars, the funds are disbursed to U.S. suppliers, shipping companies and maritime insurance companies by AID directly or through American banks, depending on the details of the transaction. When loan funds are disbursed they become a debt of the host country to the United States government. (Further details are noted in the footnote in the Introduction.)

Funds have been authorized by Congress under a variety of titles, but for the past several years they have been largely authorized in foreign assistance legislation as Economic Support Funds. While ESF funds may be used for economic and political stability purposes in contrast to Development Assistance funds, Congress has imposed increasing restrictions on ESF, insisting that AID take into consideration the development needs of a country when planning CIPs.

Commodity Import Programs-Sector Oriented

While general CIP programs are based on an extremely broad list of eligible commodities, many—often called "CIP-like" programs—are focused on only one sector of the economy, such as iron and steel, health, agriculture, energy, etc. When such a program is developed, there is often a different series of considerations involved. For example, they may enable a USAID to expedite the import of severely needed commodities without having to design and develop extensive and expensive projects with long commodity lead times before commodities may be ordered; by concentrating on one sector, AID may take the opportunity to achieve structural changes in that sector (liberalization of import requirements, encouraging the use of new technology), or rapid disbursing bulk items may be selected. The ACE and ECE programs being evaluated here are examples of sector CIPs. ACE machinery goes largely to USAID agricultural projects, but in ECE, the commodities are destined for that part of the energy sector not receiving project assistance. ECE has no fast disbursing commodities, but the majority of ACE funds were for that purpose.

The Procurement Process

Whether the CIP is a general or a sector program, the procurement process is generally the same. In Pakistan, ACE funds have often been obligated by the issuance of Project Implementation Orders/Commodities (PIO/Cs) and handled as project procurement, but under CIP rules. This actually makes the ACE program a bank for project support. A further distinction arises from whether the transaction is in the public or private sector. Below are outlined the steps in three different categories, a normal commercial import by a private importer funded through non-AID sources, a private import through the AID CIP process, and public sector imports under AID CIP, all in Pakistan. An important concept to be borne in mind is that in soft currency countries, the "purchase" of foreign exchange by an importer is a book transaction -- the importer never sees or handles the foreign exchange -- it comes out of the government's reserves or from a donor import program like CIP. In countries with hard currencies, such as the U.S., where the "local" currency is also the country's foreign exchange, an importer uses his own dollars to pay the foreign supplier through appropriate commercial banking facilities where the exchange takes place. Indeed, the original goal of a CIP was to follow regular commercial practice wherever possible.

Grant funded commodities imported for sale by the GOP, such as wheat, fertilizer and cotton, generate local currency proceeds which are in turn used by the GOP in its development budget (see Chapter IV).

PRIVATE SECTOR IMPORTER USING NON-CIP \$ A.	PUBLIC SECTOR AGENCY USING CIP \$ B.	PRIVATE SECTOR IMPORTER USING CIP \$ C.
1. Obtains "pro-forma" invoice from supplier showing commodity and price	1. Checks with USAID or approved bank on commodity eligibility under CIP rules (there are 3 GOP and 4 U.S. banks in Pakistan approved to handle CIP transactions)	1. Agency determines needs and drafts initial specs
2. Applies to GOP for import licence with payment of 4% fee	2. Same as A-2	2. Reviewed/modified by GOP Economic Affairs Division (EAD) of Ministry of Finance based on budget constraints and priorities
3. Takes license to his bank (public or private) and arranges	3. Obtains two or three quotes from U.S. suppliers (if dealer,	3. Agency develops specifications (or requests AID assistance) -- this

for Letter of Credit (L/C) on payment of rupee equivalent of dollar amount—either all cash or on credit terms

may use his U.S. supplier without other quotes). If importer does not know U.S. market, may request USAID cable AID/W to advertise his requirement in AID publication but could lose months in this process, and may not get response

can consume two months or more

4. Place order with supplier. Bank opens L/C in favor of supplier through correspondent bank in the U.S.

4. Goes to approved bank with licence and quotes to arrange for L/C. If not doing business with approved bank, may face expensive and time-consuming collateral requirements in addition to interest on rupee loan with which to "buy" CIP \$ (18 months for traders, up to 60 months for end users)

4. Draft Invitation for Bids (IFB) for formal tenders or request for quotations where performance or output more important than specifications. USAID is always involved in this process

5. Supplier fills order and ships. Submits shipping documents to correspondent bank and receives payment

5. Same as column A-4, except that AID must issue correspondent bank a letter of commitment. LCOM bank confirms L/C if commodity is eligible for AID financing

5. IFBs or RFQs published or advertised

6. Goods received by importer in Pakistan upon his payment of required custom duties

6. Supplier fills order and ships. Upon presentation of proper documentation supplier is paid by L/Com bank

6. Public opening of bids attended by USAID observer (private opening of RFQs)

7. Same as column A-6

7. Agency evaluates bids or quotes—can take up to 4 months. Sends decision to USAID for "no objection" letter

8. Upon receipt of no objection letter, places order with U.S. supplier

jk

and obtains performance
bond

9. Agency signs contract
with supplier

10. Contract sent to
USAID controller who
opens letter of
commitment (L/COM) in
favor of the supplier.
L/COM issued by AID/W for
all bulk procurement or
when IFB opening is in
GOP Embassy in Washington

11. Supplier fills
orders, ships, sends
documents to USAID or AID
controller

12. Controller sends
check to supplier

13. Agency clears goods
through port or USAID
Karachi Liaison Office
does so when goods are
consigned to USAID

GLOSSARY

ACE	Agricultural Commodities and Equipment Program
ADB	Asian Development Bank
ADBP	Agricultural Development Bank of Pakistan
AID	U. S. Agency for International Development
ARD	Agricultural and Rural Development Office, USAID
BALAD	Baluchistan Area Development Project
Barani	Rainfed Crop Areas
BOP	Balance of Payments
BTU	British Thermal Unit
C&F	Cost & Freight
CIP	Commodity Import Program
CCU	Commodity Control Unit
CIDA	Canadian International Development Agency
CDSS	Country Development Strategy Statement
CPI	Commodity Procurement Instructions
CMO	Commodity Management Office(r), USAID
CNG	Compressed Natural Gas
DAP	Diammonium Phosphate Fertilizer
DGER	Directorate General of Energy Resources
ECE	Energy Commodities and Equipment Program
EEC	European Economic Committee
EP&D	Energy Planning and Development Project
ESF	Economic Support Funds
FAA	Foreign Assistance Act
FDFI	Federal Directorate of Fertilizer Imports
FPD	Forestry Planning and Development Project
FSM	Food Security Management Project
GDP	Gross Domestic Product
GNP	Gross National Product
GOP	Government of the Islamic Republic of Pakistan
GSP	Geological Survey of Pakistan
HDIP	Hydrocarbon Institute of Pakistan
IDA	International Development Agency (Soft Loan Arm of World Bank)
IDBP	Industrial Development Bank of Pakistan
IFB	Invitation for Bids
IFC	International Finance Corporation
IMF	International Monetary Fund
ISM	Irrigation Systems Management Project
Kharif	Summer Crop Season, April-September
KESC	Karachi Electric Supply Corporation
L/C	Letter of Credit
L/COM	Letter of Commitment
LOP	Life of Project
LPG	Liquefied Petroleum Gas
MART	Management of Agricultural Research & Technology Project
MINFA	Ministry of Food and Agriculture
MOF	Ministry of Finance

MPNR	Ministry of Petroleum and Natural Resources
MSOT	Ministry of Science and Technology
MWP	Ministry of Water and Works
MW	Megawatt, 1 million watts
NAEC	National Atomic Energy Council
NDFC	National Development and Finance Corporation
NESPAK	National Engineering Services of Pakistan
NWFPAD	Northwest Frontier Province Area Development Project
OGDC	Oil and Gas Development Corporation of Pakistan
O&M	Operations and Maintenance
PAAD	Program Assistance Approval Document
PCSIR	Pakistan Council for Scientific and Industrial Research
PIL	Project Implementation Letter
PMDC	Pakistan Mineral Development Corporation
PPL	Pakistan Petroleum, Ltd.
PSA	Procurement Services Agent
Rabi	Winter Crop Season, October-March
Rs	Rupees
SCADA	Supervisory Control and Data Acquisition
TA	Technical Assistance
T&D	Transmission and Distribution
TDP	Trade Development Program (AID)
TIPAN	Transformation & Integration of Provincial Ag. Network Project
TSP	Triple Super Phosphate Fertilizer
UNDP	United Nations Development Program
WAPDA	Water and Power Development Authority

CHAPTER I.

PRIVATE SECTOR WINDOWS

Introduction

The greatest disappointment to the USAID and AID/W concerning the ACE and ECE programs has been the almost complete non-use of a potential \$100 million in the private sector windows by private sector firms in Pakistan. The ACE program has generated only \$2.8 million in commitments, and then mainly through the effort of the state-owned Agricultural Development Bank of Pakistan (ADBP), one of the approved applicant banks.

No private sector funds have yet been committed under ECE, although there are indications of some interest developing.

The mission had commissioned studies to determine the reasons for the poor response and six months ago detailed a U.S. direct hire employee to the Commodities Office to follow up on those studies and offer suggestions on ways to stimulate further interest.

This chapter re-examines why the private sector window failed and recommends certain USAID actions.

A. Why The Private Sector Windows Are Important

Empirical support of the greater efficiency of the private sector lies behind the broad trend, particularly in developed countries, towards privatization or divestiture of public enterprises. Developing countries, too, are increasingly selling off those inefficient parastatals that are draining their national budgets. Many developing countries are closing those parastatal operations which they cannot sell. Pakistan is only beginning to discuss privatization.

But for a rapidly growing country, divestiture of existing facilities is not enough. One must encourage private sector participation in the fast growing key sectors of the economy. The hypothesis that extending credit via the banking system can have sizeable impact on real private capital formation now has extensive empirical support and, when coupled with substantial evidence showing a strong positive relationship between growth and investment, suggests a strong connector between domestic credit availability and economic growth.

The importance of promoting an increasing role for the private sector is well documented. It is consistent with the stated objectives of Pakistan's Sixth Five-Year Plan, World Bank initiatives and USAID's CDSS. Promoting the private sector is one of AID/W's four pillars of development. But this program has imposed high costs to the Mission in terms of staff time. When CIP public sector funds are exhausted, continued non-use of the program could incur substantial opportunity

costs in terms of foregone use of the funds on important unrealized public sector projects in energy and agriculture. Top management is urged to review the objectives of the private sector windows to determine whether the gains of continuing those windows are worth the costs and political capital needed to make it work.

B. Objectives Of ACE And ECE

Because of the greater efficiency of the private sector and limitations on the capabilities of the public sector, Pakistan's current Sixth Five Year Plan stresses the need for a strong private sector to complement the public sector. The primary objectives of the private sector window as stated in the Second Amendment of the ACE PAAD [USAID, July 1984, p.41] are to:

Provide fast disbursing assistance for balance of payment support;
Increase participation by the Pakistani private sector in activities important for the country's economic development;
Promote agricultural development and utilization of agricultural products in Pakistan by providing incentives to the Pakistani private sector to invest in new capital stock for agribusiness.

The primary objectives of the private sector window of ECE [USAID, (1984, p.36)] are identical with ACE with the exception of the third objective, which was changed to:

Promote increased energy efficiency in private sector industries and increased participation of the private sector in the development and exploration of hydrocarbon and renewable energy resources.

The private sector for both ACE and ECE was expected to carry a substantial part of the overall CIP. Moreover, it was claimed that for ECE alone "the net foreign exchange impact of the program could therefore approach \$200 million in three years, with obvious favorable impacts on the balance of payments problem" [USAID, PAAD, 1984]. Half of ECE funding was earmarked for the private sector. At present the World Bank, USAID and other donors intend to provide only a small fraction of the capital investment requirement to meet increased demand for electricity by 1993 (details in Annex J). Thus the need for financing is real.

Discussions with USAID staff and examination of various memoranda suggest that the main perceived objective of the CIP in general and the private sector in particular, was to have a large flexible fund for financing fast disbursing items. The objectives were meritorious. First, in times of external and internal shocks to the Pakistani economic system the program could be used in the absence of strong foreign reserve position to stave off growth inhibiting policies needed to finance the deficit. Second, the program could permit Pakistan to more easily adapt to natural structural changes that take place in any economy experiencing steady growth rates. Third, the commodities could support projects with substantial development impact. But the assumptions concerning the attractiveness of the private sector proved invalid.

C. Impediments

USAID recently commissioned the Gallup organization in Pakistan to determine the reasons for lack of interest in the U.S. agricultural sector commodities in Pakistan and concluded that:

The prime concern of every importer is to keep cost competitive. The second important consideration is quality which should be acceptable to his customers in the case of wholesaler or conform to established production standards in the case of end-user. In case there is no significant difference in cost and quality of several options, suitability of time of shipment can become the deciding consideration. The expected demand level will influence the quantum of imports [Gallup (1987, p.1)].

The many impediments facing the selling of U.S. products in general and the use of the private sector windows in particular are now well documented by USAID reports prepared by Coopers & Lybrand (1986), Gannon (1986) and Gallup (1987), and in summary are:

- American commodities are perceived to be substantially more expensive (10% higher than comparables from Europe, 10 - 15% higher than from Japan, and 25 - 35% higher than from East Asia including South Korea, Taiwan, China and Malaysia)
- High 3% foreign exchange risk insurance for 1 1/2 to 5 year payback period when importers thought 1% was enough for 1 1/2 years and 3% might only be justified for 5 years
- Freight costs that are on the average three to five times higher than competitors because of the U.S. 50/50 shipping requirements
- Longer shipping times which increases working capital costs
- Lack of information on sources of U.S. supply
- Costly inefficiency of banks
- High bank interest rates for rupee loans with which to buy dollars (41% used suppliers' credit; of them 19% claimed they did not pay any interest (presumably built into the price and not quoted separately); about 1/3 paid less than 11%; and 44% paid interest rates ranging between 11% and 17%
- Lack of interest by U.S. exporters
- Perceived quality differences
- Lack of maintenance and service
- Lack of close U.S. business relationships which raised additional psychological and business costs
- High collateral requirement for extending loans under the CIP
- Shorter terms of repayment
- Import license restrictions (that can tie up working capital for long periods of time)
- More favorable terms in the official credit channels because commodities at the same terms are not tied for the World Bank* and Asian Development Bank

*The World Bank's private sector window is behind schedule even though the Bank permits international tenders.

- Not engaging in illegal practices such as over-invoicing (when supplier prices are inflated on the invoice and rebates of the difference are placed in the importer's foreign bank account, which reduces the financing cost by 5-6% and avoids import duty on at least 40% of amount under-invoiced)

It is clear that Pakistani importers facing these adverse conditions with more attractive alternative financing available, would not be well advised to borrow money through the CIP's private sector window. USAID had undertaken a number of piecemeal actions to make the windows workable (see section I-E). It appears that one of the main problems remains the prohibitively costly bureaucratic red tape of the GOP.

One constraint of particular importance to small and medium firms in the energy sector is lack among current CIP applicant banks of a financial institution that can provide them with needed start-up services. All private sector window disbursements to date have been in agriculture, mainly through the ADBP which, unlike purely commercial banks, is interested in development outside the large urban areas. In principle, development banks will invest in certain projects in rural areas even if their likelihood of success is somewhat lower. However, the ADBP has a 90 percent rate of loan paybacks compared to 50 percent for the other state banks.* Unlike the other CIP applicant banks, the ADBP is more likely to provide customers with special services including the packaging of finance, preinvestment studies, and wide dissemination of financial services. For the CIP, ADBP arranged a creative mix of their regular funds to finance the domestic costs and the CIP foreign exchange costs of a project they helped develop.

The ADBP remains the only development oriented-bank among the current CIP applicant banks and its orientation is towards agriculture. There is currently no counterpart for energy, although candidates such as the National Development Finance Corporation that cater to industry, are development oriented and could provide similar comprehensive services.

D. Economic Costs Of Bureaucratic Process To The Private Sector

1. Example 1: Restrictions Facing Traders

Allied Engineering, located in Karachi, is an authorized dealer for Caterpillar products and has a joint venture with Ford Motor Company. It applied under the ECE component of the CIP for two loans to finance generating sets. The first, a "test" transaction, totaled \$58 thousand and the second totaled \$250 thousand. The following comments illustrate some of the problems that have handcuffed the private sector window and how some of them have been corrected through the persistence of USAID staff.

a. Problems with Parastatal Bank. Problems began with their initial dealings with a parastatal bank, as no private sector banks were initially allowed to participate in the program. The firm had difficulties from the start because there was:

*USAID points out, however, that this rate is accomplished by rolling over many otherwise non-performing loans.

- Too much bureaucracy and too many forms to fill out
- Lack of understanding by bank personnel of the mechanics of the new CIP
- A generally bad attitude on the part of the bank in helping to speed up the paper work

The GOP has recently permitted U.S. private sector bank participation in the program. CitiBank and Bank of America entered the program in 1986 and participation is now being expanded to include American Express and Chase Manhattan Bank. Allied Engineering has decided to deal in the future only with private sector banks.

b. Problems with Licensing. In its "test" transaction, Allied Engineering applied for a license in January 1986 and received it five months later, compared to the usual week to ten days. In the second larger transaction, the import license totaled Rs. 4.3 million (\$250 thousand). But the Import Policy Order under which the CIP operates restricted traders to Rs. 4 million per year per trader. [An additional Rs. 500 thousand restriction per item in the order did not affect their order, but prevented another company from purchasing a U.S.-made drilling rig because it would have cost over Rs. 1 million].

Allied Engineering applied in October 1986 for the second import license. At the time of the interview in May 1987, it had not yet received the license because the Chief Controller of the Import Licensing and Exports in the Ministry of Commerce refused to grant the request and sent the order to the Minister of Commerce for a decision on extending the limit. No action had yet been taken by the Minister of Commerce.

Allied Engineering has good economic reasons for not using the CIP in the future. The opportunity costs of the licensing fee represents substantial working capital being lost when compared to the usual 7-10 days wait for import licenses. Allied Engineering argues that as the CIP funds are not part of the individual bank's credit limitations set by the GOP, the banks themselves should be able to grant licenses.

This problem is in the process of being corrected. The credit limits have been raised from Rs 1 to Rs 4 million and later to Rs 10 million.

c. U.S. Source and Origin. The problems are not just with the GOP bureaucracy. Allied Engineering wanted products from U.S. companies whose supplying factories are in Europe. Only products shipped from the U.S. with at least 50 percent value added originating in the U.S. can qualify for the CIP. Thus, a \$1,000 tractor with 51 percent U.S. value added shipped from a U.S. port to Pakistan would qualify. But a \$1,000 tractor with \$900 (90 percent) U.S. value-added but assembled by a U.S. overseas subsidiary in Europe and shipped from a European port would not qualify. This confusion has also created problems for local traders. To the knowledge of the evaluators, change would require congressional approval. However, U.S. components could be imported into Pakistan under the CIP and assembly or other work could be done locally.

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d. Loan Terms. Allied Engineering argued that 14 percent interest was too high and the 18 month pay back period for traders was too short. Expanding the payback period would give the intermediaries more time to pay off their loans and sell their equipment. This may reflect a way to offset the other obstacles affecting the workability of the private sector window. (Also, the payback period could be adjusted for end users according to the technology involved.)

On May 24, 1987 the GOP lowered the interest rate from 14 per cent (11 percent interest and 3 percent foreign exchange risk) to 10 percent (7 percent interest and 3 percent foreign exchange risk).^{*} This should greatly improve the attractiveness of the CIP program even with an 18-month payback period for traders and a 60-month payback period for end users.

e. Allied Engineering's Conclusions. The problem with the CIP is that it is not yet workable. Proposed changes in the interest rate will make the program more attractive if the length of time in cutting through the government bureaucratic delays can be shortened. In Allied's opinion, traders will not accept a host of problems for a limited sized loan, given the current availability of other sources of funds in the Karachi area.

2. Example 2: Restrictions Imposed By Import Policy Order

This second example is one of many illustrating the costs of government restrictions associated with the Import Policy Order. The private sector window was originally planned to be completely outside the jurisdiction of the Import Policy Order. After the window became operational, it was unexpectedly placed under the Import Policy Order and has caused many problems for the program.

On June 17, 1987, Minister of Commerce and Planning and Development Mahbub-Ul-Haq announced liberalization of the IPO, including (a) removal of monetary limitations imposed upon bonafide trading companies importing equipment when utilizing overseas or donor foreign exchange credits, (b) relaxation on restrictive list items, including those tied to eastern block barter arrangements, and (c) expanded eligibility to include host items on the AID commodity eligibility list in handbook 15. Until then, the GOP's failure to remove restrictions on commercial resellers,

^{*}Even with the lower interest rate, the GOP benefits from disbursing loan funds because the terms of the agreement call for a 30-year payment period, with a 10-year grace at 2% per annum rising to 3% per annum for the remaining 30 years of the loan payback period. The participating banks receive 3% of the loan as a service charge.

including the monetary restrictions imposed by the Import Policy Order for the importation of machinery and mill work for documented distributors or local sales agents of foreign manufacturers. Under that policy, when AID financed equipment purchases for the public sector, the purchasers stipulated that awards could be considered only from firms which had local distribution or sales agents with adequate parts, inventories and maintenance facilities. Such commercial importers and resellers were restricted by the value of their annual imports. This defeated the GOP's aim to have local companies perform maintenance and repairs of imported equipment.

2. Why The Private Sector Window Failed

The major reason for failure of the private sector windows was USAID's incorrect assumptions that financial credit was tight in Pakistan and businessmen, as a result, would borrow quickly from the window at high interest rates.

This line of reasoning was reflected in the PAAD which stated, "When interest rates are too low which was our real fear, then one can expect the following:

1. A large backlog of unserviced loan applications,
2. Widespread reports of side payments from borrowers to lenders to gain access to loan funds,
3. An active 'curb market' operating along parallel lines to the formal sector which picks up unmet credit demand at substantially higher prices, and
4. In the case of foreign exchange lending, an active 'parallel market' in foreign exchange instruments which entails significantly higher rates than those in the official credit markets".

By the time the private sector window was set up, a consensus in the financial development field had emerged that, in contrast to industrial countries, one of the principal constraints on investment in developing countries is the availability of financial resources, rather than their cost [e.g. Khan and Knight (1985)]. Rates of return when adjusted for risk are typically higher than real interest rate on loanable funds which are often kept artificially low and sometimes negative in developing countries for a variety of reasons.

Following this approach, when the amount of financing is restricted and the price mechanism does not operate as an allocation device, it is reasonable to assume the flow of private investment is constrained mainly by the availability of financing. If this is the case, domestic interest rates will influence private investment only indirectly through the effect of an increase in the real return on financial assets in stimulating a larger value of financial saving by the private sector. Thus, an increase in real credit to the private sector will encourage private investment. Under this scheme, GOP control of total banking credit, which in Pakistan represents probably its main instrument of monetary policy, can influence the rate at which private investors

achieve their desired level of investment by varying the flow of domestic credit and its allocation between the private and public sectors. Keeping interest rates high is very important to the success of this strategy because of its impact on allocating funds to the most productive projects and because then financial markets private savings are generated. The private sector window represents not only a way of increasing credit to the economy in general but also a way of shifting the allocation to the more efficient private sector.

"Financial Deepening" stresses the need for not underpricing capital. Many developing countries have highly over-valued domestic currency, high rates of inflation and severe capital shortages. This was not the case in Pakistan when the private sector window was created, nor is this the case now. Foreign exchange reform in the early eighties brought about a correct alignment of domestic currency. There is still no effective black market in Pakistan. Moreover, billions of dollars of excess funds from such sources as worker remittances from Saudi Arabia and other countries has made substantial funds available in the informal markets which probably has had the effect of lowering the competitive interest rate for capital.

Preprogram studies aimed at assessing the potential for a private sector program found a potential demand for U.S. commodities in Pakistan. But the evaluators found no Mission studies that examined the details needed to make the private sector window operational in a competitive sense within the institutional framework in which it was to operate. The program was set up without knowing which loan terms (i.e. interest rate, payback periods, amounts of collateral), would be competitive and which would be concessional. The initial conclusion that the funds would move despite the financial terms led the Mission not to carry out any analyses or surveys necessary to evaluate the financial attractiveness of the program, including a comparison with all alternative sources of credit in both the formal and informal financial sectors. Without this knowledge, the program was foredoomed.

After three years, speculation is still going on. However, through discussions with private traders and business men, the evaluators found some support that the recent interest rate change may make the program competitive but not concessional.

Analysis of the program to date, summarized above, suggests that not all the terms have yet approached being competitive. Recognizing this, USAID staff has continued taking steps toward correcting this uncompetitive position by chipping away at restrictions in the bureaucracy and improving the loan terms.

This approach, resulting largely from an original design error which underestimated foreign exchange availability and foreign competition, used an inordinate amount of staff time and effort to bring about the changes announced on June 17, 1987 (above).

Reviewing the design and implementation of the private sector window led to the following conclusions:

- Attempting to develop the private sector component of the CIP was a good strategy that was not successful because of incorrect assumptions.
- Minimal use of this fund has led to a failure to meet any of its stated or implicit objectives to provide quick disbursing balance of payments support, development impact, structural adjustment support for energy and agriculture, or increased private sector participation. See Table III.1 for an overview of the economic impact of the private sector ACE and ECE programs on the Pakistani economy.
- The program in the future, when public sector funds have been expended, may have a negative impact in terms of foregone opportunities by placing USAID's scarce CIP funds in the private sector window instead of the more successful public sector windows of ACE and ECE.
- It has demonstrated forcefully the obstacles of working through public banks and the need to develop more fully the private financial sector.
- It has also demonstrated the need to carefully examine and research the development of private sector import programs. It shows that these types of programs should probably be avoided when high priority is placed on rapid disbursement.

A lesson learned is that program designers must analyze the financial market in which a financial program operates to determine what combinations of loan terms are competitive and what terms are concessional. Failure to look carefully at this question and setting up unrealistically high terms on the basis of conventional wisdom for uncompetitively priced U.S. commodities tied to unrealistically high transit costs can undermine the program's success. The uncertainty and lack of confidence created in the program has been reinforced by the fact there have been to date a minimal number of program participants.

F. U.S. Efforts to Make the Private Window Work

The most recent effort to make the private sector window work is the approval of the Project Implementation Letter (PIL) dated May 26, 1987, requesting a lowering of the effective interest rate that private businessmen must pay from 14 to 10 percent. This PIL was a response to earlier unsuccessful PILS to remove the 3 percent foreign exchange risk. This action provides strong basis for justifying a continuation of USAID's efforts.

These efforts are summarized in the following list:

<u>Date of PII</u>	<u>Approved Request</u>
5/14/85	----- Raised maximum transaction from \$0.5 to \$1 million.
9/23/85	----- Requires AID approval of procurement documents for purchases below \$100 thousand.
10/24/85	----- Extends repayment from 3 to 5 years maximum.
11/24/85	----- Increases maximum transaction from \$1 to \$10 million.
3/18/86	----- ADBP is added on as approved applicant bank. ----- PSCIP is made <u>not subject</u> to Approved bank credit ceiling, Approved bank foreign exchange ceiling, Limits on imports foreign exchange except restricted items.
07/31/86	----- Increase the participant banks to include public sector banks adding Bank of America and Citibank as Approved Applicant Banks for the private sector CIP.
11/24/86	----- Addition of American Express and Chase Manhattan Bank, N.A., to serve as Approved Applicant Banks for private sector window, subject to approval of foreign exchange risk cover.
11/30/86	----- Addition of all eligible items in the AID commodity listing (has not yet been approved).
05/24/87	----- Decrease of interest rate from a composite rate of 14% to 10% inclusive of 3% foreign exchange risk coverage. ----- Elimination of maximum level of \$10 million for a single transaction.

The above actions and the detail of a full time officer to work on the private sector window represents a major effort to improve the program. That officer mounted an effective campaign to increase awareness of the program in the business community. This was evidenced by numerous newspaper clippings from such diverse cities as Karachi, Quetta, Faisalabad and Lahore. There also seemed to be a general awareness of the program on the part of businessmen interviewed by the evaluators. This type of activity should be included in the future to publicize the drop in the interest rate from 14 to 10 percent.

Recommendations:

- That USAID continue pressing the GOP to apply Section 2.13(i) of the Import Policy Order, 1986-87 which states that imports under loans, credits and aid shall be subject to the conditions and procedures as may be justified by the Chief Controller of Imports and Exports from time to time. That office could remove completely the ACE and ECE private sector window from the jurisdiction of the Import Policy Order.

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- That the Commodities Management Office continue to publicize the program's recent interest rate decrease from 14 to 10 percent and continue its current media and information campaign to include local business groups and chambers of commerce.
- That the Commodities Management Office urge the GOP to expand the number of approved applicant banks to include the National Development Finance Corporation and other domestic industrial financial institutions that are development oriented and cater to the private sector and have the ability to issue foreign exchange letters of credit acceptable to U.S. banks.
- That USAID continue the private sector windows for six months to test the response to the new lower interest rates.
- That USAID consider contracting with a qualified Pakistani firm to determine the effects of each perceived constraint on the private window, including price, shipping, interest rates, payback periods, collateral requirements, the real cost of GOP licensing and approval processes to meet the AID regulations, to determine what mix of terms would make the private sector funds competitive, and what terms, if any, would lead to rapid disbursement of those funds.
- That at the end of six months USAID use the results of the two recommendations to reach a decision on whether to continue the private windows.
- That USAID top management reexamine the objectives of the private sector window (e.g. should the targeted group be all firms or just small and medium firms in the rural areas?)
- That if a decision is reached to close the private windows as now structured, USAID first consider utilizing the funds to develop alternative opportunities for promoting private sector participation.
- That if private sector participation projects are not deemed feasible, both ACE and ECE private sector funds be transferred to public sector activities that support either stabilization efforts, if needed, or projects with high developmental impact as measured by internal rates of return.

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CHAPTER II.

DEVELOPMENT IMPACT

A. Agricultural Commodities and Equipment Program (ACE)

Introduction

A cooperative relationship was established in 1952 between the United States and Pakistan for the purpose of helping Pakistan realize its development goals and potential. From that date to the present, the two nations have worked together to further the development of Pakistan's economy. Throughout this entire period, the need to accelerate development in the agricultural sector has received priority attention through a series of assistance efforts. The ACE program evolved from these prior interventions as a significant new opportunity for AID to cooperate with the GOP in considering many policy issues important to improved agriculture sector performance.

1. The Historical Base

Historically, agriculture has been the mainstay of Pakistan's economy through the provision of foodstuffs, as the primary employer in the country, the sector contributing most to the country's gross national product and as the source for the major portion of export earnings. This situation continues today and general expectations are that the sector's unique position will remain in the forefront.

The successful introduction of high yielding varieties (HYV) of wheat and rice has enabled Pakistan to evolve from a major foodstuff importer of the 1950's to a level of self sufficiency and as an exporter in some commodities. An exception is in the area of edible vegetable oils. Fertilizer use has increased from a point of near non-use in the 1950's to its present use level of approximately 1.5 million nutrient tons. This has been possible through the development of an internal production capacity (public/private) and import.

A marked change has also occurred through the utilization of mechanization (primarily tractors and seedbed preparation equipment and stationary grain threshers) as a means of facilitating agricultural production activities. This mechanization process appears to have been a result of increased cropping intensity and the use of HYVs along with an increase in off-farm employment opportunities, domestic and foreign. As a consequence, the practice of custom hiring of equipment is developing.

Another positive factor is the government's efforts in land reform. It has been suggested that many of the smaller agricultural entrepreneurs feel a greater sense of security and are more willing to commit their limited resources for production inputs and capital commitments for mechanical equipment.

While the above is testimony that the agriculture sector is far from static, there is yet much room for growth and improvement.

The Mission itself has identified several serious constraints to the achievement of increased efficiency and productivity in the agricultural sector, many of which ACE was designed to correct:

- Pricing and Marketing Policies: Restrictive GOP regulations, procedures and market controls encourage the continued existence of parastatals, which have become increasingly inefficient, requiring substantial subsidies to continue operations. At the same time, this situation has inhibited or discouraged greater private sector participation.
- Irrigation - Water Supply, Delivery and Charges: The unpredictability of water supply at the farmgate continues to be a constraint on production. This encourages ineffective or inefficient on-farm water use. Subsidized water rates contribute to deterioration of the delivery system because of insufficient revenues for canal and drain O&M activities.
- Environmental Degradation: Pakistan's rapidly growing population places a severe strain on the watershed environment. The increased demand for land, fuel wood and timber is causing widespread deforestation, erosion and exacerbates flooding.
- Weak Agricultural Extension: The lack of an effective farmer education program continues to impede the agricultural sector from realizing its full potential. This has indirectly prevented Pakistan from capitalizing on its export/import substitution potential
- Education and Research: Little research or training is being done in support of farmers and production objectives, for example, effective input use or consideration of the farming operation as a whole (farming systems approach). Production potential is not being realized and inputs are not efficiently utilized.
- Institutional Credit: The GOP approach to credit utilization continues to retard the development of self sustaining rural financial institutions and markets oriented toward serving the small farmer.
- Mechanization: While improvements have been made in the availability of power units, little has been done to facilitate the adoption/availability of tillage equipment.
- Land Tenure: While inequities still exist (and probably can be expected to always exist), little attention is being given to the development of supporting institutions or infrastructure to maximize land resource utilization.
- Private Sector Participation: In spite of the poor investment climate, to a limited extent the private sector has been able to participate in the development of the agricultural sector. Its full participation and thus its full potential to contribute to development of the agricultural sector has been limited by a lack of government support.

2. Program Description and Evolution

ACE is a major component of the six year U.S. economic assistance package (\$1.625 billion) available to the Government of Pakistan in support of the GOP's national development strategy in its Sixth Five Year Plan (PFY 1983-88). ACE was designed specifically to support development of the agricultural sector, one of the Plan's three priority sectors, by assisting in the realization of two objectives:

- (a) increasing the productivity of the agricultural sector through the provision of needed imported commodities and equipment;
- (b) providing balance of payments support.

ACE was formulated to provide foreign exchange resources for the procurement of commodities and equipment that would result in a productive impact in short to medium (one to seven years) terms and which would also facilitate longer term adjustments in the structure of the agricultural sector.

Three groups of commodity and equipment imports were contemplated over the life (five years: 1982-87) of the program:

Group I: Agricultural inputs where the productive impact would be felt almost immediately or during one cropping season, i.e. chemical fertilizer, seeds, genetic stocks, and appropriate pesticides (where U.S. regulations were met).

Group II: Agricultural machinery and commodities for use on or near the farm and which increase productivity over the short to medium term. It was expected that equipment or commodities within this group would be imported and used by the private sector for either private use or to extend goods and services to the tiller or husbandry man.

Group III: Agricultural equipment and commodities required by the public or semi-public sector organizations and government departments to improve the efficiency or quality of services provided and expected to have an impact on agricultural productivity.

Two additional eligible commodity import groups were incorporated into the Program in 1984 to facilitate and encourage private sector participation and to open categories to meet Pakistan's emergency requirements (i.e. cotton and wheat). Groups IV and V comprised the following:

Group IV: Agricultural machinery, equipment and commodities to be imported by the Pakistan private sector. Examples of eligible commodities are agricultural equipment and implements, irrigation equipment and supplies, transport equipment (excluding general purpose trucks), handling equipment for agricultural commodities, storage facilities and equipment, and canning and food processing equipment.

Group V: Commodity imports as AID and the GOP may, from time to time, agree as necessary to meet the emergency requirements of Pakistan.

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TABLE II A-5
AN ASSESSMENT OF ACE COMMODITY AND EQUIPMENT IMPACT VALUE

	Policy "Cornerstones"			Private Sector Development	Increased Agricultural Productivity	Impact on Balance of Payment		Development Impact	Beneficiary Equity
	Policy Dialogue	Technology Transfer	Institutional Building			Todate	Expected		
Non-Project									
Fertilizer	Yes	Yes	--	Direct	Direct	Yes	IS&E <u>1/</u>	I< <u>2/</u>	Yes
Wheat	--	--	--	--	--	Yes	--	--	Yes
Cotton	--	--	--	Direct	--	Yes	--	--	Yes
Project Equipment									
ISH	Direct	Yes	Yes	--	Direct	No <u>3/</u>	IS&E	I<	Yes
MART	--	Yes	Yes	--	Indirect	No	IS&E	LT	Yes
FPD	--	Yes	Yes	Potential	Indirect	No	IS	LT	Yes
FSM	--	Yes	Yes	--	--	No	E	LT	Yes
BALAD	--	Yes	Yes	--	Indirect	No	IS&E	LT	Yes
TIPAN	--	Yes	Yes	--	Indirect	No	IS&E	LT	Yes
NWFPAD	--	Yes	Yes	--	Indirect	No	--	LT	Yes
Private Sector									
Private Sector	Yes	Potential	Potential	Direct	Indirect	No	IS&E	I<	--

1/ IS&E - Import Substitution & Export

2/ I< - Intermediate & Long Term

3/ No assurance that GOP would have used own foreign exchange to import equipment.

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The original level of U.S. funding allocation for the ACE Program was projected at \$300 million dollars over the life of project (LOP) years of 1982-86. Subsequent amendments (number 1-4) increased the level of planned funding to \$475 million and extended the LOP to the end of 1988. The Program planned for the provision of these resources through both loan (\$213 million) and grant (\$262 million) funding. The evolutionary process through which the Program and program planning adjustments were made is outlined in Table II-1 in Annex E.

As of this May-June 1987 evaluation, \$390 million was obligated. The sequence of obligation documentation and selected Conditions Precedent (CP) are presented in tabular format (see Annex E Table II-2) for the record and as a basis for future discussion relative to the evaluation process.

The general categories of the commodities and equipments eligible for procurement under ACE were identified in general terms by "Groups" in the Program Assistance Approval Document (PAAD) approved March 29, 1982. The PAAD also identified specific procurement needs (DAP fertilizer) and commodity support for the Irrigation Systems Management (ISM) Project. Subsequent PAAD Amendments (June 1983 and May 1984) expanded and further clarified ultimate use of the planned allocation of LOP funding for both the grant and loan components.

The amendments expanded the program scope and identified specific commodity considerations not originally programmed, i.e. the emergency procurement of wheat and cotton and the inclusion of specific commodity procurement supportive of specific U.S./GOP technical assistance projects developed or to be developed during the life of the ACE Program. Table II-3 (Annex E) summarizes these specific commodity procurement activities and U.S./GOP technical assistance projects. A summary description of the TA projects is attached as Annex F.

The ACE program was designed to complement other donor funded programs supporting the development of Pakistan's agricultural sector. This interaction and linkage is summarized in Table II-4 (Annex E).

3. Impact on Sector Constraints

General Assessment and Conclusion. The following table (II A-5) presents the team's assessment of the impact of the various various categories of commodities on development in the agricultural sector, compiled on the basis of the discussions following the table.

In evaluating the ACE Program's impact on AFD's policy cornerstones, the equipment furnished to the provincial irrigation workshops provides a pertinent example.

The equipment procured for rehabilitating the workshops definitely resulted in strengthening the workshops' capability to service and maintain the heavy equipment essential for the rehabilitation of the canals and drains. There was a transfer of technology in this process. The availability of the equipment (new and refurbished) enabled the provincial irrigation departments to carry out their institutional responsibilities. Heavy equipment use technology resulted in better

quality work so that rehabilitated canals and drains need less frequent follow-up work. This results in either a reduction in O&M budget requirement or the opportunity to reprogram these funds or accelerate rehabilitation work. Fewer breaks in the canals reduce flooding and ensure the continued delivery of irrigation water to the farmer. An assured supply of irrigation benefits both the large and small land holder and increases the potential for increasing production. Increased production will impact on the balance of payment situation because of increased opportunities for export or for import substitutions. Increased capital resulting from this is available for development.

Imported fertilizer has a similar impact. In addition, fertilizer has provided a basis for policy dialogue and has contributed directly to developing the private sector institutional capabilities and increased their role in the development process. The requirement that the GOP allow greater private participation in fertilizer distribution has forced the GOP to focus more closely on public/private sector relationship problems.

The emergency procurement of wheat and cotton demonstrated the flexibility and rapid disbursement possibilities inherent in a CIP-type activity.

An indirect benefit derived from these unfortunate occurrences was the GOP's realization of its vulnerability to adverse conditions and the absence of back-up options resulting from ineffective research and other production options.

Based on the above and the supporting data, the evaluation team concludes that the design of ACE and the provision of commodities in support of agricultural development efforts was timely and the selection of commodities appropriate. Pakistan has utilized the commodities in an appropriate manner. The problems associated with the slow or non-utilization of the private sector window resources are fully discussed in chapter I.

This general assessment, supported by the analysis and conclusions from the previous sections and the following discussions in this report, lead to the following general conclusions relative to overall development impact value.

- The designers of the ACE Program recognized the utility of using the CIP concept as an effective approach in advancing AID's "Policy Cornerstones" concept in a CIP mode while supporting sector development goals
- The ACE Program provided USAID the flexibility and opportunity to react in a positive and timely manner whenever potential "windows of opportunity" were identified
- The ACE Program, used in close conjunction with specific TA projects, made it possible to interact with the host government at several different policy/implementation levels, thus approaching the means for problem solution at different levels

Fertilizer

Fertilizer Procurement Status: Actual imports of fertilizer (1982-86) total 571,488 MT valued at \$134.0 million. Imports under tender amount to an additional 260,000 MT with an estimated value of \$54.0 million. Actual and projected import value (\$188.0 million) represents nearly 100 percent of the total funds allocated for fertilizer and is 39.5 percent of the total projected funds (\$475 million). The yearly procurement and disbursement profile is summarized as follows:

U.S. FY	MT Procured		Value (\$ million)	Last Consignment Delivery Date
	DAP	TSP		
1982	130,000	—	34	November 1982
1983	103,000	10,500	29	February 1984
1984	118,000	—	27	April 1985
1985	No Fertilizer Procured			
1986	<u>220,488</u>	—	<u>44</u>	<u>January 1987</u>
Todate Total	571,488	10,500	134	
1987	260,000	—	<u>54</u>	Being Tendered
Projected Total	831,488	10,500	188 $\frac{1}{4}$	

Note: \$189,337,000 allocated

Procurement was done by the Pakistan Embassy in Washington. There were no special problems or significant difficulties associated with the procurement process, subsequent delivery, receipt and distribution of the fertilizer. Obligations have been timely and the rate of disbursements of funds well within the established norms for this type of program activity.

Appropriateness and Utilization: Chemical fertilizer use has increased dramatically from a point of near zero use in the 1950's and 1960's to an estimated annual offtake of almost 1.5 million nutrient tons in 1986. While there has been some fluctuation in demand and offtake, growth in consumption (19% annually during the period of 1975-80) has continued to rise at a rate of 4% annually to its present consumption level, with the prospects that internal requirements will continue to grow for some years to come.

The ACE Program has been effectively utilized by the GOP to meet the increased demands for fertilizer. While Pakistan produces sufficient nitrogen-based fertilizer for its needs, it must import most of its phosphatic fertilizer. The import of 220,488 metric tons of DAP and 10,500 metric tons of TSP represented respectively one-fourth and one-half of Pakistan's total annual requirement for these fertilizers in 1984.

The GOP has made a commitment to continue the import of phosphatic fertilizers, and ACE fertilizer procurement has a direct and positive contribution to that commitment. The continued and expanded use of

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fertilizer on food crops (wheat, rice and sugarcane) is a major contributing factor to Pakistan's efforts to maintain a level of self sufficiency as well as to expand their export market for these key crops. Fertilizer is also a critical production input contributing to the country's efforts to meet the large textile industry's requirements for vegetable fiber (cotton) and to provide raw material for the edible vegetable oil processing industry.

In conclusion, the evaluation team views the availability and use of ACE resources for the import of fertilizer to fully meet the design objectives of short to medium term production impact and facilitating longer term adjustments in the structure of the agricultural sector.

Policy Dialogue: USAID has effectively used fertilizer import negotiations as a vehicle for carrying on a meaningful dialogue with the GOP relative to Pakistan's fertilizer policy position. A number of major changes in the GOP's fertilizer policy has occurred as a result of this interaction. Changes have been made which create a more favorable climate for the private sector's participation in distribution and initial adjustments have been made to reduce the huge subsidy burden borne by the GOP. It is estimated that fertilizer subsidies accounted for 58% of the total agricultural development budget during the 1978-83 Five Year Plan.

The steps and subsequent actions that USAID has taken in this area are documented in the Commodity Import Grant and Loan Agreement negotiated and entered into by both the U.S. and GOP. These are summarized in Table II-2 of Annex E.

In addition, USAID, with the GOP's concurrence, has taken the additional step of facilitating with ESF Program Development Funds a study of Pakistan's fertilizer policy. This report, "Pakistan Fertilizer Policy: Review and Analysis", January 1985, is being used as the basis for continuing the dialogue with the GOP on fertilizer policy reforms. USAID plans to continue an aggressive effort to assist policy change through the life of ACE and further strengthen its endeavours in a follow-on CIP type activity entitled "Agricultural Sector Support Program" (ASSP). Scheduled for implementation in late 1987, this program is designed to release ASSP funds in tranches when policy changes are implemented rather than setting conditions precedent for actions yet to be taken. In the design of ASSP, USAID has charted step-by-step fertilizer policy change requirements.

The evaluation team concludes that USAID plans to continue its firm position related to fertilizer policy reform is appropriate.

Private Sector Fertilizer: Discussions with representative of the private sector fertilizer industry established the fact that the industry as a whole was interested in and willing to play an even greater role in fertilizer import and distribution than presently allowed by the GOP. This willingness was predicated on the condition that the GOP would assure the private sector their status as a private entity remain intact. There was a specific expression of willingness that under suitable conditions some members of the industry would be willing to enlarge their infrastructure to enable them to take on additional

responsibility for farmer education on fertilizer-use efficiency. One firm went farther and expressed a willingness to expand its scope of operations into the supply areas of other production inputs (pesticide, machinery, credit) and marketing.

The private sector producers and distributors indicated that, if given the opportunity, they could deliver fertilizer to the farm gate more efficiently and at a lower cost than is presently done by the public sector. Their stated requirements to do this included:

- No further public sector investment or expansion in government owned and operated fertilizer plants
- Privatization of existing public sector plants
- Elimination of direct public sector fertilizer price subsidies
- Elimination of restrictions on direct private sector fertilizer imports
- Elimination of restrictions relative to Provincial distribution quota
- Private sector/public sector interaction in fertilizer use research and
- Greater freedom allowed in private sector participation in the supply, distribution and sale of other production inputs (market expansion opportunities).

The evaluation team concluded that while these statements were motivated by a large self interest factor, there did appear to be a great deal of interest and willingness on the private sector's part to expand their participation and support to the government's fertilizer distribution and use efforts.

On the other hand, the public sector's expressed concern over its need for continued involvement as a supplier/distributor/seller was appreciated. It was apparent that the level of distrust between the public and private sector is quite strong. The evaluation team concludes that USAID, well aware of this and other problems, is aggressively taking suitable actions to overcome the many obstacles faced in guiding the GOP toward privatization in fertilizer production and distribution. This effort might be accelerated through the process of facilitating closer interaction between the two sectors.

Recommendations:

- That USAID arrange an observation trip to the United States and other countries in which both the public and private sector can together observe and compare the interaction and respective roles of the two sectors in fertilize supply, distribution and use.
- That the GOP make such policy changes (import, pricing, subsidy reduction, transport costs, interest rate reforms to reflect market

rates, and easing of collateral requirements) as necessary to encourage and facilitate the private sector's participation in promoting fertilizer use efficiency and the supply or provision of other prerequisite production inputs and services.

- That USAID encourage the private sector fertilizer industry to utilize the training resources offered to the private sector as a means for preparing the industry for an expanded role in agricultural development.

The Farmer - The End-User of Fertilizer: "All farmers use fertilizer" was a statement often made to the evaluation team by the fertilizer sector (public/private). This was accepted as an over-statement of the actual situation. The team did, however, interpret this as a positive indication that the suppliers viewed the marketing potential in positive terms and that the farmer end-user in general understood the value and benefits to be derived from fertilizer application. The government is in a position where it must continue to assure the availability of fertilizer through one means or another.

The rapid adoption of chemical fertilizers by the farmers is attributed to several factors. The most important is the availability of fertilizer (incountry production capacity increase), a more effective distribution system and an increase in procurement prices for most of the crops on which fertilizer is used. This was substantiated by the evaluation team during its contacts with both public and private producers, retail outlets and farmer users. The farmer user indicated that he sought out and used fertilizer when the crop/fertilizer price ratio was to his advantage. Access to credit and easy access to fertilizer were given as other important factors influencing the farmer to use fertilizer. Use appeared to be based on how much he could afford to buy. Price increase of fertilizer was a concern and there was a indication that fertilizer use would not cease with higher prices but that its use would be curtailed if the crop/fertilizer price ratio became, in the farmer's eyes, unfavorable to his personal situation.

Fertilizer was broadcast by hand in most cases and not incorporated into the soil. Research worldwide has demonstrated that substantial losses of nitrogen occur when proper application practices are not followed.

One can conclude from these observations that the value of fertilizer is recognized by the farmer and that, while illiterate, he understands the basic economic principles of its use. One must also conclude that access is important but that cost and other production inputs must be considered in a fertilizer production/import/distribution program.

It is apparent that at some levels the GOP fully understands the significance, validity, and linkages between fertilizer availability and its goal of increased agricultural production. It does not appear, however, that some of the higher levels or organizational units of the GOP fully understand the significance or necessity for integrating fertilizer with access to other inputs and the need to develop a complementary infrastructure to effect the efficient utilization of fertilizer. The evaluation team recognizes ongoing efforts (MART, TIPAN) and urges USAID

at every opportunity to encourage and assist the GOP. This will be particularly important as the fertilizer subsidies are reduced and eliminated.

Equipment: The equipment commodity allocations under ACE have been used to a large extent as commodity support for seven on-going technical assistance projects. A limited amount of equipment is being procured for associated activities that are non-project specific. Following is a summary of the project and non-project equipment procurement:

Project Related Equipment

Project #	Title	Planned Allocation (million dollars)
391-0467	Irrigation Systems Management (ISM)	51.80
391-0489	Management of Agricultural Research and Technology (MART)	5.60
391-0479	Baluchistan Area Development (BALAD)	4.70
391-0489	Transformation and Integration of Provincial networks (TIPAN)	3.20
391-0481	Forestry Planning and Development (FPD)	3.50
391-0491	Food Security Management (FSM)	0.90
391-0485	North West Frontier Province Area Development (NWFP)	<u>0.40</u>
		70.10

Non-project Equipment

•	Warsak high lift pumps	1.30
•	Center For Applied Molecular Biology, University of the Punjab, Lahore	0.44
•	North West Frontier Province - Roads	6.00
•	Miscellaneous	<u>2.60</u>
		10.34
	Total	<u>80.45</u>

While equipment procurement to date under ACE represents only about 16 percent of total planned allocations, it does represent a disproportionately large segment of time and effort on USAID's part to identify needs, develop specifications, monitor procurement, process entry clearances and distribution, and ensure its proper utilization. Equipment procurement involves a much more substantial management input than was required for the import of high value bulk commodities (fertilizer, cotton and wheat), and uses a variety of procurement modes. For example, PILs and PIO/Cs are often used with ACE obligation numbers and the transactions are handled as project procurement under CIP regulations.

The evaluation team considered it essential to look at the relationships or interactions between these project and non-project activities and the ACE program. The criteria used was of a comparative nature and included the following:

- Equipment procurement in relation to ACE Program goals and purposes
 - Balance of payments impact
 - Impact on increasing agricultural productivity within the agricultural sector
- Equipment procurement as related to U.S. "Policy Cornerstones"
 - Generation of policy dialogue
 - Technology transfer
 - Institutional building
 - Support/development of the private sector
- Relationship or compatibility between ACE and the seven projects' goals and purposes
- Equipment contribution to development impact (intermediate and long term)
- Relationship of equipment input and equity
- Equipment procurement and USAID management and
- Equipment suitability and utilization.

The plan for projected use of ACE as a vehicle for the procurement of equipment supporting the various technical assistance projects appeared to be based on the availability of ESF project funds. One exception to this was the planned use of ACE resources for some \$60 million worth of equipment in support of the canal and drain rehabilitation component of the Irrigation Systems Management Project. This was specified in some detail in the original PAAD. Subsequent PAAD amendments allocated ACE resources for the procurement of additional equipment in support of new TA project interventions approved or under approval review. The ready availability of ACE resources provided flexibility and enabled USAID to accelerate the procurement process for project commodities so that commodity arrival was closely coordinated with the arrival of project technical assistance personnel.

A review of end-use audit reports relating to the use of equipment for the ISM rehabilitation component, including workshops and canal and drain rehabilitation, was included in the evaluation. The team visited one of the workshops and a site where a portion of the heavy equipment was being used to rehabilitate a main branch canal. It found the equipment at the Moghalpura Irrigation Workshop now being fully utilized. At the Main Lower Bari Doab Branch Canal ACE procured equipment (12 dump trucks, 2 vibrator compactors, 12 hydraulic lift scrapers, 2 water trucks and 1 service truck) was being fully utilized. The agricultural specialist on the team had visited both sites some sixteen months ago and found that utilization is vastly improved, primarily as a result of the successful merging of equipment, technical assistance, planning and training. The latter three inputs were provided through ISM project resources.

Less than perfect merging of equipment arrival with the arrival of supporting technical assistance still occurs but to a minor degree. The value of procuring equipment even in the design stage of a project so that it is on hand for the technicians' use appears to be a calculated risk worthy of the effort, particularly as the practice appears to be limited to equipment which would be for general use even if the project does not eventuate.

The mode for procuring equipments varied between projects, based on the end-user's prior demonstrated proficiency or lack of proficiency in equipment procurement. Decisions were judgement calls exercised by project management. The procurement mode used in each project is identified as part of the project summary (Annex F). USAID, by assuming a great portion of the responsibility for the procurement of equipment is not helping the various GOP entities fully develop procurement competency of their own.

Recommendation:

- That, to the extent possible, future equipment procurement be made through regular GOP procurement channels.

During a site visit, an occasional complaint was heard that some of the heavy earthmoving and silt removal equipment procured for canal and drain rehabilitation was too large or that it was too expensive to operate. Follow-up discussions revealed that the complaints came from one who was used to carrying on rehabilitation work through contractors (men and donkeys) and did not appreciate fully the quality of work possible with heavy equipment. The evaluation team concluded that there was a natural resistance to change, particularly when the use of equipment restricts certain benefits and challenges professional integrity. The observations made during a visit to the Main Lower Bari Doab Branch Canal led the team to the assessment that such complaints are overcome when there is proper mix of equipment, technical assistance and planning. The team also concluded that the time span for technical assistance must be of sufficient length to ensure proper and full utilization of equipment. This appears to be particularly critical in the ISM program since the 60.0 million dollars worth of equipment represents the first major infusion of equipment in the irrigation water delivery sector in some twenty to twenty five years.

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The evaluation team was unable to visit the end-users of all of the equipment. In addition, large segments of equipment are still to be ordered by some projects. A listing of this equipment by general category and status of procurement can be found in Annex F.

The team's approach in assessing the suitability value and potential impact for much of this equipment was to compare project goals and purpose with the goals and purpose of ACE. The mix and type of equipment for each project or non-project activity is prepared and vetted by experts in their field. This process, in the team's estimation, more than adequately meets suitability and procurement standards. This procedure, coupled with the goal and purpose review and comparison, interviews and on-site visits, led to the following conclusions:

- The type and amount of equipment procured under ACE for use in specific projects and activities is consistent with the goals and purposes of ACE
- The equipment procured under ACE directly related to the U.S. "Policy Cornerstones"
- The equipment procurement is supportive of the GOP goals and is having a positive impact on increased agricultural productivity
- Equipment procurement in this mode has little impact relative to rapid disbursement of funds.

Cotton: At the request of the GOP made on January 26, 1984, USAID agreed to provide a total \$35.0 million (\$25.0 million FY83 and \$10.0 million FY84) of ACE funds for the emergency procurement of cotton. The GOP request was predicated on an expected short crop because of weather conditions which were predicted to adversely affect one of Pakistan's most important industries, and threaten employment, foreign exchange and revenue targets. It requested ACE financing for 100,000 bales of raw cotton. USAID's quick response to this request resulted in the procurement and delivery of 56,637 bales (480 pounds net raw cotton per bale) by June 1984. The cost of this first tranche was \$24,082,000 (\$11,079,000 loan and \$13,003,000 grant). Additional quantities were not imported because the adverse affects of weather did not reduce incountry yields to the level expected.

The prospect of cotton import did have an ameliorative effect on the domestic cotton market and allowed the industry to continue without disrupting efforts to expand the developing export market for finished goods and clothing.

USAID's ability to respond rapidly to such an emergency request was possible because of the existence of the ACE Program. The conclusion reached by the evaluation team is that USAID reacted to the emergency request in a expeditious manner and fully utilized the options available.

Wheat: The need for the GOP to procure wheat with ACE resources was a result of drought conditions in late 1984 which reduced wheat acreage on the barani land and lower yields on barani lands that were planted. The GOP submitted its official request to USAID on April 25, 1985 to reprogram \$100 million of ACE funds to meet this emergency. USAID, recognizing the GOP's need to underpin reforms in the GOP wheat policy and maintain wheat stock levels, reacted positively. ACE funds (\$10 million loan and \$89 million grant) were reprogrammed with delivery accomplished as follows:

Tender Date	Quantity Tendered (MT)	Value (\$ million)	Arrival	
			Quantity (MT)	Date
7/10/85	88,100	14.638	44,000	9/8/85
			44,100	9/10/85
10/10/85	118,000	21.837	74,043	9/10/85
			41,960	1/21/86
11/5/85	100,000	14.912	57,000	2/14/86
			38,001	2/17/86
1/7/86	260,000	44.912	69,473	4/16/86
			74,547	4/26/86
			43,032	3/12/86
			42,312	4/21/86
			29,000	5/8/86
566,100		96.299	557,468	

This rapid reprogramming of funds and subsequent rapid procurement and delivery enabled the GOP to retain the confidence of the population, continue forward with its wheat policy and maintain wheat stock levels.

USAID's ability to repond rapidly to this emergency request was expedited by the ACE Program. In reviewing this procurement support effort, the team concluded that USAID reacted in a timely and efficient manner and utilized the options available through ACE. The result was a substantial strengthening of understandings with the GOP on policy considerations.

B. ECE Development Impact

1. Background

Pakistan is in the midst of a major energy transition. A high level of development expenditure was incurred in Pakistan during the 1970s to create infrastructure which did not previously exist and to embark on major projects designed to realize the country's considerable economic potential, particularly in energy and agriculture.

External borrowing has financed a substantial portion of this development. Oil price increases, with accompanying increases in the cost of goods and services from industrial countries, have resulted in shortages of foreign exchange. This in turn has delayed implementation of projects because of cost overruns and meeting current import requirements on which the efficient utilization of capital assets depends. There have been domestic financing difficulties in maintaining the level of GOP revenues required to provide the local currency component of development. In the energy sector, pricing policies of state corporations have also led to an inadequate flow of income, causing losses which were met by credit from the banking system.

Operational problems, due partly to infrastructure limitations and partly to shortages in the availability of management skills, have hampered energy production facilities, particularly in the important import substitution sectors. During the 1970s, the GOP's involvement in the energy sector lacked coordination between economic planning and energy development objectives. In fact, energy was not recognized as a sector in itself until the mid-seventies. The 1980 World Bank report, "Pakistan - Issues and Options in the Energy Sector," listed the need to develop a rational energy planning capability as a major issue facing the Pakistan's energy sector.

During the past five years, the need for policy and institutional reform in the energy sector has been recognized by the GOP, USAID, and the major multilateral donor agencies. In the GOP's Sixth Five Year Plan (1983-1988), nearly 40% of all development resources are targeted toward the energy sector. In recent years considerable legislation has been introduced by the GOP which would improve the policy environment for the energy sector and, in time, help rationalize its development. The goal is to alleviate the shortages of both natural gas and electricity. The following measures taken by the government are designed to contribute to an improved energy supply trend in the short and long terms:

- increase the price of natural gas to 2/3 the border price or import price of fuel oil
- assess and develop indigenous coal resources
- set electricity tariffs high enough to permit self-financing by the power sector of 40% of its capital expansion costs
- encourage fuel wood plantations

- limit the use of natural gas for power generation and require some industries to convert from natural gas to oil or coal
- induce private sector investments in large scale power generation
- reorganize the power sector and experiment with private sector participation in power distribution
- implement a comprehensive national energy conservation program, and
- improve national energy planning

2. USAID Energy Sector Assistance Program

In recognizing the above objectives, the USAID energy sector program (1981-1987) has evolved to be a top priority for both the GOP and USAID. As described by USAID, the program attempts to avoid the risk of piecemeal decision making by directing attention to some of the implications of certain choices for Pakistan national energy development situation. Primary objectives of the current program are listed as:

- elimination of electricity and natural gas load shedding
- reduction of GOP balance of payment constraints
- encouragement of private sector participation and investments in the energy sector
- increasing other donor coordinated financing in the energy sector
- improvement of energy production, distribution and end-use, and
- strengthening of the energy sector's institutional, management, and manpower base

Table II-B-1 gives the overall summary of USAID energy assistance for the period 1981-1987. The ECE program was designed in 1984 in support of the GOP Sixth Five Year Energy Plan (1983-1988) to provide foreign exchange resources on a fast disbursing basis for importation of equipment and technology that would contribute to energy production from indigenous resources or energy conservation. Some of the potential associated benefits of the ECE program were identified as:

- providing foreign exchange to mitigate balance of payment problems
- creating a rapidly growing source of rupees to finance the local costs of important energy development projects
- facilitating the technology transfer process for the local use and manufacture of advanced energy systems

TABLE II-B-1
SUMMARY OF USAID ENERGY
SECTOR ASSISTANCE TO THE GOP
(Actual and Programmed)

Projects	Development Objectives	C.S. Dollars in Million
<u>Authorized for 1981-1987 period</u>		
1. Rural Electrification Project	Institutional improvement training, energy loss reduction, combined cycle power generation, and rural system extension	\$341 ^{1/}
2. Energy Planning & Development Project	Energy planning, training, energy data base development, coal resource development, coal briquettes, renewable energy and energy conservation	\$105 ^{2/}
3. Energy Commodities and Equipment Import Program	Balance of payment support, support for 6th Five Year Plan, and technology transfer	\$100
4. Forestry Planning and Development Project	To support fuelwood forestry and domestic energy consumption	\$ 25
<u>Sub-total:</u>		<u>\$571</u>
<u>Programmed for Post 1987</u>		
1. Lakhra Coal-fired Power Project	Diversifying fuel usage, developing a coal-fired generation technology base, mobilizing and developing a modern private sector coal industry, increasing energy self sufficiency and reducing foreign exchange exposure, and providing domestic economic and industrial development.	\$125
2. Private Sector Power Generation and Distribution Project	To improve power supply/demand imbalance, to attract technical and managerial resources and mobilize local and foreign financial resources, and to diversify similar power units based on various energy resources (e.g., small hydro, biomass, low Btu gas, diesel in rural areas), and to use the private sector capability to implement power generation significantly faster than the bureaucratic constraints of WAPDA and KEBC allow.	\$150
3. Amendment to Forestry Planning and Development Project	To support fuelwood forestry and domestic energy consumption	\$ 17
4. Hydro or other large scale scale Power Generation	To meet the energy resources and power supply development objectives of Sixth and Seventh Five Year Plans.	\$160
<u>Sub-total: (tentative)</u>		<u>\$451</u>
<u>Grand Total</u>		<u>\$1,022</u>

^{1/} Post 1987 allocation is \$140 million
^{2/} Post 1987 allocation is \$60 million

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3. Evaluation Objectives

With respect to ECE, the evaluation must perform a number of tasks (see Appendix A for scope of work):

- To review historic, current and projected institutional, technical, and financial impediments to private and public sector energy commodity procurement
- To review progress to date as required by performance disbursement designs for decisions about continued funding or program modifications
- To evaluate major policy decisions and/or assumptions made during ECE program design and determine their continued validity
- To provide recommendations to foster private sector energy commodity imports and development to meet the goals of the GOP Sixth and Seventh Five Year Plans
- To estimate the short-term effects and the probability for sustained impact of the ECE program, and to reasons for success or failure and lessons learned.

The evaluation of the ECE is based on five weeks in Pakistan during which the team conducted extensive interviews with public and private sector energy producing entities, private equipment importers, oil and gas suppliers, GOP ministries, state corporations, banks, energy research institutions, and responsible individuals and organizations in major energy or economic sub-sectors. A list of the major meetings which were held is presented in Appendix B.

4. ECE Import Program

When the USAID energy sector assistance program was resumed in Pakistan seven years ago, the development environment was severe. The GOP was still public-sector oriented. Much of industry and banking had been nationalized, and the government faced serious budgetary and foreign exchange restraints. The rationale for USAID assistance to Pakistan was based on helping the country to develop and sustain a viable and progressive government and the protection of U.S. interests in the region.

The ECE import program was designed to assist the GOP to reduce part of its balance of payments shortfall caused by the importation of fossil fuels and declining remittances from the Middle East. In the PAAD, it was argued that the ECE \$100 million program (\$50 million in loan fund and \$50 million in grant funds) would help the GOP to alleviate foreign exchange shortages in two ways:

- Directly, by contributing \$100 million in foreign exchange for the public and private imports that were required to realize the Sixth Five Year Plan goals.
- Indirectly, by either saving energy or increasing domestic energy resource production, thereby reducing oil imports. These indirect

savings were estimated in the range of \$100 million in avoided oil imports over three years.

An overview of the ECE program funding history is included in Table II-B-2. The equipment requirements for the direct support of the Sixth Five Year Plan were identified for the following energy sectors:

Energy Sectors	Equipment Under ECE
1. Energy and Fuel Conservation	Heat recovery equipment; instrumentation and control systems; high efficiency motors; compressors and pumps; coal conversion equipment
2. Private Sector Equipment	Replacement parts and spare-parts for gas turbines and steam plants to improve heat rates and outputs; power distribution and tubewell equipment; shunt capacitors for reducing T&D losses; and various other spare-parts for generation, transmission and distribution systems rehabilitation
3. Coal Mining and Processing Equipment systems	Pneumatic drills; ventilation conveyor systems; hard hats and safety lights
4. Oil and Gas Sector Equipment	Seismic equipment to OGDC and equipment funding resources for private sector firms for exploratory drilling project.
5. Renewable Energy Development	Photovoltaic panels, materials and manufacturing equipment; wind pumps and generators; specialized generators and controls for small hydro.

Other stated objectives of the ECE program are to create a flow of rupees and to develop institutional capabilities:

Creation of Local Currency Account: The USAID loan to the GOP is for 40 years with a 10 year grace period. The GOP loans to both public and private sectors will be paid back over short periods of time, thus creating a continuous flow of rupees which could be used to finance local currency components of future energy development projects.

Technology Transfer: The ECE program will assist in establishing the institutional capability to plan, execute and evaluate alternative energy development and energy conservation programs.

USAID's commitment to this program for both the public and private sectors energy equipment needs appears to be consistent with the need and objectives of the CDSS and the GOP Sixth Five Year Plan.

TABLE II-B-2
 Overview of BCE Program
 Funding and Amendments
 (US \$ in Millions)

Program Document Approval Sequence and Date	Resource Allocations			Projected Use	
	Loan	Grant	Total	Public Sectors Loan and grant	Private Sectors Loan
1. PAAD Authorization (391-0480 July 1984)	\$80	\$20	\$100	90	10
2. Funds Obligation BCE Commodity Import Grant and Loan Agreement August 30, 1984	\$20	\$ 2	\$ 22	\$8.1 ¹	\$10 ²
3. BCE First Amendatory Agreement June 6, 1985	\$35	\$26	\$ 61	\$16.50 ^{3/}	\$10 ^{2/}
4. BCE Second Amendatory Agreement July 8, 1986	\$50	\$50	\$100	\$43.13 ^{4/}	\$20 ^{5/}

1 In 1985, OGDC was allocated \$2 million grant and \$6.1 million loan funds.

2 Private sector fund \$5.0 million each allocated to UBL and HBL for loan administration.

3 PIL No. 11A WAPDA - \$5.7 million; KESC - \$1.4 million;
 PCSIR - \$1.3 million; (all grant funds), OGDC \$8.1 million. (loan \$0.1 & Grant \$2.0);
 TOTAL - \$16.5 million

4 PIL No. 23A GSF - \$ 8.136 million
 HDIP - \$ 3.20 million
 KESC - \$ 3.8 million
 PCSIR - \$ 4.5 million
 WAPDA - \$ 7.0 million
 OGDC - \$16.50 million
 Total - \$43.13 million

5/ Additional \$10.0 million funding for the private sector was allocated to Citibank and Bank of America

Total of PIL 11A plus PIL 23A equals \$59.63 million.

5. Beneficiaries

Primary Beneficiaries: Public sector corporations and agencies dominate a wide spectrum of energy related activity including oil and gas, electricity and industrial production; imports of major energy commodities; energy related R&D and financial services. Upon implementation of the ECE program, most of the equipment funding requests came from the public sector agencies and corporations such as WAPDA, PCSIR, HDIP, GSP, KESC, and OGDC. A sum of \$20 million was obligated for the use by private sector banks. However, these funds have not yet been utilized because of constraints noted in Chapter I.

Table II-B-3 summarizes the potential primary beneficiaries of ECE import program in the public sector for the FY 1984 to 1986. A total of \$56.3 million was committed under the first and second tranches to the public sector. Excluding the private sector set aside of \$20 million, the remaining available loan fund is \$23.7 million for the third tranche. The public sector request to the Equipment Selection Committee of the GOP Energy Policy Board for loan and grant funds for the first tranche exceeded \$400 million. However, PIL No. 11A dated May 26, 1985 earmarked only \$16.5 million for procurement of commodities and equipment by four GOP public sector agencies. IFBs were issued between October 1985 - January 1986 for WAPDA (\$5.7 million), PCSIR (\$1.3 million), OGDC (\$8.1 million) and KESC (\$1.4 million). PIL No. 23 dated August 28, 1986 earmarked \$39 million for procurement of commodities and equipment by the GOP. IFBs were issued between September, 1986 to May 1987 to GSP (\$6.4 million), KESC (\$3.8 million), PCSIR (\$3.5 million), HDIP (\$2.04 million), WAPDA (\$7.0 million), and OGDC (\$16.50 million).

The detailed lists of commodities and equipment first submitted to the USAID were in excess of \$155 million. The following shows the further reduction of public agencies commodities and equipment for the second tranche: (in millions)

KESC	\$ 8.580
HDIP	\$ 4.590
PMDC	\$ 5.680
PCSIR	\$ 8.000
OGDC	\$35.000
WAPDA	\$25.000
GSP	\$ 0.476
NRL	\$ 0.910
Total	\$88.236

Finally, for the second tranche procurement, PIL # 23 issued on August 28, 1986 earmarked \$39 million for procurement by six public sector agencies as shown in Table II-B-3.

Allocations of funds for the third tranche to public sector agencies are summarized in Table II-B-4. The available funds for the third tranche total \$23.7 million against the requested allocation of \$48.0 million. Various agencies' requests are prioritized to match the available remaining ECE funds for FY 1986-87.

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TABLE II-B-3
PRIMARY BENEFICIARIES OF ECI IMPORT PROGRAM
(US \$ MILLION)

Agencies and Corporations	Obligated	Earmarked (By PIL #11 and #23)	Committed	Disbursed	Remaining Earmarked	BALANCE ACCOUNT		
						Bids under preparation/ evaluation/ Award & Contract	likely to be disbursed by June '88	to be reallocated
A. Public Sector								
	<u>FY 1984 (August)</u>							
	Loan \$ 20m							
	Grant \$ 2m							
1. OGIC								
Tranche 1		8.1	8.1	7.1	1.0	N/A	N/A	N/A
Tranche 2		16.5	16.5	-	-	Bids under evaluation	16.5	-
Tranche 3		-	(14.61)	-	-	PIL to be issued	-	-
2. WAPDA	<u>FY 1985 (June)</u>							
	Loan \$15 m							
	Grant \$24 m							
Tranche 1		5.7	3.4	0.8	2.6	4/	7.0	-
Tranche 2		7.0	7.0	-	-	Bids under Evaluation	-	-
Tranche 3		-	(15.00)	-	-	PIL to be issued.	-	-
3. KESC								
Tranche 1		0.7	0.7	0.5	0.2	4/	-	-
Tranche 2		3.8	3.8	-	-	Bids under Evaluation	3.8	-
Tranche 3		(7.2)	-	-	-	PIL to be issued	-	-
4. HDIP	<u>FY 1986 (July)</u>							
	Loan \$15 m							
	Grant \$24 m							
Tranche 1		NIL	NIL	NIL	1.3	-	-	-
Tranche 2		3.0	3.0	-	-	Bids under Evaluation	3.0	-
Tranche 3		-	(3.0)	-	-	PIL to be issued	-	-
5. PCSIK								
Tranche 1		1.3	1.3	1.3	NIL	4/	-	-
Tranche 2		4.5	4.5	-	-	Contracts awarded	4.5	-
Tranche 3		-	(3.0)	-	-	PIL to be issued.	-	-
6. GSI								
Tranche 1		NIL	NIL	NIL	NIL	-	-	-
Tranche 2		8.0	8.0	NIL	NIL	Contract awarded	4.5	-
Tranche 3		-	(4.2)	-	-	PIL to be issued.	-	-
7. PHDC								
Tranche 1		NIL	NIL	NIL	NIL	-	-	-
Tranche 2		NIL	NIL	NIL	NIL	-	-	-
Tranche 3		-	(1.0)	-	-	PIL to be issued.	-	-
8. DQREK								
Tranche 1		NIL	NIL	NIL	NIL	-	-	-
Tranche 2		NIL	NIL	NIL	NIL	-	-	-
Tranche 3		NIL	NIL	NIL	NIL	-	-	(1.0)
B. PRIVATE SECTOR ALLOCATION	Habib Bank Ltd. \$ 5 m							
	United Bank Ltd. \$ 5 m							
	Citibank \$ 5 m							
	Bank of America \$ 5 m							
	<u>\$20 m</u>							

- Notes. 1/ Figures in parenthesis show public sector spending on priority basis in three different stages and depending upon the mobilization of private sector window. See Table II-B-4 for commodity priorities.
2/ A total \$56.3 million committed under 1st and 2nd Tranches in public sector agencies and corporations
3/ Uncommitted available fund is \$23.7 for 3rd Tranche in public sector
4/ Contracts awarded. Commodities being received.

TABLE II-B-4
Public Requests for BCE Funds
to the GOP Equipment Committee
for 3rd Tranche Procurement

Public Sector Agencies	Priority	Fund Allocated by BCE (US \$ Million)	Equipment Needs
OGDC	1st priority	\$ 5.43	Vibrators and Drilling Consumables, Seismic, Geophones & Vibrosies, Various Communication and Drilling Consumables
	2nd priority	\$ 5.96	
	3rd priority	\$ 3.22	
	Sub-total	\$14.61	
PCSIK	1st priority	\$ 1.00	Fuel Research Center and Solar Research Center
	2nd priority	\$ 1.00	
	3rd priority	\$ 1.00	
	Sub-total	\$ 3.00	
WAPDA	1st priority	\$15.00	Rehabilitation of Thermal Power Plants
KEPC	1st priority	\$ 7.2	Rehabilitation of Thermal Power Plants
PMDG	1st priority	\$ 0.735	-
	2nd priority	\$ 0.108	
	3rd priority	\$ 0.075	
	Subtotal	\$ 1.0	
GSP	1st priority	\$ 4.20	Coal Exploration in Khost Sharigh, Harnai (Baluchistan) and Coal Exploration in Salt Range
HDIF	1st priority	\$ 1.0	Process Development Div, Fuel Substitution and CNG Stations Process Development Div and 5 CNG Stations POI Regional Centers, POL Labs 10 Karachi, 2 Energy buses, 2 CNG stations
	2nd priority	\$ 1.0	
	3rd priority	\$ 1.0	
	Sub-total	\$ 3.0	
Total Request for BCE Fund		\$48.00	

- Notes:
- 1/ PIL No. 24 to be issued for obtaining GOP approval for procurement under 3rd tranche by the public sector agencies
 - 2/ The total fund availability will depend upon the status of private sector allocation.

TABLE II-B-5

Contribution of ECE Program for Thermal
Efficiency Improvement in WAPDA System
(Stone & Webster Report Oct. 1985)

Potential Benefits to WAPDA System Over a Three-year Period of Rehabilitation	Probable Contribution of ECE Import Program in Spare-parts, Instrumentation and Control Equipment	Estimated Cost for Rehabilitation
Increasing the WAPDA thermal thermal generating capacity from 1220 MW to 1463 MW; this total of 243 MW increase consisting of:	Overhauls, repairs, modifications, and additions to increase the efficiency, availability, and capacity of units at the six WAPDA steam stations.	\$27 million for rehabilitation of the 19 steam units. \$80 million for the conversion of the Kotri and Faisalabad combustion-turbine plants to combined-cycle.
88 MW of restored steam plant capacity at an incremental cost of \$450/KW.	Converting the four Kotri and eight Faisalabad combustion-turbine units to combined-cycle facilities	\$6 million applied to other combustion turbine plants.
118 MW of capacity by converting twelve combustion turbine units to combined cycle units at an incremental cost of \$720/KW.	Overhaul, repairs, addition of evaporative coolers, and cleaning of compressors to increase the capacity, improve the availability, and reduce the average heat rate of other combustion-turbine units.	\$17 million for spare parts and related improvement in WAPDA's planning, management, and storage of its spare parts inventory.
38 MW of restored combustion turbine capacity, which could be added to WAPDA's system for an incremented cost of \$361/KW.	Increased spare parts and better management, storage and application of spare parts.	\$120,000 for training improvements.
Improved availability of WAPDA's thermal generation, enabling provision of about 735 GWH/year of additional deliveries of electricity to WAPDA's system. (This is about a 14 percent increase over 1984 thermal unit generation.)	Increased equipment maintenance capabilities of WAPDA's nine workshops	\$6 million for shops and warehouse improvements.
An improved average heat rate for WAPDA's thermal units could reduce WAPDA's fuel consumption per kWh of thermal generation by about 11.2 per cent.	A major dedication by WAPDA of its plants operations and maintenance staff to periodic technical training and an expanded instructional program as explained in Section 6.	\$14 million for project planning, management, and engineering . \$16 million for contingency.

TABLE II-B-6

Contribution of ECE Program for Thermal Efficiency Improvement of KESC System (Stone & Webster Report, October, 1985)

Potential Benefits to KESC System Over a Three-year Period of Rehabilitation Program	Probable Contribution of ECE Import Program in Spare-parts, Instrumentation and Control Equipment	Estimated Cost for Rehabilitation
Increasing the KESC thermal generating capacity from 573 MW to 754 MW; this total 181 MW increase consists of:	Overhauls, repairs, modifications, and additions to increase the efficiency availability, and capacity of units at the six KESC steam stations.	\$50 million for rehabilitation of the four steam units.
63.3 MW of restored steam plant capacity at an incremental cost of \$815/kW.	Converting the five SITE combustion turbine units to combined cycle facilities.	\$75 million for the conversion of the West Wharf steam plants and SITE combustion turbine plant to combined cycle facilities.
106 MW of capacity by converting two steam and five combustion turbine units to combined cycle units at an incremental cost of \$743/kW.	Converting two West Wharf steam turbine units to a single combined cycle facility.	\$2 million applied to other combustion turbine plants.
11.2 MW of restored combustion turbine capacity, which could be added to KESC's system for an incremental cost of \$253/kW.	Overhaul, repairs, addition of evaporative coolers, and cleaning of compressors to increase the capacity, improve the availability, and reduce the average heat rate of four other combustion-turbine units.	\$6 million for spare parts and related improvement in KESC's planning, management, and storage of its spare parts inventory.
Improved availability of KESC's thermal generation, enabling provision of about 280 GWH/year of additional deliveries of electricity to KESC's system. (This is about a 6.5 per cent increase over 1986 thermal unit generation.)	Increased spare parts and better management storage and application of spare parts.	\$200,000 for training improvements. \$1 million for shops and warehouse improvements.
An improved average heat rate for KESC's thermal units could reduce KESC's fuel consumption per kWh of thermal generation by about 12.1 percent.	A major dedication by KESC of its plant operations and maintenance staff to periodic technical training and an expanded instructional program as explained in Section 6.	\$13 million for project planning, management, and engineering. \$16 million for contingency.

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For the fiscal years 1984 through 1987, requests for ECE funds from the various public sector agencies exceeded the allocated \$80.0 million. The ECE program for the public sector is not only satisfying the original goal for providing foreign exchange for importing critical spare parts for the energy sector, it is generating various secondary benefits in the energy sector as discussed in the next sub-section. However, there is no evidence that fund allocations by the public sector agencies were based on cost/benefit analyses for distributing the limited funds to the various contenders. Table II-B-4 indicates that the ECE import fund allocation procedure is based on judgment and priority lists developed by the various public agencies and the ECE GOP Equipment Selection Committee.

Recommendations:

- That the USAID should continue to place the highest priority on the ECE import program and continue to fund the public sector agencies based on the critical need for U.S. made equipment and spare parts. The final level of future funding for the post 1987 period should be based on the recommended evaluation of subsection 11.
- That the USAID obtain better cost/benefit data on all public sector end-users from the GOP. This will provide the basis for further developing a mechanism for allocating funds.

Secondary Beneficiaries: This sub-section describes some examples of potential secondary beneficiaries of the public sector ECE funds. The ECE program is designed to accomplish the following short-term, mid-term and long-term benefits for the following public sector agencies:

Electric Power Sector - WAPDA & KESC: It is generally accepted that Pakistan faces a serious short-term electricity supply crisis. At present, there is a significant amount of unserved or suppressed electricity demand due to absolute capacity shortages and to a high and unpredictable unplanned outage rate. In addition, substantial future growth in electricity demand is projected. The USAID-funded design for the program for efficiency improvement of thermal power plants in Pakistan (Stone & Webster Reports, October 1985) has identified rehabilitation equipment needs for the WAPDA and the KESC. In Tables II-B-5 and II-B-6 some of the direct benefits of such programs for WAPDA and KESC systems are included. However, the following direct and indirect impacts must be estimated to evaluate the true benefits of reducing load shedding due to capacity shortages in the electricity sector. When implemented, the ECE import program for the WAPDA and the KESC should result in the reduction of the following direct and indirect societal cost of inadequate power supply:

Direct Impacts: Direct impacts relate to the interruption of activity of service which requires direct input of electrical energy, and the immediate consequences of the interruption. Examples of this would include the following:

- Manufacturing plant shutdown or industrial production loss; agriculture damage if electricity is used for irrigation; food spoilage (refrigeration); damage to electronic data and loss of

computer services; loss of life support systems in hospitals, nursing homes and households; traffic congestion due to the failure of traffic control devices.

Indirect Impacts: Indirect impacts are effects which result from one or more direct imports and reflect social responses made to load-shedding conditions. They can be further disaggregated in to short, medium, and long-term impacts. Examples of each are as follows:

- Short-Term: Cancellation of institutional activities; industrial production losses; overtime payments to police and fire personnel; loss of productivity due to discomfort; water supply interruptions.
- Medium-Term: Loss of revenue during recovery period; inefficient self-generation of electricity by private industry, shops and high income residential houses.
- Long-Term: Litigations costs; loss of credibility for reliable electricity supply; cancellation of new industrial plants; irrigation related damage; potential increase in insurance costs; and probability of disease and contamination increased due to sewage disposal problems.

Direct adverse impacts, by definition, can only be avoided through an increase in end-user reliability. ECE equipment for the WAPDA and KESC is partially accomplishing this goal. Indirect impacts, on the other hand, will have a long-lasting impact on the overall economy of Pakistan. The major bulk power system demand consists of the agricultural and industrial loads, making electric energy one of the raw materials used in other processes. Therefore, the improved performance of electric utilities due to ECE imports can be assigned a dollar value as an indirect positive impact. For example, it has been estimated that the total revenue lost annually due to load-shedding from poor operation of the Faisalabad thermal power station in the WAPDA system is equivalent to \$1.0 million. Based upon the "Cost of Load Shedding Study", the decline in value added due to load shedding is estimated about \$500 million in lost economic production.

Other Agencies and Corporations: ECE procurement will contribute significantly to energy resource development R&D capabilities of Fuel Research Center (PCSIR), HDIP, OGDC and GSP, which will help to overcome the following barriers:

- Resource Barriers - Private and public industries often lack adequate knowledge of the availability and usability of potential energy resources (examples: low BTU coal and natural gas).
- Technology Development Barriers - In order for industry to use an alternative energy technology, it must be convinced that it is reliable, usable, and cost-effective (example: the compressed natural gas program of HDIP).

TABLE II-B-7
 Summary of Primary and Secondary
 Benefits of ECE Import for the
Public Sector

Agencies or Corporations	Short-Term Primary Benefits					Long-Term Secondary Benefits			
	Balance of Payments	Increased Output	Reduced Shortage Costs	Better Institutional Capability	Import Fuel Substitution	Balance of Payments	Private Sector Development	Technology Transfer	Net Social Benefits
1. WAPDA & KESC (electricity)	No	Yes	Yes	Yes	No	Yes	Indirect	Yes	Yes
2. PCSIR (FRC Coal)	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
3. HDIP (CNG)	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes
4. GSP	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
5. OGDC	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

TABLE II-B-8
Other USAID Funded Energy Projects

Project Name	Major components	Funding for 1981-87 period
1. Rural Electrification Project (391-0473)	(a) Institutional improvement of WAPDA to carry out an accelerated Rural Electrification Program	\$14.2 million
	(b) Training of WAPDA's 80,000 plus power distribution employees	\$18.9 million
	(c) Rehabilitation of distribution circuits and preparation for their extension to rural areas.	\$27.2 million
	(d) Assistance with the installation of four large (100 MW) gas turbine generators	\$52.0 million
	(e) Rural system expansion	\$57.0 million plus \$15.0 million under the ACE program
2. Energy Planning and Development Project (391-0478)	(a) Energy analysis and manpower development	\$45.0 million for four components
	(b) Coal resource development and utilization	
	(c) Energy conservation	
	(d) Renewable energy development	
3. Lakhra Coal Mining and Power Generation Project (391-0487) (Post 1987)	(a) Coal mine feasibility	\$125.0 million
	(b) Power plant feasibility	
4. Other Projects (391-0481) (391-0470)	(a) Forestry Planning and Development Project	\$25.0 million plus
	(b) Project Design and Implementation Project	\$5.0 million
5. Private Generation Project (Post-1987)	(a) Self-generation (coal and oil/gas)	\$200.0 million
	(b) Generation	

- Investment Barriers - New industries often have problems financing business ventures simply because the financial community is unfamiliar with their products (example: solar and wind application and coal briquetting). The ECE program is helping public sector agencies to overcome above barriers by developing new technologies such as CNG and coal research programs. Important factors that are related to the direct and indirect benefits of ECE import program are shown in Table II-B-7.

At the highest level is the net social benefit that should result from the ECE import program. Thus, the lack of short-term balance of payment support because of a non-bulk commodity disbursement rate is the price paid for emphasis on development goals. ECE still moves funds faster than standard project support, and is now expected to move about \$25.0 million per calendar year as of 1987.

Recommendation:

- That the next evaluation of ECE specifically assess the actual benefits of ECE equipment to KESC and WAPDA predicted in the Stone and Webster report of October 1985.

6. Relationship to Other USAID Energy Projects

Other USAID energy initiative projects aim at assisting the GOP to strengthen its balance of payments position by developing indigenous coal, hydro, renewables, and energy conservation capability. All energy projects simultaneously endeavor to strengthen the critical link between economic development planning and institutional capabilities to plan, execute and implement energy development and conservation programs.

Table II-B-8 shows major components of USAID energy projects. The current energy sector program is designed to support the following categories of activities:

- | | |
|--|--|
| ● Institutional reform | ● Coal resource exploration and assessment |
| ● Training | ● Coal mine development |
| ● Private sector participation and investment | ● Coal briquettes |
| ● Power generation | ● Energy efficiency improvement |
| ● Power distribution, rehabilitation and expansion | ● Renewable energy technology |
| ● Energy planning | ● Oil and gas development |

The ECE import program can play a significant role in the implementation of some of the above activities. As the acceptance of private sector participation in power generation and distribution, development of oil and gas concessions, large scale coal mining, coal briquetting, energy conservation, and energy commodities increases, the need for the ECE imports should accelerate. The USAID project strategy in both the public

and private sectors is to address the general constraints of the GOP to develop sound national energy options through its policy and technical research and development activities.

ECE is designed to provide a link to the energy development strategy in Pakistan. Specifically, the ECE program relationship to other activities is based on importing equipment to accomplish the following:

- Develop conventional power generation and energy resources to bridge the gap between supply and demand
- Establish requisite energy data collection and analysis equipment to assist public and private sectors
- Design, assemble and test prototype renewable equipment in cooperation with potential future user agencies and enterprises

Equipment Loan Program for Conservation Retrofits: Retrofitting private industry and business in Pakistan to provide for more efficient energy use would produce substantial energy savings and needs for advanced control technologies. Such retrofit efforts should be a direct outgrowth of the EP&D project feasibility studies on energy conservation. A financial program in the form of interest free loans has proven effective in the U.S. (Normally, the electric utility lends individual industries the capital needed to make improvements, then adds an amount to the borrower's monthly bill to recover the amount of the loan over a one-or two-year period, depending on the amount borrowed.) The ECE private sector window could be used for providing funds for energy conservation equipment in Pakistan.

Recommendation:

- That E&E implement plans to encourage the use of private sector ECE funds to implement the results of EP&D feasibility studies on energy conservation which would involve retrofitting industries through specialized U.S. control technology.

7. Technology Transfer and Training

The GOP's dramatic shift in emphasis in capital intensive energy sector has created an environment where new technologies can flourish. ECE is causing institutions such as manufacturing plants, exploration agencies, irrigation districts and private sector to reexamine the energy development and efficiency improvement potentials in their own jurisdictions. Technology transfer through ECE include the introduction of computerized automatic geophysical data logging, modern environmental monitoring system, modern mining technologies, computer aided power distribution design, coal resource assessment, energy conservation technologies, and modern training related commodities.

In the areas of coal, oil and gas, exploration and development and private power generation, USAID strategy calls for a technology transfer program that delivers information to individuals within public jurisdictions who are most likely to initiate and manage a public/private energy development partnership.

Recommendations:

- That ECE be focused on the areas where U.S. equipment and technologies are superior, such as oil and gas exploration equipment, industrial and rural cogeneration processes, and renewable technology (equipment for solar and wind, data collection, biomass, small hydro).
- That USAID encourage GOP to support private sector development through the public sector institutions such as promoting OGDC - private petroleum joint ventures and WAPDA/KESC private power project infrastructure.

8. Institution Building

In conjunction with other energy projects ECE is having an influence on institutional reform. Some examples are:

- Upgrading of WAPDA and KESC existing thermal and hydro generation and distribution systems;
- Encouragement of energy efficiency measures under a national energy conservation (ENERCON) entity under the Ministry of Planning and Development.
- Strengthening of HDIP capabilities
- Geological Survey of Pakistan institutional improvement
- Acceptance by OGDC of institutional reform assistance and promotion of joint ventures
- Strengthening of PCSIR and offering of analytical services to private sector at reasonable rates

The ECE import program and the role of the private sector, particularly in private power generation corporations and financial institutions, raise institutional issues for analysis. USAID management of potential conflict between the legitimate interests of the public and private sectors affects the economies of all energy entities in Pakistan and future support of the ECE import program for the benefit of private power generation. The USAID and the GOP should initiate a series of public utility policies to remove all regulatory and institutional barriers to the development of private power generation projects. Post 1987, a major portion of the ECE import program can be used for the private generation project. At present the following institutional barriers are unresolved:

- The GOP does not have a standardized qualifying facility (private generation) siting process;
- WAPDA and KESC do not use standard offer contracts for the purchase of capacity (MW) and energy (GWH) from the private electricity producer based on the avoided cost principle

Recommendations:

- That USAID provide technical assistance to the GOP (WAPDA and KESC) for preparing standardized Notice of Intention (NOI) and Application for Certification (AFC) for private generating facilities and the rural electrification project. The purpose of NOI is to inform the regulatory agency and the interconnecting utility about the intention of the project and its justification based on utility demand conformance need analysis. AFC is the final certification of the facility based on engineering, environmental, and public safety design criteria.
- That USAID provide technical assistance in developing standard offer contracts for capacity(MW) and energy (GWH) delivery to the WAPDA and KESC systems by the private energy project developers.
- That USAID provide technical assistance to the GOP in developing private power plant siting regulations based on need analysis, fuel displacement policy, and regional or local development goals.

9. Policy Dialogue

There is a growing gap between energy supply and demand. Among the problems which have been cited in formal or informal reviews of the energy sector have been: price levels which do not cover operations and maintenance and debt service costs; insufficient capital investment; 30% losses due to overloading of transmission and distribution conductors (15%) and meter bypassing (estimate 15%); failure to send out invoices or collect invoices sent; weakness in procurement of systems and services; lack of training and effective preventive maintenance programs.

In close coordination with the World Bank and other donor agencies, USAID is encouraging GOP to implement reforms aimed at:

- Rationalized gas and electricity pricing.
- Domestic coal and oil/gas resource development in the private sector
- Institutional modernization;
- Energy conservation and socio-economic based rural electrification.

USAID energy sector policy dialogue is coordinated with the World Bank Energy Sector Loans I and II for policy reforms to address the sectoral issues in the areas of resource development, investments, pricing, demand management and institutional reforms. ECE supports and reinforces the World Bank Energy Sector Loan development framework and the draft Seventh Five Year Plan through its covenant on the GOP reporting its progress in implementing the Bank's Energy Sector Loan and through conditions on its equipment funding for oil and gas.

10. Relationship to Other Donor Projects

The large majority of USAID's energy sector projects and activities are developed in close coordination with the World Bank, Asian Development Bank, Canada, U.K., West Germany and other donor agencies in the areas of policy reform, commodity procurement, technical assistance, and co-financing coordination. As an example, the following activities were jointly executed with other donor agencies:

- Guddu Combined Cycle Power Generation Project
USAID: \$ 52 million
ADB : \$141 million
- USAID-WB-ADB coordination of Lakhra Power Project (\$815 million) feasibility studies (USAID \$12 million for studies and approximately \$125 million if project proceeds.)
- USAID (up to \$15 million) design of and joint funding with the World Bank for the WAPDA thermal power plants rehabilitation program (\$100 million) and USAID (\$1.0 million) design of the expansion of Jamshoro Power Station Complex (\$1.0 billion).
- Agreement with the World Bank and ADB for co-financing the \$400 million power distribution rehabilitation and expansion program (first \$55 million feeder improvement by ADB and \$7 million USAID).
- The World Bank endorsement and support for the USAID assisted (\$20 million) creation of ENERPLAN (now Energy Wing) and ENERCON.
- World Bank, CIDA and ADB coordination and co-funding of oil and gas exploration, development, and OGDC institutional reform.
- Policy agreement with other donor agencies in the areas of energy pricing, energy sector institutional development and investment.

Recommendation:

- That USAID continue to maintain close coordination with other donor agencies' commodity equipment programs and, as these programs prove their worth, shift ECE emphasis accordingly.

11. Conclusions

Unlike ACE, where the majority of the funds has gone to fast-moving bulk commodities, ECE funds are concentrated solely on development goals, with short-term balance of payment objectives secondary. How well it achieves its development goals depends on the utilization of its planned imports and the progress of the energy sector projects to which ECE is linked. With only 10% of its funds disbursed, it is too early to assess actual versus planned impact. That should be the subject of the next evaluation.

Recommendation:

- That USAID schedule an evaluation of ECE during the Spring of 1988 to assess the utilization of equipment and machinery imported for the public sector agencies and their actual impact on the energy development goals enunciated by the USAID.

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CHAPTER III.

ECONOMIC IMPACT

Introduction

This chapter discusses first the economic climate in Pakistan in which the CIPs operate, then analyzes the various aspects of balance of payments support, both short and long range; analyzes the impact of the CIPs on policy dialogue, and suggests alternative uses for the use of CIP funds. This chapter incorporates the findings of the World Bank Report (1987) and USAID's CDSS (1987).

A. Economic Climate

Fueled by Gulf remittances, smuggling, heroin trafficking and the Afghanistan war, the Pakistani economy has boomed for a decade. The government is spending a budgeted 38 percent of its 1986/87 current expenditures on defense, 7 percent on subsidies and 18 percent on debt servicing, making it difficult to remedy its glaring inadequacies in education, health, energy and basic agricultural infrastructure (see Table III-2).

The economy over the past few years has been characterized by:

- Growth rates in excess of 6 percent per annum which are above plan targets
- Decline in inflation rates
- Increases in cotton, wheat and domestic production
- Important improvements in policy environment including:
 - deregulation
 - agricultural output pricing
 - exchange rate management
- Increases in private sector investment and output.

These pluses have been offset by:

- Continued low investment and savings rates
- Deteriorating budget performance
- No progress removing internal and trade barriers
- An upward trend in unemployment
- A deteriorating balance of payments and foreign reserve position.

Pakistan has over the last several decades been rocked by unforeseen events including:

- Two brief but costly wars with India
- Periodic disastrous floods
- Droughts

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- Regional dissension
- Splitting off of Bangladesh
- Oil shocks
- Lack of political consensus and unity
- Economic recession and nationalization under Bhutto, and
- Influx of over 3 million Afghan refugees.

More recently, the balance of payments position has been influenced by factors not anticipated in the Sixth Plan, both external: instability in the international commodity market (especially for rice, cotton and petroleum products) and sluggish recovery of world trade. The government had the capacity to partially influence other factors, such as poor performance of nontraditional exports and shortfalls in aid disbursements.

Traditionally, the balance of payments effects of external shocks has been offset by capital inflow and supplemented by export promotion. In early 1982, Pakistan broke the traditional linkage between rupee and dollar with a 10 percent depreciation of the real effective exchange rate. But because of poor harvests, particularly in cotton, exports did not show a significant increase until the following year. Increases in imports have been effectively moderated by controlling credit.

High interest rates favorably affected worker remittances which in FY 1985/86 exceeded \$2.5 billion. These inflows in the past contributed to offsetting the deficit and to Pakistan's nearly \$3 billion record level reserve position in 1983. The situation is now deteriorating.

As a consequence, deficits (3.7% of GNP) are running higher than projected (Table III-3). Higher deficits and aid shortfalls have forced the GOP to draw down reserves and resort to short-term borrowing via a wide variety of high tax free interest schemes (Table III-4).

Gross official reserves have fallen by nearly \$1 billion to \$900 million or the equivalent of six weeks of imports of goods and services. If foreign currency deposits of non-resident banks and foreign exchange bearer certificates totaling \$644 million are netted out, adjusted reserves equal only two weeks of imports, a precarious position for a country where exports and imports are subject to considerable instability.

Other indicators also reveal a recently deteriorating foreign reserve position (Table III-6). These figures, however, compare well with averages for other developing countries. But the sharp decline in reserve coverage from 215 percent of total debt service in FY 1983 to 70 percent in FY 1986 and the near doubling of the debt service ratio between FY 82 and FY 86 (Table III-6) indicate that unless Pakistan improves its credit worthiness through improved economic management of structural reforms (See section C below) it will face problems obtaining future funds.

B. CIP and Balance of Payments

1. Overview

The ACE and ECE programs provide different types of balance of payments support depending upon the types of commodities imported, quantity and timing of the shipments, success in disbursing the funds, and the number

of years before a project curtails imports or expands exports. A main advantage of the CIP over other programs or projects is its flexibility in moving between commodities with a rapid speed of disbursement (for handling immediate balance of payments problems) and slower moving project commodities with a high development or structural adjustment impact. However, because the balance of payments situation was relatively strong in 1983, there was more economic justification for expanding the CIP program to support projects with longer gestation periods.

Balance of payment support of programs such as the CIP with its flexible and relatively fast disbursements, contributed to lessening the impact of large domestic shocks due to poor cotton and wheat crops of 1982 and 1983. The situation could have resulted in inflationary monetary policies as experienced by Korea in the early 1980's [Aghevli, B. and Marguez-Ruarte, J. (1985)]. Thus far a real crisis leading to output declines, high unemployment, soaring inflation and huge balance of payments deficiencies has been avoided. But Pakistan remains an agriculturally based economy subject to the vagaries of weather and large but declining worker remittances closely linked to the volatile international petroleum market. And, as such, the CIP provides a useful alternative to other project related assistance in the AID program.

The need to restructure the economy towards exports will pose a continued problem of maintaining an adequate balance between resources and their availability. Continued efforts to restructure the economy towards increased agro-based industries can exacerbate the trade balance and budget deficits - especially in the presence of cheap credit and over-optimistic assessments of domestic and world market prospects. ACE and ECE are providing infrastructure that help provide the critical inputs for closing the foreign exchange gap in these industries.

Broad changes and policy reform have provided an environment more conducive to entry of private firms into key sectors of the economy. Much needs to be done, particularly in rural electrification and promotion of private sector participation in activities formerly set aside for government parastatals, particularly in the areas of:

- Research
- Maintenance of existing facilities
- Development and broadening of the grid
- Improvement of energy efficiency through choice of energy saving technology and economic pricing policies.

2. Balance of Payments Impact

Private Sector Impact: Funds allocated to the private sector window have had no impact to date on Pakistan's balance of payments position. See Chapter I. When public sector project funds are exhausted, failure of the program may have a negative impact in terms of the opportunity costs of siphoning funds from public sector programs and projects which might yield quicker balance of payments impact. See Table III-1.

Public Sector Impact (A General Approach): Public sector programs have had and are expected to have important, significant

but distinct impacts on balance of payments that in the future should be brought out more clearly. Projects, particularly those supported by ECE, have not been as timely as expected*.

Table III-1

Economic Impact to Date of ACE and ECE Commodities on Program Objectives

Program Objectives	ACE		ECE	
	Private	Public	Private	Public
Quick Disbursing Balance of Payments Support as Insurance for Unforeseen Shocks to the Economy....	None	Wheat/ Cotton	None	None
Quick Disbursing Balance of Payments Support for Anticipated Trade Trends.....	None	Fer- tilizer	None	None
Medium-Long Run Balance of Payments Support.....	None	Sub- stantial	None	Substantial (in Long Run)
Indirect Balance of Payments Support.....	None	Sub- stantial	None	Substantial (in Long Run)
Aggregate Structural Adjustment.....	None	Sub- stantial	None	Substantial
Agricultural Sector Adjustment.....	None	Sub- stantial	None	Substantial (in Long Run)
Energy Sector Adjustment.....	None	Fuel- wood	None	Substantial
Economic Development Impact i.e. (High B/C rates, internal rates of return, equitable distribution of income).....	Minimal (\$2.8 million earmarked)	Sub- stantial	None	Substantial
Private Sector Support	Minimal \$2.8 million pro- gramed but not disbursed	Sub- stantial (including farmer)	None	Substantial
Budget Deficit Support.....	None	Sub- stantial (when including farmer)	None	Substantial

*See the objectives of ECE outlined in Chapter II B

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Stablization During Unforseen Crises: ACE has contributed to stablization impact during the wheat crises of 1982 and the cotton crises of 1983. In both cases, the ACE provided an in-place system to help relieve an immediate or potential crisis that could have contributed to destabilization of the economy. Because of the preeminent role of agriculture in the economy and the ability of the U.S. to meet production gaps due to the most common of shocks - vagaries in the weather and growing conditions-ACE provides an important shock absorber. In the absence of shocks, funds can be used to provide anticipated balance of payments support.

ECE has not been and is not expected to be fast disbursing. As a result, ECE has not been used to aid immediate balance of payments crises. The program is new and still being established. In comparison with agriculture, efforts to develop energy are still relatively new for both USAID and other donors. Moreover, the nature of the energy program often requires a longer time frame than immediate consumption, as in the case of wheat, or a growing season, as in the case of fertilizer. The gains in terms of balance of payments support from ECE are expected to be substantial, but will occur mostly in the future as a variety of programs aimed at saving costly fuel imports begins to pay off.

Other Immediate Balance of Payments Impacts: A second category provides immediate support for current anticipated or unforeseen balance of payments problems. The CIP contributes to this type of balance of payments support if the commodities substitute for imports that would have been imported in the absence of the CIP.

Discussions with various users indicate that to date only fertilizer imports may fit into this category*. Other commodities described in Chapter II would probably not have been imported in the absence of the CIP. Much of the equipment and commodities for repair and maintenance are imported only under USAID or other donor programs because other areas such as defense and subsidies receive a higher priority.

*If the fertilizer would not have been purchased without the CIP, then it is additional and balance of payments support gain will be realized only after the growing season when production from using fertilizer might enhance agricultural exports or curtail agricultural imports. However, under the current system which heavily subsidizes fertilizer imports, it is questionable whether the private sector will import fertilizer until the subsidy is lifted. Similarly, ECE has no immediate balance of payments impact because almost without exception the commodities would not have been imported without the program. See Tables III-8 & 9 for a list of imported commodity candidates for immediate balance of payments support.

Medium to Long Run Balance of Payment Impact: All the agricultural projects supported by ACE with the exception of wheat and cotton (that were used to stabilize the economy) and fertilizer (that would have been purchased without USAID support) fit into this category, if the commodities are being used effectively to increase agricultural production of tradable goods. Subsidized fertilizer is applied to major crops including wheat, rice and cotton and edible oils. Since the majority of agricultural projects are geared to these products, the impact will be to curtail imports (Table III-8, 9 & 10) and increase exports (Table III-11 & 12). The net effect can be enormously high in the generally neglected areas of maintenance and repair of irrigation and drainage systems. See Chapter II for a complete description. In the long run there are high payoffs associated with increased expenditures on research and development.

An example of medium term balance of payments support would be the use of drainage equipment that would make the difference between farming or not farming land used to produce a tradable commodity such as wheat. In the presence of all other inputs, it represents the difference between optimal output and no output.

ECE commodities were expected to arrive in 1985, but did not arrive until early 1986. Commodities valued at \$20 to \$30 million this year and for the next two years should yield substantial payoffs in near future. Since these imports would almost certainly not have been imported without the CIP, their impact in foreign exchange availability can only be measured by their contribution to improving future balance of payments position. Cost of two year lags can be viewed as a discounting of future balance of payments benefits and other developmental benefits. The net gains will probably still be quite substantial.

ECE has concentrated on functional areas:

- Oil, gas and coal exploration and development
- Upgrade and rehabilitation
- Energy conservation
- Maintenance and repair and
- Energy research

The expected impact on the balance of payments for all these functional areas is high. Drilling and exploration has already resulted in substantial finds that are permitting Pakistan to save on its import bills. See Table III-7 on recent growth in fuel production.

Energy conservation measures are permitting more generation transport vehicles and other users of energy imports to provide the same level of efficiency with less costly energy imports.

Currently, many of the commodities in ECE are channeled into the long neglected areas of maintenance and repair, and it has been shown that the benefits are often many multiples of the costs for these projects (Stone and Webster Engineering Corporation (1985, Table 7-1)).

The high benefit/cost ratios of modifying projects by introducing energy conserving technologies means that the same utilization levels can be obtained with less use of costly inputs, including imported petroleum. Conversely, increased power using energy efficient technologies can substitute for those using imported energy inputs.

Finally, research is expected to aid the balance of payments situation in a host of ways described in Chapter II. For example, ECE supports import savings projects being developed by the Hydrocarbon Development Institute of Pakistan. Their projects include:

- Helping Promote Oil and Gas Exploration - providing data that have generated interest by private sector foreign interests in domestic regions that earlier were of little interest to foreign oil companies
- Providing Technical Service to Bulk Users of Petroleum - offering domestic laboratory testing of oil samples that previously were shipped to Europe
- Developing and Marketing Interfuel Substitution - developing a conversion that combines indigenous natural gas and regular fuel to form less expensive fuel to substitute domestic natural gas for imported fuel. They are now marketing the product in Karachi and demand is greater than supply among taxi drivers and other intensive users of transport fuel. The balance of payments impact of substituting foreign imports with indigenously produced gas can be substantial. The current payback distance is 20,000 km.
- Improving Fuel Efficiency for Medium and Small Industries - using domestic waxy oil that cannot be used by itself but possibly can be mixed with light oil from Saudi Arabia or Iran to become acceptable as a fuel. HDIP is attempting to analyze the economically optimal mix of the waxy oil with other fuels in an effort to substitute inexpensive domestic sources for expensive foreign fuel imports

Indirect Balance of Payments Effects: These effects can best be reviewed within the context of an Leontief-type input-output model. Both agriculture and energy have important forward linkages. One example is their importance for the budding agro-industries of apparel and textiles. The textile industry has been a major beneficiary of CIP through such programs as the cotton transfer and fertilizers. Cotton is used to make fibers, textile products and apparel - all of which are expected to be part of the growing Pakistani effort to export over the next decade manufacturing products. Exports in this area hold out great potential for providing the foreign exchange needed for financing development.

Similarly, a steady supply of energy brought about by improved supplies and avoidance of load shedding that might result from a program

supporting peak load pricing through policy dialogue can provide a necessary though not sufficient prerequisite for successful production of more man-made fabrics and blends. Inadequate supplies of electricity can ruin textile machines and an entire manufacturing operation.

3. Conclusions

To justify fully the ACE and ECE programs as currently structured, AID must rethink the notion that the primary objective of the CIP--obscuring all others--is to provide quick disbursing balance of payments support. Table III-1 highlights the economic impact to date of ACE and ECE commodities on various program objectives. It is not all inclusive and does not include impact on the private sector or policy dialogue, but it does highlight the wide range of objectives supported to date by ACE and ECE.

First, quick disbursing balance of payments support can refer to its use as insurance against unforeseen shocks to the economy or its support for the more systemic problems anticipated on the basis of a weak export performance, expected declines in workers remittances, etc. It could also refer to quick disbursing commodities for energy saving research (that would not be purchased without ECE) and that will have a great impact on the balance of payments in the long run. Each provides a different type of balance of payments support.

Second, USAID must recognize explicitly the numerous other stated and implicit objectives of USAID and state their relative priorities. See Table III-1. If the highest priority is its use as insurance against shocks, AID would be advised to import food and agricultural inputs from the PL 480 program to stabilize agricultural markets and provide immediate balance of payments support. The structural adjustment and developmental impact would be minimal.

If highest priority use is as immediate support for systemic balance of payment problems, then top priority should go to commodities currently imported by the public and private sectors with their own funds. These would not be additional imports. Within these commodities, AID could prioritize commodities in terms of their contribution to other objectives (i.e. increased exports, decreased imports, development impact, income distribution, future energy import savings, etc). In Pakistan, tallow might qualify because it would provide immediate balance of payment impact for the private sector soap industry. Tallow is currently imported by the private sector from Australia and to a small extent from the U.S. Fertilizer might also apply because of its immediate impact on agricultural production. Fertilizer is imported by the public sector. Generally raw materials and equipment would be preferred over luxury consumables, because of their impact on future production. Humanitarian reasons and human capital theory would justify placing a high priority on necessary consumables.

If highest priority is its use for structural adjustment or development impact, sectoral CIP with ACE and ECE supporting projects that have high benefit/cost ratios and internal rates of return that use new

technologies and that create new institutions and organizations (including private sector participation in energy) would be preferred. Sectoral research projects with long gestation could qualify because of extremely high rates of return in the long run. Within this general category, commodities could be prioritized on the basis of their future foreign exchange saving schemes.

Estimated ACE & ECE Balance of Payments Support To Date:

As Table III-1 indicates, the actual contribution of the program to date would be the C&F value of wheat (\$99 million), and cotton (\$25 million) and fertilizer (\$134 million). The first two were used to stabilize their respective markets after unforeseen crop failures. Fertilizer was earmarked for support of anticipated shortfalls of foreign exchange to purchase the needed critical input. The total C&F value (\$258 million) over-estimates the balance-of-payments support by the C&F costs of importing wheat, cotton and fertilizers from the "best" alternatives sources in international markets. In the future, this could conceivably include U.S. coal to blend with Pakistani coal for power and industry to reduce more costly oil imports.

Even if the U.S. international prices are competitive for these three items, as they appear to be, the transport costs are two to four times greater for U.S. than other carriers. All cotton to date was shipped by U.S. carriers. Assuming 50 percent of the value of the wheat and fertilizer are carried by U.S. carriers, the total balance of payments support of the \$258 million total drops to \$233 million with the \$25 million* difference representing a subsidy to U.S. carriers. If we assume that at least part of the fertilizer would not have been purchased without ACE, the \$233 million "immediate" balance of payments support drops further by the amount that would not have been purchased.

As indicated in Table III-1, no balance of payments support has to date been provided by the private sector windows or equipment procurement under ECE or ACE.

*For a 20 kg bag of DAP fertilizer, the transport costs by a U.S. carrier are \$3 to \$4 per bag and for a non-U.S. carrier \$1 to \$1.50 per bag. For the most recent shipment, the price per bag was \$7.70. Assume the average cost at \$1.25 per bag for a non-U.S. carrier and \$3.50 per bag for a U.S. carrier, the total C&F price per bag is \$8.95 per non-U.S. carrier and \$11.20 per U.S. carrier. Applying the U.S. subsidy on 50 percent of the \$233 million wheat and fertilizer shipment yields a \$23.4 million subsidy to U.S. carriers. The subsidy to U.S. carriers for cotton was \$1.3 million. Thus, the balance of payments impact is \$258 million minus \$25 million or \$233 million. A total of \$25 million in subsidies accrues to the U.S. carriers.

Other Benefits: Table III-1 demonstrates that while the private sector has had essentially no economic impact (i.e. \$2.8 million under ACE has been programmed but not disbursed), ACE and ECE machinery, equipment and inputs are expected to make substantial contributions in terms of medium-to-long term balance of payments support, indirect balance of payments support, aggregate and sectoral adjustment, private sector support, economic development impact and others. These benefits are yet to be realized, although Chak Naurang oil field, a recipient of ECE funds will soon begin production worth an expected \$2 million per year. See Chapter II and Section III-B.

Moreover, the straight numerical value of balance of payments support does not measure the real economic costs of redirecting a rapidly growing economy when it is thrown off course by belt tightening measures aimed at relieving a deficit foreign reserve position or a resulting inability to service debt.

Design of ACE and ECE: With the exception of the private sector window (see Chapter I), the ACE and ECE programs when developed appear to have been very appropriate for Pakistan. These types of programs, including the one envisioned by ASSP with its additional flexibility, appear to be most appropriate as a follow-on program.

The World Bank (1987, p.131-133) statistics indicated that the debt servicing capacity was relatively strong during the period ACE and ECE were initiated, and while there has been a deterioration of the foreign reserve position, the figures compare well "with averages for low income areas and for all developing countries". The statistics show that "while Pakistan's debt service ratio will decline sharply with the end of service payments to the IMF, it will remain around 17 percent up to FY 1995. While this is not excessive by international standards, it will require careful debt management, and more important implementation of structural reforms cited to Pakistan's long-term growth". See Tables III-5 & 6. Because the balance of payments situation is not critical, CIPs with emphasis on development impact and sectoral structural adjustment are more appropriate than a CIP that concentrates only on being a tool for "quick disbursement" balance of payments support.

It appears that for Pakistan in the early 80's, when ACE and ECE were developed, the developmental and sectoral adjustment objectives were justified since there was no immediate balance of payment problems. Even when problems arose after bad wheat and cotton harvests, the ACE program permitted a avenue to bring fast disbursing wheat and cotton shipments into Pakistan. Despite the fact that the cotton arrived after the drought was over, there appeared to be a consensus that it helped avoid potential hoarding of cotton by traders that could have brought about destabilizing price increases.

C. Policy Dialogue

1. Accomplishments To Date

USAID is part of a team of international donors successfully encouraging policy reform. ACE and ECE are substantial sectoral programs that give AID leverage to encourage sectoral policy reforms. The evaluators found good communication between USAID, World Bank and other donors. Reforms to date have been accomplished without need of strong pressures from AID. But USAID appears to be stepping up its efforts to apply conditionality as evidenced in ASSP which will incorporate an element utilizing some of the CIP procedures. In light of some resistance to policy reforms in certain areas described below, these conditions appear to be useful.

On the basis of the recent World Bank evaluation [World Bank, 1987], the progress on policy reforms for ACE and ECE outlined in Chapter II are part of a national trend stressing policy reform. The GOP has since 1982 maintained a correctly valued foreign exchange rate that has helped stem balance of payments deficits and aided in shifting internal terms of trade towards those who produce for export (mainly rural households) and away from those who consume imports (mainly urban households).

In other areas, the GOP is now making substantial progress in structural adjustment needed to sustain economic growth and development. Continued reforms are needed to continue raising output and exports particularly in agriculture and agro-based industries (e.g., cotton yarn) and to help the poor. Progress has begun:

- Since 1982, an overvalued currency which would have severely penalized agriculture, has been avoided
- Agricultural prices have increased to encourage increased marketable surplus and exports and energy prices increased to encourage domestic production and efficiency
- Subsidies have been reduced
- The private sector is being expanded to reduce the role of the public sector in many areas of economic activity - including energy and agriculture

More needs to be done in overcoming longer-term obstacles to development, including family planning, education and health, resource conservation, and agriculture research.

But the government still needs to improve allocation of resources by giving a greater role to prices, markets and the private sector, increasing the supply of domestic savings, and running public enterprises more efficiently.

More specifically, the Sixth Five Year Plan called for improved industrial policy involving deregulation of government controls, mainly over investment and prices, public enterprise disinvestment and efficiency improvements, and reform of trade incentives.

In June 1984, the Industrial Policy Statement, the first since 1959, reaffirmed the government's commitment to a mixed economy with a leading role for the private sector, introduced important changes in investment sanctioning, and expressed intention to create an incentive system more conducive to private and public sector efficiency.

The results to date have been uneven. Progress has been more rapid for exchange rate management, investment and price control, but very slow for disinvestment, liberalization of tariffs and import loans.

In 1985, GOP created a Deregulation Commission to examine the usefulness of existing controls and recommend speedy elimination of those unnecessary. To date, progress has been made in deregulation of edible oil and fertilizer. Results are anticipated soon in wheat rationing and power generation and distribution. In May 1986, the government announced deregulation of the nitrogenous fertilizer sector that eliminated all price controls and stopped subsidies to high cost producers (as well as surcharges paid by relatively low cost producers) so that now domestic and world prices are close. The subsidy has been virtually eliminated. In February 1987, GOP announced that importing of nitrogenous fertilizer would be open to the private sector. However, non-nitrogenous fertilizer prices continue to be controlled by government and substantial subsidies persist.

The government has not yet disinvested its public enterprises but is actively pursuing various avenues. It has removed license value ceilings (i.e., explicit import quotas) on many non-capital goods.

In view of the substantial progress to date, AID should continue its efforts to support policy reform.

2. Policy Agenda

Numerous policy changes are on the agenda that are being prepared by the World Bank and actively supported by USAID (e.g. see ASSP). They are stressing the following key areas:

- Increase investment to at least the level of other countries at a similar stage of development, as seen in inadequate shortage of power
- Increase private sector participation in key public sector areas (e.g., power, oil and gas, coal, irrigation, transportation, education, health)
- Increase implementation capacity. (i.e., the critical constraint is for the most part financial)
- Developing financial markets

- Raising public savings

3. Sectoral Policies

Improvements in energy, agriculture and other key sectors are as important to the structural adjustment program as improvements in macroeconomic indicators. Success in these areas via increased efficiency and growth will reduce Pakistan's dependence of imports and increase its export competitiveness.

During the Sixth Plan, there has been a substantial increase in output of hydrocarbons and in implementing more appropriate consumer and producer pricing for oil and natural gas, as indicated in Chapter II. In power, there remain significant shortfalls in investment and in rationalizing the pricing system, resulting in failure to meet power production targets and with power tariffs still below long run marginal costs.

The growth rate of agriculture is below Sixth Plan targets, but very respectable by international standards. Significant yield improvements were achieved in wheat and cotton [World Bank (1987, p.115)]. Diversification into high valued crop (i.e. fruits, vegetables, certain oilseeds) did not occur. But livestock, fisheries and forestry growth was rapid.

D. Consistency of ACE and ECE with Sixth Five Year Plan, World Bank Strategy and AID's CDSS

The ACE & ECE programs with their stress on agriculture and energy support the principal objectives of Pakistan's Sixth Five Year Plan (FY 1984-88) that call for:

- A major breakthrough in agricultural production
- Rapid development of industries in which Pakistan has a comparative advantage, including agroindustries such as textiles
- Faster expansion of sectors, including energy and agriculture, which are considered critical to the long-term economic and social development
- A leading role for the private sector in the development strategy with investment shifting from the public to the private sectors
- Improved policy environment with significant changes in pricing the incentive structure and government regulations.

These objectives are supported by the World Bank and USAID as reflected in its new CDSS. Moreover, ACE and ECE are timely tools consistent with Pakistan's current macroeconomic needs including support for its higher than projected balance of payment deficits and a declining foreign

exchange position brought on by factors not anticipated in the Sixth Plan. With the exception of the failure of the private sector windows ACE and ECE have contributed toward current, medium and long run balance of payment support to prevent destabilization (see Table III-1). The programs are consistent with the Mission's concern to keep down the direct-hire staff intensity.

With the exception of wheat, cotton and fertilizer which are described above, the ACE and ECE programs almost without exception provided commodities additional to what would have been imported in the absence of the program and thus a primary focus of the evaluation is on the development impact in energy and agriculture sectors presented in Chapter II. In the case of the large wheat and cotton shipments under ACE, the primary benefit was to help stabilize the economy immediately after poor harvests.

Because ACE and ECE are generally providing additional commodities, important second, third, and subsequent year impacts are expected to have positive future ramifications on the balance of payments. They represent important medium to long run stabilizing benefits and can be viewed over and above the sectoral developmental impacts of ACE and ECE discussed in chapter II. They are difficult or impossible to measure quantitatively without a detailed microeconomic analysis for each project supported by the ACE and ECE programs.

E. Alternatives to Current CIPs

The scope of work for this evaluation requires a consideration of alternatives to the current CIPs, that is, cash grants, general CIP, or some variation of the current programs. The range of options available to the Mission is set out below, with a listing of advantages and disadvantages. The evaluators conclude that the current CIPs, with the exception of the private sector windows, are meeting the objectives set out for them and should be continued for the public sector.

1. Cash Grants or Transfers

Advantages

- Immediate balance of payments impact
- Ease of administration (a check is written at stated intervals, there is no concern with AID commodity regulations, import licensing, bank approvals, interest rates, Import Policy Orders, etc.)
- Reflects faith of U.S. Government in GOP's fiscal management and rational import policies
- Conditions may be imposed as is being proposed in ASAP, including requirement for increasing proportionately imports from U.S.

- Politically, puts Pakistan on a par with Egypt and Israel, both of whom have large cash transfer programs

Disadvantages

- Because foreign exchange is fungible, would be difficult to show Congress that there were really additional imports from U.S. (can lead to disputes over data)
- Because of instances of wholesale siphoning of AID funds in other countries, Congress is increasingly wary of cash transfers (in Egypt, Congress approves the annual level of cash transfers)
- There is currently no pressing case for Pakistan's needing a cash transfer in lieu of a more controlled sector CIP

Conclusion: Despite the ease of administration, there seems to be no economic reason for changing the current CIPs into cash transfers.

2. General CIP

Advantages

- Expansion of current sectoral CIPs by broadening the commodity list to include all eligible commodities under AID regulations would undoubtedly increase size of program, given the pent-up demand in public sector alone for commodities for entities as varied as the railroads, hospitals, airline, and utilities. Given the past history of the private sector windows, it is difficult to predict whether the private sector would be attracted by a broader commodity list

Disadvantages

- Often becomes a vehicle for importing commodities in size and scope which should more properly be projectized
- So long as GOP licensing regulations in force, will increase administrative costs both to USAID and importers

- Inflation is currently not a problem in Pakistan, nor is availability of foreign exchange.
- Would be subject to Zorinski Amendment, which now requires that the totality of AID CIP programs expend at least 18 percent of funds to import specific agricultural items from the U.S. (mostly specific foodstuff which many countries do not need). This requires that each CIP must reserve 18 percent of its funds until the annual compilation is made on an agency-wide basis.

Conclusion: There is no economic requirement for a general CIP at the present time, particularly in view of current emphasis on agriculture and energy.

3. Return to Traditional Project Financing for Commodities

Advantages

- Avoid effect of Zorinski Amendment
- USAID retains more control over commodities, assuring their use in high priority development projects
- Avoid administrative problems and bottlenecks experienced to date in CIP

Disadvantages

- Mission would lose policy dialogue impact it now has through batching of funds in a multi-million dollar CIP, as conditionality more palatable and relevant in context of CIP
- No structure in which Mission could react when need for special commodities arises, such as wheat or cotton for stabilization purposes

Conclusion: The disadvantages of returning to traditional project commodity procurement outweigh considerably the advantages of retaining a CIP.

4. Continue Sector CIPs

Advantages

- Based on its experience to date, the GOP agencies are learning how to live with and adapt to current procedures

- By using known and familiar funding device, the financial market and the government develop confidence in the U.S. staying power, which reduces speculation on what USAID will do, if anything, next year
- Reinforcement of both governments' high priority consideration for agricultural and energy sectors
- Present CIPs have sufficient flexibility to react to economic emergencies

Disadvantage

- Any CIP is subject to AID legislative and regulatory restrictions, causing administrative problems for USAIDs, resentment in the market place and unfavorable comparisons with World Bank untied procurement and suppliers' credits

Conclusions: ACE has provided a good mix between rapid disbursement commodities and those which are development-oriented. Its overall impact has been positive and significant. ECE commodities are all development oriented and have expected high internal rates of return and benefit/cost ratios based on engineering studies. The commodities are expected to provide longer range balance of payments support. Both programs provide a strong basis for policy dialogue in agriculture and energy in conjunction with the World Bank and other donors. On the basis of the above, the evaluators conclude that none of the alternative uses of CIP funds outweigh the advantages of continuing with the current sector-oriented CIPs.

Recommendations:

- That USAID fund a new ECE CIP for the post-1987 era, but without obligating funds for the private sector until the effects of the most recent reforms in the interest rate have been assessed and until USAID reexamines the objectives of a private sector fund.
- That USAID fund the ACE CIP under the new Agriculture Sector Support Program (ASSP), with the same provision as above with respect to the private sector.

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CHAPTER IV.

MANAGEMENT EFFECTIVENESS

This chapter examines various aspects of the management of the two CIPs, beginning with design responsibilities, moving then to the division of responsibilities for implementation, including cooperation among USAID offices and between USAID and the GOP, information systems, rates of disbursement, timeliness of commodity arrivals, and local currency generations.

A. Design Responsibilities

The PAADS for both programs were drafted in USAID with input from the Embassy. Each PAAD was drafted and designed by the technical division concerned with the Program Office, then reviewed and approved by AID/W. At the time the PAADS were drafted there was no CIP office, only a procurement unit under the Project Development and Monitoring Office (PDM). After the ACE PAAD was approved, a CIP specialist helped USAID to establish a CIP system. Design deficiencies, particularly with respect to the private sector windows, are pointed out in Chapter I.

The experience gained by the Commodity Management Office (CMO) over the past two years in implementing ACE and ECE and in working with GOP officials could be an asset in the designing of future PAADs. That office should be consulted with respect to conditions, the scope of the commodity list to be utilized in terms of eligibility for CIP (used commodities, pesticides) and whether the list should be illustrative, specific or negative (i.e. include only items that may not be imported).

Recommendation:

That the Commodity Management Office be included on the design team of any future PAADs.

B. Implementation Responsibilities

A general CIP is usually managed by a CIP office with policy guidance from the Director and Program Officer. Sector CIPs in which commodities support USAID projects or public entities receiving other USAID assistance tend to be managed primarily by the technical offices with the CMO viewed as a service organization. That is the situation in Islamabad, and there is an organizational history that explains it.

CMO has always been part of a service organization - Contracts or the RLA. Commodity procurement for CIP and projects was originally under the Contracts Officer (the Contract and Commodities Unit in PDM). When the present Commodities Management Officer (CMO) began his tour, the Regional Legal Advisor took charge of the CCU. That situation changed June 1 when CMO once again moved to the Contracts Office. So long as the CIP is sector-oriented, each technical division manages the activity up to the point the actual procurement process begins. There are indications that at present there is some overlapping, with outside entities asking the technical divisions for procurement advice, and procurement matters being

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discussed with the government independently by all divisions. While the situation is not serious, the reorganization and the advent of new ARD and E&E division heads creates an opportunity for clarification of office responsibilities for CIP coordination and implementation.

Part of the problem results from the chronic understaffing in the Commodities Office (which handles project procurement of some \$ 40 million annually in addition to CIP). The head of the CMO is an experienced U.S. direct hire employee; there are no other U.S. direct hires in the office except for one on detail from the Contracts Office to handle private sector matters. There are at various times one or two U.S. contract employees - one short-term PSC, a retired experienced AID CIP specialist - and one long-term contractor with minor CIP experience whose status is in doubt. Two Pakistani professionals are on the staff, one of whom will be going for two months training this summer, and three clericals. Approval has been given for two new FSN positions, one for an equipment specialist and one for commodity management expert; the latter position is unfilled. Even within the ceiling imposed on U.S. hiring, it should be possible to strengthen the staff by insuring that at least one contract employee experienced in CIP is hired on a long-term basis. As noted, there is one U.S. DH on detail. He should remain on detail for an additional six months to concentrate on the private sector. At the end of that time, if a decision is made to continue the private sector windows, his detail could end. Recruitment efforts to fill the one new FSN position should be increased. These steps will not obviate the need for experienced TDY contractors, but will lessen dependence on such assistance.

Recommendations:

- That the Contracting Officer meet with the Program Officer, the Commodity Management Officer, the new Chief of the Agriculture and Rural Development Division, the Acting Chief of the Energy and Environment Division and project managers to review existing divisions of responsibility to determine if any changes are required.
- That USAID insure that an experienced CIP person is hired on a long term contract to act as deputy to the CMO.
- That USAID increase its efforts to recruit qualified persons to fill the one new FSN position in CMO.
- That Contracts continue the detail of the employee now in CMO for six more months to work on the private sector windows.

C. Statistics and Information

There is at present no single office that has all the relevant information on the CIP programs - L/C openings, orders placed, commodities shipped, received, value, overall balances and pipeline,

although partial information is available in several offices. For example, CMO has an excellent arrival accounting system which shows the date of shipment, description and value of the commodities, vessels, dates of arrival in port, and consignees (including project-funded imports). The CMO also keeps a file on each separate transaction which shows L/C openings, PIO/Cs, information on IFBs and bid openings, awards, order placements, bills of lading, etc. Some of this information is available in tabular form on the CMO word processor and the office is developing a tracking system which takes advantage of the Mission's automatic data processing system.

Complete data on the utilization of the commodities and on disbursement rates and balances is available in ARD and E&E, and the reports are reviewed quarterly by management. The Controller's Office is supposed to receive a Form 214 report on obligations and disbursements monthly from OFM/Washington, which is the official accounting station for ACE and ECE. At the time of this evaluation in June 1987, a 214 report had not been received from AID/W since November 1986.

It is clear that a half-billion dollar program which has as one of its principal aims the rapid disbursement of funds through importation of needed commodities demands a far more useful and sophisticated monitoring and information system than that in use. A proper system should be programmed to provide both transaction and financial information in sufficient detail for the concerned divisions and in broader outline for the Director. It should provide access by L/C number, commodity code, project number or other useful categories so that a user may determine on request the status of any given transaction or group of transactions. It should also provide current balances on obligations, earmarking, commitments and disbursements. The CIP monitoring system currently in use by USAID/Cairo could serve as a model and be adapted for use in Pakistan. A TDY person from USAID/Cairo/ADP could be requested to help establish the system.

Recommendation:

- That the Commodity Management Officer take the responsibility for designing and installing a single tracking and monitoring system for ACE and ECE designed to provide necessary commodity and financial information, taking into account the needs of the various users.

D. USAID-GOP Coordination

Because of current GOP import policy orders affecting the private sector and the heavy involvement of the public sector in the CIP programs, there is an active flow of communications between various USAID and GOP offices. In USAID not only are the technical divisions involved, but the Program Office is a key entity; at the ministerial level, the Mission Director becomes involved. On the GOP side there are several technical offices, many in Lahore and Karachi, including the State Bank of Pakistan and public and private sector banks. In Islamabad, USAID deals extensively with the Ministry of Finance, particularly the Economic Affairs Division, and the Ministry of Commerce, which includes the important office of the Chief Controller of Import Licensing and Exports.

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Coordination of communication between USAID and GOP offices is good. There are appropriate clearances, developing of consolidated positions and sharing of information. No recommendation is necessary other than the one above concerning clarification of lines of authority within the Mission.

E. Measuring Management Effectiveness

There are three standards against which to measure management effectiveness of a CIP: the rate at which funds are disbursed, the timeliness of commodity arrivals according to commodity categories and the effectiveness of commodity utilization. The latter point is well analyzed in Chapter II, Development Impact, and will not be repeated here.

Rate of disbursements: According to the ACE quarterly progress report of March 1987, \$390 million had been obligated since 1982, with some \$267 disbursed, a rate of 68%. For ECE, the quarterly report shows that \$100 million had been obligated since 1984, with \$9.7 million disbursed, a 9.7% rate, although over \$50 million is now committed to specific transaction. A more meaningful measure is a comparison of planned against actual expenditures. Relevant tables for both programs are in Annex E. For ACE, rapid procurement of wheat and cotton plus continuing imports of fertilizer bolsters the planned/actual ratio. The gap is due largely to the lack of private sector activity. ACE machinery and equipment moves faster because it has already been considered at the project design stage, eliminating GOP central ministry clearance, which is a constraining factor for ECE. But at the same time, the \$80 million for machinery, 17% of the total planned resource allocation for ACE, has consumed an inordinate share of management time compared to bulk procurement of about \$200 million.

ECE, not being project-oriented, must contend with the full panoply of GOP-imposed clearances and regulations. In addition, it is saddled with an unused \$20 million earmarking for the private sector. In the macro sense, the low rate of disbursement results from built-in GOP and AID barriers. For example, ECE managers feel that much used drilling equipment is available in the United States that could be financed under CIP for the private sector in Pakistan. AID regulations discourage such transactions, requiring independent appraisals of equipment condition and establishing of fair market values (and U.S. source/origin). Additionally, CIP funds are available only for commodity-related services, not for feasibility or engineering studies, although other funds may be made available for such purposes. U.S. source and origin requirements, particularly in this era of considerable work being done by overseas branches of U.S. firms, can be an obstacle. The same is true for U.S. shipping requirements. These problems are endemic to CIPs world-wide and are not unique to Pakistan. AID has long been aware of their existence and their effect on disbursements. These are matters for AID to discuss with Congress, although waivers are available when justification exists. The problems of the private sector have been thoroughly considered in Chapter I, but despite the problems noted above and considered below, the public sector demand for CIP-financed commodities is large and unfilled. How efficiently has that part of the program been managed?

Compared to other public sector CIPs administered by AID of which some team members are aware, the Pakistan programs are within normal limits. The financial paperwork moves well and shipping and clearance do not present serious problems. But there are two major bottlenecks which seriously slow down the procurement process by up to six months in some cases - specification writing and bid evaluations, particularly in the energy sector. The bottlenecks occur when machinery and equipment are imported which involve complex specifications. (Bulk commodity shipments, such as wheat and fertilizer move expeditiously through an efficient system devised by both governments. A recent fertilizer procurement was requested in early May by the GOP and shipments will begin in June.)

When faced with developing technical specifications for inclusion in Invitations for Bids, up to two months or longer may be consumed as specifications are drafted, reviewed, and revised by the GOP agencies and then reviewed and often revised by USAID or AID/Washington. Understandably, the specifications must be written as clearly as possible for the benefit of potential suppliers and not for the benefit of a single supplier to the exclusion of others.

Additional months may be spent evaluating bids received in response to the IFBs and awarding contracts. One obvious reason is the inherent desire of a bureaucracy to spread decision-making risks; the other is that, contrary to the private sector, time is not viewed as money for a government. The Table below illustrates the problem:

Figure 1

Commodity Procurement Case History

GOP Equipment Selection Committee screens requests for procurement of commodities by various GOP agencies and allocates funds to the agencies.

	<u>WAPDA</u>	<u>PCSIR</u>
First draft of tech specs	4-4-85	5-2-85
IFB documents to AID/W	10-2-85	9-15-85
Final evaluation by GOP	4-6-86	2-16-86
Signed contract	11-13-86	5-12-86
Commodities ETA Karachi	8-10-87	8-7-86
<u>Total elapsed time</u>	<u>28 months</u>	<u>15 months</u>

Other reasons for delays are:

- Agencies do not have adequate staff
- WAPDA and KESC do not use standardized specifications
- There is no centralized system in WAPDA or KESC for tendering and bid evaluation
- Lack of understanding of the USAID procurement process
- Incomplete suppliers' data
- Lack of U.S. suppliers' understanding of Pakistan's varied and harsh climatic conditions
- Lack of communications in general on the part of suppliers

The GOP and the Mission have been concentrating on shortening the process. Some GOP agencies have used NESPAK, a large government-owned consulting firm to help draft technical specifications, but with mixed results. (Some U.S. suppliers complained that NESPAK-drafted specifications were based on European standards; when the evaluation team interviewed NESPAK's manager, he denied the charge and said the firm has access to and uses current U.S. standards.) AID/W uses IQC firms specializing in specification drafting to assist governments in this often onerous task.

The preferable solution would be to develop skills in those agencies responsible for importing large amounts of technical machinery such as WAPDA and KESC. This could be accomplished by U.S. experts training specification writers on the job in their agencies (the same trainers could also help streamline the contract award process) and by sending GOP specification writers and bid evaluators to the United States for short-term participant training. But in the short run, USAID could avail itself of firms in the United States that specialize in energy commodity data bases.

The USAID at one time contracted with procurement service agents (PSAs), private U.S. firms which handled the entire procurement process for several agencies. They were paid on a percentage basis. Their success was mixed - one firm was judged by USAID to have been very successful; the other firm, after completing most of its work, faced financial problems and simply quit. In a 1982 memorandum to the AID Administrator, the AID Inspector General criticized the use of PSAs as an unnecessary expenditure of taxpayers' money, characterizing the fees as "exorbitant." PSAs were used before the Mission had an experienced commodities management officer on board and filled a serious gap in Mission capabilities. It is no longer necessary to use PSAs for that purpose, although the CMO perceives a role for them in the event there is a series of small transactions involving multiple suppliers. But neither ACE nor ECE is presently generating that type of transaction.

Recommendation:

- That USAID provide the GOP with the consulting and training services of a U.S. firm which maintains energy equipment specification data bases to provide on-the-job training in Pakistan and the United States while expediting the current ECE procurement process for the GOP.

If the administrative bottlenecks are not reduced for machinery imports, the rapid disbursement effect of the bulk commodity imports will rapidly dissipate. The fault does not lie entirely with the GOP. In a recent case examined in the course of the evaluation, the team found that the Mission requested AID/W approval of IFB terms in February and was told that AID's Office of Procurement was "too busy," and only after repeated cables did AID/W begin to discuss the problem -- three months later. If AID/OPS is shorthanded, AID/W should augment the staff either by direct-hire or contract employees.

On the GOP side, there is room for streamlining the process at the Federal level, where inter-ministerial clearances and approvals also slow the procurement process. This is a public administration problem which could be attacked by a small group of public administration experts with procurement backgrounds.

Recommendation:

- That USAID provide the services of public administration and procurement experts to help the GOP streamline the procurement approval process at the Federal level.

USAID as Agent for the GOP: The 1982 ACE evaluation criticized a unique provision in the ACE obligating documents, later repeated in ECE, whereby USAID assumed the role of agent for the GOP in the importing of equipment, including clearance through the Karachi port. According to the Regional Legal Advisor, the rationale for this principal-agent relationship was required for dealing with the PSAs when USAID renewed its program in 1981-82 and put considerable emphasis on rapid infusion of commodities into the country, but that phase is over. USAID, however, still acts as GOP agent for clearance of CIP commodities through the port and arranging onward transportation. Under such an arrangement, title passes to USAID at shipside and remains until the commodities are transferred to the GOP agency involved. (OGDC, KESC and WAPDA have their own clearing agents.) This means that the risk of loss is on USAID, with attendant problems of insurable interest and possible litigation. AID's Handbook 15, Chapter 10, Commodity Arrivals and Disposition, requires that the importer be responsible for prompt processing of commodity imports through customs and removal from customs and bonded warehouses within 90 calendar days (Sec.10B.1c(1)).

The USAID/Karachi Liaison Office is staffed by experienced and efficient personnel who pride themselves on clearing commodities with a minimum of cost and time. There are valid arguments to be made for continuing the practice: the Karachi office clears CIP shipments along with project, administrative and HHE shipments; CIP shipments are cleared under the same diplomatic cachet as USG-owned commodities; pressure for illegal payments, duties and surcharges is avoided. There is one basic issue: how will the GOP agencies learn how to contract for such services or handle clearance on their own? USAID has been doing the job for GOP for more than five years. The team commends the expeditious way in which CIP public sector commodities are cleared, but feels the time has arrived for a phased turnover of those responsibilities to the recipient agencies.

Recommendation:

- That USAID devise with relevant GOP agencies a plan for the gradual phasing over to them the responsibility for clearing CIP commodities within three years and to eliminate USAID as the consignee of CIP commodities.

F. Local Currency Generations and Uses

Both the ACE and ECE loan-grant agreements require that the GOP deposit into a special account the rupee proceeds from the sale by the GOP of any grant-funded imported commodities. Those proceeds in turn are to be jointly programmed by GOP and USAID for agreed-upon development activities. Similar provisions are in the P.L. 480 Agreement. In practice this means that the PL-480 sales proceeds are additive to the GOP budget and their use for development purposes is on an attributed basis. However, USAID policy calls for meetings with GOP budget officials, if possible prior to the finalizing of the GOP budget, to program proceeds against development budget line items or sector to assure adequate initial funding for these items.

The agreements further require the GOP to report semi-annually to USAID on the deposits and withdrawals. According to the Program Operations office, the reports are not submitted regularly and the Mission has only one or two. The Controller's Office plays no part in the process and does not audit the local currency accounts.

The Mission's FY 1989 annual budget submission (ABS) contains two tables with local currency generation information. They are found in Annex I along with a table of estimated proceeds prepared in 1985 by the Program Office. The tables reveal that \$67.92 million in rupees were generated in 1986 by the CIP programs and \$56 million in rupees by the PL-480 program for the same year. The allocation of those amounts among development sectors is also shown. A real advantage of the exercise is the opportunity it affords USAID to review the entire budget annually with key GOP officials.

Recommendation:

- That USAID require the GOP to comply with the reporting requirements for deposit and allocation of CIP rupee proceeds set out in the obligating documents.

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CHAPTER V.

LESSONS LEARNED

Based on the findings and conclusions in the preceding four chapters, the team presents the following lessons for the planners and implementers of future commodity import programs, whether sector oriented or general:

1. Planning a private sector CIP should take into consideration an analysis of the market with realistic projections of demand over time. Appropriate account should be taken of competitive foreign exchange sources, such as suppliers' credits, remittances, and the informal exchange market. In a country such as Pakistan where the government is basically hostile to the full development of the private sector, planners should know that government regulations and red tape may be more costly to importers than product costs and interest rates.

2. Neither U.S. products nor dollars enjoy the favored position of the past. Other countries' products are highly competitive and the dollar is subject to the vagaries of international politics and the arbitrage market. Japanese firms in particular outsell and outservice U.S. suppliers, weakening the demand for U.S. products. Attention must be paid to the yen-dollar-local currency relationships in various countries.

3. The rubric "rapid rate of disbursement for balance of payments support" is overworked and used in PAADs without a complete analysis of options. The maximum rate of disbursement effect is by a cash grant, secondly by the import of bulk commodities through P.L. 480 program or under CIP (fertilizer, seeds, etc.). Using CIP for importing machinery and equipment will not contribute to rapid disbursement and balance of payments support any more than procurement through projects, although it may well have important development effects.

4. Similarly, balance of payments support as a goal of a CIP must be subject to close analysis in the local context. Aside from the rapid disbursement of funds, balance of payments support depends on whether the imported goods replace planned imports. If CIP imports are additional, there is not a true BOP effect. On the other hand, consideration should be given to the secondary BOP effects such as those gained through import substitution and avoidance of POL imports. But planners should not overlook the important stabilizing effect resulting from the continued availability of CIP funds which creates a market confidence and has valuable political impact as well.

5. There is a tendency among planners to load CIPs with different goals and diffuse objectives, both economic and political. A Mission should carefully consider its priority goals and tailor the CIP accordingly. In Pakistan, the programs had a host of objectives: rapid disbursements, project support, flexibility, policy dialogue, private sector development, energy and agricultural sector support, creating markets for U.S. products and even the unspoken goal of supporting AID's other "pillars of development." It requires careful management to achieve the apparently conflicting goals.

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6. On the positive side, ACE did provide flexibility for the unexpected demand for wheat and cotton. The existence of the program made response time far faster than if a program had to be developed from the beginning. ACE also provided commodities for projects on a more efficient basis than if procurement was instituted for each separate project, through contractors and Mission procurement processes.

7. ECE provided a convenient method by which to import commodities for Pakistan's energy sector without having to develop more individual projects. It also provided USAID with an opportunity it would not have had through individual projects to influence to a degree the direction the huge public sector energy program would take. \$100 million in a single program carries more impact than \$200 million spread over four or five projects.

8. A CIP activity involves development concepts plus aspects of international banking, foreign exchange, relationships between private and public sectors, and AID's CIP regulations. Because of these unique aspects, a mission should insure that it has technically competent personnel on its CIP design team, including at least one CIP officer who would then be available to set up and carry out an implementation plan.

9. Regardless of where a CIP office is located on the Mission organization chart, it should be assured of a significant voice in policy decisions concerning CIP implementation.

10. In a country like Pakistan in which the government agencies import millions of dollars worth in commodities on their own account, there is no reason why USAID should continue to clear public sector imports through Karachi port and to final destinations solely in the name of expediency.

11. Until GOP import rules and policies and the bureaucratic mechanism set up to spread the decision-making risks are modified, the efficiency and direction of the CIP program will be largely in the government's hand.

12. While AID's legislative and regulatory restrictions on the use of CIP funds are onerous, they mirror Congressional concerns. Waiver provisions are available for exceptional cases where justification can be shown.

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SCOPE OF WORK

JOINT EVALUATION OF THE ACE/ECE PROGRAMS

I. ACTIVITY TO BE EVALUATED: The mission requests an evaluation of the Agricultural Commodities and Equipment (ACE) and Energy Commodities and Equipment (ECE) CIP Programs from project authorization to the present day. Authorized LOP funding is \$475 million for ACE and \$100 million for ECE.

II. PURPOSE OF EVALUATION: The purpose of this evaluation is to review and assess the effectiveness of the mission's two Commodity Import Programs (CIPs), aimed at the two core economic sectors of USAID's greatest activity. The evaluation should cover four main areas of each CIP program -- management implications; economic and developmental impact; effectiveness in advancing major AID policy concerns (policy dialogue, private sector mobilization, institution building, and technology transfer); and "lessons learned" that can be applied to CIP-like activities under the post 1987 AID program to Pakistan. The status and effectiveness of the private sector window included under both program shall also be reviewed.

The evaluation is primarily designed to guide mission management in the implementation of its CIP program during the post 1987 period and, as such, should emphasize lessons learned and recommendations. As a measure of the evaluation's success, these lessons and recommendations should be keyed to the following kinds of questions: What has the project achieved to date? How does this achievement compare with previous plans? What unplanned changes have occurred and what are their affects? What alternatives to the programs merit consideration and what changes would improve the operation of the CIP-like activities under the post 1987 AID program to Pakistan?

III. BACKGROUND: The ACE and ECE programs were developed under the FY 1982-FY 1987 U.S. assistance package to Pakistan as the primary vehicles for flexible and fast-disbursing balance of payments support in the energy and agricultural sectors. The programs have also been used to address a range of policy dialogue concerns. Finally, a private sector window was incorporated into each program as part of an effort to more fully involve commercial firms in the import of essential energy and agriculture commodities and equipment.

Under the ACE Program, funding has gone mainly for fertilizer and emergency shipments of cotton and wheat. Substantial quantities of agricultural equipment has also been imported under the program, primarily in connection with AID-financed irrigation and agriculture research projects in Pakistan.

Simultaneously, the ACE Program is used as a key tool in advancing policy dialogue concerns related to fertilizer and other issues. Beneficiaries under the program include provincial irrigation departments, provincial agricultural research institutions, and public and private sector distributors of fertilizer.

Under the ECE Program, energy-related equipment is being provided for public sector institutions such as the Water and Power Development Authority (WAPDA), Karachi Electric Supply Corporation (KESC), Geological Survey of Pakistan (GSP), Oil and Gas Development Corporation (OGDC), and the Pakistan Center for Scientific and Industrial Research (PCSIR). Policy initiatives attached to the program are used primarily to support energy-related pricing reform and private sector initiatives.

Private sector windows were developed under both programs and are administered by three local and two American banks. Mission and other outside assessments of the private sector windows have taken place at various times and will be available for the evaluation team to review before making their own conclusions. (Other documents available for review include an initial ACE Program evaluation conducted in December, 1982.)

IV. STATEMENT OF WORK: The evaluators shall review the performance of the ECE and ACE Programs under the FY 1982-1987 program with a view toward:

- A. Assessing the effectiveness of program management and implementation, as well as the overall flexibility of the program in responding effectively to changing economic circumstances;
- B. Analyzing the economic and developmental impact of the program on Pakistan;
- C. Reviewing the effectiveness of the programs in promoting agency concerns related to policy dialogue, private sector mobilization, institution building, and technology transfer; and
- D. Discussing "lessons learned" through operation of the CIP-like activities under the FY 1982-FY 1987 Program. Both the public and private sector windows of the two CIP programs shall be covered in the evaluation.

The evaluation shall include but not be limited to the following areas:

A. Management Assessment:

- effectiveness of the interaction among main entities involved USAID, GOP, etc. in managing the procurement process.
- coordination in terms of providing commodities and equipment for other projects in a timely fashion, supporting other program goals, etc.
- design and structure of the private sector windows in each program and effectiveness of their implementation.

B. Economic and Developmental Impact:

- Impact on Pakistan's overall balance of payments position. (i.e., how effective have ACE and ECE been in their role as balance of payments mechanisms?) Where appropriate and feasible, references to other programs (PL-480, projects with large local cost support components, etc.) shall be built into this analysis of the impact of the AID program on Pakistan's overall balance of payments position.
- Impact on selected development projects/sub-sectors as a result of ACE/ECE commodity inputs.
- Impact on targeted sectors in terms of policies, stated GOP and USAID sector objectives, growth rates, etc.

C. Policy Concerns:

- Impact of the CIP programs on announced policy dialogue goals, especially relating to pricing, deregulation, etc. As appropriate, include "case histories" highlighting level of effectiveness of individual policy dialogue initiatives supported under the CIP programs (fertilizer deregulation, energy pricing, private sector mobilization, etc.). The key issue here is to evaluate the effectiveness of ACE and ECE in as policy dialogue tools aimed at achieving policy reform.
- Impact of the CIP program on remaining Agency "policy pillars": private sector mobilization, institution building, technology transfer.

D. "Lessons Learned":

- Drawing on the above analysis, the team shall compile a list of "lessons learned" under the FY 1982-1987 program that are relevant to projects now under design or consideration (such as the Agricultural Sector Support project and the Private Sector Power project). Specifically, the team shall make recommendations on which aspects of ACE and ECE should be retained in the post 87 program, which should be modified (and how), and which should be eliminated.

E. Team Composition:

- The evaluation team shall include four members and have the mix of skills described below. One evaluation team member shall be designated as team leader, with full responsibility for coordinating the evaluation and drafting and presenting the final evaluation report. Strong writing skills and evaluation experience are essential for all four members of the evaluation team.
- Economist: Macroeconomics background, experience in evaluating both public and private sector impact of CIP programs; primary responsibility for analyzing economic and developmental impact of the program, assessing effectiveness and impact of policy dialogue initiatives, and examining impact of CIP programs on other AID policy concerns.
- Procurement Specialist: Procurement experience in managing CIP procurements similar to ACE and ECE in developing countries; primary responsibility for assessing management issues related to the implementation of the ACE and ECE programs in Pakistan.
- Energy Specialist: Familiarity with energy-related development programming as well as goals and purposes of sector-specific CIP programs similar to ECE; primary responsibility for sector-specific assessment of management and program effectiveness in meeting sector-specific implementation and policy dialogue goals.
- Agricultural Specialist: Familiarity with agriculture-related development programming as well as goals and purposes of sector-specific CIP programs similar to ACE; primary responsibility for sector-specific assessment of management and program effectiveness in meeting sector-specific implementation and policy goals.

VI. REPORTING REQUIREMENTS:

A. Format of the Report: The final report shall contain at a minimum the following sections:

- Basic Project/Program Identification Sheets
- Executive Summary of not more than three single spaced pages reviewing major findings, conclusions, and recommendations.
- Main Report, which reviews and analyzes the questions raised in the Statement of Work and concludes with a list of conclusions and recommendations for using and administering CIP programs during the post 87 period.

B. Annexes: Which include at a minimum:

- The evaluation scope of work
- A bibliography of individuals and sources consulted
- A summary of procurements (value, quantities, items, entity/area benefiting, etc.) made under the ACE and ECE programs
- A completed evaluation summary in the format provided by AID/W

C. Final Report: Ten copies of the final report shall be submitted to USAID/Islamabad for distribution in Pakistan. The final report shall be well-written and reflect the use of professional editing services.

D. Other Requirements: U.S. members of the evaluation team shall meet in Washington prior to leaving for Pakistan. The evaluation shall be conducted in-country and should take approximately four to six weeks, including a final two weeks in-country completing the final report. Six day work weeks are authorized if necessary. Individual members of the team shall make every effort to coordinate simultaneous arrivals and departure times, to ensure that all members are involved in conducting the evaluation, preparing the final report, and presenting evaluation findings to the mission and the GOP.

E. Final Evaluation Document: The final evaluation document shall consist of the final report, including an executive summary and the completed evaluation summary format in accordance with instructions provided by AID/Washington and AID/Islamabad. A draft report shall be submitted to USAID/Islamabad no later than four weeks after arrival in Islamabad for preliminary mission review. A near final draft report shall be submitted to the mission before the evaluation team leaves Islamabad. The complete and edited evaluation document shall be forwarded to the mission no more than eight weeks after the evaluation team leaves Pakistan.

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Dawood Corporation Limited

KARACHI

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 Pakistan Petroleum Limited

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 Pakistan Petroleum Limited

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 Energy Systems, and
 Nadir Mazhar, Sr. Mgr.,
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Wanda Ale, Director
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USAID/PAKISTAN (ISLAMABAD)

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Mohammad Saeed, ARD

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F. Wayne Tate, PRO

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Abdul Wasay, ARD

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PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD) FACE SHEETS

AGRICULTURAL COMMODITIES AND EQUIPMENT (ACE)

ENERGY COMMODITIES AND EQUIPMENT (ECE)

AID 1120-1 18-001 PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 391-K-187 2. COUNTRY Pakistan 3. CATEGORY Commodity Financing - Standard Procedure 4. DATE March 1, 1982	
5. TO: The Administrator, Agency for International Development, Washington, D.C.		6. OYB CHANGE NO. N/A	
7. FROM: The Director, United States Agency for International Development, Islamabad, Pakistan		8. OYB INCREASE N/A 9. TO BE TAKEN FROM N/A	
10. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 60,000,000		10. APPROPRIATION - ALLOTMENT ESF	
11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD July 1982 - Dec. 1983	14. TRANSACTION ELIGIBILITY DATE March 11, 1982

15. COMMODITIES FINANCED
The major items to be financed under this program are agricultural inputs such as fertilizers and improved seeds, equipment for farm use, and commodity support for public sector agencies which provide agricultural services.

16. PERMITTED SOURCE U.S. only: \$60,000,000 (See Block 18) Limited P.W.: Free World: Cash: Pakistan (Minimum)	17. ESTIMATED SOURCE U.S.: \$60,000,000 (See Block 18) Industrialized Countries: Local: Other: Pakistan (Minimum)
---	--

18. SUMMARY DESCRIPTION
TITLE: AGRICULTURAL COMMODITIES AND EQUIPMENT, 391-0468

This PAAD authorizes \$60 million, consisting of \$34 million in loan funds and \$26 million in grant funds, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to finance the foreign exchange and local costs for the importation of: commodity support for public sector agencies which provide agricultural services; agricultural inputs such as fertilizers and improved seeds; and equipment and machinery for farm use. This document describes the first tranche of a proposed \$300 million program over the period 1982-87, which is designed to increase the productivity of the agricultural sector and provide balance of payments support. Subject to subsequent A.I.D. program approval, availability of funds and the mutual agreement of the Governments of the United States and Pakistan to proceed, amendments to this PAAD may provide additional funds over the period 1982-87.

All rupees accruing to the Cooperating Country from the sale or transfer of imported commodities shall be deposited in a special account and shall be

(Continued on next page)

19. CLEARANCES AA/ASIA <i>[Signature]</i> <u>7/27/82</u> AA/PPC <i>[Signature]</i> A-GC <i>[Signature]</i> <u>7/27/82</u> FM/ (cleared on copy) Director <i>[Signature]</i> USAID/Pakistan	20. ACTION <input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED M. Peter McPherson <u>29 MAR 1982</u> AUTHORIZED SIGNATURE DATE Administrator TITLE
--	---

[Handwritten mark]

PROGRAM ASSISTANCE
APPROVAL DOCUMENT (PAAD)

Block 18 Continued

mutually programed by A.I.D. and the Cooperating Country for use in development activities in such areas as agriculture, rural development, water resources, energy, population, education, health or any other area which both parties may mutually agree to in writing; and, where appropriate, may be used to reduce opium poppy production, or, if the parties agree, to pay U.S. administrative costs in Pakistan.

The Cooperating Country shall repay the loan to A.I.D. in U.S. dollars within forty (40) years from the date of the first disbursement of the loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. dollars interest from the date of the first disbursement of the loan at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter, on the outstanding disbursed balance of the loan and on any due and unpaid interest accrued thereon.

Except as A.I.D. may otherwise agree in writing, goods and services financed by A.I.D. under this program, except for ocean shipping of fertilizer financed under the program, shall have their source and origin in the United States or in the Cooperating Country. Ocean shipping for all commodities except fertilizer shall be on flag vessels of the United States or the Cooperating Country only. For fertilizer only, shipping shall also be authorized on flag vessels from A.I.D. Geographic Code 935 countries, and shall be eligible for financing by A.I.D. under this program.

CLASSIFICATION: UNCLASSIFIED

AID: 1120-1 (6-67) PAAD DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. Grant No. 391-K-603 Loan 391-K-187A
	2. COUNTRY Pakistan
	3. CATEGORY Commodity Financing - Standard Procedure
	4. DATE May 3, 1983
5. TO: The Administrator, Agency for International Development, Washington, D.C.	6. OYB CHANGE NO. N/A
7. FROM: The Director, United States Agency for International Development, Islamabad, Pakistan	8. OYB INCREASE N/A TO BE TAKEN FROM: N/A
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 60,000,000	10. APPROPRIATION - ALLOTMENT E87

11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD Nov. 1983 - Sept. 1985	14. TRANSACTION ELIGIBILITY DATE August 1, 1983
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15. COMMODITIES FINANCED
 The major items to be financed under this program are agricultural inputs such as fertilizers and improved seeds, equipment for farm use, and commodity support for public sector agencies which provide agricultural services.

16. PERMITTED SOURCE U.S. only: \$60,000,000 (See Block 18) Limited F.W.: Free World: Cash: Pakistan (Minimum)	17. ESTIMATED SOURCE U.S.: \$60,000,000 (See Block 18) Industrialized Countries: Local: Other: Pakistan (Minimum)
---	--

18. SUMMARY DESCRIPTION
TITLE: AGRICULTURAL COMMODITIES AND EQUIPMENT, 391-0468

This PAAD authorizes \$60 million, consisting of \$40 million in loan funds and \$20 million in grant funds, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to finance the foreign exchange and local costs for the importation of: agricultural inputs such as fertilizers and improved seeds; equipment and machinery for farm use; commodity support for agencies which provide agricultural services; and commodities in support of a proposed FY 1983 development project in poppy-growing areas of the North West Frontier Province. This document describes the second tranche of a proposed \$300 million program over the period 1982-87, which is designed to increase the productivity of the agricultural sector and provide balance of payments support. Subject to subsequent A.I.D. program approval, availability of funds and the mutual agreement of the Governments of the United States and Pakistan to proceed, amendments to this PAAD may provide additional funds over the period 1984-87.

All rupees accruing to the Cooperating Country from the sale or transfer of imported commodities shall be deposited in a special account and shall be

(Continued on next page)

19. CLEARANCES AA/ABIA C.W. Goodson AA/PPC J.R. Bolton GC R.A. Darham FM/LHD H.W. Shropshire FM/PAD E.S. Owens Donor M. Lion, Director, USAID/Pakistan	APPROVED <input checked="" type="checkbox"/> DISAPPROVED <input type="checkbox"/> M. Peter Matheson AUTHORIZED SIGNATURE Administrator TITLE 24 JUN 1983 DATE
--	---

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PROGRAM ASSISTANCE APPROVAL
DOCUMENT (PAAD) AMENDMENT

Block-18 Continued

mutually programmed by A.I.D. and the Cooperating Country for use in development activities in such areas as agriculture, rural development, water resources, energy, population, education, health or any other area which both parties may mutually agree to in writing and, where appropriate, may be used to reduce opium poppy production, or, if the parties agree, to pay U.S. administrative costs in Pakistan.

The Cooperating Country shall repay the loan to A.I.D. in U.S. dollars within forty (40) years from the date of the first disbursement of the loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. dollars interest from the date of the first disbursement of the loan at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter, on the outstanding disbursed balance of the loan and on any due and unpaid interest accrued thereon. -

Except as A.I.D. may otherwise agree in writing, goods and services financed by A.I.D. under this program, except for ocean shipping of fertilizer financed under the program, shall have their source and origin in the United States or in the Cooperating Country. Ocean shipping for all commodities except fertilizer shall be on flag vessels of the United States or the Cooperating Country only. For fertilizer only, shipping shall also be authorized on flag vessels from A.I.D. Geographic Code 935 countries, and shall be eligible for financing by A.I.D. under this program.

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CLASSIFICATION: UNCLASSIFIED

AID 1120-1 (6-66)	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT		1. PAAD NO. Grant No. 391-K-604 and Loan No. 391-K-187B	
			2. COUNTRY Pakistan	
PAAD	PROGRAM ASSISTANCE APPROVAL DOCUMENT		3. CATEGORY Commodity Financing - Standard Procedure	
			4. DATE May 18, 1984	
5. TO: The Administrator, Agency for International Development, Washington, D.C.			6. OYB CHANGE NO. N/A	
7. FROM: The Director, United States Agency for International Development Islamabad, Pakistan			8. OYB INCREASE N/A	
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 180,000,000			10. APPROPRIATION - ALLOTMENT ESF 72-1141-037	
11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD Dec. 1984 - Dec. 1987	14. TRANSACTION ELIGIBILITY DATE August 1, 1984	
15. COMMODITIES FINANCED Agricultural inputs such as fertilizers and improved seeds; equipment and machinery for farm use; commodity support for agencies which provide agricultural services; agricultural machinery, equipment, and commodities to be imported by the Pakistani private sector; and such other emergency commodity imports as USAID/Pakistan and AID/Washington may agree upon.				
16. PERMITTED SOURCE U.S. only: \$180,000,000 (See Block 18) Limited F.W.: Free World: Cash:			17. ESTIMATED SOURCE U.S.: \$180,000,000 (See Block 18) Industrial and Countries: Local: Other:	
18. SUMMARY DESCRIPTION Pakistan (Minimum) Pakistan (Minimum)				

TITLE: AGRICULTURAL COMMODITIES AND EQUIPMENT, (391-0468)

This PAAD authorizes \$180 million, consisting of \$123 million in loan funds and \$57 million in grant funds, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to finance the foreign exchange and local costs for the importation of: agricultural inputs such as fertilizers and improved seeds; equipment and machinery for farm use; commodity support for agencies which provide agricultural services; agricultural machinery, equipment and commodities to be imported by the Pakistani private sector; and, such other emergency commodity imports as USAID/Pakistan and AID/Washington may agree upon. This document describes the third and final tranche, covering the period FY 1984 - FY 1986, of a \$300 million program over the period FY 1982 - FY 1986, which is designed to increase the productivity of the agricultural sector and provide balance of payments support.

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xxxxxx AA/ASIA, CWGreenleaf Co. 6/28
 xxxxxx AA/PPC, Richard Derham 6/29
 xxxxxx GC, Howard Fry 6/29
 XXXXX FM/LMD, HWSHropshire 6/29
 xxxxx FM/PAD, ES Owens 6/29
 XXXXXX Donor M. Lion 6/29
 Director, USAID/Pakistan

for M. Peter McPherson
 Administrator

7/16/84

Leon E. Vaughn
 Controller, USAID/Pakistan

CLASSIFICATION: UNCLASSIFIED

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PROGRAM ASSISTANCE APPROVAL
DOCUMENT (PAAD) AMENDMENT

Block-18 Continued

All accruals of proceeds to the Cooperating Country from the sale of grant-financed commodities shall, in accordance with Section 609 of the Foreign Assistance Act (FAA), be deposited in a Special Account to be utilized in development activities in such areas as agriculture, rural development, water resources, energy, population, education, health or any other use authorized by the FAA and agreed to by both parties, and where appropriate, may also be used to reduce opium poppy production and may be made available to pay U.S. administrative costs in Pakistan.

The Cooperating Country shall repay the loan to A.I.D. in U.S. dollars within forty (40) years from the date of the first disbursement of the loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. dollars interest from the date of the first disbursement of the loan at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter, on the outstanding disbursed balance of the loan and on any due and unpaid interest accrued thereon.

Except as A.I.D. may otherwise agree in writing, goods and services financed by A.I.D. under this program, except for ocean shipping of fertilizer financed under the program, shall have their source and origin in the United States or in the Cooperating Country. Ocean shipping for all commodities except fertilizer shall be on flag vessels of the United States or the Cooperating Country only. For fertilizer only, shipping shall also be authorized on flag vessels from A.I.D. Geographic Code 935 countries, and shall be eligible for financing by A.I.D. under this program.

AGENCY FOR INTERNATIONAL DEVELOPMENT

**PROGRAM ASSISTANCE
APPROVAL DOCUMENT**

**(PAAD)
(Amendment)**

To: The Administrator
Agency for International Development
Washington, D.C. 20523

From: The Director, United States Agency for
International Development
Islamabad, Pakistan

Approval Requested for Commitment of
n/a

12. Local Currency Arrangement
 Loan Grant Informal Formal None

D-8 ACE Amend.../3

1. PAAD Number Grant No. J91-K-604(a)
Loan No. 391-A 87(c) DA Loan No. 391-T-195

2. Country
Pakistan

3. Category
Commodity Financing-Standard Procedure

4. Date

6. OYB Change Number
n/a

8. OYB Increase
n/a
To be taken from:
n/a

10. Appropriation Budget Plan Code See Item 5, Block 18:
ESF 72-1151037 DA. Sec. 103 72-1151021.3

13. Estimated Delivery Period
12/84-12/87

14. Transaction Eligibility Date
Aug. 1, 1984

Commodities Financed Agricultural inputs such as fertilizers and improved seeds; equipment and machinery for farm use; commodity support for agencies which provide agricultural services; agricultural machinery, equipment, and commodities to be imported by the Pakistani private sector; and such other emergency commodity imports as USAID/Pakistan and AID/Washington may request upon.

17. Estimated Source	U.S. \$375,000,000 (See Block 18)	17. Estimated Source	U.S. \$375,000,000 (See Block 18)
Limited F/W	37,800,000 (included above)	Industrialized Countries	
World		Local	
Other	Pakistan (Minimum)	Other 941	37,800,000 (included above)
			Pakistan (Minimum)

Summary Description

TITLE: AGRICULTURAL COMMODITIES AND EQUIPMENT (391-0468)

This PAAD Amendment authorizes the use of Development Loan, Sec. 103 money in LOP funding in place of part of the previously authorized ESF LOP funding, and, in addition, authorizes a change in the previously authorized loan-grant LOP split. It also authorizes additional funding of \$75 million ESF for purposes of meeting the GOP's emergency wheat requirements.

On March 29, 1982, A/AID authorized \$60 million ESF funding (\$34 million in loan, \$26 million in grant) as the first tranche of this proposed \$300 million program to be obligated over the period 1982-1986. On June 24, 1983, A/AID authorized a second tranche of \$60 million ESF funding (\$40 million in loan, \$20 million in grant) for this program. Finally, July 16, 1984, A/AID authorized the final \$180 million ESF funding for the final three years of this program on the basis of a split of \$123 million in loan funds and \$57 million in grant funds over the three year period. Prior obligations of these funds leave \$93 million of ESF loan funding and \$17 million of ESF grant funding yet to be obligated in FY 1986 under the terms of the July 16, 1984 authorization amendment.

Now, however, in view of (1) the availability and propriety of using some Development Assistance (Sec. 103) funding in place of ESF, (2) the desirability of varying the loan-

Clearances	Date	20. Action
SIA:CHG Greenleaf	06/5/84	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
PC:BDerham	5/15/85	
MEY:	5/15/85	Authorized Signature _____ Date _____
LND:JShropshire	5/21/85	
AI:EOwens	5/21/85	M. Peter McPherson Administrator

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CLASSIFICATION:

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

(PAAD)
Amendment 5

1. PAAD Number
Grant No. 391-K-604 (b)

2. Country
Pakistan

3. Category
Commodity Financing-Standard Procedure

4. Date
6/5/86

5. To The Assistant Administrator
Bureau for Asia and Near East
Agency for International Development
Washington, D. C. 20523

6. OYB Change Number
46 AND 47

7. From The Director, United States Agency
for International Development
Islamabad, Pakistan

8. OYB Increase
not applicable
To be taken from:

Pakistan converted loan to grant

9. Approval Requested for Commitment of
\$ 16,000,000

10. Appropriation Budget Plan Code 637-63-391-00-59-61
QESA-86-37391-KG-32 72-1161037

11. Type Funding
 Loan Grant

12. Local Currency Arrangement
 Informal Formal None

13. Estimated Delivery Period
12/84 - 12/89

14. Transaction Eligibility Date
6/15/86

15. Commodities Financed Agricultural inputs such as fertilizers and improved seeds; equipment and machinery for farm use; commodity support for agencies which provide agricultural services; agricultural machinery, equipment, and commodities to be imported by the Pakistani private sector; and such other emergency commodity imports as USAID/Pakistan and AID/Washington may agree upon.

16. Permitted Source
U.S. only \$16,000,000
Limited F.W.
Free World
Cash
Pakistan (minimum)

17. Estimated Source
U.S. \$16,000,000
Industrialized Countries
Local
Other
Pakistan (minimum)

18. Summary Description

TITLE: AGRICULTURAL COMMODITIES AND EQUIPMENT, (391-0468)

1. This PAAD amendment authorizes an additional \$100 million for this program which will make total life-of-project funding \$475 million. The \$100 million hereby authorized, subject to the availability of funds and in accordance with the A.I.D./OYB allocation process, will consist of \$80 million in ESF grant funds and \$20 million in ESF loan funds. The funds authorized are intended to be obligated over the period FY 1986-1988.

2. Of the above stated amount, the funds reserved by this action for FY 1986 obligation consist of \$16 million in ESF grant funds under appropriation 72-1161037 (Budget Plan Code QESA-86-37391-KG-32).

3. Except as amended above, the terms and conditions of the previous PAAD and PAAD amendments remain in full force and effect.

19. Clearances	Date	20. Action
FM/PAD: E Owens <i>Kclfn</i>	6-11-86	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED Authorized Signature: <i>Charles W. Greenleaf, Jr.</i> Date: 6/13/86 Title: Assistant Administrator, ANE Bureau
ANE/SA: PBoughton <i>BP</i>	6/7/86	
ANE/PD: PBloom <i>JP</i>	6/5/86	
GC/ANE: HMorris <i>Am</i>	6/5/86	
ANE/DP: DFranklin <i>DSE</i>	6/6/86	

CLASSIFICATION: UNCLASSIFIED

IO 1120-1 10-601 PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. Loan: 391K193 GRANT: 391-K-605	
		2. COUNTRY Pakistan	
		3. CATEGORY Commodity Financing - Standard Procedure	
		4. DATE July 7, 1984	
7. TO: The Administrator, Agency for International Development, Washington, D.C.			6. OYB CHANGE NO. N/A
7. FROM: The Director, United States Agency for International Development, Islamabad, Pakistan			8. OYB INCREASE N/A
		9. TO BE TAKEN FROM: N/A	
8. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 100,000,000			10. APPROPRIATION - ALLOTMENT ZSF
11. TYPE FUNDING <input checked="" type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> FORMAL <input type="checkbox"/> NONE	12. LOCAL CURRENCY ARRANGEMENT <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD Dec. 1984 - Dec. 1987	14. TRANSACTION ELIGIBILITY DATE September 1, 1984
15. COMMODITIES FINANCED Energy commodities and equipment in such categories as energy conservation and fuel conversions; power sector; coal mining and processing; renewable energy; oil and gas exploration and development; and, such other emergency commodity imports as USAID/Pakistan and AID/Washington may agree upon.			
16. PERMITTED SOURCE U.S. only: 100,000,000 (See Block 18) Limited F.W.: Free World: Cash: Pakistan (Minimum)		17. ESTIMATED SOURCE U.S.: 100,000,000 (See Block 18) Industrialized Countries: Local: Other: Pakistan (Minimum)	

TITLE: ENERGY COMMODITIES AND EQUIPMENT (391-0486)

This PAAD authorizes \$100 million, consisting of \$80 million in loan funds and \$20 million in grant funds, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to finance the foreign exchange and local costs for the importation, by both the Pakistani public and private sectors, of energy commodities and equipment in such categories as: energy conservation and fuel conversions; power sector; coal mining and processing; renewable energy; oil and gas exploration and development; and, such other emergency commodity imports as USAID/Pakistan and AID/Washington may agree upon. This document describes a program covering the period FY 1984 - FY 1986, which is designed to provide balance of payments support and to contribute to energy production from indigenous resources or energy conservation in support of the Cooperating Country's Sixth Five-Year Energy Plan.

(Continued on next page)

18. CLEARANCES AA/ASIA:CGreenleaf AA/PFC:R... AGC:HEFY... FM/LND:R... AM FM/PAD:R... Donor M. Lion... Director, USAID/Pakistan	19. ACTION Approved () Disapproved M. Peter McPherson AUTHORIZED SIGNATURE Administrator	DATE Aug 20, 1984
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CLASSIFICATION: UNCLASSIFIED

Dean Pratt
 Controller (A), USAID/Pakistan

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PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)
(Block 18 continued)

All accruals of proceeds to the Cooperating Country from the sale of grant-financed commodities shall, in accordance with Section 609 of the Foreign Assistance Act (FAA), be deposited in a Special Account to be utilized in development activities in such areas as agriculture, rural development, water resources, energy, population, education, health or any other use authorized by the FAA and agreed to by both parties, and where appropriate, may also be used to reduce opium poppy production and may be made available to pay U.S. administrative costs in Pakistan.

The Cooperating Country shall repay the loan to A.I.D. in U.S. dollars within forty (40) years from the date of the first disbursement of the loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in U.S. dollars interest from the date of the first disbursement of the loan at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter, on the outstanding disbursed balance of the loan and on any due and unpaid interest accrued thereon.

Except as A.I.D. may otherwise agree in writing, goods and services financed by A.I.D. under this program shall have their source and origin in the United States or in the Cooperating Country. Ocean shipping eligible for financing by A.I.D. under this program shall be on flag vessels of the United States or the Cooperating Country only.

An appropriate clause regarding the availability of grant funds under this program for mixed credits will be included in the program agreement.

TABLE II-A-1

ANNEX E

PLANNED AND PROJECTED USE OF ACE FUNDS ^{1/}

AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM

COMMODITY-WISE ALLOCATIONS: TOTAL

(\$ 000)

	FUND		Amendment 1		Amendment 2			Amend 3	Amendment 4			Original LMP Funding	Revised LMP Funding	
	FY 82		FY 83		FY 84	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90			
	Plan	Revised	Plan	Revised	Plan	Plan	Revised	Revised	Plan	Plan				
Fertilizer	34,000	34,000	24,000	28,321	30,000	28,416	30,000	30,000	37,700	34,000	25,000	150,000	187,337	
Wheat					21,354			77,500					98,952	
Rotation			24,002	10,000								10,000	24,002	
Equipment:	26,000	26,000	26,000	5,497	20,000	10,014	15,000		17,900	7,338	4,300	8,700	87,000	80,439
Irrigation	24,700	24,050	11,100	3,687	8,000	9,173	8,000		5,000	6,000	1,000	2,700	51,800	51,800
Drilling Rigs			1,200		1,200								2,400	
Water Pumps			1,000		1,000				1,291				2,000	1,291
WART Project					2,500				4,600		1,000		2,500	2,500
BALAD Project				555	3,200	150			2,500		1,500		3,200	4,705
TIPAN Project		13		753	1,000	214	4,000		2,200				5,000	3,200
FPD Project			5,000	493	2,000				2,000		1,000		7,000	3,492
Roads Project							3,000						3,000	
FSM Project										800				800
APDS Project			4,500										4,500	
CPAD										440				440
MUFAO Project											400			400
MUFP Bulldozers												6,000		6,000
Misc	1,300	1,917	3,200	10	1,100	478			200				5,600	2,605
Turinski											3,000	6,300		15,300
Private CIP					10,000	10,000	15,000	20,000	10,000	10,000	10,000	20,000	45,000	60,000
Unspecified				1,499		216			412	3,662	1,100			6,887
Total	60,000	60,000	60,000	60,000	70,000	70,000	60,000		145,000	55,000	30,000	35,000	100,000	174,777
Obligation	60,000		60,000		70,000				145,000	55,000				390,000
Earmarked	60,000		58,259		69,784				137,074	41,338				367,275
Commitment	53,330		58,231		67,676				137,170					323,072
Accrued Expend	58,507		55,257		57,676				95,660					367,191
Earmarked			1,741		216				7,106	13,662				77,725

1/ Prepared by Abdul Wasay, ARD

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TABLE II-A-1 cont.

AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM

COMMODITY-WISE ALLOCATIONS: GRANT

(\$ 000)

	FYND		Amendment 1		Amendment 2			Amend 3		Amendment 4		Original LOP	Revised LOP
	FY 82		FY 83		FY 84	FY 85	FY 85	FY 85	FY 86	FY 87	FY 88		
	Plan	Revised	Plan	Revised	Plan	Revised	Plan	Revised	Revised	Plan	Plan		
Fertilizer					20,000	8,416	2,000			15,000	5,000	32,000	28,416
Wheat					21,354				67,538				88,352
Cotton			13,003										13,003
Equipment:	26,000	26,000	20,000	5,497	20,000	10,014	15,000		17,390	7,338	4,300	8,700	80,439
Irrigation	24,700	24,000	11,100	3,687	8,000	9,173	8,000		5,200	6,000	1,000	2,700	51,800
Drilling Rigs			1,200		1,200								2,400
Water Pumps			1,000		1,000				1,291				1,291
MART Project					2,500				4,600		1,000		2,500
BALAD Project				555	3,200	150			2,500		1,500		4,705
TIPAH Project		33		753	1,000	214	4,000		2,200				3,200
FPD Project				493	2,000				2,000		1,000		2,000
Roads Project						3,000							3,000
FSM Project										898			898
AFDS Project			3,500										3,500
CRMB										440			440
NMFAD Project											400		400
NMF Buldozers											6,000		6,000
Misc	1,300	1,317	3,200	10	1,100	478			200				3,600
Zorinski											2,000	5,300	15,300
Private CIP											10,000	10,000	10,000
Unspecified				1,493		216			412	3,000	1,100		5,883
Total	26,000	26,000	20,000	20,000	40,000	40,000	17,000		86,000	26,000	10,000	25,000	182,337
Obligation		26,000		20,000		40,000			86,000	26,000			138,000
Earmarked		26,000		18,259		39,784			79,472	22,378			185,853
Commitment		25,390		18,231		37,676			78,753				160,651
Accrued Expend		24,587		15,257		37,676			66,527				144,050
Unearmarked				1,741		216			6,528	3,662			12,147

TABLE II-A-1 cont.

AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM

COMMODITY-WISE ALLOCATIONS: LOAN

(\$ 000)

	FYND		Amendment 1		Amendment 2			Amend 3		Amendment 4			Original LOP Funding	Revised LOP Funding
	FY 82		FY 83		FY 84	FY 85	FY 86	FY 87	FY 88	FY 89	FY 90			
	Plan	Revised	Plan	Revised	Plan	Plan	Revised	Revised	Plan	Plan				
Fertilizer	34,000	34,000	34,000	28,321	10,000	20,000	28,000	30,000	33,000	13,000	20,000	136,000	160,321	
Seed								10,000					10,000	
Cotton			11,079	10,000								10,000	11,079	
Equipment:			6,000									6,000		
Irrigation														
Drilling Rigs														
Water Pumps														
MART Project														
BALAD Project														
TIPAN Project														
FPD Project			5,000									5,000		
Roads Project														
FEM Project														
ADOS Project			1,000									1,000		
CMB														
MIFAD Project														
MIFD Bulldozers														
Misc														
Leminski														
Private CIP					10,000	10,000	15,000	20,000	10,000	10,000		45,000	30,000	
Unspecified														
Total	34,000	34,000	34,000	40,000	30,000	30,000	43,000		53,000	23,000	20,000	137,000	212,000	
Obligation	34,000		40,000		30,000				53,000	23,000			132,000	
earmarked	34,000		40,000		30,000				58,422	19,000			181,422	
commitment	34,000		40,000		30,000				58,422				162,422	
Accrued Expend	34,000		40,000		20,000				29,141				123,141	
earmarked									578	10,000			10,578	

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TABLE II-A-2

AGRICULTURAL COMMODITIES AND EQUIPMENT (ACE)
COMMODITY IMPORT GRANT AND LOAN AGREEMENT
SCHEDULE/CONDITIONS

FY	Obligation Date	Funding Level		Selected Conditions Precedent
		Grant	Loan	
1982	April 13, 1982	26	34	----
1983	Amendment # 1 July 25, 1983	20	40	----
1984	Amendment # 2 Aug. 27, 1984 (Commodity Group IV & V added - expanded Private Sector and emergency procurement cotton & wheat etc.)	40	30	<p><u>Fertilizer</u></p> <p>(1) No less than 50% of all phosphatic fertilizer imported in Pakistan. FY 84/85 will be allocated to private sector distributors -</p> <p>(2) Specific share allocations among private sector distributors will be made in accordance with each distributor's share of production of nitrogenous fertilizers -</p> <p>(3) National Fertilizer Marketing Ltd./National Fertilizer Corp. (NFML/NFC) are not included in private sector distribution calculations -</p> <p>(4) Uniform incidentals will be allowed for all distributors of imported fertilizers, be they public or private sector -</p> <p>(5) Borrowers/Grantee will take into account the requirements of private sector distributors in Borrower/Grantee plans for the importation of fertilizers</p> <p><u>Private Sector</u> Prior to the disbursement of funds under second amendment, Borrower/Grantee will furnish or have furnished to AID written concurrence of the Borrower/Grantee to all the specifics of this private sector component as</p>

they relate to interest rates and lending terms, credit ceilings, eligible commodities and importers, payback periods, and procedures to be followed by the Borrower/Grantee in making allocations to participating banks.

1985	Amendment # 3 June 25, 1985	36	59	<u>Fertilizer</u> (1) No less than 60% of all phosphatic fertilizers imported in Pakistan FY 1985/86 will be allocated to private sector distributors - (2) Documentation that Borrower/Grantee will conduct an in-depth review, with the participation of concerned private and public representatives, of the study entitled "Pakistan Fertilizer Policy: Review and Analysis" and send findings of review and proposal actions regarding deregulation and privatization of the fertilizer industry to USAID. In addition see FY 84 (3), (4), (5).
1986	Amendment # 4 July 15, 1986	10	29	<u>Fertilizer</u> (1) No less than 60% of all phosphatic fertilizer imported in the Pakistan fiscal year or years for which disbursement(s) for fertilizer is sought will be allocated to private sector distributors. In addition see FY84 (3) and FY85 (2)
1986	Amendment # 5 Sept. 25, 1986	16	-	<u>Zorinsky Requirement</u> (1) Borrower/Grantee will reserve for private sector purchase of commodities per list Annex 1 in an amount equal to or greater than US\$6.0 million.

	Total	198	192	(390)

Summary - Obligated	\$390,000,000
as of 4/30/87 <u>1/</u>	
Funds Committed	328,564,719
Funds Disbursed	267,186,781
Unliquidated	61,377,938
Pipeline <u>2/</u>	\$122,813,219

1/ USAID Controller

2/ Not a current figure since AID/W has not provided USAID with a W-214 Report since October 1986.

TABLE II-A-3

COMMODITIES AND U.S. FUNDED TECHNICAL ASSISTANCE PROJECTS
RELATED TO OR INTERFACED WITH THE ACE PROGRAM (391-0468)

Number	Activity/Project	Input	Funding Source	
			Loan	Grant
	Fertilizer Import			
	DAP	--	x	x
	TSP	--	x	-
	Wheat Import	--	x	x
	Cotton Import	--	x	x
	Agribusiness Support (Private Sector)	Foreign Exchange Credit for imports (30 million)	-	x
391-0467	Irrigation Systems Management (ISM)			
	1. Canal and Drain Rehabilitation	Equipment	-	x
	2. Institutional Improvement (PID)	Equipment	-	x
	3. Planning, Policy Imple- mentation and Research	Equipment	-	x
	4. Command Water Management	Equipment	-	x
391-0481	Forestry Planning and Development (FPD)	Equipment	-	x
391-0491	Food Security Management (FSM)	Equipment	-	x
391-0489	Management of Agricultural Research and Technology(MART)	Equipment	-	x
391-0489	Transformation & Integration of Provincial Network (TIPAN)	Equipment	-	x
391-0479	Baluchistan Area Development (BALAD)	Equipment	-	x
391-0485	NWFP Area Development	Equipment	-	x

TABLE II-A-4

U.S./OTHER DONOR INTERACTION

Activity	U.S.	Other Donor/Participant
391-0467 Irrigation Systems Management (ISM)		
1. Canal & Drain Rehabilitation	x	IBRD/IDA
2. Command Water Management	x	IBRD/IDA
391-0489 Management of Agriculture Research and Technology (MART)	x	CI-MYT - International Wheat and Maize Improvement Center ICARDA - International Center for Agricultural Research in Dry Area
391-0491 Food Security Management	x	IBRD/IDA ADB - Asian Development Bank
Food Imports (PL-480)	-	US Department of Agriculture
Agribusiness Support (Private Sector Credit Window)	x	Support to ADBP by Asian Development Bank Pakistani Banks Habib Bank Limited. United Bank Limited. U.S. Banks Citibank Bank of America

PAKISTAN
Table III-2
CONSOLIDATED CURRENT EXPENDITURES, 1980/81-1986/87
 (billion rupees)

	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86 Budget	1985/86 Revised	Shares in Total		
								1986/87 Budget	1982/83	1985/86
Administration, law and order	4.9	5.8	6.8	9.6	9.8	10.8	10.6	15.1	11.1	10.7
Defense	15.3	18.6	23.2	26.8	31.8	34.8	35.1	38.6	38.0	35.0
Community Services	1.5	1.7	2.1	2.7	3.0	3.6	3.7	4.1	3.5	3.7
Social Services	5.1	5.4	7.4	9.8	10.5	12.5	12.7	14.2	12.1	12.7
Economic Services /b	3.4	4.0	5.4	5.5	6.4	6.8	6.3	6.6	8.9	6.3
Subsidies /c	4.9	4.3	4.5	6.1	8.4	10.4	9.1	9.5	7.4	9.1
Debt Servicing	5.9	7.7	11.1	14.1	15.7	16.7	20.3	22.0	18.2	20.2
Other	0.5	0.3	0.5	0.6	1.7	3.3	2.3	2.3	0.8	2.3
Total /d	41.1	47.8	61.1	75.3	87.4	99.0	100.2	112.4	100.0	100.0

/a Includes Rs 2 billion unemployment fund and Rs. 1 billion for guarantees of bad debts of public enterprises.

/b Includes irrigation expenditures.

/c Includes fertilizer subsidy.

/d Totals differ from current expenditures in Table III.1 which do not include irrigation expenditures.

Source: Planning and Development Division and adapted from (World Bank (1987), Table III.2)

Table III-3
PAKISTAN'S BALANCE OF PAYMENTS: 1981/82 - 1986/87
 (Billions of US Dollars)

	1981/82	1982/83	1983/84	1984/85	1985/86	1986/87 (Projected)
Current Account Balance	-1.6	-1.6	-1.0	-1.7	-1.2	-1.0
Trade Balance	-3.4	-3.0	-3.3	-3.6	3.0	-2.6
Exports (GOP)	2.3	2.6	2.7	2.5	2.9	3.3
Imports (GOP)	-5.8	-5.6	-6.0	-6.0	-6.0	-5.8
Services (net)	-0.5	-0.6	-0.7	-0.8	-1.0	-1.0
Private Transfers (net)	2.4	3.0	3.0	2.7	2.8	2.6
of which workers remittance	(2.2)	(2.9)	(2.7)	(2.4)	(2.6)	(2.3)
Capital Account Balance	1.0	1.0	0.8	0.8	1.2	1.0
Official Transfers (net)	0.4	0.3	0.3	0.4	0.5	0.4
of which refugee assistance	(0.3)	(0.2)	(0.2)	(0.2)	(0.1)	(0.2)
Long-Term Capital (net)	0.5	0.9	0.5	0.6	0.6	0.5
of which project, food and other commodity loans (net)	(0.4)	(0.6)	(0.4)	(0.4)	(0.4)	(0.4)
Memo Items:						
Gross Official Reserves	0.8	1.9	1.7	0.7	0.9	0.7
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

Adapted from (World Bank (1987); Table I.6)

TABLE III-4
TERMS ON GOVERNMENT DOMESTIC BORROWING

	Interest Rate	Maturity Period	Tax Status
I. Permanent Debt			
Prize Bonds	10% p.a.	2 months ^{/a}	Non-taxable
Special National Fund Bonds	11.11% p.a.	2 years	"
Bearer National Fund Bonds	(12.35% p.a.	1 year	"
	(13.30% p.a.	2 years	"
	(14.97% p.a.	3 years	"
Foreign Exchange Bearer Cert.	14.5% to 17.33% p.a.	1-3 years	"
Market Loans	Different rates upto 11.75% p.a.	10-20 years	Taxable
Income Tax Bonds	5% p.a.	10 years	"
Government Bonds	11% p.a. ^{/b}	15 years	"
Government Bonds for State Life Ins. Co.	14% p.a.	15 years	Non-taxable
Land Reforms Act, 1977	11% p.a. ^{/b}	10 years	Taxable
II. Floating Debt			
Ad hoc Treasury Bills for Ways and Means	0.5% p.a.	90 days	Non-taxable
Treasury Bill on Tap	6% p.a.	90 days	"
Government Treasury Deposit Receipts	(9.5% p.a. (special)	90 days	"
	(10% p.a. (special)	6 months	"
	(10.5% p.a. (special)	1 year	"
	(8.25% p.a. (normal)	90 days	"
	(9% p.a. (normal)	6 months	"
Ad hoc Treasury Bills for Capital Investment in Pakistan Railways	5.25% p.a.	10 years	"
III. Unfunded Debt			
Defense Saving Certificates	15.60% ^{/c}	1-10 years	"
National Deposit Certificates/Accounts	14.63% ^{/d}	1-7 years	"
Khas Deposit Certificates/Accounts	13.44% ^{/e}	3 years	"
Saving account/Certificates	10% p.a.	option	"
Mahana Amdani Accounts	14.87% ^{/f}	1-5 years	"
Postal Life Insurance	13.20% p.a.	different periods	"

^{/a} (Retention Period).

^{/b} One percentage point above the Bank rate.

^{/c} Rates begin at 12% p.a. for a one-year maturity and increase with maturity. Rate cited is compound rate payable at maturity after 10 years.

^{/d} Rates begin at 12% p.a. for a one-year maturity and increase with maturity. Rate cited is compound rate payable at maturity after seven years.

^{/e} Compound rate payable at maturity after three years.

^{/f} Rates begin at 12.10% for one year and increase to 20% for fifth year. Rate cited is compound rate for five years.

Source: Ministry of Finance and Economic Affairs as presented in World Bank (1987) Table III-7.

TABLE III-5:
INTERNATIONAL COMPARISONS OF SELECTED DEBT INDICATORS,
1974 AND 1984
(Percent)

	<u>Pakistan</u>		<u>Low-Income Asia</u>		<u>All Developing Countries</u>	
	1974	1984	1974	1984	1974	1984
Private creditors/DOD	5.6	9.3	4.7	10.3	40.9	58.0
Variable interest loans/DOD	-	6.8	-	5.7	16.1	44.9
Total debt service/exports	15.4	19.0	15.6	15.2	8.5	19.8
Official reserves/total debt service	251.6	172.0	240.0	358.2	445.3	83.2 /b
Official reserves/DOD	14.9	16.1	20.0	26.7	64.3	23.8 /b
<u>Memorandum Items:</u>						
Average terms of public new commitments:						
Interest	3.0	5.2/b	2.8	5.4/b	7.1	9.2
Maturity (years)	24.4	28.0	29.5	29.5/b	17.7	15.0

/a Exports of goods and all services.

/b Data for 1983.

Source: World Bank, World Development Report, 1986; World Debt Tables, 1985-86
(advance copy).

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Table III-6

ANNEX B

SELECTED DEBT SERVICE INDICATORS, 1980/81-1994/95
(Percent)

	1980/ 1981	1981/ 1982	1982 1983	1983/ 1984	1984/ 1985	1985 1986	Projected		
							1986 1987	1989 1990	1994 1995
Debt Service ^{/b} /Exports ^{/a}	15.2	13.2	13.4	15.7	18.8	23.1	24.5	18.0	17.1
(Excluding IMF)	11.9	9.8	10.7	13.8	15.6	19.6	19.5	15.7	17.1
Reserves ^{/c} /Debt Service	120.2	111.3	215.4	164.9	57.8	70.2	41.7	103.8	138.2
Reserves ^{/c} /DOD	12.4	8.9	20.5	17.6	6.5	8.5	6.3	10.3	17.5
Debt Service/GNP	2.9	2.2	2.8	3.1	3.5	4.4	4.7	4.1	3.7
Interest Payments ^{/d} /GNP	1.1	1.1	1.4	1.4	1.4	1.4	1.4	1.4	1.3

/a Exports of goods and all services and transfers.

/b Debt service payments are inclusive of IMF repurchases and service charges.

/c Reserves refer to gross reserves.

/d Interest payments include IMF service charges.

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TABLE III-7
ENERGY BALANCE SHEET, 1978/79-1985/86 /a
(million tons of oil equivalent)

	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
OIL								
Domestic crude production	0.4	0.4	6.4	0.4	0.4	0.4	0.6	0.9
Imported crude oil	3.1	3.6	3.6	4.1	3.9	4.0	4.1	4.4
Imported petroleum products	1.4	1.6	1.6	1.6	1.9	2.2	2.3	2.5
Opening stock	0.2	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Gross Supply	5.1	6.0	6.0	6.4	6.8	6.8	7.2	8.0
Exports	0.9	1.3	1.1	1.2	0.6	0.3	0.3	0.3
NET supply	4.3	4.7	4.9	5.2	5.9	6.4	6.9	7.7
Closing stock/losses	0.2	0.4	0.5	0.2	0.2	0.2	0.2	0.3
Consumption	4.0	4.3	4.4	5.0	5.6	6.2	6.7	7.4
GAS								
Gas processed	3.6	4.8	5.5	5.8	6.1	5.7	6.1	6.4
Raw gas	0.5	0.4	0.5	0.6	0.6	0.6	0.6	0.7
Associated gas	0.5	0.4	0.4	0.4	0.5	0.4	0.5	0.6
Gross Supply	4.6	5.6	6.3	6.8	7.1	6.8	7.2	7.7
Less feed stock	0.5	0.6	0.8	1.1	1.1	1.1	1.2	1.2
NET SUPPLY	4.1	5.0	5.5	5.7	6.0	5.6	6.0	6.5
Less losses	0.2	0.4	0.4	0.2	0.5	0.1	0.2	0.2
Consumption	3.9	4.6	5.2	5.5	5.5	5.5	5.9	6.2
L.P.G.								
Gross Supply	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.1
COAL								
Indigenous supply	0.6	0.7	0.7	0.8	0.7	0.8	1.0	1.1
Imports	0.0	0.1	0.2	0.4	0.3	0.4	0.5	3.3
Gross Supply	0.6	0.8	0.9	1.1	1.0	1.2	1.5	2.6
ELECTRICITY								
Hydel generation	2.0	2.1	2.1	2.3	2.7	3.1	2.9	0.1
Thermal generation	1.4	1.5	1.7	1.9	1.9	2.1	2.5	6.0
Nuclear generation	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Gross Generation	3.4	3.6	3.8	4.2	4.7	5.2	5.5	5.8
Less units consumed in auxiliary	0.1	0.1	0.1	0.1	0.1	0.2	0.3	1.3
Net Supply	3.3	3.4	3.7	4.1	4.5	5.0	5.3	4.5
Less losses	1.1	1.0	1.0	1.0	1.2	1.3	1.1	1.2
Consumption	2.1	2.5	2.7	3.0	3.4	3.7	4.2	3.2
TOTAL AVAILABILITY (GROSS)	13.8	15.9	17.1	18.5	19.3	20.0	21.4	22.1
Less feed stock (Fertilizer Ind.)	0.5	0.6	0.8	1.1	1.1	1.1	18.3	1.2
Less exports	0.9	1.3	1.1	1.2	0.6	0.3	17.5	0.3
Less auxiliary	0.1	0.1	0.1	0.1	0.1	0.2	1.5	2.7
NET SUPPLY	12.3	14.0	15.1	16.2	17.5	18.4	16.0	17.9
Less losses	1.6	1.8	1.8	1.5	1.9	1.7	1.5	1.6
Gross Consumption	10.7	12.1	13.2	14.7	15.0	16.7	14.5	10.3
Less thermal generation	1.4	1.5	1.6	1.6	1.9	2.1	2.5	2.7
Net Consumption	9.3	10.7	11.6	12.8	13.7	14.7	12.0	13.6

/a Figures for 1985/86 are estimated.

Source: Directorate General of Energy Resources (DGER) as adapted from (World Bank (1987) Table 9.01)

TABLE III-8
 MAJOR PAKISTANI IMPORTS FROM THE UNITED STATES
 (thousand rupees)

	<u>1985</u>	<u>1986</u>
Milk Powder	0	29
Wheat	242	2,270
Mechanical Wood Pulp	11	23
Cotton	382	16
Old Clothing	148	131
Iron & Steel Waste	77	182
Coal	140	110
Animal Tallow	570	758
Soyabean Oil	1,559	1,893
Palm Oil	0	175
Chemicals	238	331
Pharmaceuticals	165	170
Phosph Fertilizer	212	1,397
Polyethelene	22	44
Items of Rubber	82	143
Newsprint	22	21
Synthetic Fibre	46	52
Refractory Blocks	36	0
Tin Plate	7	59
Steel Sheet	28	3
Tools	25	42
Engines	27	33
Gas Turbines	578	34
Gas Turbine Parts	270	123
Generators	129	33
Agri Machinery	81	1
Tractors	0	20
Levelling Machines	0	75
Oil Drilling	184	67
Mining Mach. Parts	214	441
Construction Mach	25	11
Other Non-Elec Mach	524	605
Electric Machinery	246	269
Transport Equip	1,803	217
Other	<u>2,913</u>	<u>1,315</u>
Total	11,006	11,093

(Source: GOP: Bureau of Statistics)

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TABLE III-9

ANNEX E

COMPOSITION OF IMPORTS, 1974/75

(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
Capital Goods	6,152	7,158	8,750	9,316	10,970	16,679	14,887	17,503	21,135	24,419	28,968	33,195
Iron and steel bars	56	45	38	57	30	100	76	65	82	85	99	108
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
Hoop and strip iron	-	53	17	21	29	28	26	44	42	64	73	143
Nails 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	99
Tubes, pipes and fittings	147	412	366	139	222	270	281	410	425	297	539	945
Power generating machinery other than electric	21	129	259	204	458	414	560	852	1,312	1,285	2,826	2,738
Agricultural machinery	295	534	837	939	1,050	1,480	1,048	1,428	1,943	2,726	1,891	1,589
Textile and leather machinery	14	714	581	573	501	635	739	812	877	997	1,393	1,692
Machine for special industries	205	407	547	573	528	540	828	837	1,070	2,307	1,912	1,820
Electric power machinery	272	433	383	532	633	561	742	604	736	999	940	1,629
Road motor vehicles	505	843	1,055	1,141	1,598	2,299	2,345	3,030	3,077	4,560	4,552	5,256
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
Consumer Goods	4,714	4,337	3,651	5,555	7,842	7,500	7,775	8,407	9,593	10,746	14,377	16,475
Wheat	2,461	1,785	660	1,337	3,505	1,041	633	800	873	858	2,750	4,720
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
Petroleum products	424	390	601	723	926	1,886	1,774	1,661	2,118	1,984	2,418	2,053
Medicines and drugs	186	2,2	348	513	601	751	936	1,222	1,390	1,800	1,974	2,245
Printed matter	34	21	24	49	71	167	100	97	92	98	110	134
Others	678	588	632	855	868	1,138	1,340	1,479	1,502	1,547	1,910	2,142
Raw Materials	10,059	8,970	10,611	12,944	17,576	22,750	20,887	23,571	27,423	41,542	46,478	41,376
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
Petroleum products	745	827	772	815	1,274	2,940	3,585	4,264	5,524	5,028	4,970	4,082
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
Chemicals	625	483	550	648	814	895	1,212	823	1,132	1,532	1,591	2,077
Dyeing and tanning materials	203	208	208	363	311	392	462	493	578	613	682	728
Fertilizers	960	559	623	1,048	2,808	2,711	3,537	893	2,117	1,539	1,790	2,079
Chemical materials, M.E.S.	388	449	629	449	429	444	550	754	875	1,201	1,802	2,090
Pig iron, sponge forms of iron	280	64	39	47	96	146	120	53	65	88	102	105
Ingot & primary forms of iron	481	134	243	295	330	329	383	360	207	117	24	31
Non-ferrous metals, M.E.S.	7	3	4	5	2	2	5	3	1	2	2	4
Iron and steel forgings	17	48	18	11	14	15	20	9	11	22	18	31
Copper	127	42	50	86	78	133	184	145	178	222	227	292
Aluminium	106	35	188	140	135	211	234	356	282	322	407	344
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
Total	20,925	20,465	23,012	27,815	36,388	46,929	53,544	59,482	68,151	76,707	89,778	90,946

/a Petroleum Products other than consumer goods.

Source: Federal Bureau of Statistics as taken from [World Bank (1987) Table 3.03]

TABLE III-13
VOLUME, VALUE AND UNIT VALUE OF MAJOR IMPORTS
 1977/78-1985/86 /^a

	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Major Imports									
Volume	6,537	8,906	8,556	7,746	7,384	7,522	7,818	7,406	7,009
Value	1,010	1,537	1,785	2,342	2,268	2,137	2,248	2,231	1,652
Unit Value	155	173	209	302	307	284	287	301	236
Crude Oil									
Volume	3,315	2,946	4,619	3,955	4,412	4,187	4,294	4,365	3,727
Value	341	308	592	994	1,143	989	915	948	659
Unit Value	103	104	128	251	259	236	213	217	177
POL Products									
Volume	1,282	1,676	1,817	1,663	1,604	1,897	2,186	1,808	1,891
Value	155	222	448	541	540	574	547	487	356
Unit Value	121	133	268	325	337	302	250	269	193
Fertilizer									
Volume	595	1,575	1,112	1,283	314	717	490	496	544
Value	104	284	274	357	85	167	114	118	129
Unit Value	175	180	246	278	269	233	233	238	237
Edible Oil									
Volume	249	412	345	467	624	640	752	653	814
Value	148	268	230	266	321	276	482	447	373
Unit Value	595	651	667	570	514	431	641	684	458
Tea									
Volume	61	61	61	73	70	81	96	84	83
Value	127	101	96	120	103	131	190	231	135
Unit Value	2,085	1,652	1,581	1,581	1,487	1,617	1,979	2,750	1,627
Other Imports									
Value(CIF)	1,240	1,617	3,511	3,713	4,012	3,968	4,287	4,178	4,875
Total Imports									
Value(CIF)	3,174	4,508	5,391	6,120	6,356	6,105	6,535	6,455	6,527

^{/a} Volumes in thousand metric tons, value in million US dollars and unit value in US dollars
 Figures for 1985/86 are provisional actuals, for 1986-87 are forecasts.

Source: Planning and Development Division or (World Bank (1987) Table 3-05)

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Table III-ii: COMPOSITION OF EXPORTS, 1976/77 - 1985/86
(million rupees)

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Raw cotton	292.1	1,093.6	655.2	3,321.0	5,203.4	2,938.2	3,896.6	1,771.6	4,368.0	8,290.5
Cotton yarn	1,171.7	1,059.5	1,956.1	2,038.0	2,048.7	2,074.9	3,145.9	2,930.8	3,973.5	4,511.3
Cotton cloth	1,603.3	1,741.2	2,135.2	2,416.6	2,389.6	2,949.1	3,579.0	4,856.1	4,637.8	5,382.7
Rice	2,477.9	2,408.5	3,380.0	4,179.3	5,601.6	4,127.9	3,682.6	5,688.4	3,339.7	5,527.2
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
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
Carpets and rugs	911.9	1,170.8	1,764.7	2,198.4	2,242.8	1,678.5	1,912.9	2,322.7	2,030.7	2,692.7
POL products	268.5	625.9	607.9	1,764.2	1,675.2	2,047.3	984.1	539.8	525.0	507.1
Sports goods	199.1	194.9	212.1	244.6	312.3	319.5	448.9	670.0	673.6	786.6
Raw wool	76.2	72.7	107.9	105.3	80.2	107.9	163.6	171.4	261.2	274.0
Others	3,258.9	3,635.3	4,360.9	5,346.8	8,273.6	8,035.2	14,538.2	15,408.8	14,613.7	17,685.2
Total	11,293.9	12,930.5	16,925.0	23,410.1	29,279.5	26,269.9	34,441.7	37,338.6	37,979.4	49,592.2

Source: Federal Bureau of Statistics and taken from [World Bank (1987) Table 3.07]

TABLE 3.09
VOLUME, VALUE AND UNIT VALUE OF MAJOR EXPORTS, 1977/78-1985/86 /a

	1977/78	1978/79	1979/80	1980/81	1981/82	1982/83	1983/84	1984/85	1985/86
Raw Cotton									
Volume (M.Kg)	101.00	55.00	251.00	325.00	231.30	254.92	98.22	267.99	444.24
Value	110.10	66.20	335.30	525.60	264.00	305.62	131.44	287.94	517.05
Price (\$/Kg)	1.09	1.20	1.34	1.62	1.14	1.20	1.34	1.09	0.80
Basmati Rice									
Volume (000 MT)	280.00	180.00	320.00	410.00	261.81	237.74	405.93	174.06	260.54
Value	124.00	135.40	225.50	290.60	185.42	148.24	243.84	108.66	173.48
Price (\$/MT)	442.86	752.22	704.69	707.32	708.22	623.54	600.69	624.27	665.85
Other Rice									
Volume (000 MT)	600.00	830.00	770.00	830.00	689.22	667.10	859.10	544.63	1,055.48
Value	119.30	206.00	196.70	275.80	205.85	141.49	178.14	111.56	148.76
Price (\$/MT)	198.83	248.17	255.45	332.29	298.67	212.10	207.36	204.73	159.89
Cotton Yarn									
Volume (M.Kg)	60.00	97.90	99.90	95.20	95.60	134.10	101.81	125.86	157.64
Value	107.00	197.60	205.90	207.00	196.67	247.51	217.42	261.91	279.29
Price (\$/Kg)	1.78	2.02	2.06	2.17	2.06	1.85	2.14	2.08	1.77
Cotton Cloth									
Volume (M.Sq.Mtr)	453.50	531.80	545.80	500.90	584.30	605.33	664.38	687.62	717.51
Value	175.70	215.70	244.20	241.40	279.50	281.59	360.24	305.64	311.04
Price (\$/Sq.Mtr)	0.39	0.41	0.45	0.48	0.48	0.47	0.54	0.44	0.43
Leather									
Volume (M.Sq.Mtr)	8.70	12.70	10.20	8.80	11.01	10.74	16.64	15.67	17.63
Value	64.30	124.00	127.70	90.10	109.71	94.02	146.27	153.28	177.96
Price (\$/Sq.Mtr)	7.39	9.76	12.52	10.24	9.92	8.75	8.79	9.78	10.09
Carpets									
Volume (M.Sq.Mtr)	1.90	2.50	2.70	2.50	1.93	2.23	4.69	2.07	2.45
Value	118.30	174.80	222.10	226.60	159.10	150.50	172.31	133.87	159.39
Price (\$/Sq.Mtr)	62.26	69.92	82.26	90.64	82.44	67.49	36.74	64.67	61.38
Fish and Preparations									
Volume (M.Kgs)	13.40	13.60	13.20	19.70	17.60	16.58	27.63	36.34	35.62
Value	34.50	14.70	53.60	56.50	74.87	70.58	74.71	81.15	62.36
Price (\$/Kg)	2.57	1.08	4.06	2.87	4.25	4.26	2.70	2.23	1.73
Cur & Products									
Volume (MT)	90.00	110.00	90.00	50.00	60.00	60.00	70.00	66.93	72.47
Value	20.50	27.50	33.60	28.90	28.90	21.90	25.91	22.48	21.40
Price (\$/MT)	0.23	0.25	0.37	0.58	0.48	0.37	0.37	0.34	0.38
Readymade Garments									
Volume (M. Doz)	1.93	2.54	3.78	4.51	4.89	5.70	9.13	7.19	10.15
Value	29.80	38.10	53.90	75.30	94.20	117.83	160.58	132.71	201.67
Price (\$/Doz)	15.44	15.00	14.26	16.70	19.26	20.67	17.59	18.46	19.86
Synth. Tex. Fab.									
Volume (M.Sq.Mtr)	31.30	10.30	5.10	90.80	12.30	140.24	66.14	28.60	100.92
Value	15.55	6.56	5.45	128.48	23.50	220.12	107.70	41.94	48.59
Price (\$/Sq.Mtr)	0.50	0.64	1.07	1.41	1.91	1.57	1.63	1.47	0.48
Raw Wool									
Volume (M.Sq.Mtr)	4.90	5.30	4.20	2.70	5.80	7.14	8.24	10.76	9.72
Value	7.37	10.10	9.59	5.05	10.62	12.50	12.71	17.20	16.86
Price (\$/Kg)	1.50	1.91	2.28	1.87	1.83	1.75	1.54	1.60	1.73
Others									
Value	384.58	492.94	651.16	806.77	843.70	896.95	916.29	893.60	627.88
Total Exports									
Value	1,311.00	1,709.60	2,264.70	2,927.50	2,490.04	2,709.81	2,747.56	2,500.77	2,049.28

/a Values in million US dollars.

Source: Planning and Development Division taken from [World Bank (1987), Table 3.09]

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SUMMARY DESCRIPTIONS OF TA PROJECTS AND
NON-PROJECT ACTIVITIES UTILIZING ACE RESOURCES FOR
EQUIPMENT PROCUREMENT

IRRIGATION SYSTEMS MANAGEMENT (ISM)
(391-0467)

Project Purpose:

To increase the capabilities of the institutions involved in irrigation planning, design, research, operation and maintenance, and to bring about policy changes needed for proper irrigation water management.

This project was developed in conjunction with the World Bank (IBRD/IDA) with each donor's area of participation identified or areas of participation split (i.e., rehabilitation, etc.)

The project implementation is being carried out by components as follows:

1. Rehabilitation Works
 - a. Canals & Drains
 - b. Workshops
2. Institutional Improvements: Management and Technical Skills Development.
 - a. Federal level
 - b. Provincial (PID's)
3. Planning, Policy Implementation and Research
4. Command Water Management

The LOP (1983-89) ISM funding level is projected at \$65 million. In addition, \$52 million of ACE grant fund were earmarked for commodity procurement. These funds have or will be used to procure the following categories of equipment and commodities from the United States:

- Heavy equipment (see attached list) for canal and drain rehabilitation;
- Irrigation workshop equipment;
- Spare-parts (for existing/old equipment);
- Data collection/analysis equipment (ACOP - sedimentation studies);
- Hydraulic research and design equipment.

The equipment under the first four categories has been received. Procurement was through the GOP using the services of two PSA's (Connel Brothers for heavy equipment and AGEIS for spare and small equipment). Specifications for research equipment are under preparation by the ISM TA Research Team (University of Idaho/Washington State University and Development Alternatives Inc. (DAI)). USAID/ISM personnel assumed an active role in the earlier procurement process.

MANAGEMENT OF AGRICULTURAL RESEARCH AND TECHNOLOGY (MART)
(391-0489)

Project Purpose:

Strengthen the performance of the national agricultural research system to generate and disseminate quality and relevant agricultural technologies to the farmers of Pakistan.

Implementation of this project is being carried out under five components or subject headings but totally inter-related in direction and efforts to attain the stated purpose and goal. These components are as follows:

1. Research Management and Administration (RMA) - Identify problems and then causes and propose alternative solutions in the areas of research planning, research methods, organization and administration, information flow and financial management. Recommendations will be translated into specific management improvement interventions for implementation throughout the national agricultural research network.
2. Information Transfer (IT) - The goal is to (a) make research results more readily available to the general public and potential end-users; and (b) disseminate the information in ways which respond to the needs of the client group and to ensure the information's effective utilization.
3. Training for the Agricultural Research Network (TARN) - This component is designed to improve the capacity of the agricultural research community in Pakistan to identify, meet or carry on staff training programs designed to meet Pakistan's personnel requirements in the various research, extension and information disciplines required for productive and pertinent research efforts.
4. Arid Zone Research (AZR) - This component is designed to strengthen capacity, and capability of the Arid Zone Research Institute (AZRI) in Baluchistan to generate and disseminate quality and relevant technologies aimed at increasing agricultural production in Pakistan's non-irrigated areas.
5. Wheat and Maize Coordinated Programs (WMCP) - This component is designed to identify the factors contributing to the large gap between production potential and actual production by the farmer as a basis for developing a "farming systems research" approach for future research efforts in Pakistan.

The total LOP level of U.S. funding is \$30.0 million. Components funding levels are projected as follows:

RMA	\$11,778,000
IT	3,802,000
TARN	4,065,000
AZR	5,997,000
WMCP	4,358,000
<hr/>	
Total	\$30,000,000

Approximately \$4.6 million for commodity and equipment procurement will be provided in addition through ACE with projected distribution by components as follows:

RMA	1.50
IT	-----
TARN	0.25
AZR	0.60
WMCP	0.15
<hr/>	
Total	\$2.5 million

Status: Pakistan Agricultural Research Council (PARC) will from past experience procure this equipment through their established GOP procurement channels. As of May 1987, \$578,193.93 has been committed with zero disbursement to date. Equipment requirements were determined by a survey of institutions as to requirements.

The type of equipment and ultimate recipients are as follows:

1. AZRI (Arid Zone Research Institute) - Quetta

a. Research Support

Farm tractors
Soil preparation equipment
Thresher
Seed cleaner & treatment equipment
Forage plot harvester

b. Animal Range Equipment

Soil & plant analysis equipment
Ovens
Balances

c. Agronomy

Seed counter
Refrigerator (material storage)
Laboratory equipment

d. Extension & Communication

Projector
Camera
Plot planter

e. Meteorological Station

Datalogger
Weather station equipment

2. Baluchistan Province

Agricultural Research Institute

Laboratory equipment
Field plot equipment
Farm equipment

3. Sind Province

- a. Sind Agricultural University, Tandojam
- b. Sind Agricultural Research Institute, Tandojam
- c. Sind Horticulture Institute, Mirpurkhas
- d. Maize and Wheat Research Institute, Dadu
- e. Rice Research Institute, Dokri
- f. Sugarcane Research Institute, Larkana

Miscellaneous laboratory equipment

4. Punjab Province

- a. Agricultural University, Faisalabad
- b. Agricultural Research Institute, Faisalabad
- c. Rice Research Institute, Kala Shah Kaku
- d. Barani Agricultural Institute, Chakwal
- e. Barani Agricultural Research Institute, Bahawalpur

Miscellaneous laboratory equipment
Research plot equipment

5. North West Frontier Province

Agricultural Research Institute, Tarnab
Agricultural University, NWFP, Peshawar
Cereal Crop Research Institute, Risalpur

Miscellaneous laboratory equipment
Research plot equipment

6. National Agricultural Research Center (NARC) - Islamabad

Equipment lists under preparation for FY87 procurement.

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TRANSFORMATION AND INTEGRATION OF THE PROVINCIAL
AGRICULTURAL NETWORK (TIPAN)
(391-0488)

Project Purpose:

To integrate agricultural research in the NWFP with agricultural education at the university level, improve the quality of education offered and research undertaken by the university, and strengthen linkage with agricultural extension through a problem-solving, farmer-oriented outreach program at the university.

The project will be implemented in three phases. The implementation of each successive phase will be preceded by a comprehensive evaluation of activities under the prior phase. These phases may be best characterized as follows:

- Phase I - Key features of AU's institutional development will have been put into place and construction and equipping of the most needed campus physical facilities completed or nearing completion.
- Phase II - Institutional development will be at a stage where major aspects of teaching, research and outreach programs have been established to a greatly improved but not yet completed agricultural university in the NWFP.
- Phase III - Will be concentrated on quality improvement in the teaching program and in research administration. The outreach program and external linkage will be fully developed.

An initial ESF grant of \$35.5 million has been outlined for Phase I. Subject to satisfactory performance and progress achieved under Phase I, the Mission will seek authorization amendments to increase the level of funding by \$11.5 million and \$8 million respectively to a total of \$55 million for all three phases of the 11-year project. In addition it is proposed that \$3.0 million be provided under the ACE program for commodities and equipment for Phase I and an additional \$2.0 million in Phase II for a total of \$5.0 million. Procurement will be undertaken by the University of Illinois (Contractor) using the university procurement services.

Status:

\$3.0 million of ACE resources committed by a FRLC. The payment made is through the University of Illinois procurement system under a Federal Reserve Letter of Commitment. The U of I contract authorizes this type of procurement mode. The general categories of equipment includes laboratory equipment and research station equipment. Portions of this equipment have arrived on site.

3121D

BALUCHISTAN AREA DEVELOPMENT (BALAD)

(391-0479)

Project Purpose:

To accelerate the integration of the Makran Division of Baluchistan into the socio-economic mainstream of Pakistan and to improve the quality of life in Makran through improving roads, water and agricultural infrastructure and strengthening Provincial and Divisional planning, management and human resources.

Project activities include:

1. Road construction, upgrading and maintenance;
2. Water sector (irrigation, impoundment, control) improvements; and
3. Strengthening of Provincial and Division planning and management capabilities.

The LOP (1984-89) BALAD funding level is projected at \$40 million. In addition, \$4.7 million of ACE grant funds were earmarked for commodity procurement in support of the BALAD Project activities. These funds have been or will be used to procure in the U.S. the following categories of equipment:

Irrigation and Power Department (small dam construction, diversions, "Karez" maintenance)

- Earth moving & support equipment
- Compaction equipment
- Surveying equipment
- Water flow instrumentation
- Heavy equipment transport components
- Drilling equipment

Communication and Works Department (road construction and maintenance)

- Surveying equipment
- Heavy equipment and support equipment
- Dump trucks
- Concrete mixers
- Aircompressors
- Heavy equipment transport equipment
- Maintenance shop equipment

Agriculture Department (extension - demonstration)

- Farm tractors and implements
- Land planes
- Survey equipment
- Flumes
- Office equipment

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The procurement was through a host country letter of credit. However, USAID/CMO assumed the major responsibility for this procurement because the Baluchistan officials had no prior experience in procurement of this type.

All procurement of the first tranche has been completed, with approximately 85-90 percent of the equipment on site.

FOOD SECURITY MANAGEMENT (FSM)
(391-0491)

Project Purpose:

To improve the analytical and policy formulation framework, the managerial capabilities, and the physical capacity of the GOP to manage the national food security system effectively and efficiently.

The project was designed to be implemented through three components with implementation carried out independently but linked at key points. The three components are as follows:

1. Economic and Policy Analysis (EPA) - includes the establishment of an economic analysis network and a special studies program to address key issues in the food security area.
2. Agricultural Data Collection (ADC) - will modify the existing basic agricultural statistics collection system with a more accurate and efficient system designed around the area sampling frame (ASF) concept.
3. Post Harvest Management (PHM) - will assist the GOP to improve its national grain storage system. (The public sector is viewed as being the prime sector for involvement and leader for at least a decade - private sector involvement only with policy modifications.)

The LOP (1984-89) FSM funding level is projected at \$35.0 million. In addition \$0.9 million of ACE grant funds have been earmarked for direct commodity support to the FSM project. Procurement of computers to strengthen the data collection and analysis capacity will be through the issuance of a PIO/C for standard AID/W procurement procedures.

FORESTRY PLANNING AND DEVELOPMENT (FPD)
(391-0481)

Project Goal:

The primary goal of FPD is to help Pakistan increase its indigenous energy supplies and to achieve energy self-sufficiency. Its secondary goal is to reverse the process of deforestation.

Project Purpose:

To strengthen the capability of federal, provincial, and local institutions to design, implement and evaluate policies and programs for increasing the production of fuelwood and timber and to demonstrate the economic and social feasibility of producing tree crops on privately-owned farms and range lands.

The implementation will be carried out in three closely-related project components:

1. Institutional and manpower development;
2. Farm and energy forestry research; and
3. Farm and energy forestry field operational activities.

The LOP (1983-90) FPD funding level is projected at \$25.0 million. In addition, \$3.5 million of ACE grant funds have been earmarked for commodity procurement in support of the PFD project.

The equipment was procured by the Pakistani Embassy in Washington based on the issuance of letters of commitment. All equipment has been procured and delivered to the site. This procurement was for the following:

1. Irrigation Plantation - Sind (mine support timber production)
 - Heavy equipment
 - Farm tractors and equipment components
 - Surveying equipment
2. Forestry Institute - Peshawar
 - Miscellaneous laboratory equipment
 - Field research equipment
 - Teaching and training equipment
 - Extension support equipment

NWFP AREA DEVELOPMENT (NWFAD)
(FADOON-AMAZAI AREA DEVELOPMENT)
(391-0485)

Project Purpose:

To change the Gadoon Amazai area economy from one based primarily on poppy cultivation to a diversified agricultural and non-agricultural system with strong ties to the national economy.

The project is designed around two distinct programs of action: (1) effective implementation of a plan to enforce the existing ban on poppy cultivation, and (2) a USAID/GOP development program that will finance development activities in the project area.

The development program will be implemented in inter-related phases:

Phase I. Improve transport and other infrastructure and laying the groundwork for Phase II.

Phase II. Agricultural development, infrastructure construction, off-farm employment.

ACE resources (approximately \$0.4 million) will be utilized to support the agricultural development program. Limited commodities and equipment will be imported to support a program of on-farm trials and demonstration, and distribution of improved seed.

NON-PROJECT ACTIVITIES

NORTHWEST FRONTIER PROVINCE

Six million dollars of ACE funds has been allocated for the procurement of heavy equipment for rural road construction and maintenance. A request for the initiation of the procurement has yet to be received from the GOP.

WARSAK HIGH LIFT PUMPING STATION

ACE funds (\$1.3 million) have been allocated for the procurement of five replacement pumps (replacement necessary because of scouring due to heavy silt load) at the Warsak Station. A contract has been signed for the manufacture of these pumps.

CENTER FOR THE ADVANCEMENT OF MOLECULAR BIOLOGY (CAMB), UNIVERSITY OF THE PUNJAB, LAHORE

ACE funds (\$0.44 million) have been allocated for the purchase of research and laboratory equipment for CAMB. The center, located at the University of the Punjab, Lahore, is structured to carry on basic research in plant and animal diseases. Through a genetic engineering approach they are seeking ways of affecting control measures. An example is the addition of a characteristic of a yeast chain to the chickpea so that the chickpea is resistant to certain virus caused diseases (a major factor in chickpea production). The ACE equipment will be used for such research. Specifications for the equipment have been prepared by members of Johns Hopkins University. Procurement will be by the Pakistan Agriculture Research Council (PARC) through their established procurement channels.

3121D

ACE COMMODITIES IMPORTED

Fertizer - DAP	831,488 MT
TSP	10,500 MT
Wheat	557,468 MT
Cotton	56,637 Bales
Equipment *	
<u>Project</u>	Million Dollars
ISM	51.8
MART	5.6
BALAD	4.7
TIPAN	3.2
FPD	3.5
FSM	.9
NWFAD	.4
	<u>(70.1)</u>
<u>Non Project</u>	
Warsak high lift pumps	1.30
CAMB	.44
NWFP Roads	6.00
Misc.	2.60
	<u>(10.34)</u>
Total Equip.	80.45

* General categories of equipment included in Annex F, Project Descriptions.

ECE COMMODITIES IMPORTED

Bid No.: 391-0486-GSP/861/031/PRQ-01

Drilling spares and accessories
Truck mounted rotary cum diamond core
Mud/Rig Laboratory Equipment
Mud Chemicals
Transport Equipment
Misc. Equip. (Meters)
Time & Frequency IP Transmitter & Receiver
Hard Rock Pressure Drill
Geophysical Logging Equipment
Petrology & Mineralogy Lab Equipment

391-0486-WAPDA/85/T - Lots I & II

Spare parts for Gas Turbine Power
Station Shandara

391-0486/WAPDA/85/CEH/P&S - Lot III

Spare parts for Steam Power Station
Hishatabad.
Truck Mounted 40 Ton capacity Cranes
for Warsak Power Station

391-0486/WAPDA/86/D-01

Equipment & Commodities for Power
Distribution System.
(Current Voltage Transformers,
Sub-standard Volt/Ammeters,
P.F. Meters, H.V. Detector,
Megger, Watt/Var Recorder,
Transformer Turn Ratio Test Set,
Cable Fault Indicator,
Infra-red Thermometer, etc.

391-0486/WAPDA/86/STG-01

Measuring & Testing Equipment for
WAPDA Transmission and Grid Station

391-0486/KESC/PUR/01/85

List of spare parts for Korangi
Thermal Power Station

List of spare parts for SITE gas Turbine
power Station and Korangi Gas Turbine Power
Station.

Capacitor Banks

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391-0486/KESC/PJR/86-02

15 KV HT XLPE insulated Aluminium
 Strand Cable(Lot-I, Group A)
 15 KV Straight through Joint Box (Lot-I,
 Group B)
 11 KV Heat Shrinkable Cable Termination
 (Lot-I, Group C)
 Spare Parts for KESC Grid Stations
 (Lot-II, Group A, B, C, D, E, F, G, H,
 I, J, K, and L)
 Spare Parts for KESC Generation Stations
 (i) Korangi Gas Turbine Station (Lot-III)
 (ii) Korangi Thermal Power Station (Lot-IV, Group A thru I)
 Forklift Trucks (Lot-V)
 Aerial Elbow (Truck Mounted) (Lot-VI)
 Self Loader (Truck Mounted) (Lot VII)
 7.5 Ton Mobile Crane (Lot-VIII)
 Energy Meters (Lot-IX)

391-0486/HDIP/86-01

Equipment for Basin Studies Division,
 Islamabad (Lot I)
 Equipment for POL Labs. Karachi (Lot II)
 List of Equipment/Machinery for Compressed
 Natural Gas in automobiles (Lot III)
 Equipment for Combustion Engineering Laboratory
 (Lot IV)
 Equipment for Pilot Plant Station for Process
 Development Training (Lot V)

391-0486/OGDC/87-01

Seismic Equipment, Well
 Velocity Equipment, Geophone Stringes,
 Cables, Vibrators, Spare Parts

Data Telecommunication Equipment

Well Logging Truck Equipment,
 Surface Recording Unit,
 Oscilloscope, Voltmeter,
 Function Generator

391-0486/FRC & SEC-PCSIR/86-01

Equipment & commodities for Coal
 Alternate Fuels & Coal Briquettes
 Research, Analyses & Testing

Equipment for Solar Energy Center
 and Renewable Energy Development

391-0486/OGDC/84-01

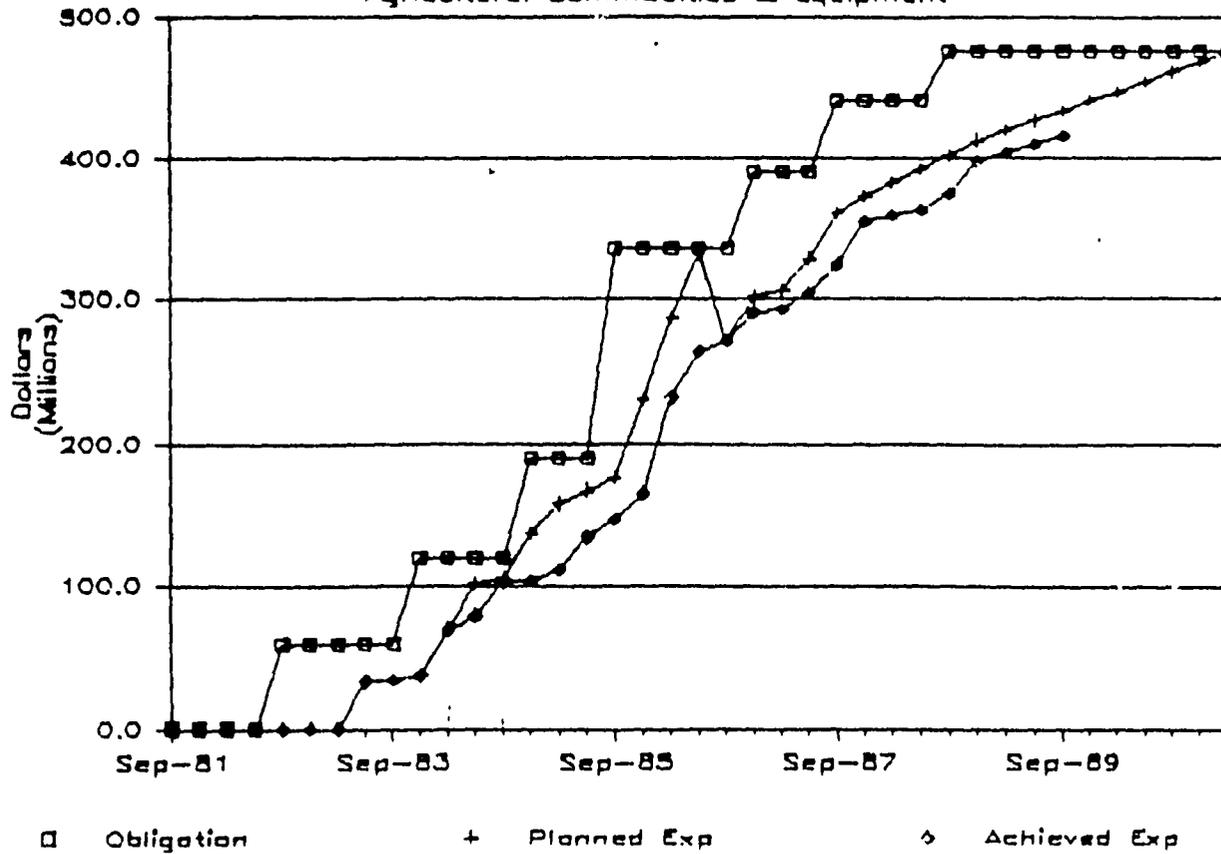
Casing, Casing Accessories, Liner Hangers
Bits & Nozzles, Diamond Core Heads,
Well Heads, High Pressure Fittings,
Mud chemicals, Cement, Cement Additives
Kelly Cocks, Drill Collars, Steel Wire Ropes,
Drill Pipe Casing Protectors, Dopes, Gate Valves

391-0486/WAPDA/86/T-02

Turbine Blades, Diaphragms and Rotating
Blades for WAPDA Gas Turbine Power
Station

PLANNED VS. ACTUAL EXPENDITURES

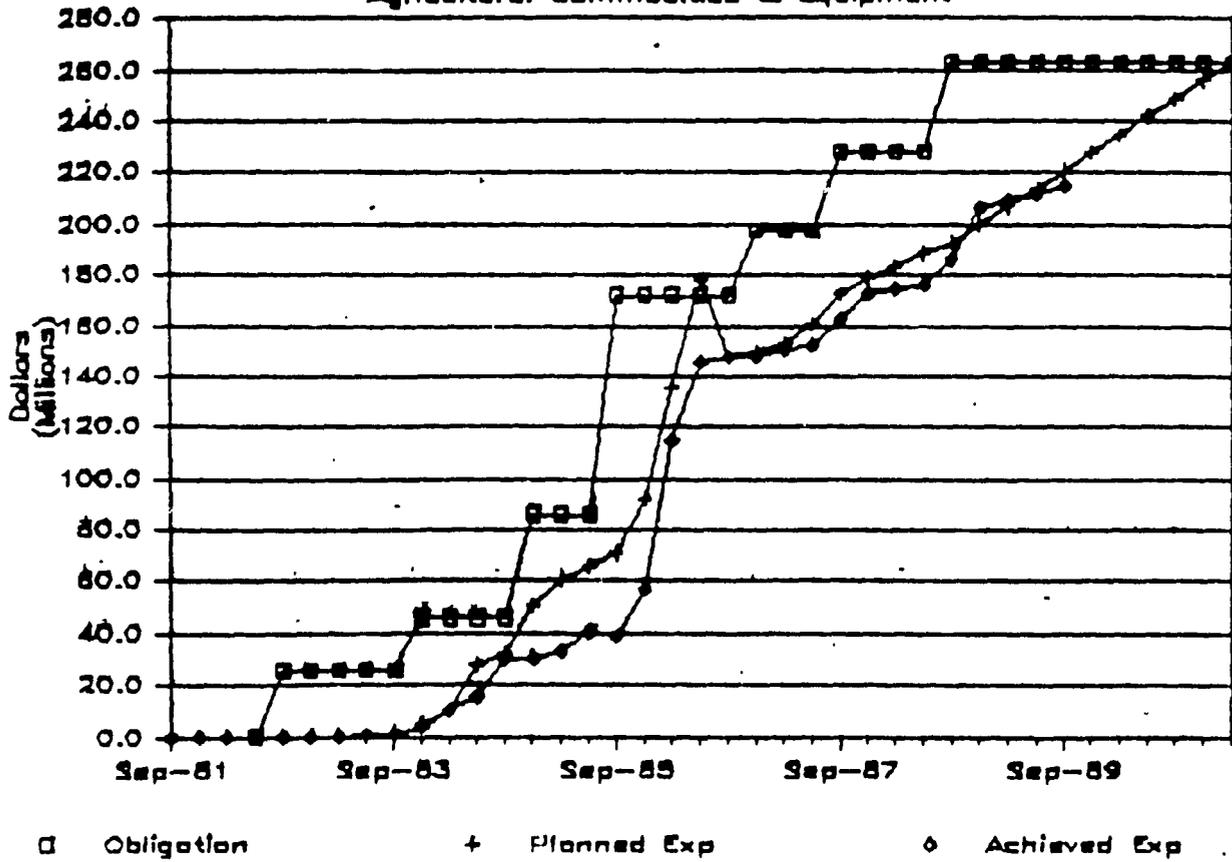
Agricultural Commodities & Equipment



Source: USAID/ARD, March 1987 Quarterly Review

GRANT

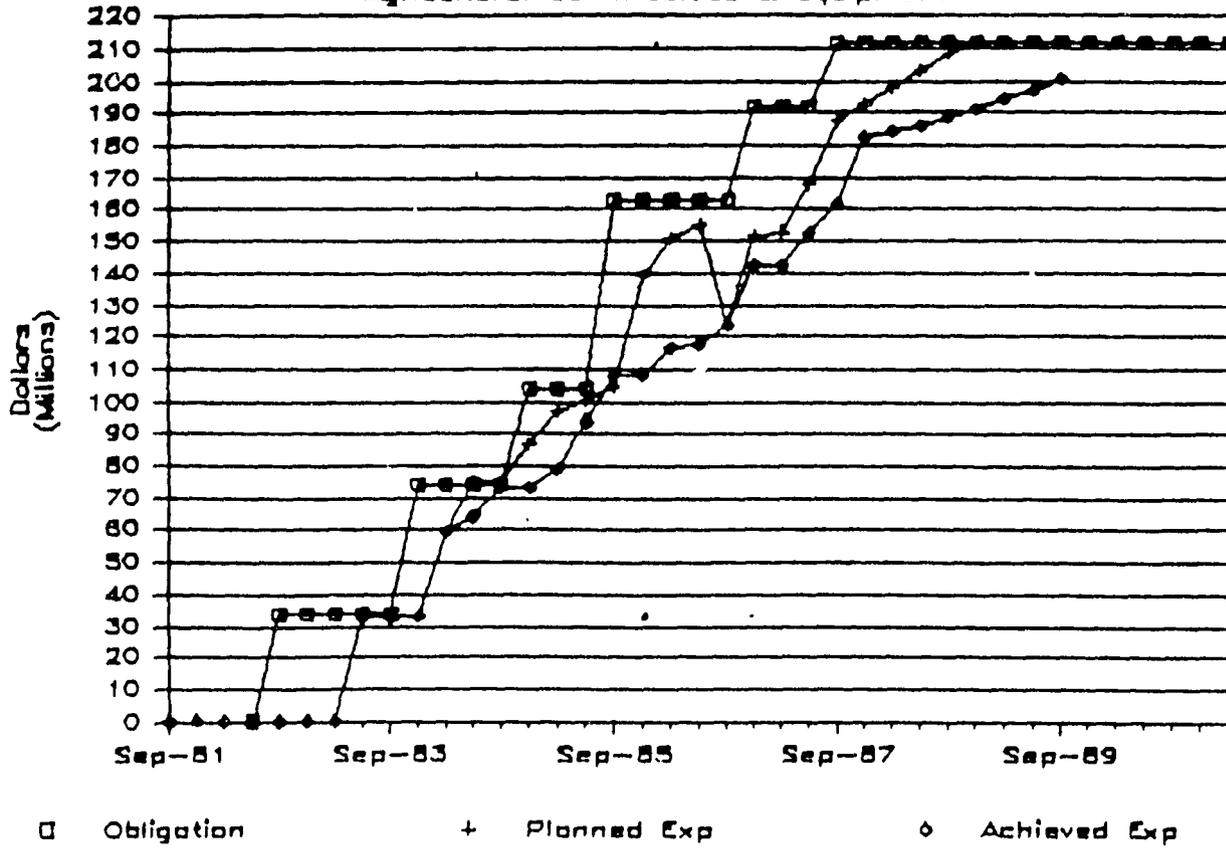
Agricultural Commodities & Equipment



Source: USAID/ARD, March 1987 Quarterly Review

LOAN

Agricultural Commodities & Equipment

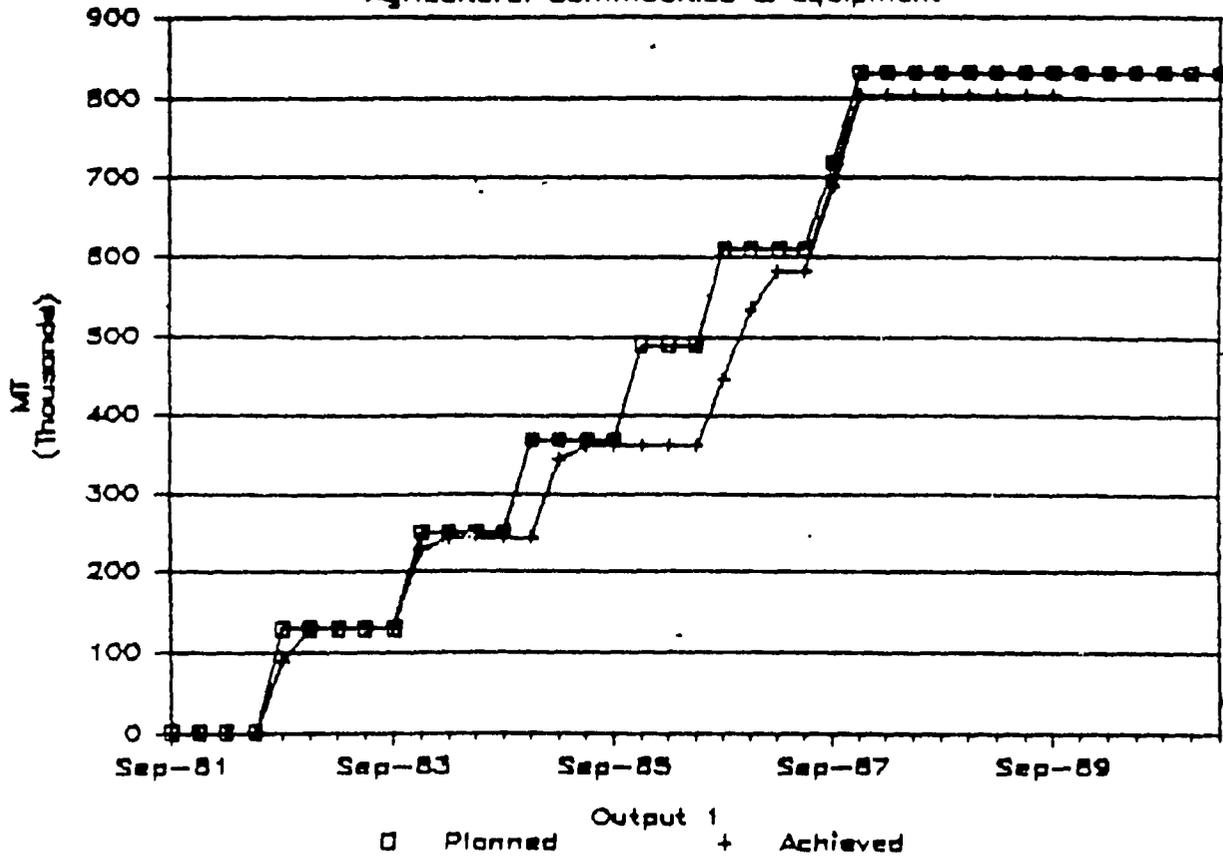


Source: USAID/ARD, March 1987 Quarterly Review

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Fertilizer

Agricultural Commodities & Equipment

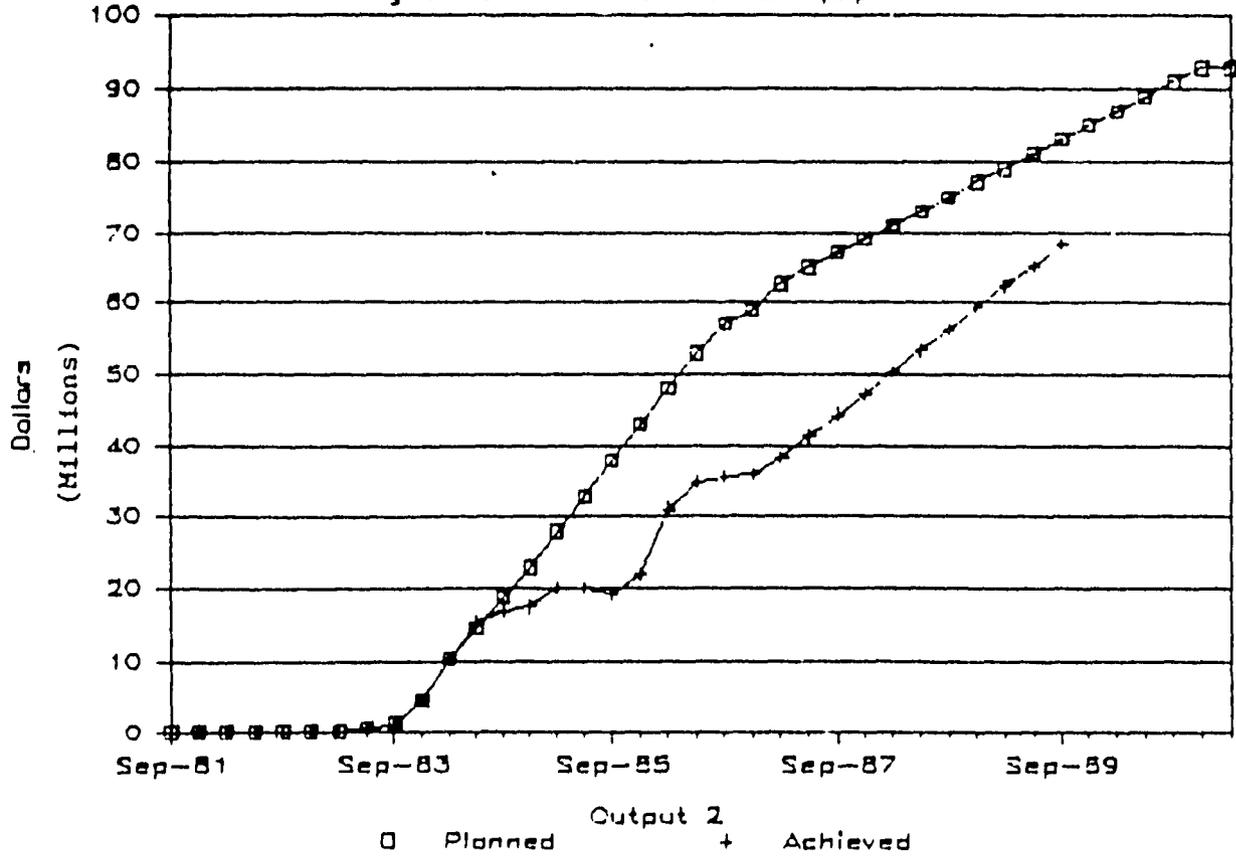


Source: USAID/ARD, March 1987 Quarterly Review

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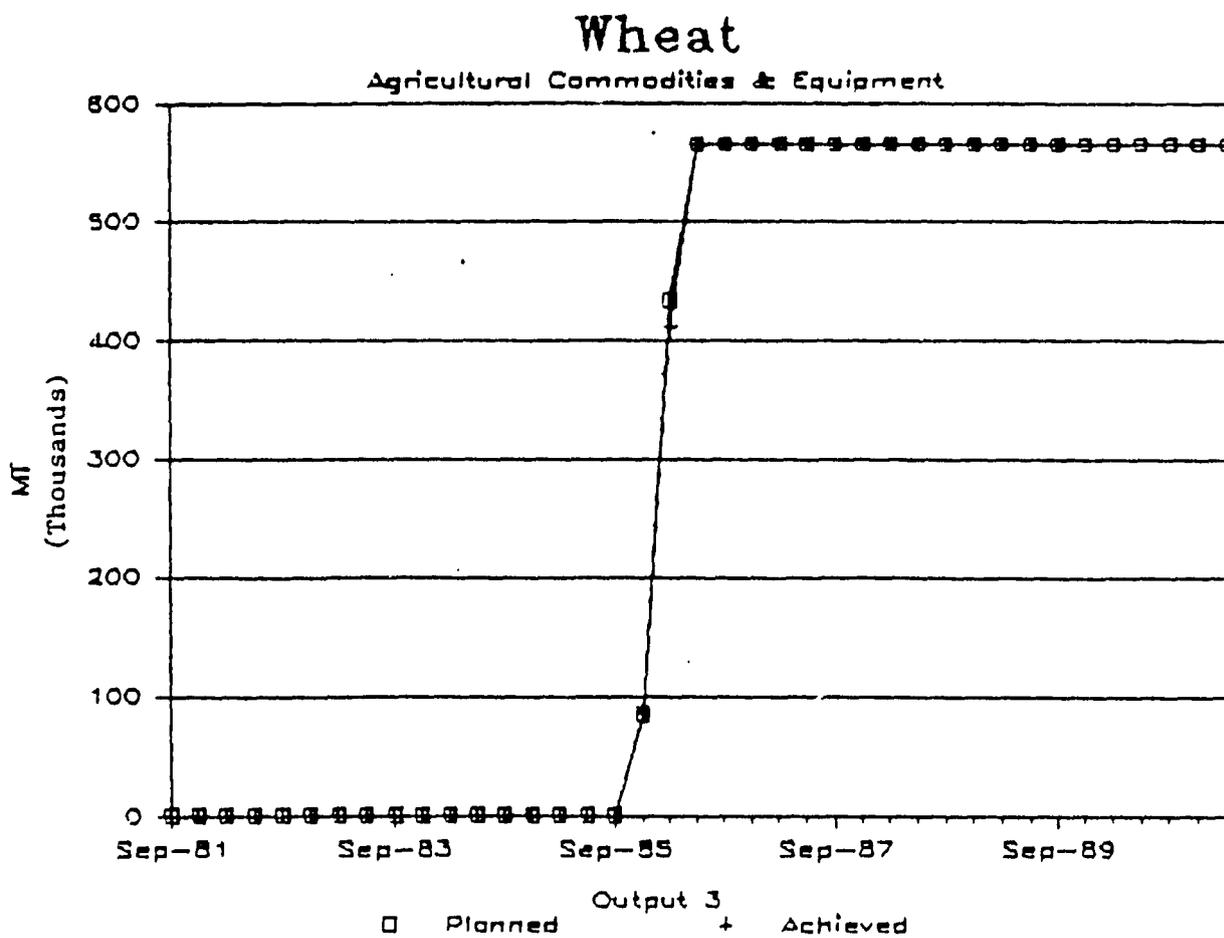
Equipment

Agricultural Commodities & Equipment



Source: USAID/ARD, March 1987 Quarterly Review

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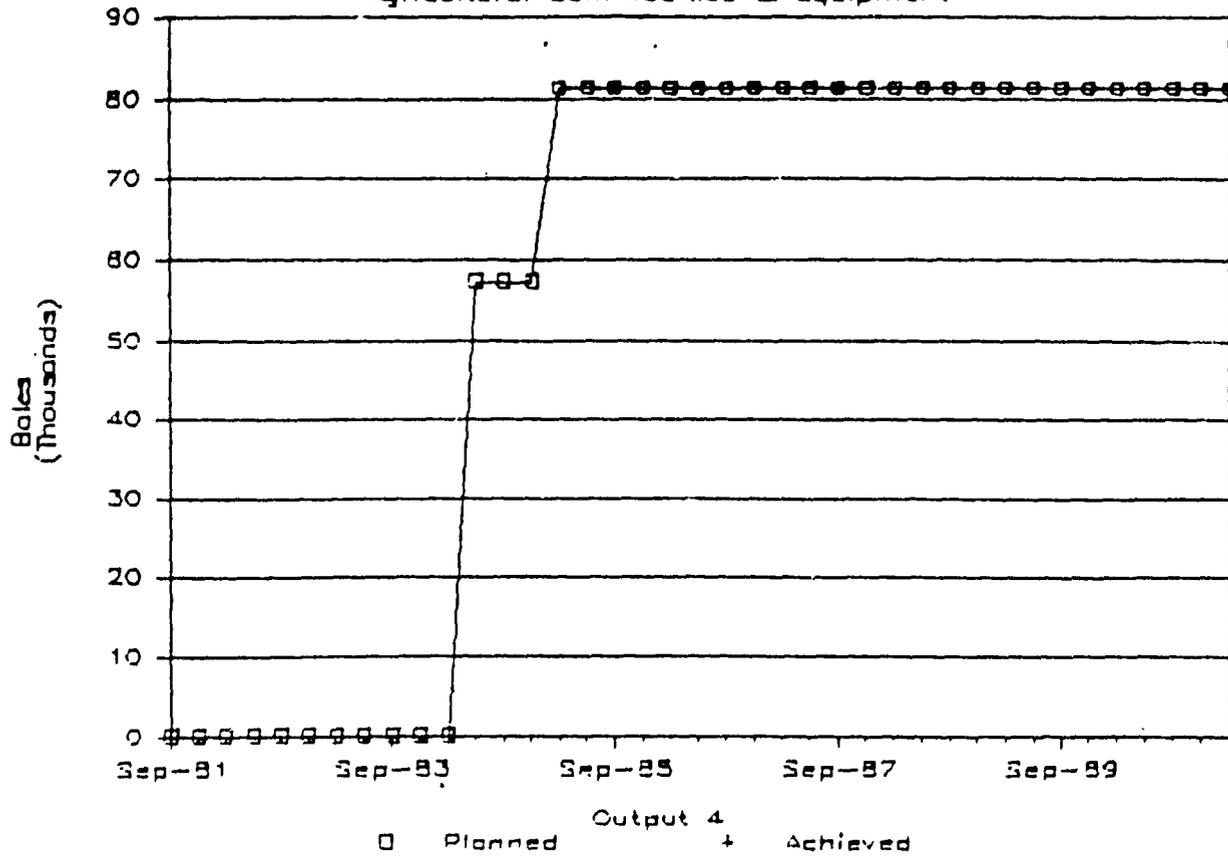


Source: USAID/ARD, March 1987 Quarterly Review

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Cotton

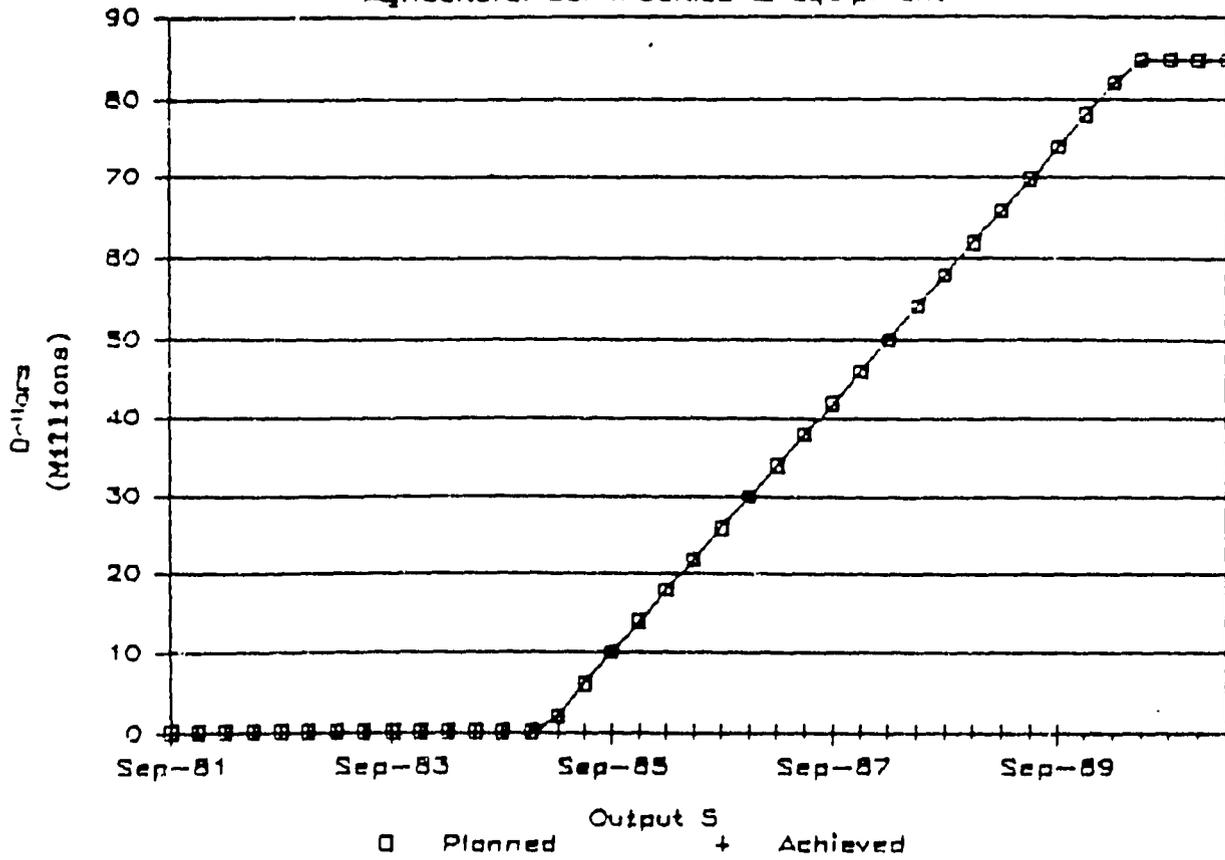
Agricultural Commodities & Equipment



Source: USAID/ARD, March 1987 Quarterly Review

Private CIP

Agricultural Commodities & Equipment

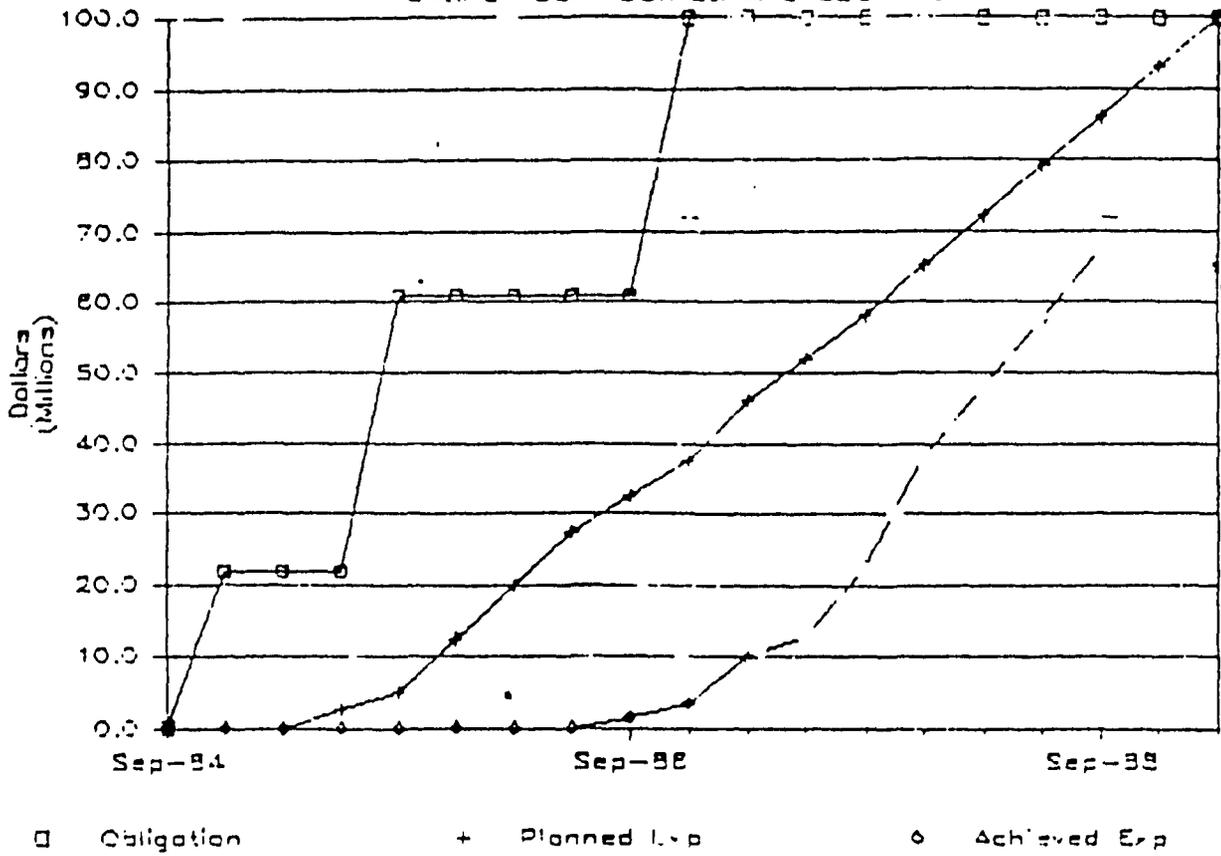


Source: USAID/ARD, March 1987 Quarterly Review

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PLANNED VS. ACTUAL EXPENDITURES

ENERGY COMMODITIES AND EQUIPMENT



Source: USAID/E&E, March 1987 Quarterly Review

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FY 1969 ANNUAL BUDGET SUBMISSION
 Table VII: Expenditures of Local Currency, Generations La
 (all in the U.S. dollar equivalents, and in millions)

ANNEX I

Source/Purchase	1966/6 ACTUAL	1967/6 EST.	1968/6 PLANNED	1969/6 PROJ.
I. ECONOMIC SUPPORT FUND	67.92	12.11	0.	30.00
A. Public Development Activities	67.92	12.11		
1. Agricultural Research	17.00			
2. Irrigation	3.00			
3. Agricultural Education	7.00	1.00		
4. Rural Development	4.00	3.11		
5. Energy	24.39	3.50		
6. Population	7.50	2.00		
7. Health	4.50	2.50		
B. Private Sector Programs	Not applicable			
C. Public Sector Recurrent Budget	Not applicable			
D. AID Operating Expenses (Trust Funds) The GOP provides Trust Funds from regular budgetary resources, not local currency proceeds.				
II. DEVELOPMENT ASSISTANCE	24.37	N.A.	N.A.	
A. Public Development Activities	24.37			
1. Agriculture	24.37			
B. Private Sector Programs	Not applicable			
C. Public Sector Recurrent Budget	Not applicable			
D. AID Operating Expenses (Trust Funds) The GOP provides trust funds from regular budgetary resources, not local currency proceeds.				
SUBTOTAL EST. 1969	92.29	12.11	0.00	30.00

13 The years refer to the Pakistan fiscal year (July 1 to June 30) in which the expenditures are made; i.e. 1966 refers to 1965/66, 1967 refers to 1966/67, etc.

14 Based on the planned allocations

15 Grant funds will be used for a private sector DIP, but repayments, and thus local currency generations will not begin until 1969.

16 The exact amount will not be known with certainty until expenditures are made in U.S. fiscal year 1968. At that time, joint programming will be carried out based on purchases of commodities and any repayments from the private sector DIP.

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1989 ANNUAL BUDGET ESTIMATION
 Table VI: Expenditures of Local Currency, Generations ^a
^b all in the U.S. dollar equivalents, and in \$ millions

Source/Purchase	1986 ACTUAL	1987 EST.	1988 ESTIMATED	1989 EST.
II. PL 480	56.0	47.5	47.5	56.0
A. Public Development Activities	56.0	47.5	47.5	56.0
1. Irrigation	32.3	28.6		
2. Agricultural Education	1.2	16.6		
3. Education	14.5	--		
4. Population Planning	7.7	7.4		9.7
B. Private Sector Program ^c				
C. Public Sector Recurrent Budget	not applicable			
D. AID Operating Expenses (Trust Funds)				

The GOP provides Trust Funds from regular budgetary resources, not local currency proceeds.

- ^a The years refer to the Pakistan fiscal year (July 1 to June 30) in which the expenditures are made; i.e., 1986 refers to 1985-86. The funds were obligated in the preceding U.S. fiscal year.
- ^b The mission did not succeed in negotiating such a program in U.S. FY87 (for use in Pakistan fiscal year 1987-88) but will try again in FY 88 and FY89.

TOTALS

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AGRICULTURAL COMMODITIES AND EQUIPMENT PROGRAM
ESTIMATED SALE PROCEEDS

AS OF NOVEMBER 5, 1985

US FY/Commodity	G/L	Disbursement 1/ (M\$)	Quantity 2/ (MT/Bales)	GOP selling Price 3/ (Rs)	Proceeds (M\$)	FFY Extend. Year
<u>FY 82</u>						
Fertilizer	L	25.281	100,808	2,420.00	219.628	82/87
Fertilizer 4/	L	1.175	4,590	2,680.00	12.277	87/84
<u>FY 83</u>						
Fertilizer	L	24.597	109,571	2,680.00	291.460	82/84
Fertilizer 5/	L	3.584	1,289	2,680.00	3.212	84/85
Cotton 6/	L	11.080	29,477	3,177.88	90.496	84/85
Cotton	G	10.957	28,160	3,177.88	89.489	85/86
Cotton Shipment	G	2.046				
<u>FY 84</u>						
Fertilizer 6/	L	20.000	114,972	2,680.00	305.326	84/85
Fertilizer Shipment	G	3.584				
Wheat	G	10.604	84,000	2,250.00	189.000	85/86
Wheat 7	G	1.001	7,700	2,250.00	17.325	85/86
Wheat Shipment	G	3.393				
<u>FY 85</u>						
Wheat 7/ (OA)	L	10.000	75,900	2,250.00	173.025	85/86
Wheat 7/	G	54.000	415,400	2,250.00	934.650	85/86
Wheat Shipment	G	21.000				
82/ 8/	L	20.000	277	277	268.000	85/87
<u>FY 86</u>						
Fertilizer 9/	L	20.000	121,353	3,325.00	402.500	86/87

- 1/ The shipment costs are either excluded or shown separately.
 2/ Quantity for cotton is given in number of bales.
 3/ Fertilizer: Actual selling price for procurement made so far. A 25% increase is assumed for FY 86 procurement.
 wheat: Current open market sale price.
 Cotton: Based on average sale price of 3,212 sales of cotton in 1984.
 4/ Procured alongwith FY 85 tranche fertilizer.
 5/ Procured alongwith FY 84 tranche fertilizer.
 6/ Proceeds generated partly in FFY 1984/85 and partly in FFY 1985/86
 7/ Quantity estimated @ \$100.00 per metric ton.
 8/ It is still not decided what commodity(s) will be procured in place of fertilizer. Rupee value of \$07.0 million + \$0.0 million minus ocean freight cost has been assumed as proceeds @ Rs. 16.00 to a dollar.
 9/ Quantity estimated @ \$190.00 per metric ton.

WAPDA GENERATION REQUIREMENTS THROUGH 1993

Demand for electric capacity (MW) and energy (GWH) in Pakistan has risen rapidly over the past decade at average rates of 9 and 13 percent respectively. See Table III-7 for their trends. Electricity consumption growth is being driven by rising living standards, changing patterns of energy use that accompany economic development, and failure to eliminate or substantially reduce subsidized electricity prices. The Sixth Five Year Plan places almost 75 percent of total industrial burden on the private sector.

Table J1 shows that, for WAPDA alone, the price tag to avoid load shedding by 1993 will be over \$4 billion for generation expansion and over \$2 billion for corresponding transmission and distribution systems. Of the \$4 billion, \$2.4 billion will represent foreign exchange costs. Additional substantial funding will be required for KESC and rural electrification generation expansion.

Since 1981, considerable attention has been directed towards the private sector by World Bank and Asian Development Bank. Other donor agencies are also making loans available on a lesser scale to private sector industries. While their effort is substantial, there remains a huge gap in the foreign exchange requirements needed to (1) bridge the gap between energy resource availability and demand, and (2) to increase availability to private sector activity to complement public sector activities. A successful ECE private sector window and leverage on reducing the energy price subsidies could play a significant role in financing and reducing these requirements.

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TABLE J-1

WAPDA's Major Generation Projects To Eliminate Load Sheddings by 1993

On-line Year	Project Name	Capacity Addition (MW)	Financing Million of Dollars	
			TOTAL	Foreign Exchange Cost
1986-87	Kot Addu Combustion Turbines (Units 1-4).....	400	\$165	\$ 86
1987-88	Steam Units for Combined Cycle operation at Guddu....	200	\$ 88*	\$ 45*
1988-89	Kot Addu Combustion Turbines (Units 5-8).....	400	\$175	\$ 90
	Guddu Gas Turbines.....	200	\$ 88*	\$ 45*
1989-90	Jamshoro Oil Fired Units 1&2 Combined Cycle Steam Units at Kot Addu.....	460	\$367	\$ 30
	Additional Combines Cycle Steam Units at Guddu.....	200	\$ 88	\$ 45
	Mangla Units 9&10 (Hydro)...	100	\$ 44	\$ 23
		200	\$ 89	\$ 44
1990-91	Tarbela Units 11-14.....	1728	\$666	\$303
	Jamshoro Oil Fired Units 3&4	420	\$214	\$ 97
	Lakhra Fluidized Bed.....	150	\$300	\$180
	Combined Cycle Steam Units at Faislabad.....	40	\$ 18	\$ 9
	Combined Cycle Steam Units at Kotri.....	40	\$ 18	\$ 9
1991-92	Multan Oil Fired.....	210	\$100	\$ 65
	Jamshoro Oil Fired Units 5&6	600	\$590	\$366
1992-93	Chashma Low Head Hydro.....	240	\$100*	\$ 50*
	Jamshoro Oil Fired Unit 7..	300	\$295	\$183
	Multan Oil Fired Unit 7.....	210	\$100	\$ 65
	Lakhra Coal Fired.....	500	\$1,720	\$585
	Total	6,598MW	\$4,040	\$2,404

*Estimated based on installed capacity cost in Pakistan.

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SUMMARY OF THE
AGRICULTURE SECTOR SUPPORT PROGRAM
USAID/PAKISTAN - 4/87

1. INTRODUCTION:

The proposed Agricultural Sector Support Program (ASSP) is designed to provide balance of payments support to the Government of Pakistan while laying the groundwork for sustained agricultural growth through institutional and structural policy reforms in the agricultural sector. USAID/Pakistan proposes an initial authorization of \$300 million grant, with a second \$300 million grant to be authorized at the end of the third year if justified by successful results during the first three years.

ASSP builds on the economic analysis capability being fostered by the Food Security Management (FSM) Project and the successful experience of support for policy reforms and resource transfers under the Agricultural Commodities and Equipment (ACE) and PL-480 Programs. ASSP will finance detailed studies in the agricultural sector that not only identify key constraints but also spell out the costs, benefits, and means of implementing the proposed reform. These analytical studies will form the basis of discussions, which will include workshops with public and private sector participants. Subsequently the government will decide if and how policies or regulations need to be modified.

ASSP has two different modes of balance of payments and budgetary support: first, there is a commodity import program (CIP), largely in fertilizer; and second, there are sector support grants. As stated there are two basic purposes for the Agricultural Sector Support Program. One is balance of payments and budget support which is addressed through both sector support grants and commodity import mechanisms. The second purpose of the project is to increase economic growth in the agriculture sector through policy reforms and expanded private sector investment and participation. The latter purpose is achieved when both Governments agree to a set of self-help measures and institutional, policy or administrative changes which will stimulate the agricultural economy. These agreed upon activities are to be supportive of GOP initiatives and five year plan targets. Examples of such would be USAID activities which assisted the Government prior to its making regulatory changes in the edible oils, fertilizer and wheat sub-sectors.

ASSP will operate in the context of an economy in which structural weaknesses seriously threaten the nation's balance of payments situation and its ability to sustain the 1977-86 GNP growth rate of 6.5%. The external sector is characterized by a narrow export base and restrictive trade policies. Measures to increase and broaden government revenues are urgently needed, while the vast majority of the GOP's interventions into the economy could more efficiently be performed by the private sector in a less regulated environment. ASSP is designed to help overcome these constraints to sustained economic development.

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1. Analytical Support - This component will help GOP and USAID monitor policy initiatives and implementation in areas such as edible oil. It will also conduct studies, as mutually agreed upon on other important topics such as sugar, rice, cotton, wheat, animal feed, and the marginal value product of irrigation water. The different components of the current Food Security Management Project (FSM) will be continued under ASSP and are listed in items two, three and four below.

2. Economic Analysis Network (EAN) - By the time ASSP is operational, EAN plans to have in place three major research programs in economic analysis, price analysis, and farm management. The long-term expatriate advisors will continue to work with Pakistani economists. Reference documents and other texts for economic research libraries in the country will be bought.

3. Agricultural Data Collection (ADC) - Under FSM, the ADC project component is in the process of modifying the GOP's present agricultural statistics collection system to develop a more accurate and efficient system based on the area sampling frame concept. While the pilot sampling areas will have been completed by the time ASSP is in operation, a second phase will be needed to implement the area sampling frame nationally. ADC will be expanded to improve other types of information collected in Pakistan, e.g. price, cost of production, livestock, etc.

4. Post-Harvest Management (PHM) - The basic goal of PHM is to improve the management of Pakistan's national grain storage system. The current project component of FSM has conducted studies and will shortly begin rehabilitation of public sector storage and improvement of storage management. Reports indicate that private sector investment in storage would be very useful. However, this will require that economic incentives support investment in this critical area. If this were to occur a pilot effort to examine various types of modern bulk storage for cereal grains would be appropriate. A pilot project in bulk storage would identify the best ways in which to convert the present bag storage to a more efficient bulk system. This might be a target for financing under ASSP.

5. Training: Under the training component USAID will finance scholarships for Pakistani nationals (employed in the public and private sectors) to study in America. These scholarships are for training in a broad range of subjects related to agriculture and agro-industry including food technology and processing, agribusiness administration, agronomy, genetics, soil sciences and agricultural economics. Training programs would also be organized in Pakistan under the auspices of institutions such as the Lahore Business School, universities, research stations and/or trade organizations.

III. ESTIMATED BUDGET

The ASSP budget, pending the availability of funds and bilateral approval, will be approximately \$100 million per year. After the first year, funds availability will be conditioned upon a joint review and positive results regarding the accomplishment of self-help measures and

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II. PROGRAM ELEMENTS

A. Sector Support Grants

The sector support grant mechanism is straight forward. During the first year an agenda of policy reform and self-help measures is agreed to. Once this is done a transfer of dollars is made from the U.S. Government to the Government of Pakistan. Funds are placed in a dedicated account and used by the GOP for its foreign exchange needs. Their use should be for developmental and growth purposes but they can also be used for debt repayment to the US or other friendly non-communist Governments. The use of foreign exchange is primarily restricted to good sense and those usages which will be viewed favourably by the United States Congress. The grants will also result in an equivalent "generation" of rupees. These rupees will be attributed, much as they are in the PL 480 program, to developmental budgetary line items. However, they may also, as mutually agreed upon, be used to support innovative developmental activities such as development of close institutional links between agricultural education and research in the Sind or Punjab, other institutional reforms, local costs for irrigation or drainage works and the like. Both foreign exchange and local currencies must be placed in special accounts and their usage reported on periodically.

B. Commodity Import Program

This component of ASSP would finance fertilizer imports, other agricultural commodity imports when needed (such as wheat, cotton) feedgrains, and equipment for projects in agriculture and rural development. As was done under ACE, most commodity transfers -- with the possible exception of emergency commodities (natural disasters) -- would be supportive of policy and/or institutional changes.

A CIP lends itself to reform where imported commodities are closely related to policy change. The CIP might include the importation of equipment to support policy change in irrigation or food grains to support policy reform in the livestock sector. While a number of different commodities may be imported under the CIP, it is expected that the great bulk of import financing will be for DAP fertilizer. Projections indicate that five million tons of DAP would be required to meet the country's phosphatic fertilizer needs over ASSP's six year life. The U.S. is now providing 30-35% of the country's phosphate fertilizer imports. That proportion (about 30%) of the five million ton 1988-93 import requirement amounts to a total of 1.5 million tons, or an average of 250,000 tons annually. At current prices, the delivered cost to the Karachi port would be about \$65 million annually. We are proposing to finance at least \$40 million dollars annually.

C. Technical Assistance, Training, and Analytical Support (TATA)

The TATA component of ASSP will provide training for private and public sector personnel as well as technical assistance to the GOP for the following types of analyses: 1) macro-economic analysis of Pakistan's agricultural sector; 2) policy studies to support regulatory change; 3) agribusiness studies; and 4) study of special topics in agricultural research, production, and irrigation.

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reforms. If funds are available, ASSP can be started in US FY 1987 with 1988 being the first year of full implementation.

Illustrative Budget

Budget for FY 1987,	\$ 6-30 million (to be determined)
Budget for FY 1988	
Sector Support Program	\$ 50 million
Commodity Import Program	\$ 50 million
Training & Analytical Work	<u>\$ - million</u> (pre-financed FY 1988)
Total:	\$ 100 million (Grant)

H. EVALUATION ABSTRACT (do not exceed the space provided) This was an evaluation of two sector-oriented commodity import programs (CIPs) in Pakistan, agriculture (ACE), authorized for \$475 million for six years, and energy (ECE), authorized for \$100 million over four years. Both sectors rank highest in development priority for USAID and GOP. Evaluators interviewed officials in the GOP, the private and public sectors and in banks, and reviewed documentation and statistics provided by the USAID, including CDSS of April 1987.

The initial design stressed rapid disbursements for balance of payments support and included private sector windows in both programs. Totalling \$50 million, those windows remain virtually unused because of high U.S. product costs, availability of other foreign exchange, increased competition for markets by other countries and regulatory restraints imposed by the GOP. Evaluators confirmed studies made by USAID concerning major obstacles

Public sector funds are in great demand as GOP agencies are less concerned with dollar costs and there is pressure on agencies to utilize CIP funds. To date, ACE has disbursed over \$360 million of \$390 million obligated in both grant and loan funds; over 80% of ACE funds have been used for fast moving bulk commodities, wheat, cotton and fertilizers. The remainder is for agricultural equipment and machinery for the support of seven USAID projects and will have a development impact commensurate with that of the projects.

ECE commodities are in general support of the energy sector, primarily electric generation, but including oil, gas and coal, but they are not in support of specific USAID energy projects. The impact of those commodities on development promises to be positive. ECE has disbursed \$9.7 million of the \$100 million obligated, with \$50 million committed to specific transactions. There is a significant pent-up demand in the private sector.

Overall, both programs are managed efficiently by USAID and coordination within the Mission and with the GOP is effective. Major bottlenecks occur on the GOP side in specification drafting and bid evaluations. Substantial training and technical is required.

The report recommends continuation of the public sector activities in both programs, but the continuation of the private sector windows for only six months pending a reexamination by the Mission of the current value and validity of the private sector windows against the staff time expended on promoting that activity and an empirical determination of the effect of the lowering of the interest rates charged by local banks to importers. Another evaluation of both ACE and ECE should be scheduled for the spring of 1988 to assess the utilization and development impact of the balance of the machinery and equipment

The major lessons learned are that USAIDs and AID/W should be chary about burdening CIPs with rapid disbursement objectives when their commodity content makes them more suitable for development (this is particularly true for sector-oriented CIPs), and designers of private sector windows in CIPs should analyze more carefully the real demand for private participation by taking into consideration the availability of foreign exchange, the competition for U.S. commodities from other countries, and the outselling and outservicing of U.S. firms by others, particularly the Japanese.

I. EVALUATION COSTS

Contractor: Development Associates, Arlington, VA
Contract IQC PDC-0085-I-00-6098-00

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (US\$)	Source of Funds
Stanley J. Siegel,	Dev. Associates	41 days		
C. Blair Allen,	Dev. Associates	37 days		
Richard Sines,	Dev. Associates	37 days		
S. Dhar,	Development Associates	37 days		

2. Mission/Office Professional
Staff Person-Days (estimate) _____

3. Borrower/Grantee Professional
Staff Person-Days (estimate) -0-

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided) Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: USAID/ISLAMABAD

Date this summary prepared: July 1987

Title and Date of Full Evaluation Report: Evaluation Report of Pakistan Agricultural Commodities and Equipment Import Program and Energy Commodities and Equipment Import Program

1987

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

1. Evaluation Report and Annexes, dated _____, 1987.

ATTACHMENTS

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRAZTEE

COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRAZTEE

1987

EXECUTIVE SUMMARY

A. Mission and Project Evaluated

USAID/ISLAMABAD; Evaluation of the \$475 million Agricultural Commodities and Equipment Grant/Loan Program, No.391-0468 (ACE) and the \$100 million Energy Commodities and Equipment Grant/Loan Program, No.391-0486 (ECE); report completed July 29,1987.

3. Purpose of the Activities Involved

These two sector-specific commodity import programs (CIPs) were designed to (1) provide balance of payments support to the Government of Pakistan (GOP) through rapid disbursements of program funds for imports by both the public and private sectors of sector-related commodities from United States sources; (2) increase agricultural productivity; (3) increase energy generation capacity; (4) strengthen the private sector in Pakistan. Later conditions were imposed through amendments to the program obligating documents, such as increasing to 60% the share of fertilizer distributed through the private sector. Agriculture and energy receive high priority in USAID's program and are high on the GOP's list of priorities in its Sixth (1982-87) and draft Seventh (1988-1993) Five Year Plans.

C. Purpose of the Evaluation and Methodology

This was a scheduled evaluation for each program. ACE was evaluated once several months after its inception in 1982; ECE has not been evaluated since its inception in 1984. ACE has disbursed over \$267 million out of \$390 million in obligations; ECE has disbursed \$9.7 million of \$100 million obligated. Both have performed poorly in the private sector-ACE has used only \$2.8 million of \$30 million obligated for that purpose; ECE has disbursed nothing out of \$20 million obligated. A primary purpose of the evaluation is to determine the causes for that non-utilization and recommend ways to increase the usage of those funds or recommend alternate uses for them. Other purposes are to examine alternatives to CIPs, to assess the economic and development impact of each program, the effectiveness of their management, and the effect on the four "pillars" of AID's current development strategy. The four-person team consisted of an economist, an agricultural specialist, an energy specialist and a procurement specialist (team leader). Asia Near East Bureau (ANE) staff briefed the team in Washington as did USAID staff in Islamabad. The team interviewed other USAID and Embassy staff, and World Bank and GOP officials in Islamabad, Lahore and Karachi as well as private sector importers in Lahore and Karachi; two members of the team spoke with officials of public and private sector banks in Karachi. Interviews were unstructured but used to elicit views on obstacles to the increased use of the programs, particularly in the private sector. Team members visited areas where program commodities were being used or warehoused. USAID made available extensive project and program documentation along with GOP and World Bank statistics. The team examined procurement and project files, audit reports, a previous evaluation and recent surveys and studies on the private sector problem plus macro-economic data. All sources were secondary and the team did not generate data independently.

It submitted a draft report for Mission comments, then revised that draft before its departure. The contractor submitted a final product after receiving the Mission's final comments in Washington. The total evaluation effort required 150 person days.

D. Findings, Conclusions and Recommendations (by Chapter)

1. The Private Sector Windows

Original expectations for private sector activity under the CIP were based on studies and assumptions which did not sufficiently take into consideration the volume of competing foreign exchange; decisions were made on the assumption that the superiority of U.S. products would overcome price differentials. Experience has proven otherwise. The Mission recently conducted in-depth interviews with private importers which indicate the following factors as major obstacles to the use of the private sector funds (these were confirmed by the team through its interviews with banks and importers):

(i) high U.S. product and transportation costs; (ii) unfamiliarity with U.S. products and suppliers; (iii) lack of manufacturers' representatives in country for service and technical information, particularly as compared to Japanese firms; (iv) high interest rates (14%) charged by local banks for rupee loans with which to buy dollars (including a 3% charge for foreign exchange risk cover); (v) lack of information about CIP, particularly in banks; (vi) difficulty in obtaining credit from the assigned banks if not a customer (high collateral); (vii) GOP slowness in approving import licenses, particularly for traders; (viii) limitations imposed by GOP Ministry of Commerce on amounts of transactions for traders under the Impact Policy Order (IPO).

Mission efforts to remove constraints began in early 1986 and increased markedly in 1987. During the course of this evaluation, the GOP agreed to lower the bank interest rate to 10% from 14%. But no one has yet calculated the weight to be given to each of the inhibiting factors noted above. The detailing of a Contract Office employee to the Commodity Management Office (CMO) has increased pressure on the GOP and is keeping the import community aware of the private sector fund availability.

Recommendations:

- That USAID continue pressing the GOP to exempt the ACE and ECE private sector windows from the restrictive provisions of the Import Policy Order.
- That the Commodities Management Office continue to publicize the program's recent interest rate decrease from 14 to 10 percent and continue its current media and information campaign to include local business groups and chambers of commerce.
- That the Commodities Management Office urge the GOP to expand the number of approved applicant banks to include domestic industrial financial institutions that cater to the private sector and have the ability to issue foreign exchange letters of credit acceptable to U.S. banks.

- That USAID continue both private sector windows for six months to test the response to the new lower interest rates. (5) That USAID management reexamine the objectives of the private sector window (a.g. should the targeted group be all firms or just small and medium firms in the rural area?). (6) That USAID consider contracting with a qualified Pakistani firm to determine the relative effects of each perceived constraint on the private windows. (7) That at the end of six months, USAID use the results of the two previous recommendations to reach a decision on whether to continue the private windows. (8) That if a decision is reached to close the private windows as now structured, USAID first consider utilizing the funds to develop alternative opportunities for promoting private sector participation. (9) That if private sector participation projects are not deemed feasible, both ACE and ECE private sector funds be transferred to public sector activities that support either stabilization efforts, if needed, or projects with high developmental impact as measured by internal rates of return.

2. Development Impact

ACE: To date 48% of ACE funds have been obligated for fertilizer imports, 25% for wheat, 21% for machinery, and 6% for cotton. Fertilizer imports have had the fastest delivery time and most immediate development impact through use by farmers; wheat and cotton imports had economic but no development impacts. Machinery imports have had a slower development impact because of longer procurement time and need to be integrated into the projects for which they were ordered. There was delayed utilization of some machinery because of slow project implementation, but those defects have been corrected. The potential impact of the machinery is extremely high as it is primarily for USAID-designed and implemented projects. Fertilizer has contributed to the policy dialogue with respect to private sector share of distribution and fertilizer pricing. There is still much room for improving the technology for more effective and efficient use of fertilizer by the farmers.

Machinery will have a direct impact on technology transfer and will contribute to institution building in those entities assisted through individual projects. There is little impact on the private sector per se as the projects are in the public sector. The private sector window has used only \$2.8 million dollars since 1984.

Overall, ACE has been effectively utilized to obtain the fullest development impact while not ignoring the CIP goal of rapid disbursements. Because ACE was purposely designed for disbursement and commodity infusion and not for conditionality, the recently approved Agricultural Sector Support Program (ASSP), which includes a CIP-type activity, will have more conditions built in from the beginning, including a unique cash transfer element.

Recommendations:

- That USAID arrange an observational trip to the United States and other countries in which both the public and private sector can

together observe and compare the interaction and respective roles of the two sectors in fertilizer supply, distribution and use.

- That the GOP make such policy changes (import, pricing, subsidy reduction, transport costs, interest rate reforms to reflect market rates, and easing of collateral requirements) as necessary to encourage and facilitate the private sector's participation in promoting efficient fertilizer use and the supply or provision of other prerequisite production inputs and services.
- That USAID encourage the private sector fertilizer industry to utilize the training resources offered to the private sector as a means for preparing the industry for an expanded role in agricultural development.
- That, to the extent possible, future equipment procurement be made through regular GOP procurement channels.

ECE. Unlike ACE, the commodities imported under ECE are destined not for projects but for specific agencies in the public energy sector, including generation, transmission and distribution entities and research institutes. The emphasis is on development of the energy sector, with secondary emphasis on short-run rapid disbursements. The first commodities arrived in 1986, but given the vital role energy plays in Pakistan's industrial and development growth and the pent-up demand for energy by all sectors, the presumed development impact will be of the highest order. ECE also plays an important part in the policy dialogue re energy sector concerns. Technology transfer and institution building are concomitant goals of the ECE program. Even though the private sector window is as yet unused, GOP resources are insufficient to fill the expected energy gap into 1993, and donors will not fill that gap. Increasingly, private firms will be called on to supply needed generation resources. ECE is providing support for the private sector through public sector development of research institutes; USAID energy sector projects also stress the involvement of the private sector.

Recommendations:

- That USAID continue to place the highest priority on the ECE import program and continue to fund the public agencies based on the critical need for U.S.-made equipment and spare parts. The final level of future funding for the post-1987 period should be based on the evaluation in the last recommendation herein.
- That USAID encourage GOP to support private sector development through the public sector institutions.
- That the next evaluation of ECE specifically assess the benefits of ECE equipment to KESC and WAPDA predicted in the Stone and Webster report of October 1985.

- That I&E develop plans to encourage the use of private sector ECE funds to implement the results of EP&D feasibility studies on energy conservation.
- That ECE be focused on the areas where U.S. equipment and technology are superior, such as mining and drilling.
- That USAID provide technical assistance to the GOP for preparing standardized notices of intention and application for certification for private generating facilities.
- That USAID provide technical assistance in developing standard offer contracts for capacity and energy delivery to WAPDA and KESC by private energy project developers.
- That USAID provide technical assistance to the GOP to develop private power plant siting regulations.
- That USAID maintain close coordination with other donor agencies' commodity equipment programs so that ECE may shift its emphasis accordingly.
- That USAID schedule an evaluation for ECE for the spring of 1988 which will assess the utilization of equipment and machinery imported for the public sector agencies and its actual impact on development goals.

3. Economic Impact

Because each commodity element carries its own balance of payments impact, the Mission must determine the appropriate mix to achieve its particular economic goals. ACE achieved a high rate of disbursements with bulk commodities, the largest portion of its imports, and a lower rate with machinery, which, however, had a much higher development impact. The design of both ACE and ECE, with the exception of the private windows, was most appropriate to the situation in Pakistan. Many of the commodities imported did not have a true balance of payments effect because they were not commodities which the country would have purchased in absence of the USAID funds, but the same commodities will have a longer-range effect through import substitution and export promotion.

Both CIPs provide an important stabilizing effect on the market by their availability and flexibility, which is also a positive political gain. Both CIPs are important factors in the policy dialogue with the GOP concerning energy and agricultural sector issues.

Recommendations:

- o That USAID continue both the ACE and ECE programs in the public sector, retaining sufficient flexibility in ACE to help stabilize the market when faced with unexpected shocks to the economy.
- o That USAID retain the sectoral CIP in preference to a cash grant or general CIP.

4. Management Effectiveness

Overall management of the two CIPs is good; the presence of an experienced commodities officer is a definite plus, although the Commodities Management Office is understaffed. Both the agriculture and energy divisions have technical experts available to advise on specific commodity requirements (the ACE program machinery and equipment procurement is actually based on project designs). There is good coordination among the technical divisions, the Program Office and the CMO, but with the CMO being moved from the Legal Advisor's office to the Contracts Office and new division heads coming soon for ARD and E&E, there is need for a reexamination of each office's responsibilities. A single source of relevant information for tracking and monitoring both the commodity flows and financing status is lacking, although that information is available in the several relevant offices. The team questions how much longer the USAID/Karachi Liaison Office should continue to clear CIP commodities consigned to GOP agencies. The most serious management bottlenecks exist in the GOP offices and ministries. Delays of six months or more in the procurement process are caused by the time consumed in drafting specifications and evaluating bids, which may be alleviated by appropriate training. There are also significant delays attributable to AID/Washington clearance of specifications and approval of certain bids. Programming of local currency generations is accomplished through negotiations with GOP officials prior to the finalizing of the annual budget with respect to budget sectors to be strengthened by allocation of the generated rupees. The GOP then is required to report semi-annually on deposits and withdrawals, but is not current in its reporting. The advantage in the programming process is the opportunity USAID has to review the GOP budget with the government and give its views on allocations for development purposes. It is another aspect of the policy dialogue.

Recommendations:

- That the Contracting Officer meet with the new ARD and E&E chiefs and Project Officers, the Commodity Management Officer, and the Program Officer to establish the lines of communication within the Mission and with the GOP.
- That USAID establish one more U.S. direct hire position in CMO and retain for six months the person on detail to concentrate on private sector matters.
- That the CMO design and install a single tracking and monitoring system for ACE and ECE on a priority basis.
- That USAID promote the use of the existing training project so that GOP specification writers and contract evaluators receive on-the-job training and participant training in their specialties from a firm that has an energy equipment specification data base and technical assistance capabilities.

- That USAID and GOP utilize the services of a team of public administration/procurement experts to help the GOP streamline the procurement approval process at the Federal level.
- That USAID devise a plan for gradually phasing over to GOP agencies the responsibility for clearing CIP-funded commodities for their use.
- That USAID urge the GOP to comply with the semi-annual reporting requirements for deposit and allocation of CIP sales proceeds.

5. Lessons Learned

- Planners of a private sector CIP should take into account competitive foreign exchange sources in the host country.
- Neither U.S. products nor dollars enjoy the favored position of the past. Japanese firms in particular outsell and outservice U.S. firms.
- Bulk commodity shipments offer the fastest disbursing rates but not always maximum balance of payments support; the latter depends on whether CIP-funded imports substitute for planned imports using government's own foreign exchange.
- An important aspect of balance of payments support is the stabilizing effect a well-funded CIP lends to the market-place.
- There is a tendency to load CIPs with differing goals and objectives, which could result in policy and management conflicts.
- The existence of the ACE program provided the necessary framework and flexibility for meeting unexpected demands for wheat and cotton.
- ECE provides a mechanism for importing commodities for the energy sector without having to develop and design new projects. ACE provided a method to import commodities for projects in the design stage, thus insuring better coordination between commodities and other elements.
- An experienced commodity management officer should be on board when a CIP is designed and initially implemented.
- The commodities office should have a significant voice in implementation and policy decision making.
- Institution building is defeated when CIP commodities for the government continue to be cleared by the USAID in the name of expediency.
- So long as government rules concerning import policy, licensing, and financing limitations exist, a private sector-focused CIP's direction and efficiency will be subject to the government's whim.

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- AID's legislative and regulatory restrictions concerning CIP programs may be waived in specific cases with ample justification, but the basic framework will be slow to change.