R. Ashton

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AGENCY FOR INTERNATIONAL DEVELOPMENT

Washington, D. C. 20523

PROGRAM ASSISTANCE
APPROVAL DOCUMENT
(PAAD)

PAKISTAN: Agricultural Sector Support Program (391-0492)

September 24, 1987

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DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D.C. 20523

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

PAKISTAN - AGRICULTURAL SECTOR SUPPORT PROGRAM, 391-0492

UNCLASSIFIED

CLASSIFICATION:

AID 1120-1 (8-68) PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO 391-0492
		2. COUNTRY Pakistan
		3. CATEGORY Commodity Financing (Standard Procedure) and Sector Grant
		4. DATE
5. TO: The Director, USAID/Pakistan		6. OYB CHANGE NO
7. FROM: The Agricultural Development Officer, USAID/Pakistan		8. OYB INCREASE TO BE TAKEN FROM:
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 5,000,000		10. APPROPRIATION - ALLOTMENT ESF

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☐ INFORMAL ☒ FORMAL ☐ NONE	Sept. 1987-Sept. 1993	July 31, 1987

15. COMMODITIES FINANCED

The major items to be financed under this program are agricultural inputs such as fertilizers, feed, and seed; equipment for farm use; and commodity support for public and private sector organizations that provide agricultural support.

16. PERMITTED SOURCE		17. ESTIMATED SOURCE	
U.S. only:	5,000,000	U.S.:	5,000,000
Limited F.W.:		Industrialized Countries:	
Free World:		Local:	
Cash:		Other:	
Pakistan (Minimum)		Pakistan (Minimum)	

18. SUMMARY DESCRIPTION

TITLE: AGRICULTURAL SECTOR SUPPORT PROGRAM (391-0492)

This PAAD authorizes $5.0 million in grant funds, subject to the availability of funds in accordance with the AID OYB/allotment process, to finance the foreign exchange and local costs for commodity imports, sector support, technical assistance and training for the implementation of policy reforms. This document describes the first tranche of a proposed six year program designed to provide balance of payments support to the Government of Pakistan while laying the groundwork for sustained development by encouraging policy reforms in the agricultural sector. The program will make financial distributions in support of the implementation of policy reforms in the agricultural sector. The first tranche, at a funding level of $300 million, will cover the period FY1987-FY1990. Subject to subsequent AID approval, availability of funds, and the mutual agreement of the Governments of the United States and Pakistan to proceed, a second tranche of $300 million in additional funds may be authorized for the FY1991-FY1993 period, for a total of $600 million over the 1987-1993 period. The program will be implemented through public and private sector organizations.

19. CLEARANCES	DATE
ARD:TOlson	9/23/87
ARD:RGoldman	9/24/87
PRO:PDavis	9/24/87
FM :DPratt	23/9/87
PDM:RNachtrieb	23 Sept 87
RLA:SSpielman	23 Sept '87
II :PGuedet	9/24/87

20. ACTION

☒ APPROVED ☐ DISAPPROVED

Eugene S. Staples — 9/24/87
AUTHORIZED SIGNATURE — DATE

Director, USAID/Pakistan
TITLE

CLASSIFICATION:

AGRICULTURE SECTOR SUPPORT PROGRAM
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LIST OF ACRONYMS

ACE	Agricultural Commodities and Equipment Program
ADBP	Agricultural Development Bank of Pakistan
ADC	Agricultural Data Collection
ADP	(GOP) Annual Development Plan
AED	Academy for Educational Development
AR	AID Acquisition Regulations
AID/W	Agency for International Development/Washington
AJK	Azad Jammu Kashmir
ANPAC	Asia Near East Project Advisory Committee
ARD	Agriculture and Rural Development
ASSP	Agricultural Sector Support Program
CAN	Calcium Ammonium Nitrate
CCU	Commodity Control Unit
CDSS	Country Development Strategy Statement
CEC	Cotton Export Corporation
CIF	Cost, Insurance and Freight
CIP	Commodity Import Program
CP	Conditions Precedent
CWM	Command Water Management
DAP	Di-Ammonium Phosphate
DAP	(GOP) Directorate of Agricultural Policy
DSTP	Development Support Training Project
EAD	Economic Affairs Division
EAN	Economic Analysis Network
EFT	Electronic Fund Transfer
EMPAS	Economic Marketing and Policy Analysis Section
ESF	Economic Support Funds
FAS	Free Along Side
FBS	Federal Bureau of Statistics
FDFI	Federal Directorate of Fertilizer Imports
FOB	Free on Board
FSM	Food Security Management
GCP	Ghee Corporation of Pakistan
GDP	Gross Domestic Product
GNP	Gross National Product
GOP	Government of Pakistan
HC MFAR	Host Country Modified Fixed Amount Reimbursement
HRT	Human Resources and Training
IBRD	International Bank for Reconstruction and Development
IFB	Invitation for Bids
IFPRI	International Food Policy Research Institute
ILO	International Labor Organization
IMF	International Monetary Fund
IQC	Indefinite Quantity Contract
IRRI	International Rice Research Institute
ISM	Irrigation Systems Management
L/COM	Letter of Commitment
MART	Management of Agricultural Research and Technology
MINFAC	Ministry of Food, Agriculture and Cooperatives
MOC	Ministry of Commerce
MOF	Ministry of Finance
MOI	Ministry of Industries

NFC	National Fertilizer Corporation
NFDC	National Fertilizer Development Centre
NP	Nitrophos
NWFP	North West Frontier Province
O&M	Operations and Maintenance
OFWM	On-Farm Water Management
PAAD	Program Assistance Approval Document
PARD	Program Assistance Review Document
PASA	Participating Agency Services Agreement
PASSCO	Pakistan Agricultural Storage and Services Corporation
PDIF	Project Design and Implementation Fund
PHM	Post Harvest Management
PID	Provincial Irrigation Department
PID	Project Implementation Document
PIDE	Pakistan Institute of Development Economics
PIL	Project Implementation Letter
PIO	Project Implementation Order
PIO/P	Project Implementation Order/Participant Training
ProAg	Program Agreement
PSA	Procurement Services Agents
PSC	Personal Services Contract
RECP	Rice Export Corporation of Pakistan
RFP	Request for Proposal
RLA	Regional Legal Affairs
RLA/CC	Regional Legal Affairs/Contracts and Commodities
SAL	Structural Adjustment Loan
SCARP	Salinity Control and Reclamation Project
SER/OP/OS	Services/Office of Procurement/Overseas
SG	Sector Grant
SOP	Sulphate of Potash
SSP	Single Super Phosphate
TAC	Technical Assistance Contractor
TATA	Training and Technical Assistance
TIPAN	Transformation and Integration of Provincial Agricultural Network
TSP	Triple Super Phosphate
USDA	United States Department of Agriculture
USG	United States Government
WUA	Water User Associations

I. SUMMARY

A. Recommendations

1. Funding

USAID/Pakistan recommends the FY1987 authorization of $5.0 million in grant funds to finance technical assistance and training activities. These funds constitute the first tranche of a $300-million, six-year program. An additional $300 million may be authorized for the program if warranted. The program is a combination of commodity import assistance, sector grants, technical assistance, training and other assistance to provide balance of payments support to the Government of Pakistan and encourage needed policy reforms in the agricultural sector.

2. Geographic Code

Except as AID may otherwise agree in writing:

a. Goods and services financed under the program shall have their source and origin in countries included in AID Geographic Code 000 or Pakistan only; and

b. Ocean shipping for all commodities, except fertilizer, financed by AID under the Program shall be on flag vessels of the United States or Pakistan only. For fertilizer only, to the extent that U.S. flag vessels are not available, shipping shall also be authorized on flag vessels from AID geographic code 935 countries, and shall be eligible for financing by AID under this program.

B. Summary Project Description

The Agricultural Sector Support Program (ASSP) will provide needed balance of payments support to the Government of Pakistan (GOP) and will lay the groundwork for sustained development by encouraging the adoption of difficult but necessary policy reforms in the agricultural sector. Over the program's life, up to $600 million in commodity import program (CIP), Sector Grants (SG), technical assistance, training, and other related inputs may be provided to the GOP. While the ASSP is designed as a six-year assistance program, approval is being sought for the first three years only. Overall funding for the remaining three years and annual levels of suppport will be conditional on continued program success.

ASSP builds on the successful experience of the Food Security Management (FSM) Project and the Agricultural Commodities and Equipment (ACE) Program, under which detailed policy analysis conducted under the FSM Economic Analysis Network component served as a catalyst for significant policy reforms, while the resource transfers being provided under ACE and PL-480 were leveraged to encourage their adoption and implementation. ASSP will combine these two elements into a single program. It will finance detailed studies in the agricultural sector that not only identify key policy constraints, but also spell out the costs, benefits, and means of implementing corrective reforms and will then provide the financial support necessary to speed GOP agreement and implementation. The analytical studies are the first element in a policy dialogue followed by meetings and seminars with public and private sector participants to mobilize support for needed reforms.

The policy dialogue and program support element of the ASSP will follow an annual cycle. The cycle will begin with negotiation of a set of reform actions to be implemented in the coming year together with a level of program support divided between CIP and SG funds. The cycle will continue through a mid-year assessment of progress to a final assessment toward the end of the year, which will then serve as the basis for the next year's negotiations and funding. $45 million of CIP and $45 million of SG will be programmed in the first full activity year (FY1988) against a set of reforms currently under negotiation with the GOP. Thereafter, the level of funds and the distribution between CIP and SG will be determined on the basis of program performance in the preceding year and the scope of actions included in the next year's action plan. While the annual program level is expected to average approximately $90 million and to be divided between CIP and SG, the actual level programmed in any year may vary from these figures to reflect performance, balance of payments or other needs, and mission programming considerations. Local currencies generated by the sale of CIP commodities and by private sector CIP will be jointly programmed in support of the overall goals of the ASSP.

ASSP will operate in the context of an economy in which structural weaknesses threaten the nation's balance of payments situation, the GOP budget finance, and the 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 revenue are urgently needed, while government's role in areas more efficiently performed by the private sector must be decreased. ASSP is designed to help overcome these major constraints to economic development.

The policy agenda for the ASSP has three aims:

1. to bring prices more into line with international levels;

2. to reduce GOP competition with and regulation of private sector activities; and

3. to reduce budgetary subsidies to the agricultural sector.

ASSP's emphasis on policy reform, economic efficiency, reduced subsidization of agriculture and growth in the agricultural and agribusiness sectors is essential in realizing the mission's two-part goal in agriculture: to help provide food security for Pakistan's growing population and increase agriculture's contribution to overall economic growth by improving its efficiency and productivity.

Specific reforms will cover a broad spectrum of sectoral concerns, including the pricing and distribution of inputs, processing and marketing of crop and livestock products for the domestic market, and public sector support to the agricultural sector. The agenda for the first year focuses on removal of fertilizer subsidies and marketing controls, reduction of the GOP's role in tubewell irrigation, continued progress in privatizing the wheat market and reducing consumer subsidies, and removal of restrictions on private import of feed.

C. Statutory Criteria and Mission Director's Certifications

The program meets all applicable statutory criteria. Appropriate statutory checklists are included in Annex C. The Mission Director's 611(e) certification that Pakistan has the capability to maintain and utilize the program effectively, is contained in Annex B. It also includes a 612(b) certification signed by the Mission Director that disbursements for local costs financed under this program will be made in U.S. dollars in lieu of U.S.-owned excess rupees.

D. Program Issues

The ANPAC review of this program proposal raised a number of issues which have been dealt with in finalizing the PAAD. The main issues and their resolution may be summarized as follows:

1. Inclusion of the sector grants. As requested in the ANPAC review, the rationale for inclusion of sector grants is discussed in the CDSS.

2. Macro and sectoral justification for program support. The ASSP rationale relies on both a macro justification based on the GOP's need for balance of payments support and a sectoral justification based on continuing opportunities to use program support to promote policy reform. The macroeconomic issues are fully discussed in section II-B, while the policy issues and the potential for resolving them are treated in section III-C and in Annex I.

3. Line item flexibility. As suggested in the ANPAC review, the ASSP process has been modified to reconcile the need for flexibility with the programming considerations. The revised process discussed in section III-D and the flow of funds mechanism discussed in section IV provide for an annual negotiation of a set of reforms and a level of program support, leading to amendment of the PAAD and the ProAg to specify the level of program support and the mix of sector grants and CIP funds.

4. "Tied versus untied sector support. Following discussion of this issue in the ANPAC review, the program mechanism has been modified to link a total program of reforms with a total level of funding, rather than linking individual actions to specific funding.

as discussed in section III-D. The generation and tracking of local currency will follow standard AID procedures, as modified in recent legislation. In general, as discussed in section IV, local currency will be programmed for sector support and for broad sectoral programs rather than for specific development activities, in accordance with established procedure in Pakistan and the policies of the GOP.

5. The policy agenda. As discussed in section III-D, the procedure for negotiation of policy reform actions has been modified to clarify the distinction between action benchmarks, against which performance will be measured, and process benchmarks covenanting GOP support for analytic activities, which would not substitute for adherence to agreed-upon policy actions. The broad goals to be sought over the life of the program and the level of achievement anticipated by the end of the program are spelled out in section III-B, with further discussion of the status of negotiations in priority policy areas in section III-C. The proposed set of action benchmarks for the first full program year (FY88) is spelled out in section III-E. Dialogue regarding these benchmarks will be undertaken during the first year of the program (FY87).

6. Basis for disbursements. The procedures for annual programming and negotiation of ASSP support have been modified in accordance with the agreement reached in the ANPAC review. As discussed in section III-D, disbursements will be based on annual negotiation and GOP-USAID agreement on a set of reform actions to be implemented in the coming year, rather than on implementation of the actions. Poor program performance in implementing the measures agreed upon will be reflected in the mix and level of funds provided for the following year, based on a joint GOP-USAID assessment of progress made.

7. Timing of reforms requiring further study. The discussion of specific policy issues in section III-C has been modified to clarify the availability of information and the identification of appropriate reforms in each area. As this review makes clear, a number of necessary reforms can be identified without further analysis while an additional set of reforms has been identified through previous analysis which require further discussion with the GOP. Analysis is under way in a number of areas, including management of the wheat market (IFPRI), agribusiness policies, and domestic production of sugar (EAN). Initial results from these analyses are expected within the next year and should therefore be available for the negotiation of the second set of action benchmarks (to be discussed with the GOP in Fall 1988). Additional studies initiated under the ASSP itself may or may not lead to identification of reforms for inclusion in the first three years' reform program, depending on the scale of the study and the scope of the reforms identified. For example, phase-out of subsidized credit will require extensive analysis of rural credit markets and long negotiation with the GOP, whereas transfer of responsibility for maintenance of public-sector storage godowns is primarily a question of GOP willingness to implement the reform.

8. <u>Private sector objectives</u>. Promotion of private sector expansion is one of the three central objectives of the ASSP policy reform agenda and will be sought through negotiation on the elimination of unnecessary regulation as well as reduction of the state's role in production, processing, and distribution. The design of the ASSP leaves open the possibility of directing part of the CIP assistance through the private sector. Private importation of nitrogenous fertilizers has been accepted by the GOP but, at current prices, U.S. suppliers are not competitive. The U.S. is a competitive supplier of phosphatic fertilizers, but the GOP has not yet accepted private import of this commodity, which continues to be heavily subsidized. In general, prevailing trade patterns and credit rates make the private sector CIP unattractive compared to alternative sources of import financing and, in the view of the mission, this situation will continue unless the program is modified to include more attractive features, such as tariff relief. The mission is currently making a major effort to promote use of the private sector CIP window under the current terms; if this effort is successful, part of the CIP assistance under the ASSP may be directed through a private sector window. If this effort does not bear fruit, the private sector CIP will be incorporated in the program only if the terms can be modified to allow for fast disbursement of funds.

9. <u>Programming of foreign exchange and local currency under sector grants</u>. Under terms of the FY1987 resolution, both foreign exchange and local currencies generated by sector support activities must be placed in special accounts and their uses tracked. It is still unclear whether ESF sector grants, particularly if it relies to some extent on the balance of payments support rationale, would be considered a cash transfer. Consequently, local currency generated by both CIP and sector grants will be deposited in a special account, jointly programmed, and tracked.

10. <u>U.S. domestic commodity interests</u>. The mission has reviewed the potential for competition with U.S. exports for all commodity groups directly affected by the ASSP. The results of this review are presented in Annex I and may be summmarized as follows: a) Pakistan does not now compete with the U.S. in export markets for wheat or edible oils, and is not likely to do so for the foreseeable future and b) in view of existing policies, the ASSP will not promote expanded exports in commodity areas where Pakistan directly competes with the U.S., notably cotton and rice. In some cases, existing GOP policies provide inappropriate support to exports, such as the subsidy on exports of IRRI rice, and these policies may be addressed under the ASSP. In general, however, the prohibition on studies and analysis that might promote competing exports will effectively prevent the mission from engaging the GOP on dialogue in these areas.

11. <u>Benchmarks</u>. As discussed in section III-D, the mission has clarified the respective roles of action-oriented and analysis-oriented benchmarks under the ASSP.

12. <u>Divestiture of the Ghee Corporation (GCP)</u>. Policy dialogue on issues related to ghee and edible oils is conducted primarily through the PL-480 self-help measures, but will also receive support under the ASSP. In the near term, this dialogue will continue to focus on issues of importation, pricing, and a freeze on new public sector capacity, rather than tackling the extremely complex issues associated with divestiture of existing public sector plants. The feasibility of moving into this area will depend on progress in other dialogue areas, including the overall policies regulating private agribusiness investment. As and when it becomes possible to address divestiture of the GCP directly, the mission would be pleased to call on whatever resources can be identified offering technical assistance and advice.

II. BACKGROUND

A. Macroeconomic Analysis

1. External Sector

a. Conclusions

International trade is an essential part of Pakistan's economy; imports and exports of goods and services were equivalent to 23% and 18% respectively of GNP in 1985. Agriculture makes a large contribution to export earnings. Over the 1983-85 period, raw agricultural commodities -- mainly raw cotton and rice -- and agriculturally based products, e.g., cotton textiles and yarn, accounted for 56% of total export earnings.

Despite the importance of foreign trade in Pakistan, the country's balance of payments is structurally weak. This is due largely to lack of growth in the export base (both in value and diversification), as well as a heavy reliance on remittances from workers abroad.

During the last three years, Pakistan's gross official external reserves have generally tended to decline. Reserves fell by an average of $116 million (8.6%) per quarter over the 11 quarters ending June 1986. The official foreign exchange reserves in March, 1987 were $508 million, equivalent to 4.4 weeks of imports, which is about one-third the normally accepted level of 13 weeks worth of imports.

Current conditions suggest continued pressure on the country's international reserves. First, there is a very real likelihood of decline in remittances due to a decreasing level of employment and real wages of Pakistanis working in the Gulf States hit by lower earnings from oil exports. Remittances dropped 12.5 percent in the first half of PFY 1986-87. It is generally believed that workers who repatriate their foreign savings when returning permanently to Pakistan will help to keep the total for this year from falling drastically, but an 11.5 percent fall in remittances in 1987 is now anticipated. This decline in remittances would translate into a shortfall in earnings of $275 million.

A second source of pressure on reserves is that net disbursement of capital to Pakistan is relatively small. While gross disbursements have grown, debt servicing has grown faster and is now in the neighborhood of $1.1 - $1.2 billion. Net disbursement of capital, excluding Afghan relief, is running approximately $200 - $300 million annually. In the 1980s, the trend of net disbursements in both absolute size and as a percentage of gross disbursements has been downward. It is likely that Pakistan will not be able to meet the conditions of the IMF and World Bank for new sector loans, which would bolster the country's balance of payments situation. Estimates of the probable shortfall in World Bank disbursements range between $178 and $200 million for PFY 1986-87. Hence, it would appear highly unlikely that disbursements will keep pace with debt servicing.

Annual debt repayment on loans from the U.S. government alone will rise from $250 million in FY1986 to over $500 million by FY1993.

Finally, it is generally expected that the market price of oil will eventually rebound, substantially increasing Pakistan's bill for imported oil. Under current demand levels, every five-dollar increase in the per-barrel price of crude oil adds some $210 million to the annual import bill. This added burden would likely outweigh any potential increases in remittances due to increased employment of Pakistanis in the Middle East following an increase in oil revenues.

Given these various factors, the mission believes that there will be continuing and increasing pressures on the country's balance of payments position. If remittances fell by 11.5 percent and the price of oil increased by $5 per barrel, the total foreign exchange loss could be over $500 million dollars annually. This would have a serious impact on foreign exchange and require difficult adjustments in Pakistan's economy.

b. Underlying Factors Affecting the BOP

i. Trade balance. Little improvement in the balance of trade was registered during the 1981-1986 period (see Table II-1). Growth in export earnings continued to be disappointing and to lag behind the expansion of imports (refer to Annex I.2 for additional information on this issue).

ii. Worker's remittances. Workers' remittances, which make a very important contribution to Pakistan's foreign exchange earnings (see Table II-1), grew by an average of $333 million annually between 1975 and 1983. Remittances peaked at $2.9 billion in 1983 and surpassed commodity export earnings in 1983 and 1984. Remittances have been trending downward since 1983, and by 1987 are projected to fall to some $2.3 billion, a decline of almost 12 percent from 1986.

An ILO study of Pakistani workers in the Middle East suggests that remittances could continue to drop if the price of oil stays below $20 per barrel, estimating a 32 percent decline by 1990. If the price of a barrel of oil rises to the $20-30 range, the study's estimates are much less pessimistic, suggesting that remittances could actually increase by 2.5% by 1990. On balance, however, an oil price at the lower end of this range appears the most likely outcome, suggesting that remittances will not increase from present levels between now and 1990, and that, on the contrary, a 15-20% decline over the three year period would be a reasonable estimate.

iii. Services. The deficit in services (e.g., freight and insurance, travel, other transportation, and interest payments) has increased rather rapidly since 1981. This increase is due in large part to growth in interest payments on external debt.

TABLE II-1

BALANCE OF PAYMENTS SUMMARY TABLE ($ millions)

	1981	1982	1983	1984	1985	1986	1987 (Est)
TRADE BALANCE	-2765	-3450	-2989	-3324	-3552	-3042	-2565
Exports (fob)	2798	2319	2627	2669	2457	2942	3278
Imports (fob)	-5563	-5769	-5616	-5993	-6009	-5984	-5843
INVISIBLES BALANCE, net	1802	1895	2436	2294	1867	1806	1565
Services	-430	-492	-603	-713	-822	-1016	-1026
Private Transfers	2232	2387	3039	3007	2689	2822	2591
Workers' Remittances	2097	2224	2886	2739	2446	2596	2300
CURRENT ACCOUNT BALANCE	-963	-1555	-553	-1030	-1685	-1236	-1000
CAPITAL ACCOUNT BALANCE	939	975	1252	944	718	1229	985
Official Transfers	253	421	327	296	360	478	370
Long Term Capital (net)	419	491	867	622	524	611	536
Official Disbursements	719	696	1168	1114	1069	1080	1135
Amortization	-383	-288	-389	-557	-632	-654	-717
Private (net)	83	83	88	65	87	185	118
Short Term Capital (net)	217	54	40	-7	18	166	79
Official Disbursements	492	462	219	111	na	118	50
Repayments	-333	-471	-452	-220	na	na	na
Foreign curency Deposit	58	63	273	102	na	148	29
SDR Allocation	37	0	0	0	0	na	na
Other	na	na	na	na	-167	na	na
Errors/omissions	13	9	18	33	-17	-26	0
BALANCE OF PAYMENTS	-24	-580	699	-86	-967	-7	-15
Net Foreign Assets	24	580	-699	86	967	7	967
IMF (net)	308	374	426	-15	-82	-236	-349
Change in net reserves (-= increase)	-284	206	-1125	101	1049	243	364
Memo Items:							
Current Account Deficit as percent of GNP	3.2	4.9	1.8	3.1	4.9	3.0	3.5
Reserves as weeks of imports	8.8	6.8	15.2	14.0	5.6	8.4	4.4

Source: World Bank, Pakistan: Economic and Social Development Prospects, Feb. 18, 1986, p. 21 with revisions provided by GOP. Data for 1986 and 1987 (projected) are from World Bank, Pakistan: Sixth Plan Progress and Future Prospects, Feb. 26, 1987.

iv. Balance of payments. Over the past six years, from 1981 to 1986, the overall balance of payments has been in surplus for only one year and in deficit for five (Table II-1). The deficits totaled $1.71 billion and the surplus $0.69 billion, with the net deficit over the period averaging $167 million annually. Recent World Bank projections predict that balance of payments deficit will grow in 1987, and this projections is based on relatively optimistic assumptions. Based on analysis of factors underlying Pakistan's BOP position, there is little evidence of an improving trend in the balance of payments for the next several years.

v. External debt servicing. Actual debt service payments (i.e., after debt relief and including use of IMF credit) rose from $880 million in 1981 to $1,178 million in 1985. As a percent of current account receipts, the debt service ratio rose from 14.7% in 1981 to 19.7% in 1985. The ratio is much higher when remittances are excluded, amounting to 35.1% at the end of 1985.

vi. Net transfer of resources. Exclusive of relief assistance for Afghan refugees, which amounts to $150-$200 million annually, gross disbursements of foreign capital averaged $842 million annually over the 1978-82 period and $1,083 million from 1983 to 1985, rising to $1,357 million in 1986. Such disbursements are expected to increase again in 1987. Debt service payments, however, averaged 67% of gross disbursements for the three years from 1984-86. When charges on IMF and short-term borrowing are taken into account, net transfers amounted to only 18.5% of gross disbursements for the 1984-86 period.

While gross disbursements were rising, debt servicing was rising faster, and net transfers as a percentage of gross disbursements were falling. (For the 1978-86 period, the respective percentages are 56, 22, 22, 29, 13, 13, and 27 and, in dollar terms, net transfers during the same period were 482, 186, 177, 322, 129, 148, and 368 million dollars, respectively (Source: GOP, 1985-86 Economic Survey, p. 51). This situation is not expected to improve over the next several years.

vii. International reserves. From 1981 through 1983, Pakistan's gross official reserves increased by $1.15 billion to $1.98 billion and peaked at over $2.0 billion at the end of December 1983. Reserves plunged by almost 60% in 1985 to $739 million. At the end of December 1985, reserves amounted to $854 million. At the end of June 1983, reserves were equivalent to 15.2 weeks of imports (cif), but fell to only 5.2 weeks at the end of June 1985, and rose slightly to about 8 weeks by the end of June 1986 (Annex I.2, Table I.2-V). By the end of January 1987, Pakistan's official reserves stood at $678 million, equivalent to only 6.1 weeks of imports, less than half the generally accepted minimum of 13 weeks.

viii. Pressure on reserves. Assuming current trends continue, it seems reasonable to expect that remittances will continue to decline as the oil-exporting Gulf States adjust to sharply lower export earnings and declining reserves of foreign exchange. There has already been a precipitous decline in Pakistan's exports to these countries where prospects for a rapidly growing market were once bright. Nor is the weak world market for Pakistan's major exports (cotton, cotton textiles, and rice) likely to revive for some time. The international markets for these commodities have become fiercely competitive, with many exporters subsidizing shipments, and prospects are dim for substantial increases in these commodity prices in the near future.

Moreover, external debt servicing is increasing and it is difficult to see net concessional aid growing with sufficient speed to make up the difference. Indeed, the trend in overall concessional aid for the last seven years has been downward. In addition, it is becoming increasing hard for Pakistan to borrow money from commercial banks, as the difficult negotiations with a consortium of international banks in the fall of 1986 demonstrated. We believe, then, that there will be continued and increasing pressure on the country's foreign reserves.

c. Economic Impact of ASSP on the External Sector

The balance of payments support provided through the Agricultural Sector Support Program (ASSP) will help Pakistan to sustain its economic growth and continue to develop a more modern, open economy. Continued progress toward a more open economy would expose industry to the discipline of foreign competition, act as an incentive to keep costs down, improve product quality, and move Pakistan toward becoming more competitive on the international market.

The estimated level of ASSP balance of payments support ($90 million per annum) will be of considerable help in reducing the balance of payments deficit, which averaged $167 million from 1981-1986. In the absence of such support, pressure on the balance of payments is bound to slow, or even reverse, the continuation of trade liberalization, as actions are taken to stem the outflow of foreign exchange. Yet the country needs to maintain the level of essential imports to sustain development, and a viable external position is therefore a prerequisite for sustained economic growth. In addition, the policy focus of the ASSP should promote a more rational use of the country's resources and increase the efficiency and productivity of the agricultural sector, leading to an improvement in the balance of payments position over time.

2. Public Finance and the Budget Deficit

a. Conclusions

The government budgetary position has continued to deteriorate during the 1980s. Expenditures have been growing at a faster rate than receipts, resulting in a budgetary deficit that is increasing relative to GDP. Moreover, current expenditures are growing twice as fast as the development and capital budgets. To help keep down domestic bank financing of the deficit, the government has promoted the sale of debt instruments to the non-bank public by offering very attractive rates. Domestic non-bank debt has increased very rapidly, as has interest cost. The latter, along with defense and subsidies, now accounts for almost 50% of total budgetary expenditures and 71% of current expenditures.

The non-bank borrowing mode of "mobilizing domestic resources" has to be considered as a stop-gap measure. Fundamental changes in public finance are required, on both the receipt and expenditure sides. Such reform should, inter alia, include a rationalization of duties tariffs, and taxes to reduce the protection now accorded to a number of mature industries. The tax base also needs to be expanded. The Minister of Finance has recently indicated that the main measure envisioned to move the budget toward balance will be a new sales tax. However, attention to the expenditure side is just as important as the revenue side, and the GOP must find ways to reduce its budgetary expenditures.

b. Factors Underlying the Fiscal Analysis

The government's budgetary position deteriorated in the 1980s. Combined expenditures by the federal and provincial governments grew at a faster rate than growth in GDP. Combined receipts -- tax and non-tax revenue and the surplus from public autonomous bodies (state economic enterprises) -- grew only as fast as GDP (See Table II.2). Hence, the overall deficit rose, both in absolute terms and relative to GDP. The deficit was 25% of total expenditures in 1980-81, and 30% in 1986, which translates into an average growth of one percentage point annually over the period.

About 48% of the total deficit was financed from external sources in the early 1980s. This proportion fell sharply to 14% in 1985 and then recovered slightly to 23% in 1986. To keep bank financing down, the GOP promoted the sale of debt instruments to the non-bank public at very attractive rates. The promotion was remarkably successful. Consequently, non-bank (domestic) borrowing has been growing very rapidly, financing 10% of the deficit in 1980 but 65% in 1986. Bank financing has been falling, from 43% of the deficit in 1980 to 12% in 1986, despite a jump to 51% in 1985.

Current expenditures, in nominal terms, grew at an average annual rate of 18% during the 1980-86 period, while development expenditures grew at only 9%. The falling share for development expenditures reflects in some degree the stated Government policy of relying more and more on the private sector for investment and participation in economic development. It also reflects the rapid growth in defense and interest costs, which rose as a proportion of total expenditures, with particularly sharp increases in the latter (see Annex I.1 Tables I.1-II and I.1-III). The proportion of the budget going to subsidies remained roughly constant over the 1981-86 period, at 6.5%. As a result of these shifts, some 71% of the current budget (federal and provincial combined) and 48% of the total budget was spent on defense, interest payments, and subsidies in 1986. After meeting these claims on government resources, the resources available for the provision of badly neglected social services (notably, education and health) are severely limited.

TABLE II-2

SUMMARY OF PUBLIC FINANCES IN RS. MILLIONS

(CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENTS)

	1980	1981	1982	1983	1984	1985 (P.A.)	1986 (Revised)	1987 (Budget)
REVENUE	38,502	47,002	51,937	59,181	72,290	77,403	90,036	103,374
Tax	32,507	38,846	43,010	49,029	53,646	55,963	61,169	66,655
Non-Tax	5,995	8,156	8,927	10,152	18,644	21,440	28,867	36,719
SURPLUS OF STATE AUTONOMOUS BODIES	1,464	2,019	1,909	2,286	2,565	2,639	3,411	3,724
EXPENDITURES	54,629	63,639	71,013	87,121	100,002	116,819	132,894	153,654
Current*	35,547	40,318	46,370	59,686	73,411	85,270	97,767	109,464
Development	19,082	23,321	24,643	27,435	26,591	31,549	35,127	44,190
OVERALL DEFICIT	(14,663)	(14,618)	(17,174)	(25,654)	(25,147)	(36,777)	(39,447)	(46,556)
FINANCING (NET)	14,663	14,618	17,174	25,654	25,147	36,777	39,447	46,556
External (Net)	6,951	6,997	5,345	5,162	5,001	5,169	9,008	15,309
Domestic (Non-Bank)	1,497	5,296	6,313	14,368	12,280	12,873	25,682	26,487
Banking System	6,215	2,355	5,516	6,124	7,866	18,735	4,757	4,766
MEMORANDUM ITEMS:								
DOMESTIC BANK FINANCING	7,269	6,502	6,575	9,690	6,608	18,024	4,720	7,564
Budgetary Support**	6,215	2,355	5,516	6,124	7,866	18,735	4,757	4,766
Commodity Operations***	1,054	4,147	1,060	3,566	(1,258)	(711)	(37)	2,798
GDP (at current market prices in Rs. billions)	234.5	278.4	321.8	362.2	418.2	469.9	526.5	593.3
AS % OF GDP AT MARKET PRICES								
Tax Revenue	13.9	14.0	13.4	13.5	12.8	11.7	11.6	11.2
Total Revenue	16.4	16.9	16.1	16.3	17.3	16.2	17.1	17.4
Autonomous Bodies	0.6	0.7	0.6	0.6	0.6	0.5	0.6	0.6
Expenditures	23.3	22.9	22.1	24.1	23.9	24.4	25.1	25.9
Overall Deficit	6.3	5.2	5.3	7.1	6.0	7.6	7.4	7.8
Domestic Bank Financing	3.1	2.3	2.0	2.7	1.6	3.7	0.8	1.3
of which: Budgetary Support	2.7	0.9	1.7	1.7	1.9	3.9	0.9	0.8
Domestic (Non-Bank)	0.6	1.9	2.0	4.0	2.9	2.7	4.9	4.5
External	3.0	2.5	1.7	1.4	1.2	1.1	1.7	2.6

P.A. = Provisional Actuals

*Differs from the standard presentation in that subsidies in the ADP are classified as current rather than development expenditures.

**Differs from monetary statistics due to coverage and timing.

***Falls outside of Government's deficit financing from the banking system.

Source: Pakistan Budgets, 1986-87, GOP, p. 409.

Growth in interest on external debt has been rapid, but even so it has been overshadowed by growth in domestic debt. In current rupees, interest on external debt increased from Rs. 2.4 billion in 1980 to Rs. 6.3 billion in 1986, an increase of 163%. Interest on domestic debt ballooned by 430%, from Rs. 2.5 billion to Rs. 13.2 billion during the same period.

c. Domestic Economic Impact of ASSP

The economic performance of Pakistan can be improved by:

i. Hastening the denationalization and deregulation process to reduce expenditures, including those for subsidies, and

ii. Improving economic efficiency by encouraging the private sector to carry out many functions now being assumed by the public sector.

ASSP will make its greatest contribution to domestic resource mobilization by reducing subsidies to the agricultural sector and encouraging policies that will increase agricultural productivity and private sector participation. ASSP funds will also provide the GOP with budgetary support that will help it to implement policies of price and market deregulation.

Although in some countries a large commodity import and sector grant program could conceivably have an inflationary effect, this seems unlikely in the case of the ASSP. First, the size of the ASSP is relatively small in comparison to Pakistan's economy, with a GDP of over Rs. 526 billion in 1986 or $30.9 billion. The economy should readily be able to absorb the additional level of aid, which at $100 million per annum amounts to slightly over three tenths of one percent of the country's GDP. Second, since ASSP contributions are grant funds, the level of Pakistan's indebtedness will not increase, nor will the level of resources needed to make debt service payments. In fact, ASSP will be instrumental in helping Pakistan meet the growing level of debt servicing and retain credit-worthiness.

3. Agriculture and Improved Economic Performance

Agriculture is an essential part of Pakistan's economy. A major benefactor of the Green Revolution, Pakistan has become self-sufficient in almost all major agricultural commodities in recent years. At the heart of the agricultural sector is Pakistan's irrigation system. 70 percent of all cultivated land in the country is irrigated, which accounts for an estimated 85% of the value-added in agriculture, excluding livestock. The country's network of 40,000 miles of canals and 750,000 miles of publicly owned water-course constitutes the largest contiguous irrigation system in the world.

Agriculture accounted for some 25% of the Gross Domestic Product in 1984/85 (see PARD Annex Table C-I) and 51% of employment. Within the agricultural sector, major crops (see PARD Annex Table C-II) make up about 50% of value-added, minor crops some 16%, livestock about 31%, and forestry and fishing the remaining 3%. In real value terms, the agricultural sector's total output has increased every year in the past decade except one. The average annual growth rate for the sector was 3.1% over the period from 1950-1983, which compares favorably to other countries in Asia and elsewhere. Bad harvests in 1984 led to a decrease of agricultural value-added of 6.1%, but the sector rebounded strongly in FY1985 with an annual growth rate in value-added of 9.9%.

Much of this growth has been due to increases in the area cultivated, but some has come from the increased use of improved inputs such as high-yielding seed varieties (particularly the wheat and rice varieties of the Green Revolution), fertilizer, and pesticides. The irrigation system was expanded and improved and thousands of tubewells were dug, giving farmers better control over water. Tractors became common on both large and small farms.

The agricultural sector accounts for a major portion of Pakistan's total exports. Pakistan is the world's third largest exporter of rice and one of the largest exporters of cotton in the world. In FY1985, exports of agricultural commodities including cotton, rice, fish, guar gum, and raw wool were worth US $579 million and made up 23.4% of the US $2.48 billion total of goods exported (see PARD Annex Table C-IV). Exports of goods made from raw materials provided by the agricultural sector, including leather, cotton yarn, and cloth, were worth some US $713.7 million in FY1985, or 28.7% of the total value of exports. Agriculture was directly and indirectly responsible for some 52% of Pakistan's exports in FY1985, and has recently been as high as 70%, depending on the definition of agricultural exports used.

Given the size of the sector and its importance as a source of employment and export revenue, it is clear that agriculture will have a major role to play in improving the balance of payments situation and controlling the growing budget deficit. The agricultural sector can help to alleviate these problems by:

a. Encouraging the use of private enterprise (agribusiness) to procure, market, and distribute the inputs and outputs of the agricultural sector. If the private sector is allowed to assume these tasks (which it invariably does more cost-effectively than publicly-owned firms) the economy will operate more efficiently and more government resources will be available for other purposes.

b. Producing enough to satisfy the domestic demand for basic foods, thereby avoiding having to use scarce foreign exchange to import them.

c. Reducing its dependence on subsidies to inputs and products, which would help reduce the budget deficit.

The policy changes sought under ASSP will be instrumental in achieving the above set of sectoral goals.

B. Relationship to AID and Host Country Development Strategy

The ASSP strategy represents a continuation of the successful, collaborative approach to policy reforms developed by AID and the GOP over the past several years. The priorities selected reflect the areas where there is broad agreement between AID and the GOP as to the desirable direction for reform and where the possibilities for short term achievement are greatest. The ASSP implementation strategy emphasizes ongoing consultation and flexibility as both the Mission and the GOP consider this to be the key to successes under the ACE Program and the FSM Project.

1. Relationship to Host Country Strategy

In recent years, the GOP has undertaken a number of economic reforms demonstrating its commitment to greater reliance on market forces to achieve agricultural development goals. Recent reforms in particular underscore GOP commitment to reduce state intervention in key input and output markets, the basis of the ASSP strategy. The Sixth Five-Year Plan (1983-1987) outlines an ambitious program to liberalize the economy and increase private sector participation. To date, major changes implemented include a reduction of subsidies on nitrogenous fertilizer and partial deregulation of the fertilizer, sugar, rice, and edible oils markets. Additional changes are under discussion or actual implementation, based on the recommendations of the National Deregulation Commission and the Disinvestment Committee set up in June 1985. These include expanded private sector participation in cotton seed procurement, deregulation of edible oil and fertilizer retail prices, and abolition of wheat and flour rationing.

2. Relationship to AID Strategy

ASSP rests on the twin concepts of policy dialogue and a greater role for the private sector, two areas identified as pillars of AID programming worldwide. The program also supports progress in the two other areas of AID emphasis, technology transfer and institutional development. For example, market institutions such as the commodity exchanges, and technology institutions such as the provincial research and extension systems, have been targeted for assistance under ASSP.

The ASSP is fully in line with the policy strategy set forth in the mission's 1987 CDSS, which, among other things, stresses balance of payments support to the GOP, increased domestic resource mobilization, increased agricultural productivity and integration of lagging areas. ASSP is a key element in ARD's strategy for the agricultural sector, as outlined in the paper "Agricultural Strategy for the Post FY-87 Program." ASSP's emphasis on policy reform, economic efficiency, reduced subsidization of agriculture, and growth in agricultural and agribusiness sectors are essential in realizing the mission's two-part goal in agriculture: "to help in providing food security for Pakistan's growing population while increasing agriculture's contribution to overall economic growth by improving its sectoral efficiency and productivity."

ASSP is responsive to specific guidance on private sector programming, such as the June 1986 AID Policy Determination on Implementing AID Privatization Objectives. The ASSP will support a number of major privatization activities in the fertilizer, wheat, edible oil, rice, and agribusiness areas as part of the post-1987 assistance program.

ASSP will complement ongoing agricultural projects, notably the program of studies and institution-building activities being implemented under the Food Security Management Project and efforts of the Agricultural Data Collection sub-project to improve agricultural statistics in Pakistan. ASSP will also reinforce ongoing project activities in the irrigation subsector through the Command Water Management, Irrigation Systems Management, and On-Farm Water Management Projects, as well as efforts to improve the link between agricultural education and extension under the MART project.

C. Relationship to Other Donor Programs

International bilateral donor assistance has generally been concentrated in traditional project-based activities with comparatively little attention to policy issues. As with AID's own project assistance activities, these other donor projects in areas such as irrigation, livestock, and forestry are complementary to ASSP and address specific problems not amenable to program assistance alone.

The World Bank and the Asian Development Bank, by contrast, have pursued combined project lending with program assistance. The IBRD's first structural adjustment loan in 1981 addressed policy changes in the agricultural and energy sectors, among others. At the present time, the Bank's dialogue with the GOP focuses on the issues of water pricing and subsidization of fertilizer. AID and World Bank staff maintain regular communication to facilitate coordination of their respective dialogue activities.

The Asian Development Bank's main policy priorities at present are reduction of fertilizer subsidies and the increase of water user charges. The ADB is pursuing these policy goals with the GOP under a $200 million, two-year commodity import program.

Both the AID mission and the World Bank's resident mission regularly coordinate with the ADB to ensure that their respective policy agenda are mutually supportive and that all parties are fully informed. The integrated approach to policy dialogue made possible by the ASSP is expected to facilitate this coordination with both the IBRD and the ADB.

D. Program Rationale

1. Overall Program Strategy

Rapid and equitable agricultural development requires a policy environment that provides adequate scope and incentive for private initiative by farmers, input suppliers, traders, and others throughout the agricultural sector. These same conditions are required for success in project implementation, whether the projects are aimed directly at private enterprise or at the public sector institutions that support them through research, extension, and information. ASSP is designed to assist the GOP to make the changes needed to achieve such a policy environment. As such it will complement and support present and future AID project activities in the agricultural sector, as well as those of other donors and the Government of Pakistan itself.

The ASSP strategy grows out of successful mission experience in promoting policy change in Pakistan's agricultural sector. It follows the model developed under the Agricultural Commodities and Equipment Program (ACE), which combines a fast disbursing program mechanism with policy conditionality to encourage the GOP to accelerate implementation of changes. In all cases, the specific policies addressed are viewed by both AID and the GOP as important and necessary changes. Analysis of possible changes has therefore been a vital element of the strategy leading to the development of consensus on the policy changes to be implemented. To date this analysis has generally been undertaken under PDIF funding or through the Food Security Management Project's (FSM) Economic Analysis Network (EAN) activity.

Under the ASSP the importance of analysis will continue. While FSM will continue for at least the first two years of the ASSP, additional analysis will increasingly be funded directly with ASSP funds. GOP capacity to undertake analysis will be reinforced by a continuation and expansion of the institution building activities begun under FSM, including in-country and U.S. training, strengthening of data collection and analysis units in the Ministry of Agriculture and other government units, and related activities.

The ASSP funding mechanisms will maximize program impact and flexibility. The commodity import component will be supplemented by a sector grant program and local currency generations will be more closely tracked. Varying the proportion of sector grant and CIP in any given year's program and selectively programming local currrency in support of policy reform implementation will substantially enhance the overall impact of ASSP. These modifications will also improve the program's performance in providing effective balance of payments support to the Government of Pakistan and provide greater control over the rate of disbursement.

2. Lessons Learned

Experience in ACE and in AID policy-reform programs around the world has identified a number of lessons that have been applied in the design of the ASSP.

a. The Need for Flexibility

The ACE experience clearly shows the need for maximum flexibility in the administration of a program designed to promote policy change. Many of the policy reforms contemplated are complicated and politically sensitive. Their implementation must be carefully timed, often within a narrow window. The mission must be able to work rapidly and directly with the GOP to assist in the implementation of policy reforms, tailoring its assistance to the specific needs of the reform involved and the circumstances of the moment.

The policy change agenda must be amendable in response to new opportunities, changing conditions, and unforeseen barriers. Rigidity in the implementation schedule of policy reforms and in the amounts allocated to a particular change under a specific component would seriously decrease the ability of ASSP to achieve meaningful change. Experience demonstrates that flexibility must be balanced against rigor in negotiating reforms and assessing progress. Parties to the dialogue must retain the ability to objectively judge whether real progress has been made toward market liberalization and privatization to prevent the program from degenerating into resource transfer alone. The balance between flexibility and rigor will be maintained in the ASSP through the preparation of an annual PAAD amendment based on a thorough analysis of progress to date and serving in turn as the basis for the next year's assessment.

b. The Value of High Quality Analysis of Policy Issues

Experience under ACE demonstrates that the policy dialogue can be substantially strengthened and accelerated by the availability of detailed analysis of complex issues, particularly when the analysis generates reliable data to replace speculation and offers specific information on the costs and benefits of particular policy measures. The ACE experience indicates that analysis performed by institutions outside the government can be as valuable as the government's own estimates. While the participation of Pakistani experts on the studies has made an important contribution to the quality of the reports and their reception by the GOP, the independence and reputation of outside analysts has also been critical to the overall success of the exercise. In some cases, the production of an independent study has provided support to private sector interests arguing for greater market liberalization.

Considerable ASSP assistance is directed at building the long-term capability of the GOP in policy analysis, while additional resources are made available for the short-term generation of analysis by expatriates.

c. Matching Policy Changes to the Form of Assistance

Policy reform in a complex environment frequently requires change on a number of levels simultaneously. The differing requirements of policy reform implementation translate into differences in the effectiveness of alternative modes of assistance. Where the change required is primarily regulatory, a resource transfer may be highly effective in motivating a government to take the necessary steps. If the government is not convinced of the value of the move, however, other assistance, such as analysis or expert advice, may be a necessary complement to resource transfer.

Even where government support for a particular policy change is strong, experience suggests that resource transfers are generally insufficient to achieve changes requiring major institutional reform. These changes take several years and require programmatic inputs such as training, equipment and technical assistance. For this reason the ASSP agenda focuses on policy issues, such as market liberalization, that require relatively little change in complex institutions. ASSP local currency resources, however, may be available to support institutional reforms being sought through other AID projects, such as strengthening of water user associations and integration of provincial research and extension programs. In such cases, ASSP will fill in resource gaps on the GOP side that might otherwise impede project progress.

III. PROGRAM DESCRIPTION

A. Goal and Purpose

The broad sector goal of the ASSP is to sustain economic growth in Pakistan through increased productivity in the agricultural sector.

The program purpose is to:

1. Provide balance of payments support to the GOP through commodity imports and sector grants.

2. Remove key constraints to increased economic growth in the agricultural sector through policy reform and expanded private sector investment and participation.

B. Program Components

1. Overview

The Agricultural Sector Support Program combines four basic elements to promote rapid implementation of policy reform in the agricultural sector:

a. Resource transfers to the GOP in the form of a Commodity Import Program (CIP) and Sector Grants (SG) to provide needed balance of payments support and to reinforce progress made to date in restructuring the sector.

b. Policy dialogue/negotiation as an input to policy reform negotiated with the GOP on an annual basis, based on a review of priorities and opportunities in the policy arena.

c. Local currency resources generated by the resource transfers and programmed by the GOP in cooperation with AID to support implementation of policy and institutional reforms, and the GOP's overall sectoral development programs.

d. Training and Technical Assistance (TATA) to strengthen the long-term capacity of the GOP in market-based management of the agricultural sector and to assist the GOP in developing the policy reform agenda.

The ASSP reflects the continued progress being made by AID and the GOP toward a mature assistance relationship. Resource transfers have been a central element of the U.S. assistance strategy since its resumption in 1981, in line with the broad goals of U.S. assistance to Pakistan. Resource transfers have generally taken the form of commodity import programs, such as the Agricultural Commodity and Equipment Program (ACE) in the agricultural sector. No policy conditionality was attached to these programs initially.

Dialogue on policy issues was initiated through the PL-480 Self-Help Measures and expanded under the Food Security Management Project, which began in 1984. Over the past two years, policy assistance and resource transfers have progressively been merged by incorporating policy concerns into negotiation of successive tranches of commodity assistance under the ACE and PL-480. The ASSP will consolidate this process, combining commodity assistance, policy negotiation, and analytic support activities into a single assistance mechanism. The current separate channels of assistance (FSM and ACE) will be phased out over the first two years of the new program. The effectiveness and flexibility of the ASSP mechanism will be further strengthened by the addition of the sector grant option and by increased attention to use of local currency generations to provide broad support to AID and GOP goals in the sector.

Under the ASSP, beginning in FY88, $100 million will be available for assistance to the agricultural sector each year. Approximately $10 million of this amount will finance training, technical assistance, and related commodities to support the identification and adoption of needed policy reforms and to strengthen the GOP's capacity for data collection and analysis. The remaining funds, approximately $90 million annually, will be available as resource transfers.

2. Resource Transfers Under the ASSP

The resource transfer components of the ASSP will assist the GOP to manage the difficult balance of payments situation outlined above and will encourage the adoption of the major policy reforms needed to accelerate agricultural growth. Two types of resource transfer are planned:

a. A Commodity Import Program (CIP), which will finance the importation of basic agricultural inputs (particularly fertilizer), other agricultural commodities needed for local consumption or processing (e.g., edible oils and cotton), commodities to support agricultural development activities (e.g., irrigation maintenance equipment), and inputs needed by the private agribusiness sector (e.g., food processing machinery); and

b. Sector Grants (SG), to the GOP for balance of payments support.

The level and mix of CIP and SG provided in each of the program's six years will be determined in negotiation with the GOP, based on progress made in implementing policy reforms during the previous year and on the nature of the policy reforms that the GOP commits itself to carry out during the coming year. It is anticipated that resource transfers will total approximately $90 million in each year, beginning in FY88, for a total of $270 million during the program's first three years (FY87 to FY90) and a total of $540 million over the program's six-year life (through FY93). The grants will be divided approximately equally into CIP and SG, but the total amount in any given year and the distribution between CIP and SG will vary to reflect the pace and scale of policy progress.

A resource transfer of $90 million has been programmed for FY88 to indicate USAID commitment to the reform process and strong US support for actions already taken, including deregulation of the domestic market for nitrogenous fertilizers and abolition of the ration shop system. (See section D below for a discussion of the procedure for setting the annual program assistance level and section V for a description of the mechanics of funds flow.)

3. Policy Dialogue and Negotiation

The ASSP policy dialogue and negotiation will focus on: 1) removal of distortions in the pricing of basic inputs and outputs; 2) reduction of the role of government in management of agricultural markets, production of inputs, and processing of outputs; and 3) elimination of subsidies to the agricultural sector. Where appropriate, the dialogue will also cover the restructuring of public sector institutions to increase their efficiency and effectiveness, particularly in the areas of research, extension, information and irrigation management.

The dialogue and negotiation will reflect the mission's policy priorities as articulated in the CDSS, which identified five main policy areas for emphasis: removal of administrative controls impeding market operation (including subsidies); rationalization of water pricing and expenditures on system operation; improvement of policies affecting the forestry and fuelwood subsector; reform of the institutional credit system; and restructuring of research, education, and extension organizations to improve their effectiveness.

The ASSP policy dialogue focuses on the first of the five policy areas, emphasizing reform in both input markets and product markets. Pricing and subsidy issues in the water and credit subsectors will also be addressed, in the context of input price reform, but the agenda for these areas is not expected to tackle the complex institutional restructuring required in these areas.

With regard to public sector institutional reform, the ASSP will generally emphasize the improvement of management information for the agricultural sector through better agricultural data and improved policy analysis. Research, extension, and education institutions will be a secondary focus in this area in support of other mission programs at the provincial and national level. Forestry and fuelwood issues may also be addressed.

The mission's current topic priorities are:

a. Input markets: Elimination of fertilizer subsidies, privatization of distribution, and reduction of public sector marketing costs; rationalization and liberalization of credit markets; establishment of an adequate legal framework for the seed industry and privatization of seed production; improvement in budgeting and pricing for water, including utility rates, and privatization of tubewells; and liberalization of tariffs and marketing restrictions for feed and other imported inputs.

b. Product markets, processing, and agribusiness: Completion of the restructuring of the public sector's role in the wheat market and rationalization of sugar pricing; phasing out of state procurement; reopening of commodity exchanges and other institutional reforms; removal of subsidies on processing and trade; elimination of controls on investment; privatization of edible oils marketing and processing; and decontrol of marketing for other major crops.

c. Agricultural institutions: accelerated improvement of data collection and availability; continued instititionalization of economic analysis capacity; and integration of research and education together with provision of adequate funding.

Many of these topics have been discussed by donors and the GOP for some time, and negotiations are continuing. The issue of edible oil pricing and processing is included in PL-480 self-help measures and is also a topic of World Bank-GOP negotiations. Water pricing, water user charges and O&M expenditures being addressed through AID's irrigation program are the subject of intense GOP-World Bank dialogue and are also under discussion with the ADB. Fertilizer pricing is a central issue in the ADB's commodity import program dialogue; the World Bank is also holding discussions on this issue. ASSP will not supercede these activities but supplement and reinforce ongoing dialogue, providing the additional resources needed to bring these discussions to fruition.

As further discussed in section C below, information is insufficient to spell out the desired reforms in detail in all areas, nor does a consensus exist within the GOP on the appropriate direction for reform in each area. The ASSP's technical assistance and training activities are intended to strengthen the policy dialogue so that negotiation of particular actions is based on USAID-GOP consensus on the details of what should be done, a necessary precondition to negotiation of particular actions with the GOP and to implementation of the reforms themselves. Nonetheless, it is possible to spell out in general terms the results anticipated over the life of the program. Figure III-1 presents the projected end-of-program status with respect to the policy priorities identified above.

Figure III-1

Anticipated Policy Reform Progress During the ASSP

Overall End-of-Program Status

By the end of FY93, it is expected that the following overall conditions will prevail with respect to Pakistan's agricultural policies:

1. Pricing: prices for all major commodities--inputs and outputs--will be within 15% of the world market price (the import or export price net of internal marketing costs) or, for non-traded inputs such as water, at a price covering all maintenance and operating costs.

2. Privatization: public sector organizations will handle less than one-third of the total national marketed volume of each major crop and input and state-owned plants processing or manufacturing agricultural inputs and products will be no greater than at present, as measured by the level of output.

3. Subsidies: the total real cost of all subsidies to the agricultural sector (excluding research, extension, education, and other support services) will be one-third less than in PFY87.

Specific Achievements Expected in Priority Areas

By the end of the program, it is expected that most of the following reforms will be in place:

1. Input Markets:

   a. Fertilizer: Complete removal of all subsidies on N and P fertilizers; increase in the private sector's share of distribution to 70%; geographic quotas reduced to at most 50% of volume; initiation of actions to divest state-owned plants and marketing companies; no expansion of public sector capacity.

   b. Water: O&M expenditures and collection of water fees increased to full technical requirement on gravity systems and 75% of technical requirement on tubewells; removal of subsidies on installation, conversion to electricity, and utility rates for private tubewells; and divestiture of 50% of state-owned tubewells.

   c. Seed: Establishment of a new national seed law and elimination of public sector seed company subsidy.

   d. Feed: Elimination of tariffs and other restrictions on feed imports.

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e. Credit: Replacement of no-interest credit with a system at least covering the cost of administration.

2. Domestic Marketing, Processing, and Consumption Markets

a. Agribusiness: Major streamlining of the sanctioning process and other controls on investment; significant reduction in tariffs on imports for agribusiness; elimination of export subsidies and subsidies on state-owned processing plants; and at least 75% privatization of procurement for all major crops.

b. Wheat: Reduction in state procurement to less than half of the total marketed surplus; reform of support and release prices so that the support price remains between cif and fob price and release price covers at least 80% of government's handling and storage costs; and increase in federal budgets and provincial expenditures for storage O&M to 90% of technical requirement.

c. Ghee/oils: Elimination of GCP subsidies; reduction in state-owned processing capacity to less than 40% of the total through denationalization or growth of private processors; and maintenance of variable tariff so that domestic price of oil remains in line with IBRD estimated long-run price.

d. Sugar: Stabilization of mill price within 20% of World Bank's estimated long-run world price and removal of farm-level marketing controls.

3. Public Sector Support to Agriculture

a. Management information: Institutionalization of EAN within MINFAC; increase in the MINFAC budget for economic and policy analysis by 25%; integration of agricultural data collection under one national institution and increase in the budget for data collection and publication by 25%; and establishment of regular and timely publication of price, marketing, and production data and forecasts.

b. Research and education: Restructuring of at least one province's institutional structure to join these functions in a single institution; increase in the real research operating budget in educational and research institutions by 20%; and improved linkages to extension.

The specific package of reforms implemented over the six-year life of the ASSP will depend on the development of improved information on which to base reforms, continuation of an overall political and economic climate favorable to reform and the progress of negotiations with the GOP favorable to reform. If these conditions hold, it is expected that most of the reforms specified in Figure III-1 will be achieved. If conditions are favorable to reform, AID may be successful in bringing about progress in additional areas, represented by the list of desirable policy changes in Annex H. Conversely, should conditions evolve in a direction unfavorable to policy reform, it may not be possible to achieve all the reforms specified in Figure III-1.

4. Local Currency Resources

ASSP activities will generate local currency equal to the dollars disbursed through the CIP and sector grant programs. These funds will be jointly programmed with the GOP in support of sectoral objectives, as part of the annual negotiation process leading up to amendment of the Program Agreement (ProAg). The PAAD and ProAg amendments will include a description of the agreed-upon uses for local currency, as well as spelling out the procedures for tracking and monitoring funds use over time.

In general, this exercise will identify broad budget categories within the GOP Annual Development Plan budget for the agricultural and irrigation sectors, rather than specific project or non-project activities. Detailed programming of all local currency funds would be inconsistent with the ASSP strategy, which provides fast-disbursing resources with few restrictions in order to reward the GOP for policy actions taken, focus the participants on the policy issues being addressed, and encourage additional reforms.

If progress in implementing reforms continues to be satisfactory, funds will be programmed primarily as general budget support for the agricultural sector, e.g., against the MINFAC operating and ADP budgets. Where appropriate, funds may be programmed to finance the cost of reforms being undertaken, through, for example, replacement of tariff revenues foregone; indirect financing of increased provincial expenditure on research, extension and irrigation O&M; and expanded supplies of agricultural credit.

The distribution between these uses will depend in part on the progress of AID-GOP dialogue and the reform program generally, and in part on the identification of suitable opportunities to program local currencies that do not place an undue management burden on either AID or the GOP.

5. Training and Technical Assistance

The Training and Technical Assistance component will have two distinct elements:

a. A sectoral training program providing long- and short-term training to build up the research and training capabilities of Pakistani institutions in the agricultural sector and to expand the pool of skilled personnel available to the national agribusiness sector; and

b. A <u>policy information and management program</u>, which will continue and expand the program of policy analysis, data collection, and institution-building begun under the Food Security Management Project and provide technical support to the ASSP's policy dialogue.

<u>The Sectoral Training Program</u>

The development of Pakistan's agricultural sector has created a need for skilled manpower that goes beyond the current capacity of in-country training institutions. While project-based training can meet part of this need, it is by definition limited to a few institutions and sub-sectors. The training requirements of the private sector, in particular, can rarely be met through this mechanism. Although major assistance programs are being directed to specific Pakistani universities, the remaining institutions are not receiving sufficient assistance to enable them to upgrade or, in some cases, even maintain, the skills of their faculty. One university in the NWFP, for example, receives funding for only one overseas scholarship annually for its entire faculty.

While no single program can provide sufficient resources to meet the full need for training in the agricultural sector, the ASSP will be able to make a substantial contribution. By concentrating on long-term training for the faculties of agricultural universities and for private sector agribusiness professionals, the ASSP should lead to a significant increase in the pool of skilled manpower available to support agricultural development in the future.

The ASSP training program will have two major components:

1. <u>Public sector training</u>: long- and short-term training in the United States for university personnel and others in institutions supporting the agricultural sector, reinforced by short-term in-country training and visiting professorships for US faculty in Pakistani institutions.

2. <u>Private sector training</u>: long- and short-term training in the United States to upgrade the technical, professional, and administrative skills of individuals with a background in Pakistan's private sector production, processing, and marketing sectors, as well as short courses in-country to reach a wider agribusiness audience.

Training will be offered in a wide range of specialties needed to improve performance in the private and public sectors. While the specific categories will depend on the training needs expressed by local institutions (public and private) and the availability of suitable candidates, it is anticipated that degree training will be offered in agricultural sciences (agronomy, plant pathology, genetics, etc.), livestock sciences, food processing, marketing and distribution, business management and public administration, and economics.

The ASSP training program will also support the continuation of the Economic Analysis Network and Agricultural Data Collection activities, as further discussed below.

Additional details on the ASSP training program are provided in the training plan in section IV and in Annex I.6.

Policy Information and Management

The program of analysis, data collection and institution-building begun under FSM will be continued and expanded under ASSP. The program will have two distinct elements:

1. Institution-building activities, including technical assistance, formal and informal training, equipment, and other assistance to strengthen the capabilities of the Economic Analysis Network in the Ministry of Food and Agriculture, and the agricultural data collection and dissemination activities of the Federal Bureau of Statistics.

2. Analytical support to the identification and clarification of policy issues, the formulation of reform packages, and the development of consensus on actions to be taken.

While the institutional development component will largely build on existing activities under the FSM Project (particularly the Economic Analysis Network and Agricultural Data Collection activities), the analytic support will be provided by the EAN, a mission-managed policy analysis IQC (or other basic ordering agreement mechanism) and supplemental technical assistance.

Under the FSM Project, the Economic Analysis Network (EAN) has demonstrated the value of drawing on Pakistani and expatriate expertise to generate high-quality analysis of priority policy issues. This experience has reinforced the lesson learned through policy dialogue under ACE and PL-480: success in encouraging the GOP to adopt needed policy reforms is much greater where the mission (and reform advocates within the GOP and the private sector) can draw on timely and relevant information. The bold steps taken by the GOP in recent months were based in part on the recommendations and findings of mission-funded studies, including IFPRI's analysis of ration shops funded under FSM and earlier studies of fertilizer and oilseeds policy. This and other EAN experience shows that following up the analytic work with seminars and publications develops a consensus among government and private sector leaders.

The EAN has also proven the value of a formal network linking analysts in a wide range of Pakistani research and policy institutions. In addition to broadening the resources available to the GOP for analysis of agricultural issues, the network is a useful mechanism for providing training and technical assistance.

The extension of the EAN under the ASSP will give particular emphasis to establishment of a permanent capacity for policy analysis of agricultural issues, based on in-house analysts in the GOP and improved ability to draw on the analytic capabilities of other Pakistani institutions, particularly agricultural universities.

Under the EAN, institution-building activities will include provision of long- and short-term technical assistance, U.S. and in-country training (with a strong emphasis on the latter), development of economic research facilities through provision of computers and libraries as well as improvements to the physical plant, and other assistance. Annex I presents further details on the plans for continuation of the EAN under ASSP.

The Agricultural Data Collection component of the FSM Project will also be continued under ASSP. The ADC is assisting the GOP to modify the present agricultural statistics collection system to develop a more accurate and efficient system based in part on the area sampling frame methodology, but incorporating more traditional data collection and publication methods as well. By the end of the FSM Project, it is expected that the area sampling frame will have been fully implemented in the pilot areas, but due to a late start, a second phase will be needed to implement the area sampling frame nationwide. Additional details on this important activity may be found in Annex I.

Under the Post-Harvest Management (PHM) component of the FSM Project, a 1986 feasibility study on bulk storage and handling of wheat has been reviewed by the mission and approved by the GOP. Accordingly, a pilot project will be implemented to determine constraints, operating costs, the use of bulk transport and how the operations of a bulk system could be adopted within the current one. The estimated cost of this project is $45 million, funding the technical assistance, training and equipment, including installation and allied civil works, elements of the pilot project. In addition to the Bulk Storage pilot program, some of the existing activities under PHM will continue at a smaller scale: technical assistance for storage management and training for public and private sector storage managers. Post-harvest management may also receive additional support through the programming of CIP-generated currencies for such uses as credit for private sector storage expansion and further rehabilitation of provincial storage facilities. These local currency uses will be negotiated with the government on the basis of continued progress toward privatization of the wheat market, and therefore cannot be specified in detail at this time.

The final element is technical assistance support activities designed to support identification of appropriate policy reforms, dialogue to develop consensus, and monitoring of progress toward policy benchmarks. These activities will be carried out in cooperation with the EAN, but, like the IFPRI Special Studies Program begun under FSM, will rely on separate contracting mechanisms. Within this sub-component, the Special Studies Program itself will be continued, focusing on issues growing out of IFPRI's current work in the grain market and expansion of the program into related areas. A mission policy analysis IQC, will supply analytic expertise to address priority questions outside the EAN's agenda and availability, or whose sensitivity makes direct AID management of the study preferable. AID-wide IQCs and centrally-funded contracts may also be used. This sub-component will require an ASSP economist (USPSC or local hire) to assist in monitoring and policy dialogue and short-term assistance for evaluation and other ASSP-related activities. The supplemental technical assistance activities are further discussed in the procurement plan in section IV.

C. Agricultural Policy Analysis

The GOP's commitment to reducing subsidies, bringing prices into line with international levels, and promoting private sector activities is demonstrated by the wide-ranging reforms implemented over the past two years. Despite this progress, additional reforms are necessary in a number of areas. As discussed in the CDSS, these include deregulation and privatization of input and product marketing, restructuring and strengthening of agricultural support institutions.

1. Progress to Date in Policy Reform

In recent years, the GOP has moved aggressively and courageously to address difficult agricultural policy issues and has succeeded in carrying out a number of major reforms. Notable among these are:

- the elimination of the ration shop system for subsidized flour;
- elimination of the surcharge on efficient domestic fertilizer producers, including private sector firms;
- increase in the share of fertilizer distributed through the private sector from 30% to 50% of the total;
- removal of price controls and deregulation of production, distribution, and importation of nitrogenous fertilizer;
- increase in the price of phosphatic fertilizer (DAP) by 10% and of potassic fertilizer (SOP) by 25%; and
- deregulation of edible oil retail prices, liberalization of edible oil imports, and removal of the GCP monopoly on cottonseed.

Despite this progress, current policies continue to overemphasize government control and direct government management of input marketing, product marketing, and processing. Additional reforms are needed to complete the transition to a market-based agricultural sector where the government limits its involvement to research, extension, education, information services, and management of the large gravity-fed irrigation systems and relies on the private sector to carry out the majority of input supply, product marketing, processing, and distribution functions.

The actions taken to date demonstrate the GOP's strong commitment to making this transition, but the very real difficulties attached to many of the steps required must be recognized. In many areas, the GOP is ready to act in the near future, as indicated by the significant reforms incorporated in the draft 1988 benchmarks. In other areas, additional information and consensus-building must precede implementation of the necessary reforms. The following sections discuss each of the major policy areas identified in section B above and the status of progress toward reform in each. Annex I presents more detailed discussion of the issues in fertilizer and wheat marketing, the major issues being addressed in the first year's benchmarks. The annexes in the PARD provide detailed discussions of other issues, including irrigation, edible oils, and poultry. (Annex I.5 also includes a discussion of seed policy issues, which were not included in the PARD.)

2. Policies in Input Markets

The extensive analysis already conducted in the areas of fertilizer marketing, water, seed, and feed make it possible to spell out the nature of reforms needed, although in some cases additional work will be necessary to translate these general directions into specific policy measures. Other areas, notably credit, will require additional analysis to define the reforms needed with sufficient specificity to begin negotiation with the government.

a. Policy Areas for Immediate Action

i. Fertilizer. Pakistan has been highly successful in developing a domestic fertilizer industry. Fertilizer use has increased a thousand fold since the late 1950's, and commercially produced fertilizer is used by an estimated 75-85% of Pakistan's farmers. Two principal issues must be addressed in the near future to clear the way for continued rapid growth of fertilizer use: reduction in the state role in marketing and removal of subsidies to importation and distribution. Subsidization of domestic producers and the role of the state in production will require further clarification. The public sector's continued heavy involvement in the production and marketing of fertilizer has increasingly hampered efficient fertilizer marketing and distribution, particularly the provincial distribution companies. While the marketing costs of the public-sector National Fertilizer Marketing Ltd. are similar to those of private sector firms, the public sector provincial distribution agencies incur substantially higher costs due in large part to their failure to curtail overhead costs. A greater role for the private sector in the marketing and distribution of fertilizer will reduce marketing costs and hence economic subsidies.

The GOP has also taken a heavy-handed approach to regulation. Retail prices have been controlled for all major fertilizers and the distribution of fertilizer among provinces and firms has been centrally determined. The GOP has now begun to phase out these controls. In May 1986, the GOP removed price controls on urea and other nitrogenous fertilizers. Distribution of domestically-produced urea was also deregulated (although the distribution of imported urea, which has been virtually nil in recent years, is still allocated via a set formula). The sales price and distribution of phosphatic and potassic fertilizers are still controlled.

The degree of state control required to fix retail prices at a constant level nation-wide, combined with the desire to keep farm-gate prices low, has led to a high subsidy bill for the fertilizer sector. The farm-gate price of urea appears to be very close to the current world price equivalent, due in part to overcapacity in the world market and the current low oil price, but phosphatic and potassic fertilizers are still highly subsidized. Fertilizer subsidies accounted for 58% of the total agricultural development budget during the Fifth Five-Year Plan. The system as it stands discourages new private investment in the sector, and is an enormous burden on the development budget, leaving insufficient funds for other agricultural development purposes.

There is consensus on the overall direction for policy change in this sector: phase out direct fertilizer subsidies, increase the role of the private sector in distribution, and provide greater scope to allow private distributors to respond to market demand. The primary issue is how fast these changes should be implemented. The GOP has continued to move steadily but gradually toward these goals, while the donor community would in general prefer to see progress accelerate. The mission believes it is realistic to expect that subsidies and controls on distribution will be completely eliminated by the end of the six-year period, if progress continues as in the past few years.

There is less certainty regarding how to reduce the state's role in production. Expansion of public and private capacity in the early 1980s made Pakistan self-sufficient in nitrogenous fertilizers, but recent upturns in offtake have led to renewed imports. Demand is projected to continue growing, assuming there is no major increase in price. At present, the cost of production at some state-owned plants is above the official price (taking into consideration marketing costs), and for some it is below. The same is true for the private sector. Above-cost firms are subsidized. Moreover, the price of gas to the fertilizer plants, public and private, is low compared to its equivalent in petroleum or liquified natural gas. Correction of price incentives is needed as demand for fertilizer grows to prevent uneconomic investment in new capacity, where price relationships favor importation of fertilizer rather than petroleum products.

Some analysts have argued that publicly-held urea plants should be denationalized to generate funds for potential loans to the private sector for the construction of the new fertilizer plants to meet increased demand. Denationalizatoin of existing plants with a cost structure above the world market, while simultaneously liberalizing imports, would be problematic. Additional analysis and public-private sector dialogue is required before a specific set of reforms and a timetable for implementing them can be formulated.

ii. Water. Better irrigation management is among the most critical requirements for raising agricultural productivity and incomes in Pakistan. Both expansion of the area under irrigation and improvements in management have been major targets for donor assistance, with the emphasis increasingly shifting to the latter as the opportunities for extension of the irrigation network have diminished. AID, as one of the leading donors in the sector since the

1960s, has made improved water management a central focus of its assistance strategy to irrigation and to agriculture as a whole.

As the result of extensive field research on irrigation management, the mission and the GOP are now in a position to spell out some of the measures that need to be taken in the near term. Key steps are: 1) improvements in O&M through higher water user charges and larger expenditures on maintenance; and 2) privatization of tubewell ownership and operation and removal of subsidies to installation and operation.

Specific steps identifiable at present in the first area include: increases in O&M expenditures in gravity-fed and SCARP areas toward the technical requirement for adequate maintenance; increases in farmer user charges toward the level required to finance these expenditures; and improved collection of these charges. Specific steps in the second area include: a ban on new public sector investments in tubewells; elimination of the subsidies on new private tubewells, conversion of existing tubewells to electric power, and electricity used by tubewells; and privatization of existing tubewells. While not all of these changes can be implemented immediately, consensus on the direction for needed change exists and progress toward implementation can reasonably be expected over the next two years. Other measures, such as adjustment in the electricity rate paid by tubewell operators, will require additional study. Work now in progress should shed considerable light on these issues in the near future.

iii. Seed. AID-supported analysis by the Industry Council for Development has clarified the actions needed to promote a strong private sector seed industry in Pakistan. Key steps include: 1) adoption of a new national seed law that balances protection for the consumer (i.e., the farmer) with the needs of the industry; and 2) removal of subsidies on provincial seed parastatals and pricing of seed at a level where private producers can compete. While neither of these steps can be implemented immediately, actions to begin the implementation process, such as formation of a commission to draft a new seed law, can be put in place in the near term.

Other measures, including the denationalization of public sector seed producers, will require further study and discussion. The seed industry should also benefit from reduced restrictions on investment and importation identified as part of the overall reform package for the agribusiness sector (see section 3).

iv. Animal Feed. A study of the poultry industry carried out by the EAN highlighted the need for improved access to high quality feeds, such as soy meal, which are not produced locally in sufficient quantity or quality to meet the industry's needs. Importation of high quality feeds is currently subject to a variety of restrictions on who may import and in what quantities as well as a sales tax, all of which combine to restrict importation of these products. Relatively minor changes in the import regulations would provide substantial assistance to the poultry sector, which is showing signs of stagnation after several years of dynamic growth. Over the longer term, the linkages between the edible oil market and the animal feed market will need to be reviewed and monitored to ensure that the protection being given to the former does not restrict the growth and development of the latter.

b. <u>Areas Requiring Further Study</u>

As discussed above, many issues require further clarification, even in segments of the input market where the overall direction for policy change is clear and an initial set of actions can be identified. The policy dialogue has not yet reached this point in the critical area of <u>credit</u>, however. For the past several years, GOP policy in the agricultural credit sector has relied primarily on a program of subsidized credit for small farmers. While many observers believe that this program is not accomplishing the goals set for it, the government is not ready to abandon it until a better alternative is presented. At this time, the state of information on rural credit markets is not sufficient to permit definition of an appropriate set of measures to expand rural savings and credit, and major reforms in this area must therefore be predicated on generation of improved information and well thought out policy options.

AID is contributing to this process of analysis and dialogue under FSM and other mission activities. Planning is now underway for a major study of rural credit, but results are not expected for several months. Consequently, it would be premature to specify a reform program at this time, although credit may become a high priority for the ASSP as the program evolves.

3. <u>The Domestic Processing, Marketing, and Consumption Sector</u>

The operation of the agricultural economy between the farmer and the consumer is regulated on three levels. First, agribusiness enterprises are regulated as part of the extensive economy-wide system of sanctioning for new industries, controls on importation, and so on. Second, individual commodities are regulated, with particular emphasis on control of the main food security commodities, wheat, edible oil, and sugar. Third, the processing and marketing of Pakistan's major export crops are subject to heavy state control. Within these broad areas, some reforms can be identified where immediate action is possible, but in most cases additional analysis and discussion within the GOP will be necessary.

a. <u>Areas for Action in the Near Term</u>

The primary area where necessary actions can be defined at present is the wheat market, arguably the single most important market for Pakistan's food security. The GOP has recently announced that it will eliminate subsidized sales of wheat flour through the ration shops, a decision growing in part out of IFPRI analysis demonstrating that ration shop wheat accounted for less than 10 percent of the wheat consumed by low income groups. This move constitutes a major step forward toward liberalization of the domestic wheat market.

While policies in the wheat sector are still evolving, it appears that the ration shop system has been replaced by one where the GOP will make effectively unlimited releases at a uniform price. For the time being, this price has been set at the same level as the GOP's procurement price (Rs. 2000/MT). Given GOP storage and handling costs estimated at approximately Rs. 600/MT, it is evident that this policy implies that subsidies to wheat consumption will continue at a non-trivial level. Current mission estimates, based on an assumption of total GOP marketing of roughly 4.3 MMT, indicate that the subsidy will be reduced from Rs. 3.3 billion to Rs. 2.5 billion, for a gross savings of Rs. 800 million. (This savings must be further reduced by Rs. 240 million, however, to reflect the increase in the salaries of low-salaried public sector employees, announced as a compensating measure, so that total savings are estimated at around Rs. 600 million.)

This approach has three major defects. First, it constitutes much less than a full liberalization of the wheat market as government sales will continue to be made at a controlled price. Second, the relatively low price set for releases implies that private traders cannot sell grain until the government supplies run out and their sales operation ceases. Third, the total savings are highly sensitive to the volume moving through government procurement channels; if the volume is sufficiently large, savings will evaporate and indeed may turn negative.

The desired direction for policy movement is not as clear as this summary might indicate, however. As long as the GOP procures at a support price above what private sector traders pay and incurs storage costs above those of the private sector, it cannot cover 100% of its costs and still sell any grain until the private traders run out of grain (because the private sector price will be lower than the GOP full-cost price). Additional study and discussions are needed to determine the appropriate balance between a high support price (implying large government purchases) and a release price that covers all of the government's costs while permitting rapid drawdown of stocks. Further discussions are also needed to gain GOP agreement to introduce seasonality and, if possible, regional variation, into the release price (or, at a minimum, into the conditions under which GOP sales will be made).

While all parties agree on the desirability of increasing the private sector's role in storage, the appropriate measures to achieve this aim depend on the approach taken to regulation of the wheat market. Private sector storage is only possible if there is a reasonable expectation that the price will rise over the season by a sufficient amount to cover the cost of storage. Naturally, this expectation does not exist when the price is held at a constant level year-round by GOP releases at a controlled price.

Despite these uncertainties, progress on wheat marketing cannot be allowed to lag. The proposed 1988 benchmark therefore includes an increase in the release price to 115% of the procurement price (i.e., to Rs. 2300), which is estimated to cover one-half of GOP storage and handling costs. It should be recognized, however, that a bumper wheat crop might well prevent the GOP from effectively supporting the farm-gate price (although state purchases would probably be larger than the announced levels in the event of a bumper crop, funds and storage space would in all likelihood run out before the end of the procurement season, forcing the GOP to withdraw and permitting private traders to procure at a price more consistent with a large harvest). In this case, the open market wholesale price could remain below the GOP's release price for some time, if not for the entire season, forcing the GOP to store large quantities of grain and, in consequence, to incur high storage costs.

The IFPRI study of stock and trade management in the wheat market, expected in June 1987, should provide considerable new information on the expected costs of alternative procurement, storage, and release strategies. If the bumper crop being projected for the current year in fact materializes, the experience of this marketing season may also shed considerable light on the costs and benefits of alternative wheat market management strategies in Pakistan.

A second area where progress can be made in the short term is maintenance of public sector storage facilities (godowns). Although the storage function will progressively be transferred to the private sector, the public sector's current domination of grain storage makes it critical to improve storage management to reduce losses and preserve the value of existing warehouse facilities.

A recent study by Experience, Inc., funded under FSM has generated sufficient information on grain storage costs and the condition of existing facilities to permit an accurate assessment of what the provincial governments should be spending on the operation and maintenance of these facilities. In addition, there is growing consensus within the government on the need to transfer responsibility for financing and implementing storage maintenance from the provincial level to the federal level. This move is a natural outgrowth of the phaseout of the ration shops, which were a provincial responsibility, and the consequent redirection of the storage system to maintenance of a national buffer stock and price support. Thus, the government should be receptive to implementation of three measures: 1) increased budget allocations for maintenance; 2) increased expenditure for maintenance; and 3) transfer of responsibility to the federal level, with implementation of public sector storage rehabilitation and maintenance assigned to PASSCO, the grain storage parastatal.

b. Areas Where Additional Information Is Needed

Several areas can be identified as priorities for reform in the next three to six years where additional analysis must precede action. Primary among these is agribusiness, where the definition of a reform program will be undertaken once the results of a major AID-funded study are in hand. Preliminary results should be available in time to include specific benchmarks in the FY89 ProAg amendment. Issues to be examined include:

- import and export policies restricting agribusiness;
- the process of government approval (sanctioning) of private agribusiness projects and government practices and regulations concerning grading, certification, and quality control;
- price policies, particularly price controls and subsidization of agricultural products that affect the agribusiness sector; and
- the power of local authorities to tax local movement of goods, impose temporary controls on such movement, and determine prices in their jurisdictions, which may affect both profitability and risk for agribusiness firms.

Wheat is a second area where additional information is being generated to underpin specific negotiations. By eliminating the ration shop system, the government has taken a major step forward toward decontrolling this critical market and removing impediments to efficiency. As discussed above, however, the current policies leave the GOP in a potentially untenable position. The increase in the release price identified above as a short-term reform measure will only partially correct this problem. A more comprehensive set of policies will be formulated when the results of the IFPRI study are received and discussed with the GOP. A draft report is expected in June, which may permit additional measures to be incorporated in the first ProAg amendment in FY88 and certainly will provide support to negotiations for the FY89 amendment.

Further analysis is needed in the area of ghee and edible oils. Progress made to date in liberalizing the retail market and simplifying controls on importation has achieved a great deal. The next steps require tackling the extremely complex issues surrounding the subsidization and operation of the Ghee Corporation of Pakistan. Without further clarification of the future of this major parastatal, the most that can be achieved is an agreement not to expand its capacity.

The policy mix regarding sugar is a priority for reform, but the confused situation in the world market (where prices are below the cost of production of the lowest-cost producer) makes it difficult to specify a precise course of action. A major study of the sugar sector is being undertaken through the EAN and should produce results for inclusion in the policy dialogue leading up to the second ProAg amendment in FY89. This study should help to clarify the issues surrounding state ownership of processing capacity, controls on marketing, Pakistan's comparative advantage in sugar production, and prices at the farmer and consumer level, among other questions.

The livestock sub-sector displays a number of policy anomalies in addition to the feed problems discussed above, including non-price rationing through meatless days and selective price controls imposed by local authorities. These policies are believed to seriously constrain the growth of this important subsector, which accounted for 30 percent of the agricultural sector's contribution to the GDP in FY85, or about eight percent of the total GDP. Large-scale commercialized livestock production is minimal because of unattractive returns and the perception of high technical and financial risk, which have discouraged banks from lending to would-be entrepreneurs. Despite widespread agreement that the growth of red meat production has been unsatisfactory relative to demand, the government is a long way from being able to formulate a consistent set of policies to promote greater livestock production. Substantial analysis is required in this area as the basis for future policy dialogue and reform.

Finally, policy governing public sector land use and private sector sales of forestry products is in need of modification to encourage private production of firewood and other wood products. Rental of state lands to private producers at a fair market rate would be of substantial benefit both to the national government and to the wood products sector. Existing restrictions on the sale of forest products should be limited to cover only trees grown on public land by public sector enterprises, not private forestry operations on private land nor private production of wood products on public land.

4. Public Sector Institutions Supporting the Agricultural Sector

The need for institutional reform and improved management practices cuts across almost all of the institutions in the agricultural sector, ranging from research and education to irrigation and grain storage. Two broad areas have been identified as appropriate targets for institutional strengthening under the ASSP, in addition to those identified above under specific commodity or input subsectors. First, the ASSP will reinforce other mission activities designed to strengthen the research, extension, and education functions at the provincial level. Second, the ASSP will continue the assistance to management information for the agricultural sector, begun under the FSM Project.

In both areas, work underway or already completed provides sufficient guidance to begin formulating benchmarks. Inevitably, the nature of institutional reform makes it difficult to translate change into quantifiable benchmarks. Nonetheless, certain changes can be identified that lend themselves to specific tracking, such as the implementation of a formal restructuring, the allocation of sufficient budget funds for adequate operation, the establishment of systems for regular publication of reports, and the creation of permanent posts in the appropriate agencies.

a. Reform Actions in the Near Term

i. Research and Extension. Support to agricultural institutions has been a central element of AID's assistance strategy in Pakistan for many years, and is currently reflected in a range of projects to reinforce key institutions in the areas of research, education, irrigation management, and extension. For example, the TIPAN project is working to strengthen linkages and coordination among research, educational, and extension institutions in the North-west Frontier Province. Poor management of these institutions and inadequate funding for operations have been identified as the major barriers to the effective use of the skilled personnel found at many levels throughout the system.

AID is currently assisting the government in an experiment to restructure the support functions at the provincial level by strengthening the research and extension activities of the agricultural university in the NWFP and by funding greater faculty involvement in applied research. While it is too early to tell whether this particular model will prove to be the best one for Pakistan, it is representative of the type of restructuring that will be necessary to integrate research and extension at the provincial level. Individual provinces may choose to follow this model or may select another approach with equal or greater validity for their specific circumstances. Consequently, the main reform actions negotiated in this area will emphasize implementation of a structural reform to link research and extension or research and education or all three, rather than adoption of the TIPAN model. Additional benchmarks will deal with budgeting and expenditures for operation of these key support systems.

ii. Management Information. Under the FSM Project, considerable progress has been made in improving the information available to GOP decision-makers in the agricultural sector. Under the EAN component, the policy analysis capabilities of the Ministry of Agriculture have been strengthened and progress has been made toward developing linkages to other Pakistani institutions with the capability to support policy analysis in MINFAC, particularly in local universities. This work will continue under the ASSP through the TATA component, and will also be reinforced through specific benchmarks covering institutionalization of analytic staff in MINFAC, budgeting for policy analysis, and other measures of GOP performance in this regard.

The FSM Project has also provided assistance to the GOP in improving the collection and dissemination of basic information on the agricultural sector through the Agricultural Data Collection component, ADC. While the main emphasis of these activities has been institution of an area sample frame, assistance has also been directed toward transferring overall responsibility for agricultural data collection to a single, federal-level institution, improving the collection of market and production data, and establishment of regular and more timely publication of basic information. These activities will continue under the ASSP, with support from the TATA component. As with EAN, progress in data collection and dissemination will also be measured by a number of benchmarks included in the action program and covering such issues as official assignment of responsibility for agricultural data, the budget allocated for data collection and publication, and so on.

b. Areas Requiring Further Analysis

Many of the policy reforms identified above imply a need to restructure public sector institutions. For example, as the government derations wheat, the role of the provincial food departments will be dramatically altered, and indeed the rationale for their continued existence may be called into question. As the emphasis shifts from provisioning of the ration shops to food security through management of reserve stocks on the national level, operation of the public sector grain storage system may be progressively shifted to PASSCO. This change would in turn require an improvement in PASSCO's management information system.

Reform of rural credit is another area where institutional reforms as well as policy changes are likely to be required, but cannot yet be spelled out in detail. For example, ADBP and other banks may need to establish banking facilities in rural areas in order to encourage rural savings mobilization.

The specification of the institutional reforms required, however, must await policy-level decisions on the role of the public sector and the mix of policy and non-policy tools appropriate to the government's overall goals for the agricultural sector. As these policy issues are clarified, additional benchmarks will be identified for inclusion in the action benchmark set for later years.

D. Program Process

The ASSP will continue the process of dialogue and reform begun by the mission through the Agricultural Commodities and Equipment Program (ACE), the Food Security Management Project (FSM), and the PL-480 self-help measures. This process is characterized by joint exploration of policy issues based on careful analytic work, leading to the identification of desirable policy initiatives and ways in which the U.S. can assist the GOP to implement them.

The central element of the policy dialogue process will be the annual negotiation of a set of benchmarks embodying the policy changes that the GOP agrees to implement during the coming year. Starting in the program's second year, this negotiation will also include an assessment of progress made against the previous year's set of benchmarks. On the basis of this assessment, AID and the GOP will agree on the mix and amount of funds to be provided during the next year. A methodology for completing the assessment and translating it into a specific level of support is presented in Annex H. The mission will use this methodology or a similar procedure to arrive at an initial level of funding, which may then be adjusted to reflect programming considerations, the urgency of the GOP's need for funds, and other factors.

1. The Action Benchmarks

A set of action benchmarks incorporated into the annual agreement will specify detailed policy reform actions to be taken in the next year to strengthen the environment for agricultural development and private initiative. In addition, each PAAD amendment may contain a list of desired actions that have been identified by AID but that are not necessarily agreed to by the GOP, even in principle, and are not expected to be achieved during the coming year. The reforms on both lists will be specific enough to allow easy assessment during the next year's annual review.

The level and mix of funds to be provided in any given year, except the first year, will be based on a joint assessment of progress against the agreed-upon action set. (As discussed below, the level of funding in the program's first full year of operation, FY88, has been set at approximately $90 million, excluding support for TATA, to reflect progress made to date on policy reform and as an incentive to undertake an equally ambitious set of reforms in the program's first year.)

The assessment will have three steps. In the first step, AID and the GOP will determine whether the reforms in the action set and/or any others have been implemented. Where additional reforms are identified, AID will determine their weight relative to reforms on the action list, given their importance for overall progress toward the reform program's three goals and their perceived difficulty.

In the second step, performance will be translated into a provisional funding level. Annex H presents one feasible approach using a ranking of individual reforms. Alternatively, a more subjective assessment may be used.

In the third step, AID and the GOP will jointly formulate the next year's set of action benchmarks for the PAAD and ProAg amendments. Any reform not implemented in a given year will automatically be included on the next year's action list (unless changing circumstances indicate that the reform is no longer necessary or desirable) while new reforms will be added reflecting the evolving understanding of the requirements for agricultural growth.

The negotiations will also set the mix of funding. While it is anticipated that approximately equal levels of CIP and sector grants will be provided over the program's first tranche, the mix of funding incorporated into the PAAD and ProAg amendments may be varied to reflect macroeconomic considerations, such as an urgent need for balance of payments support or specific commodity needs that may argue for a higher CIP allocation, particularly for emergency needs resulting from crop failure.

If progress continues at the anticipated pace, resource transfers will be approximately $90 million annually. The level may be higher or lower in any given year, but total transfers are not expected to exceed $270 million during the program's first tranche.

In this phase of the program, success depends in part on being able to specify reforms with sufficient detail so that AID and the GOP can readily agree on whether the reform has been implemented fully, partially, or not at all. As demonstrated in the preliminary set of action benchmarks for FY88 in the following section, each action benchmark will therefore have two parts: a specific description of the action to be taken and a brief rationale setting forth the relationship of the action to the ASSP's three broad goals.

The rationale may include one or more result benchmarks, where results are expected to occur in less than a year and can be used for an annual assessment of progress. A result benchmark for fertilizer marketing reform would be that private sector distributions would increase to 60% of the total. However, if the GOP's provincial allocation system required distributors to operate in provinces where organized dealer networks did not exist there would be little incentive for the private sector to increase its share in distribution. In this circumstance, the GOP performance would be considered inadequate and the result benchmark unmet.

2. Other Benchmarks

Process benchmarks will also be negotiated each year. They will identify studies and other planning exercises to be undertaken as part of the ASSP, and may include specific GOP actions in support of ASSP itself, such as provision of information on fertilizer distribution enabling AID to monitor whether the private sector role is expanding as planned. Process benchmarks will serve to reinforce GOP participation in and support for the analytic activities of the ASSP.

E. First Year Benchmarks

1. Introduction

After the signing of the ProAg in FY87, the ASSP benchmarks will be negotiated during the first half of FY87 and included as part of the first PAAD amendment for signing no later than March 1988 (as discussed in section IV, this timing is critical to ensure coordination with the GOP's budget cycle). The proposed benchmarks for FY88 target the reduction of subsidies to the agricultural sector and increased private sector participation in the economy and continue the policy initiatives begun under ACE in the fertilizer sector, stressing decreased subsidization of DAP and increased private sector participation in fertilizer distribution and import. In the wheat sector, measures to increase private sector participation in procurement, marketing, and storage are emphasized, along with a reduction in government subsidies. In water, ASSP will stress privatization of tubewells. In agri-business, ASSP will work toward the elimination of restrictions on imported poultry feed and duties on animal feed.

The benchmarks will also reflect GOP agreements with other donors in the areas of fertilizer and water charges. As these negotiations are currently under way, it is not possible to ensure that the

the benchmarks outlined below will correspond to the agreements reached with the World Bank and the ADB.

A number of analytic activities scheduled to begin in FY87 and FY88 will support development of future reform benchmarks, including a major study on agribusiness and research on sugar production and marketing, shifting domestic and international terms of trade and their impact on agriculture, and the availability of credit to the agricultural sector.

2. Proposed Benchmarks for FY88

The first PAAD and ProAg amendment draft benchmarks for FY88 include eight key policy reforms, four of which the Mission considers highly difficult to implement:

a. Fertilizer: Increase by June 1988 the retail price of DAP fertilizer by 20% of the difference between the retail price and the total cost of fertilizer defined as the CIF price plus the incidental costs paid to FDFI and distributors (Difficult).

Rationale: A decrease in subsidies necessarily implies that the GOP will have to raise the retail price of fertilizer. This reform moves the GOP toward a situation where farmers pay the real cost of fertilizer, lowering the government budget deficit, encouraging efficient use of fertilizer, and helping to make fertilizer available throughout the country on a timely basis.

b. Fertilizer: Allow the private sector inter-provincial movement of 10 percent of their total fertilizer allotment by August 1, 1988 (Difficult).

Rationale: The present geographical restrictions on the movement of fertilizer have prevented the private sector from fully distributing their allotted fertilizer quota. Allowing the private sector to move up to 10 percent of their allotment of imported fertilizer from one province to another will increase the percentage share of private sector fertilizer distribution, and create conditions that should increase their share even more in the future. This reform moves the GOP further toward decontrolling fertilizer distribution and phasing out public sector activities to allow room for more efficient private sector distribution. Result expected: an increase in private sector fertilizer distribution to at least 60% of the total.

c. Fertilizer: Allow no new public sector fertilizer plants. (Difficult)

Rationale: The private sector is generally able to manufacture fertilizer at a lower cost than the public sector. Any new fertilizer plants in Pakistan should be privately owned.

d. Wheat: Increase the wheat release price to at least 115 percent of the procurement price by July 1, 1988. (Difficult)

Rationale: The government plans to deration wheat in April 1987, which should allow some decrease in the level of government subsidy. However, the present release price, Rs. 2,080/mt., is equal to the official procurement price. This release (or sales) price is subsidized by some Rs. 600, since the total cost of procurement and marketing is estimated at Rs. 2,600/mt. Implementation of this benchmark will decrease the wheat subsidy by approximately Rs. 300/mt. and should encourage private sector marketing. Result anticipated: A reduction in total GOP subsidies for wheat marketing to no more than Rs. 2.5 billion, excluding the special subsidy for Azad Kashmir and other special subsidies and continuation of private sector wholesale level sales throughout the year.

e. Agribusiness: Eliminate restrictions on who may import poultry feed components.

Rationale: A major constraint to growth in the poultry sector is the difficulty in obtaining high quality feed, due in part to the restrictions on the types of firms that may import feed. Domestic feed manufacturers, traders, and poultry producers should all be allowed to import soybean meal and other high-quality feed components. Result anticipated: a significant increase in private sector imports of high-quality feed.

f. Agribusiness: With the exception of iqra and import surcharges, eliminate import tariffs on animal feed ingredients such as soybean meal.

Rationale: Another barrier in obtaining high quality animal feed is the present tariff applied to imported feed ingredients. If the commercial livestock and poultry industries are to grow, high quality feed must be available at a reasonable price. Since local high quality feed is simply not available in sufficient quantities, lowering tariffs on imported feeds is the most effective way to overcome this constraint. Note that oilseeds in forms suitable for edible oil processing will have to continue under the current GOP tariff regime. Result anticipated: a significant increase in private sector imports of high-quality feed.

g. Water: Allow no new programming of public sector investment in tubewells.

Rationale: Tubewells owned by the private sector are more carefully maintained and operated than public sector wells. A World Bank project is currently looking at ways of divesting public sector tubewells and increasing private sector investment in the tubewell sector. Until the recommendations of the study are known and implemented, there should be no new public sector investment in tubewells.

h. Management Information: Budget and release development funds under the Statistics Division of the Ministry of Finance for the collection and dissemination of basic agricultural data, such as production, area, and prices of basic crops, etc.

Rationale: The establishment and funding of an annual line item for collection of basic agricultural data is an important step in better understanding the agricultural economy of Pakistan. This step should be included in the annual operating budget beginning in PFY88.

3. Process Benchmarks for FY88

As noted above, the GOP will agree to participate or initiate studies in connection with the reform agenda. For FY88, USAID will stress the following studies: agribusiness, seeds, sugar production and marketing, terms of trade, use of credit and mobilization of savings, bulk storage and forestry.

Other studies that may be initiated toward the end of FY88 include a study of divestiture of fertilizer and ghee plants, a feasibility study for the establishment of a futures market for edible oils and reopening of the commodity exchanges for other crops, and a study of reserve stocking requirements for fertilizer.

IV. IMPLEMENTATION PLAN

A. Overview

Overall responsibility for program implementation will be shared by the Office of Agriculture and Rural Development in USAID/Islamabad (ARD) and by two offices in the GOP. The Office of the Secretary for Food and Agriculture in the GOP's Federal Ministry of Food, Agriculture, and Cooperatives (S/MINFAC) will have overall responsibility for the ASSP and in particular, for the EAN and ADC activities under TATA. The Joint Secretary of the Ministry of Finance's Economic Affairs Division (EAD) will retain responsibility for coordinating the policy dialogue, including oversight of studies performed outside the EAN and ADC components.

Day-to-day responsibility will rest with a USAID program officer and a GOP program director designated by S/MINFAC. The GOP program director will delegate authority for program implementation to appropriate offices within MINFAC and will also be responsible for coordinating ASSP activities with GOP officials in other participating ministries, including the Ministries of Planning and Development, Commerce, and Industries.

The approach to implementation will differ in key ways among the ASSP's three principal activities, which are:

- <u>Policy assessment dialogue and monitoring</u>, to define and agree on the program of reforms to be undertaken each year, to jointly determine the package of assistance under the ASSP including programming of local currencies, and to monitor progress on reform implementation as the basis for the next year's program.

- <u>Procurement of commodities</u>, particularly fertilizer, feed, and other bulk commodities, needed by the GOP or the private sector and appropriate for procurement under ASSP.

- <u>Training and technical assistance</u> designed to support the definition and implementation of reforms in the agricultural sector and to increase GOP and private sector capacity to translate the improved policy environment into rapid growth of agricultural production and incomes.

The training and technical assistance (TATA) activities will parallel AID's standard project implementation. Commodity procurement will use the CIP procedures developed under ACE and other USAID/Pakistan CIPs, modified to improve control over local currency generation and use.

The policy assessment, dialogue and monitoring activities will provide the overall direction for the program. Since many issues extend beyond the agricultural sector, the participation of policy level AID and GOP officials will be required.

To facilitate coordination, an interministerial committee will be formed under the chairmanship of the Secretary for the Economic

Affairs Division or his designee. Membership will include representatives of the Ministries of Finance, Commerce, and Industries, as well as MINFAC, and may be expanded to include other agencies as needed. The committee will meet semiannually to assess progress on the policy benchmarks and formulate the program for the next year.

During the first three years, the ASSP will be closely coordinated with the Food Security Management Project. After FY89, all FSM activities will be rolled into the ASSP.

B. Program Implementation Schedule

Following an initial FY87 obligation to fund training and to start other elements of the program, ASSP implementation will follow an annual cycle as shown in Figure IV-1 (only the first three years are shown). The schedule for the TATA activities, shown in Figure IV-2, will proceed along the lines of a standard project activity, with a start-up phase followed by implementation of training and technical assistance activities throughout the program's six-year life.

Experience in Pakistan indicates the importance of integrating the program schedule with the GOP's budget cycle in order to ensure timely flow of funds to the agreed-upon uses. Figure IV-3 indicates the main linkages between the annual ASSP PAAD and ProAg Amendment schedule and the GOP's budget cycle. The critical point in this cycle is the timing for signing of the ProAg Amendment, scheduled for January of each year. While AID's annual obligation cycle would permit waiting until the end of AID's fiscal year in September, the Pakistani budget cycle makes it highly desirable to obligate in December, and certainly no later than March.

This schedule will permit the necessary modifications to be made in the Pakistani budget, including changes in particular line items required by individual reforms (e.g., reduction of the line item for tubewell subsidies), changes in projected revenues related to particular reforms (e.g., reduced tariff income), and additions to the appropriate line items (e.g., increased expenditures on irrigation O&M). If these reforms are to be implemented during the year, they must be reflected in the budget document issued in June for the fiscal year beginning in July. Since this may require preparation of PC-1s or other internal GOP planning documents, the procedure must be well under way by March if it is to be completed by June. A January signing is also in line with a six-month review of progress in July, to verify that the appropriate changes have indeed been made in the budget, and with AID's own allocation process, whereby funds are usually available for obligation by December or January.

Figure IV-1

Schedule for Policy and Procurement Activities, 1987-1990

Date	Program Month	Action	Responsibility *
9/87	0	Sign program agreement	EAD/MINFAC/AID
11/87	2	Coordinating committee named	EAD
2/88	5	First benchmark agreement First ProAg modification	EAD/MINFAC/AID
3/88	6	Procurement of commodities begins	GOP
6/88	9	First commodities received	GOP
8/88	10	First review of progress GOP PFY 89 budget issued	EAD/AID/MINFAC
8/88	11	Local currency deposits begin	MOF
11/88	13	Begin negotiations for 2nd year	EAD/MINFAC/AID
12/88	14	Second review of progress	EAD/MINFAC/AID
2/89	16	Second benchmark agreement Second ProAg modification	EAD/MINFAC/AID
6/89	20	Final deposit of local currency from first year's procurement	MOF
8/89	22	Third review of progress GOP PFY 90 budget issued	EAD/AID/MINFAC
11/89	25	Begin negotiations for 3rd year	EAD/MINFAC/AID
12/89	2[illegible]	Fourth review of progress	EAD/MINFAC/AID
2/90	28	Third benchmark agreement Third ProAg modification	EAD/MINFAC/AID
6/90	32	Final deposit of local currency from second year's procurement	MOF
8/90	34	Fifth review of progress	EAD/AID/MINFAC
11/90	37	Begin negotiations for 4th year	EAD/MINFAC/AID
12/90	38	Sixth review of progress	EAD/MINFAC/AID

* See explanation of agency abbreviations at the end of Figure IV-2.

Figure IV-2

Schedule for Training and Technical Assistance 1987 -1990

Date	Program Month	Action	Responsibility *
9/87	0	Sign program agreement	EAD/MINFAC/AID
		Begin screening participants	AID/AED
11/87	2	Finalize plans for supplemental work under existing contracts	AID/MINFAC
12/87	3	Develop initial training plan	AID/EAD
13/87	4	Identify additional technical assistance needs	AID/EAD
2/88	5	Amend existing contracts	AID/TAC
3/88	6	RFP for Policy IQC issued	AID
		Select first group of participants	AID/EAD
4/88	7	First EAN in-country workshops	MINFAC/EAN
5/88	8	Evaluate proposals for Policy IQC	AID
7/88	10	Award contract for Policy IQC	AID/TAC
8/88	11	First in-country agribusiness course	AID
9/88	12	First group of participants departs	AID/AED
10/88	13	Begin screening second group participants	AID/AED
11/88	14	Second EAN in-country workshops	MINFAC/EAN
3/89	18	Select second group of participants	AID/AED
4/89	19	Final evaluation of EAN FSM activity	AID/MINFAC
6/89	21	Decision on extension of EAN activity	AID/MINFAC
8/89	23	Issuance of RFP for extension of EAN	AID

* See explanation of agency abbreviations on following page.

Continued

Figure IV-2, continued

Date	Program Month	Action	Responsibility
9/89	24	Second group of participants departs	AID/AED
10/89	25	Decision on extending existing EAN contract to 6/90	AID/TAC
11/89	26	Begin screening third group of participants	AID/AED
12/89	27	Award new EAN contract	
2/90	29	Begin negotiation for extension of USDA PASA for ADC	AID/FBS
		New EAN team arrives	TAC
2/90	30	Select third group of participants	AID/EAD
9/90	36	Third group of participants departs	AID/AED

<u>Agency Abbreviations</u>:

AED	Academy for Educational Development (mission contractor for training)
AID	US Agency for International Development
EAD	Economic Affairs Division of the GOP Ministry of Finance
EAN	Economic Analysis Network
FBS	GOP Federal Bureau of Statistics
MINFAC	GOP Ministry for Food, Agriculture, and Cooperatives
MOF	GOP Ministry of Finance
TAC	Technical assistance contractor
USDA	US Department of Agriculture

Figure IV-3

The ASSP Planning and Budgeting Cycle

Month	GOP Budget Cycle	ASSP Cycle
September		Begin assessment of annual progress on reform implementation
October		USG Fiscal Year begins
November		Negotiation of reform program and PAAD amendment
		USG advice of allotment
January		Signing of ProAg amendment
February	GOP departments begin preparation of budget submissions	
March		Final date for signing of ProAg
April-May		Preparation of PC-1s, etc., if necessary
June	GOP budget finalized	
July	GOP Fiscal Year begins	Mid-year review of progress on reform implementation

C. Procurement Plan

The procurement activities under the ASSP will consist of contracting for technical assistance, participant training, and procurement to support the commodity import program. This section discusses technical assistance and commodity procurement. Implementation of training activities is discussed in section D below. Figure IV-4 presents the proposed methods of implementation and financing for all major ASSP activities.

1. Technical Assistance Procurement Plan

The procurement of technical assistance under ASSP will combine a) continuation of certain activities by present contractors and b) award of new contracts using standard USAID contracting procedures.

In all cases, foreign exchange-funded contracts let under ASSP will be direct AID contracts, rather than host-country contracts. The rationale behind this approach is three-fold:

- Experience under FSM and ACE suggests that it is difficult for the GOP to undertake sensitive policy studies using US contractors and that the GOP therefore prefers that AID handle the contracting, so that the GOP can retain a degree of independence from the study and its findings.

- The involvement of local technical assistance firms as subcontractors or prime contractors on policy studies is highly desirable on a number of grounds, but experience elsewhere indicates that host government contracting with local firms may become over-politicized, even if the local firms are only subcontractors.

- The balance of payments position and internal accounting procedures of the GOP make timely payment of US technical assistance contractors both problematic and staff intensive (from both AID and the contractor's points of view); host country administration of the policy IQC, in particular, would be inconsistent with effective functioning of the contract, as the contractor will not have in-country representation.

a. Continuing Activities

The activities under the Food Security Management Project -- ADC, EAN, and PHM -- are funded through the end of FY89. However, a number of factors have combined to make it desirable to add more funds to certain activities in the ADC and EAN components. In the case of ADC, the unsuitability of the majority of existing aerial photographs has created a need for additional funds to complete the activities originally programmed. In the case of EAN, experience has demonstrated that the funds allocated for support to

Figure IV-4

Proposed Methods of Implementation and Financing

Project Component			-----Method of Implementation----	Method of Financing	Amount * ($millions)
1.	SSG		Cash Transfer	EFT	135.0
2.	CIP		Commodities - Bulk procurement	Direct L/Com	135.0
			Commodities - AID procurement	Direct payment	
			Commodities - PSA - HC contract	Direct payment	
3.	TATA		TA-EAN (current AID-dir. contract)	Direct payment	1.6
		**	TA-EAN (post-1990 AID-dir. contract)	Direct payment	3.2
			TA-ADC (current USDA PASA)	Direct payment	2.1
			TA-ADC (renewed USDA PASA post-1990)	Direct payment	2.6
			TA-IQC 1987-1990 (AID-dir. contract)	Direct payment	2.6
			TA-IQC 1991-1993 (AID-dir. contract)	Direct payment	1.6
			PSC 1987-1990	Direct payment	0.6
			PSC 1991-1993	Direct payment	0.6
			TA-Special studies (AID-dir. cont.)	Direct payment	1.8
			TA-Evaluation and Sht. Term Assist. (PSC, IQC, Sole Source Waiver, etc.)	Direct payment	2.3
			Training-Overseas - DSTP contract	Direct payment)	11.6
			- AID placement	Direct payment)	
			Training-Overseas-Study tours	Direct payment	0.3
			Training-Overseas-ShTrm-DSTP	Direct payment	6.0
			Training-In-country-ShTrm-EAN, 87-90	Direct payment	0.7
		**	Training-In-country-ShTrm-EAN, 91-93	Direct payment	0.2
			Training-In-country-ShTrm-ADC	Direct payment	0.1
			Training-In-country-ShTrm-ARD	Direct payment	0.1
			Training-English lang.-ShTrm-AID	Direct payment	1.0
			Commodities-EAN main cont., 1987-90	Direct payment	1.3
		**	Commodities-EAN main cont., 1991-3	Direct payment	0.8
			Commodities-ADC PASA, 1987-1990	Direct payment	3.1
			Commodities-ADC PASA, 1991-93	Direct payment	2.7
			Constr.-EAN (PIL to earmark funds)	HC MFAR	0.4
			Operating exp.-EAN main cont., 87-90	Direct payment	0.1
		**	Operating exp.-EAN main cont., 91-93	Direct payment	0.1
			Operating exp.-ADC PASA, 1987-90	Direct payment	0.4
			Operating exp.-ADC PASA, 1991-93	Direct payment	1.8

* Amounts shown do not include inflation and contingency.
** Items to be included in post-1990 EAN rebidding.

local institutions and in-country workshops are not sufficient to reach the objectives of the current program. An expanded number of workshops and an increased expenditure on technical assistance are necessary to accomplish both dissemination of analytic findings and the in-country training objectives. As these activities will be transferred to the ASSP after FY89, the mission has determined that it would be preferable to include the additional funds needed under the ASSP rather than to amend the FSM Project. The appropriate waivers will be sought during implementation to allow the continuation of the present contractors.

The Special Studies program will also be extended through FY93 under the present contractor (IFPRI), an international research organization. Following the provisions of the AIDAR (section 715.613-70), a waiver for negotiated procurement of research services from such an organization is not needed if the project officer and the contracts officer determine that such an organization is the most appropriate implementing agency for a research program. PHM activities will be continued when necessary under different programs, such as ARD's short-term assistance program.

In FY90, all activities now supported under the FSM Project will be shifted to the ASSP. Two will continue under present arrangements: the USDA PASA for agricultural data collection and the IFPRI special studies program. It is anticipated that the extension of the USDA PASA arrangement will add an additional position to carry the extra workload during nation-wide implementation of the area sampling frame.

b. New Activities

By FY90, the institutionalizing of EAN activities in the Ministry of Agriculture should have progressed, with positions established in the policy analysis unit, operating funds provided, and procedures in place to fund policy and analysis in cooperating public and private sector institutions in the economic analysis network. If the final FSM evaluation confirms this progress, additional support will be provided under the ASSP, since additional technical assistance and other support to build analytic skills are likely to be required by both EAN and MINFAC's analytic unit.

Technical assistance to the EAN, if required, will be readvertised as a four-year project activity directly under the ASSP budget. If delays occur in this contracting process, however, it may be necessary to extend the existing contract through July 1990 (the maximum permitted without exceeding the five-year limit) with added funding if necessary, in order to avoid a gap in technical assistance to MINFAC policy units and a possible loss in momentum. Award of the new contract will follow standard AID procedures for the competitive bidding and award of contracts. As for all other project activities under ASSP, procurement of commodities used directly for this activity will be the responsibility of the chosen contractor.

The expanded program of policy analysis may be implemented under USAID supervision through a new mission IQC for policy analysis in the agricultural sector. This IQC will be awarded to up to three firms highly qualified to undertake such work, using standard AID procedures for competitive bidding. The IQC will greatly facilitate the rapid response and flexibility required by the policy studies so central to the ASSP agenda. (If three IQCs are awarded, one will be an 8(a) set-aside.)

The position of ASSP economist will be filled by a personal services contractor or local hire, following standard AID procedures.

2. Plan for Procurement of Commodities and Services

The principal commodity to be procured will be phosphatic fertilizer. Other commodities will include bulk importation of agricultural goods (in accordance with the Zorinsky amendment) and commodities and equipment in support of agricultural development activities. The latter is expected to include up to $8 million in photographic equipment and photographic services to implement the nation-wide area sampling frame.

a. Fertilizer

In the first year of the program, fertilizer will be procured by the GOP following the procedures established under the ACE, under which procurement is carried out by the Federal Directorate of Fertilizer Imports (FDFI), an agency for the Ministry of Food, Agriculture, and Cooperatives, in accordance with GOP procurement procedures as modified to comply with AID regulations. FDFI will be responsible for finalizing specifications, preparing an invitation for bids (IFB), developing delivery schedules, evaluating offers, making awards, and monitoring delivery, receipt, and utilization. Officials responsible for these functions within FDFI will be designated prior to the initiation of the procurement process. Actual tendering will take place in Washington, D.C. because of the necessity of marrying fertilizer awards with freight availabilities promptly. Tendering in Washington will also result in a shorter bidding/award period, and SER/OP assistance will enable suppliers to offer lower prices than would be in the case with tendering in Pakistan, where extended bid validities are required to accomodate bid transmittal and approval time.

The authorized geographic code for this program is 000 (United States) and Pakistan. In accordance with AID policy, fertilizer purchases will be made in the U.S. only. Shipping under this program will normally also carry code 000 and Pakistan. The mission will seek, however, to extend the authorization provided under ACE, whereby AID/Washington expanded eligibility of shipping services for fertilizer only to Code 935 countries.

Specifications will be mutually agreed upon prior to tendering. IFB and shipping terms will conform to AID regulations. To this end, the GOP will submit to AID within thirty (30) days after the signing of the Program Agreement a proposed IFB and a proposed designated charter party for AID review and approval. Subject to GOP and AID agreement, fertilizer procurements will be conducted on an FOB or FAS basis. Upon approval by AID of the IFB and designation of the charter party, FDFI will inform AID of the proposed delivery schedule and request advertising of the tender in appropriate U.S. publications.

The tender will be issued in Washington, D.C. by the Embassy of Pakistan. Arrangements will be made to make 50 copies of the IFB available at the Embassy for distribution to interested suppliers. The tender will specify a bid closing date 30 days after advertising and require a bid validity period of 15 days. Bids are to be submitted to the Pakistan Embassy in Washington, D.C. Bid opening and bid evaluation will take place at the Pakistan Embassy in Washington, D.C. and will be attended by AID (SER/OP) and GOP representatives. GOP participation will be through a representative with authority to make awards. Awards will be made by the GOP subject to the approval of AID. Freight tenders will also be floated by the Pakistan Embassy in Washington, D.C. Freight offers will be married to commodity offers and will be evaluated jointly by GOP and AID representatives in Washington, D.C. Upon the issuance of award notices by the GOP, FDFI will submit to USAID/Pakistan financing requests which will serve as the basis for letters of commitment issued by AID/Washington in favor of selected suppliers.

As the fertilizer sector is deregulated, it is hoped that commodity importing under the ASSP will be progressively privatized. Importation of fertilizer by private Pakistani firms would then be handled in accordance with the procedures established for the private sector CIP (see section G below).

b. Shipping

Ocean shipping for all equipment and commodities except fertilizer financed under this program shall be only on flag vessels of the United States or Pakistan. For fertilizer only, to the extent that U.S. flag vessels are not available, shipping shall also be authorized on flag vessels from AID geographic code 935 countries, and shall be eligible for financing by AID under this program.

c. Emergency Procurement

When warranted by serious domestic production shortfalls, commodities such as wheat and possibly cotton, may be imported under the same procedure as fertilizer. Under certain conditions, it may be possible to involve the private sector in the import of these commodities. This will be investigated in more detail if the need to procure on an emergency basis arises.

d. Other Commodities

Under ASSP, commodities needed for normal GOP agency operations, including US agricultural commodities such as animal feeds, will also be imported under the CIP program. While it is anticipated that the large majority of CIP funds will be allocated to DAP purchases, additional resources for importation may remain in certain years. In order to simplify implementation, any remaining funds will then be used to import other commodities identified by the GOP. Such commodities will generally be for support of ASSP activities or for other public sector activities in the agricultural sector, such as flood control, drainage, agricultural research and education. Limited funds may be used to support USAID projects on an exception basis, should an unanticipated need for commodities arise during the project outyears.

Such commodities will generally be procured under procedures similar to those used for fertilizer. If the volume of such imports is greater than expected, the mission may make use of procurement services agents (PSAs), selected under competitive procedures and hired under AID direct contracts, with USAID/Pakistan acting as the Agent of the GOP. PSAs, if any, will be recruited on an 8(a) set-aside basis.

Where appropriate, in-country goods and services (e.g., photographic services, inland transport, set-up charges, etc.) may be bundled with imported commodities financed under the CIP for purposes of procurement.

In order to promote the EAN within the MINFAC's Directorate for Agricultural Policy (DAP), funds will be provided to upgrade an existing office facility or to construct a new facility on GOP-owned property. The commodities and construction services required in support of this activity will be procured through an MFAR arrangment with the Government of Pakistan, following standard mission procedures regarding review of specifications and progress payments.

D. Training Plan

The sector training program funded under TATA is designed to upgrade the pool of professional, technical, and administrative skills of Pakistanis working in the agricultural sector. It will place equal emphasis on public sector professionals, focusing particularly on the faculties of agriculture and on the private agribusiness sector.

The public sector training program will provide Ph.D and M.S. scholarships in the United States. The Ph.D training will be provided primarily to faculty members of Pakistani agricultural universities and public sector employees with direct responsibility for policy analysis and advice to senior officials. To the greatest extent possible, individuals will be identified in cooperation with local universities or other Pakistani centers of research and training, which will be encouraged to submit candidates in accordance with their institutional training plans. Some candidates will, however, be chosen for training to reinforce the institution-building activities being carried out by EAN and ADC. To further strengthen the impact on agricultural training and research in Pakistan, the program will also finance visiting professors from the United States, who will spend an academic year at a Pakistani university or other training institution.

The private sector training program will provide scholarships for Pakistanis in technical fields related to agricultural production, processing, and marketing. Candidates will be chosen through open competition on the basis of proven commitment to agribusiness (with strong preference to individuals with an employment history in the sector or sponsorship by a local firm), academic preparation, and language skills.

Short-term US training will also be offered under both programs . In addition, in-country training workshops and seminars will be funded under the ASSP, as well as a limited number of invitational travel tours, primarily in support of the EAN and ADC activities. The programmed levels of U.S. training are shown in Table IV-5, section 3 below.

1. <u>US Training Activities</u>

The long-term training program will be managed by ARD staff in cooperation with the mission's Office of Human Resources and Training (HRT), under the auspices of the Development Support Training Program (DSTP). A training coordinator (PSC) will be added to the ARD staff to handle the scholarship and training program, to set up selection criteria, and to carry the program through final selection of the first round of participants. This position will be funded from PDIF funds for a period of one year; the need for continued assistance will be assessed at the end of this period, but it is anticipated that mission staff should be able to manage the program once it is established, with assistance from the Academy for Educational Development (AED), the contractor for the DSTP, which administers all US and third country training for the mission. Representatives from MINFAC and EAD will participate in the interview process and approve the candidates prior to final approval by USAID. PIO/Ps for the candidates selected will be prepared by USAID/HRT citing ASSP funds. Tuition costs and fees for the participants will be paid to the training institution concerned and health insurance premiums will also be paid. The GOP will pay the salaries of public sector employees. (Payment of private sector trainees' salaries will be regarded as a matter for negotiation between the trainee and his/her employer.) All other training costs will be paid by USAID.

2. <u>Training Programs in Pakistan</u>

In-country training will take the form of local scholarships, workshops, and seminars. While some in-country training programs will be carried out under the rubric of program training, particularly the visiting professor program and short courses in the agribusiness field, most will be undertaken as part of the ADC and EAN activities.

ADC plans to provide specialized training in subjects closely related to collection of agricultural statistics such as the management of data systems, the training of trainers and computer applications in statistics, through a series of workshops and seminars conducted by local and expatriate consultants over the life of the ADC project. ADC also plans to work toward the establishment of an in-service training institute for entry level and mid-career statisticians in Lahore. The institute, managed and operated by the Statistics Division of the Ministry of Finance, will offer a range of courses in statistics and related fields. ADC will support the institute through the provision of visiting lecturers, purchase of textbooks and other training materials, and microcomputers to furnish a computer training laboratory. Procurement of goods and services in support of this activity will be implemented by USDA through its PASA agreement.

The EAN Project plans to conduct five applied economic analysis work shops annually. Each workshop will consist of approximately 17 training days over three calendar weeks. The principal topics of these workshops will include: applied economic analysis, agricultural marketing, econometrics, agricultural policy, and international trade. In addition, EAN plans to conduct two special local agricultural policy seminars each year. Each seminar will deal with key agricultural policy issues that have been analyzed during recent EAN contract research studies.

ARD will organize additional in-country training through its agribusiness program. Educators will also be brought in to teach in Pakistani universities, technical institutes, and research institutions through a buy-in to the mission's Institutional Excellence Program.

3. Summary of Training Outputs

Table IV-5 indicates the training accomplishments expected over the ASSP's six-year life in the areas of long-term training and US short-term training. For additional information on the training program of the ASSP, see the training section of Annex I (TATA).

Table IV-5
Illustrative Summary of Principal Training Outputs

Year Selection Begins:	1987-1988	1989	1990	1991-93	TOTAL
Public Sector Training					
Ph.D (persons)	22	10	10	2	44
M.S. (persons)	26	14	19	12	71
Short-term US (PM)	221	180	216	396	1013
Private Sector Training					
Ph.D (persons)	9	5	5	--	19
M.S. (persons)	38	20	10	--	68
Short-term US (PM)	160	80	80	--	320

E. Administrative and Monitoring Arrangements

The proposed program will be managed in the mission's Office of Agriculture and Rural Development. Direct responsibility will fall on the Economic, Marketing, and Policy Analysis Section (EMPAS), which is currently managing the Food Security Management (FSM) project and the Agricultural Commodities and Equipment (ACE) program. Since FSM and and ACE activities will be incorporated into the program, ASSP will become the umbrella of all work in the EMPAS section. ASSP will also be responsible for the work carried out under the Special Studies program (IFPRI) and the Mission's Agricultural Policy IQC. An additional PSC or local hire position will be added to EMPAS to coordinate all ASSP activities, analyze and propose new policy benchmarks for the annual PAAD and ProAg amendments, and monitor GOP compliance with those benchmarks.

The ASSP administrative and monitoring arrangements will be similar to those used under ACE. Overall program management and monitoring responsibilities will reside in USAID/Pakistan's Office of Agriculture and Rural Development (ARD). ARD will be assisted in contracting and procurement actions by the mission's Contracts and Commodities section in the Office of the Regional Legal Advisor (RLA), as well as AID/Washington's Office of Procurement (M/SER/OP/TRANS). The Office of Project Development and Monitoring will have primary responsibility for administrative matters related to the procurement of all commodities, and the RLA/CC's Commodity Control Unit (CCU) will be responsible for commodity arrival accounting, in cooperation with the mission's Regional Affairs Office in Karachi.

The Office of Financial Management will be responsible for undertaking end-use reviews on a periodic basis, annual reviews of GOP compliance with local currency generation and programming agreements, and tracking of local currency generations. The Office of the Director and the Office of Program will assist ARD with policy and macroeconomic considerations related to the ASSP, with the former taking the lead in the annual negotiation of the action benchmarks. The Office of Program will also provide assistance to ARD in program evaluation.

1. Contractor Responsibilities

Present contractor arrangements for the FSM and ADC projects will continue until the end of FY89, at which time these projects will be fully integrated into the ASSP. The 1990-1993 portion of EAN will be readvertised. The ADC project will be continued by the USDA under a PASA agreement. Assuming the approval of a sole source waiver, IFPRI will continue their responsibility for the special studies program. The Policy IQC will be awarded to firm(s) under competitive bidding procedures. All contractors will be responsible for the procurement of commodities integral to their activities.

2. GOP Administrative Arrangements

ASSP requires GOP counterparts in a number of ministries including the the Ministries of Agriculture, Commerce, Finance, and Industries. A single administrative counterpart within the GOP will be needed to assure continuity in implementation. The Ministry of Agriculture will be that implementing agency; the Secretary of Agriculture will be the full-time ASSP counterpart, which replicates the positive experience with the Ministry of Agriculture in the implementation of ACE. Work can be delegated by the counterpart to the Additional Secretary and the Joint Secretaries of Food and Agriculture and the Directorate of Agricultural Policy.

The mission will work through the Economic Affairs Division (EAD) of the Ministry of Finance to identify the appropriate individuals to represent the GOP when other federal ministries and provincial departments are involved. The counterparts of the TATA component will be as follows:

- EAN: The Directorate of Agricultural Policy in the Ministry of Agriculture
- ADC: Director General of the Federal Bureau of Statistics
- PHM: Joint Secretary, Food, Ministry of Agriculture
- Special Studies: Directorate of Agricultural Policy in the Ministry of Agriculture
- Policy IQC: Economic Affairs Division
- Sector Training Program: Deputy Secretary for International Cooperation, MINFAC or designee of Secretary of MINFAC.

A number of provincial and private sector institutions will also be involved in TATA activities, particularly studies and analysis implemented under the EAN.

F. Evaluation Plan

The Mission will conduct an annual in-house evaluation of the ASSP in preparation for approval of the annual PAAD amendment and negotiation of the ProAg amendment with the the GOP. This activity will be coordinated by the ASSP program manager, working with the appropriate staff members in ARD, the Office of the Director, and the Program Office. Performance in meeting benchmarks will be a major concern of these evaluations. A series of benchmarks for each target policy area will be prepared each year to assure that the program meets its policy objectives and moves rapidly to disburse funds.

A formal evaluation will be conducted in FY90 by an external evaluation team to look at progress toward achievement of the program's goals, end-use of imported commodities and CIP operations, the role of ASSP as an instrument of policy change, programming and use of generated rupees, procurement arrangements, rate of disbursement, adequacy and appropriateness of evaluation and monitoring plans, and the progress of program components (EAN, ADC, Special Studies, and the Policy IQC) in meeting their goals. This evaluation will serve as the basis for determining whether progress on policy reforms merits continuing the program for an additional three years. If the program is continued into the FY91-93 period, another formal external evaluation will take place in FY92 to help the Mission determine if ASSP should be extended into the next program cycle.

G. Funds Flow Under the ASSP

Disbursement of funds will follow four separate channels under the ASSP:

- Government CIP funds will follow the procedures established in the ACE and other CIP programs in Pakistan, in which local currency is generated only if the imported commodities are sold.

- Private sector CIP funds will follow the procedure established for these programs, in which local currency will be generated by the opening of an L/C by a Pakistani bank on behalf of the private importer.

- Sector grant funds will flow through direct disbursement (EFT) by the U.S. Treasury to GOP accounts in the Federal Reserve Bank of New York and local currency equivalent will not be tracked.

- TATA activity funds, whether foreign exchange or local currency purchased with foreign exchange, will generally be disbursed directly by AID, with the concurrence of the GOP.

The remainder of this section will discuss each of these channels in turn.

1. Government CIP Funds

Previous experience under the ACE and other CIP programs in Pakistan has established a clear framework for implementation of the ASSP CIP component. The basic funds flow pattern is as follows:

- The GOP identifies a commodity import need (e.g., fertilizer) appropriate for U.S. funding and, in consultation with AID, draws up the specifications and the tendering documents.

- Invitations for bid are issued by the Pakistani Embassy in Washington, D.C. with oversight provided by AID/W.

- Once award is made, AID/W arranges for opening of a Direct Letter of Commitment in favor of the supplier, who then ships the goods to Pakistan and forwards the appropriate documents to AID/W (FM) for payment.

- Receipt of the goods in Pakistan is supervised by the GOP and monitored by USAID/Islamabad.

As the commodities are sold by the Government of Pakistan, the local currency generated is placed in a special account in the State Bank of Pakistan, after deduction of marketing costs by the GOP. The GOP and the mission periodically review the status of this account and the allocation of local currency generations.

Under the ASSP, the above procedure will be used to manage the bidding and importation process, which has worked well in the past. If necessary, a portion of the funds will be directed to contract for the services of a procurement services agent, and the ProAg will cover this eventuality. The procedure for handling of local currency will be modified, however, to tighten the procedures for programming and monitoring the local currency generated, in accordance with current AID legislation and regulatory requirements, as follows:

- Prior agreement on sales generations: AID approval of the procurement specifications will require that the GOP present a local currency plan, showing the rupee value of the goods (equivalent to the cif cost), the projected sales price, the expected marketing costs or other deductions, the net proceeds, the additional currency to be deposited or deducted to make up the difference between net sales proceeds and cif value, and an approximate schedule for sales.

- Deposit of local currency into a special account: Net proceeds from the sale of CIP commodities will be deposited into a special account, with GOP withdrawals restricted to uses specified in the annual ProAg amendment, the GOP will maintain full records on this account and will make regular reports on the status and movement of funds into and out of this account, and AID will have the right to examine and audit the account at any time.

- Deposit of counterpart for GOP commodities: The requirement to deposit counterpart funds will not be limited to the sales proceeds generated by CIP commodities. The GOP will deposit local currency equivalent to the full cif value of the commodities imported. If the commodity is not to be sold, deposit will be made immediately upon receipt of the goods. If the commodity is to be sold, deposits may be made as sales proceeds are realized, but the amount deposited will equal the value of the goods, not the net sales proceeds.

- Prior programming of funds: The anticipated uses for the local currency generations will be specified in advance of the annual modification to the Program Agreement, subject to modification through PILs.

The strengthening of monitoring arrangements for local currency will support the ASSP reform process as well as improving AID oversight of program funds. In general, it is expected that most of the local currency generated will be programmed against general budget categories, such as the budget of the Ministry of Food and Agriculture.

If appropriate, however, all or part of the funds may be restricted to specific purposes that support the policy reform process. Some of the reforms sought under the program will require increased expenditure by specific units of the Pakistani Government (such as provincial Food Departments, provincial Irrigation Departments, and the Federal Bureau of Statistics). The current procedure for local currency control, based on ex-post attribution of local currencies, would leave the program without a mechanism for rewarding or encouraging appropriate actions by sub-national units of government (whether at the federal or provincial level) and consequently would seriously weaken the dialogue at this level and reduce the potential leverage provided by ASSP funds.

Possible uses foreseeable at the present time include:

- General budget support to the agricultural sector.

- Increase in Irrigation Department budgets to finance expanded O&M activities transferred from the provincial to the federal level.

- Expansion of credit funds available to farmers or private entrepreneurs.

- Reimbursement of revenues lost due to reduction of tariffs (with funds use not being tracked further).

- Increase in provincial ADPs to finance restructuring of research and extension services or expanded activities.

The primary mechanism for exercising leverage under the ASSP is the annual allocation of foreign exchange. Since AID is providing substantial resources with few strings attached, it is appropriate to expect the GOP make the expenditures necessary to implement the reforms whether or not local currency is specifically programmed to this end.

USAID/Pakistan will be concerned by whether or not the necessary actions are taken and the appropriate results obtained, without reference to which pot of money supplied the necessary funds. Where increased expenditures for a particular purpose are an integral part of reform implementation, AID will know whether the appropriate line item amounts appear in the federal budget and as necessary in the provincial budgets. Periodic review of actual expenditures by the units of government concerned will ensure that the agreed reforms are actually taking place.

Fund transfer procedures between the federal and provincial levels of government are essentially inconsistent with detailed programming of donor funds, for two reasons. First, the allocation of federal funds to supplement the province's current expenditure budgets is made according to a strict formula, which cannot be changed for political reasons. Although there is somewhat more flexibility regarding capital development funds (ADP), most of the items where increased expenditures are desired are on the current side of the budget. Adding funds for these purposes in the ADP does not in any way contribute to institutionalizing these expenditures in the budget, and may actually impede it.

Second, the closely guarded principle of provincial autonomy (comparable to states' rights in the US) makes it difficult for the federal government to impose formal requirements on provincial budgets. While the federal government can call on a host of informal mechanisms to influence local budget-making, federal officials with considerable justification argue that increased provincial expenditures for godown maintenance, irrigation O&M, etc., are out of their control.

While it is critical that the GOP accept the principle of accountability for local funds use, the specific allocation will be a matter for GOP-USG negotiation each year and will trade trade off against other issues, including the policy reform agenda itself.

2. Private Sector CIP

Although private sector CIPs have been established under the ACE and other mission CIP programs, the use of funds to date by private sector importers has been disappointing. An evaluation of this experience indicated that the terms of the CIP were not sufficiently advantageous to overcome Pakistani importers' greater familiarity with European and Asian suppliers and established financial systems (including preferential terms from some suppliers). The mission is currently expanding its efforts to promote use of these funds and is working with the GOP to make the program more attractive, but it remains uncertain whether the Pakistani business community will respond.

Despite these difficulties and uncertainties, the mission is committed to continued efforts to direct CIP funds to the private sector. The specific allocation earmarked for this channel will depend on the experience of the next few months and on the mission's success in negotiating terms more favorable to U.S. exporters, such as tariff reduction or removal for goods imported with AID funding.

If private sector CIP is included in the ASSP, the flow of funds will follow the system currently in place, which is essentially similar to that under the government CIP:

- The GOP selects local commercial banks as participating banks.

- AID issues a Letter of Commitment to the US corresponding banks of the participating banks (Letter of Commitment Banks).

- The Pakistani importer uses good commercial practice to select a US supplier.

- The importer arranges local currency credit terms with one of the participating banks.

- The importer asks the participating bank to establish a letter of credit in favor of the supplier. The Letter of Commitment Bank confirms the Pakistani letter of credit to the supplier, pays the supplier upon submission of proper documents, and is reimbursed for the payment by AID.

- The participating Pakistani bank collects local currency from the importer according to the credit terms and deposits the local currency in a special account at the State Bank of Pakistan.

Private sector imports under the ASSP will generate local currency equal to the full value of the goods. This currency will be programmed following the same procedure outlined above, with earmarking of the local currency taking place annually as part of the PAAD and ProAg amendment process. It should be noted, however, that the terms of payment for the private credits imply that these funds will be generated only over a three-to-five year period.

3. Sector Grant (SG)

The ASSP sector grant represents the first major use of a sector support mechanism by AID in Pakistan during recent years. Consequently, the procedure specified here may be modified during implementation as experience is gained in meshing U.S. and GOP budgeting and expenditure procedures. As presently envisaged, the flow of funds will be as follows:

- After signature of the ProAg amendment and meeting of any conditions precedent, the full SG will be electronically transferred by AID/W (in cooperation with the Department of the Treasury) into a GOP account in the Federal Reserve Bank in New York.

- Upon receipt of the funds, the State Bank will credit a special GOP account with the appropriate dollar amount, which may then be drawn down by the GOP against broad categories of imports specified in the ProAg and ProAg amendments, subject to the requirement to maintain full documentation on the flow of funds out of the account for AID monitoring.

- At the same time, the State Bank will credit the rupee equivalent of the dollar amount to a second special account, following the same procedure as described above for the CIP component.

Uses for the foreign exchange will be specified in the PAAD and ProAg amendments. To simplify later tracking, it is expected that this specification will target large expenditures, such as debt servicing, where detailed verification will not place an unreasonable burden on AID or the GOP.

4. TATA Activities

The flow of funds for training and technical assistance will follow the established procedures for direct AID disbursement. As uses for the funds are identified, government concurrence will be sought through PILs and PIOs as appropriate. In most cases, contracting will be handled by AID directly, in order to speed implementation, but host country contracting procedures will also be used where appropriate. (See the Procurement Plan in section IV for a more detailed discusson of TATA procurement.)

H. Environmental Considerations

The proposed program will support a series of activities, which have been independently reviewed with regard to the provisions of 22 CFR 216, "AID Environmental Procedures." The following text outlines the procedures that will be adopted during implementation to assure the environmental soundness of program-funded activities.

1. Sector Grant

The sector grant will provide balance of payments support to the GOP. The mission Environmental Officer will review the proposed uses of the funds, to the extent that such review is possible and consistent with this mode of assistance. Local currencies indirectly generated by the sector grant will generally be tracked only as far as allocation to broad categories of the GOP budget, and consequently it is not possible to identify the specific activities or commodities financed with these funds nor their environmental impact. These activities are therefore covered under the categorical exclusion of activities where AID does not have "knowledge of or control over, the details of the specific activities ... for which financing is provided by A.I.D." under AID's environmental regulations, section 22 CFR 216.2(b)(2)(c)(ii).

2. Commodity Import Programs

Commodities procured under this element of the program will be reviewed by the mission environmental officer to assure that no materials that are potentially environmentally harmful will be considered for funding without review by the Mission Environmental Officer. It should be noted that no pesticides, herbicides, fungicides, rodenticides, or other types of toxic/hazardous chemicals may be procured under this Program element without formal clearance from the ANE Bureau Environmental Coordinator and the S&T Bureau Pesticides Management Advisor.

3. Technical Assistance, Training and Analytical Support

This program element is exempt from further environmental review under the "Categorical Exclusion" provisions of 22 CFR 216, "AID Environmental Procedures."

I. Gray Amendment Organization Contracting

Opportunities for contracting with Gray Amendment Organizations including the identification of 8(a) set-asides, prime contracting and sub-contracting possibilities to meet technical assistance and commodity acquisition requirements have been reviewed during preparation of the PAAD. Implementation of the ASSP will entail contracting for technical services through three channels: 1) long- and short-term technical assistance will be contracted for the continuation of the EAN on termination of FSM support; 2) short-term technical assistance services will be procured through issuance of one or more policy analysis IQCs; and 3) the services of one or more procurement service agents (PSAs) may be contracted in support of the CIP component. Mission policy requires that the use of minority firms receive special consideration in all contracting procedures, and this special consideration will be incorporated into the procedure for advertisement and award of these contracts.

In the event that one or more PSAs are required, these contracts will be set aside for 8(a) firms. While all the other contracting opportunities will be open to disadvantaged firms, it is the mission's position that none of these should be explicitly set aside for such firms. In the event that it is decided to let multiple contracts for the policy analysis IQC, the mission will examine the desirability of making one of these contracts an 8(a) set-aside. The evaluation system for the EAN re-bidding and for the IQCs will give appropriate weight to inclusion of 8(a) firms in consortia as prime contractors and/or as subcontractors.

The mission has consistently endeavored to increase the involvement of 8(a) and other disadvantaged firms in technical assistance and other activities under the ACE and FSM as demonstrated, for example, by designation of the Agribusiness Study as an 8(a) set-aside. The mission will continue to review each contracting activity on a case by case basis to identify as many opportunities as possible to promote the involvement of disadvantaged firms in the implementation of USAID/Pakistan's assistance program; at a minimum, all contractors are encouraged to use "Gray Amendment" subcontractors.

V. FINANCIAL PLAN

A. Overview

The financial plan for the ASSP reflects the program's innovative approach to program assistance, which calls for the integration of limited training and technical assistance (TATA) activities into the program in support of the policy dialogue and reform process. The TATA activities require a more detailed approach to budgeting and financial planning than is either appropriate or necessary for the program assistance.

As a result, the financial plan for the ASSP is partitioned into two segments: the overall financial plan covering the program assistance and the specific financial plan for the TATA component. The plan for the program assistance segment raises a number of issues, particularly with respect to the programming of local currency generations. As these issues are closely related to the implementation of the program, they have been discussed in section IV-G above.

The budgeting exercise for the second segment is largely routine and follows the well-established procedures for budgeting training and technical assistance. Specific assumptions underlying the budget are discussed in section B below. The detailed TATA budget and the overall budget for the program are presented in section C.

The ASSP is planned and budgeted as a six-year program, although approval is only sought at this time for the training and technical assistance component and for the first three years of program assistance. The final three years will be funded if the program continues to satisfy GOF and mission needs regarding policy performance and budgetary support. Reflecting this uncertainty, the TATA budget for the first half of the program has been presented in greater detail than the budget for the second three-year period. Additional details on the planned activities under ADC and EAN over the full six-year period, and the budget allocated for each, are discussed in Annex I.

The obligation schedule for the ASSP cannot be specified in advance, as the amounts to be provided each year are dependent on progress achieved in policy reform. Should the program operate as envisioned, the obligations will proceed approximately as follows:

Indicative Schedule of Obligations ($ millions)

Fiscal Year Component	1987	1988	1989	1990	1991-1993	TOTAL
Sector Grants (SG)	0	45	45	45	135	270
Commodity Imports	0	45	45	45	135	270
TATA	5	5	10	10	30	60
TOTAL	5	95	100	100	300	600

The above schedule is consistent with the projected expenditure schedule shown in section B below.

B. ASSP Budget

The overall budget for the ASSP program is shown in Table V-1. This table summarizes the more detailed data on the TATA component shown in Table V-2, and shows the proposed allocation of ASSP resources over the life of the program. Further budget details on the activities under TATA are presented in Annex I.

Several assumptions that were used in creating this budget should be clarified:

1. Inflation and Contingency: The inflation factor used for US currency expenditures was 5%, while an 8% factor was used for local currency. For the period from 1991-1993, an average inflation factor (from Year Five of the program) was applied to the entire period. A 5% contingency factor was applied to both dollar amounts and local currency. Finally, these factors were applied only to expenditures under the TATA budget. The figures under the Sector Grant (SG) and Commodity Import Program (CIP) are in current dollars. (N.B. The line item amounts shown under TATA are also in current terms, with inflation and contingency shown as a separate line item.)

2. Training Costs: The TATA budget includes a line item for training. The training cost for each participant is fully funded in the year the training begins.

3. SG and CIP Mix: The amounts shown under SG and CIP are indicative. The actual amount allocated under each mode will depend on policy performance, commodity needs, and mission programming considerations.

C. Cost Factors Underlying the TATA Component

Table V-2 provides program detail about the various TATA activities on an annual basis for the first three years of the program and for the 1991-1993 period as a whole. More detailed budgets on EAN, ADC, training activities are contained in Annex I.

With regard to technical assistance, it is assumed that the average dollar cost of a person-month of long-term technical assistance is $12,100, while the dollar equivalent of local costs is $3,900. For short-term technical assistance, costs are $12,800 for dollar costs and $1,000 for local costs. These cost factors are applied throughout the budget.

The apparent differences between these factors and those used in the Annex I budgets requires some clarification. The cost of a person-month of long-term technical assistance in Table V-2 appears to be

$500 lower than in the EAN and ADC budgets of Annex I, but is in fact consistent with it, as the latter budgets include administrative support in their figure for long-term technical assistance, whereas the ASSP budget breaks out the cost of administrative support as a separate line item. Under the the EAN section of Technical Assistance in Table V-2, the full $500 is placed under the administrative support category, while in the ADC section, the $500 is split between long-term in-country and administrative support categories. Furthermore, under EAN Technical Assistance section, the long-term in-country category represents the cost of supporting part of the staff at Directorate of Agricultural Policy in the Ministry of Agriculture. The short-term person-months under the same section of EAN are for the local consultants hired to work a series of economic studies in Pakistan.

The training costs shown in Table V-2 are based on the "Illustrative Budget for the Proposed Training Plan" in Annex I. Note that the Short-term In-Country category in Table V-2 under Training includes the budget for miscellaneous training expenses (English Language training and other special needs training) shown in the Annex I budget.

Under the EAN portion of the Commodities and Other Services section of Table V-2, the "Other" category includes vehicles and software supplies. Under the ADC portion, the "Miscellaneous" category represents software supplies and office equipment. In both cases, the operating costs and vehicle operating costs shown in the detailed ADC and EAN budgets of Annex I have been separated in Table V-2 and placed in the operating expenses category. The $8.0 million shown for aerial photography in the detailed ADC budget is considered a commodity and therefore will be funded from the CIP Component.

Table V-1
Agricultural Sector Support Program
overall Budget, FY1987-FY1993
(all figures in US$ '000; Rs 17 = US$ 1)

August 20, 1987

Year	1987 FX	1987 LC	1987 TOTAL	1988 FX	1988 LC	1988 TOTAL	1989 FX	1989 LC	1989 TOTAL	1990 FX	1990 LC	1990 TOTAL	1987-90 FX	1987-90 LC	1987-90 TOTAL	1991-93 FX	1991-93 LC	1991-93 TOTAL	TOTAL FX	TOTAL LC	TOTAL TOTAL
1. TATA COMPONENT	4075	925	5000	4662	1069	5731	5457	3253	8710	7014	3545	10559	21208	8792	30000	20031	9969	30000	41239	10761	60000
a. Technical Assistance	1021	241	1262	1424	268	1692	1453	324	1777	1577	721	2298	5475	1554	7029	5326	1539	6865	10801	3093	13894
b. Training	2750	630	3380	2670	665	3335	2800	760	3560	3880	1160	5040	12100	3215	15315	8750	2600	11350	20850	5815	26665
c. Commodities & Other Services	110	0	110	107	0	107	576	1523	2099	608	354	962	1401	1877	3278	1809	630	2439	3210	2507	5717
d. Construction	0	0	0	0	0	0	0	0	0	0	289	289	0	289	289	0	0	0	0	289	289
e. Operating Expenses	0	10	10	0	17	17	0	90	90	0	220	220	0	337	337	0	1940	1940	0	2277	2277
f. Inflation and Contingency	194	44	238	381	119	500	628	556	1184	1029	801	1830	2232	1520	3752	4146	3260	7406	6378	4780	11158
2. COMMODITY IMPORT PROGRAM	0	0	0	45000	0	45000	45000	0	45000	45000	0	45000	135000	0	135000	135000	0	135000	270000	0	270000
3. SECTOR SUPPORT GRANT	0	0	0	45000	0	45000	45000	0	45000	45000	0	45000	135000	0	135000	135000	0	135000	270000	0	270000
TOTAL	4075	925	5000	94662	1069	95731	95457	3253	98710	97014	3545	100559	291208	8792	300000	290031	9969	300000	581239	10761	600000

Table V-2
Agricultural Sector Support Program
Budget for TATA Component, FY1987-FY1993
(all figures in US$ '000; Rs 17 = US$ 1)

August 20, 1987

Year	Unit	-Unit Cost- FX	LC	------1987------ No	FX	LC	------1988------ No	FX	LC	------1989------ No	FX	LC	------1990------ No	FX	LC	----1987-90---- No	FX	LC	----1991-93---- No	FX	LC	------TOTAL------ FX	LC	TOTAL
1. TECHNICAL ASSISTANCE				191	1021	241	163	1474	240	209	1353	321	643	1577	721	1209	5476	1554	1106	5326	1537	10802	3092	13894
a. Economic Analysis Network				42	102	40	23	161	49	61	201	105	400	274	491	614	738	604	552	525	590	1263	1274	2537
Long-term expatriates	PM	12.1	3.9	0	0	0	8	97	31	5	61	20	11	133	43	24	291	94	18	218	71	509	165	674
Short-term expatriates	PM	12.8	1.0	8	102	8	5	64	5	11	141	11	11	141	11	35	447	35	24	307	24	754	60	813
Long-term in-country	PM	0.0	0.5	0	0	0	0	0	0	5	0	2	205	0	101	210	0	103	200	0	98	0	201	201
Short-term in-country	PM	0.0	2.0	10	0	20	5	0	10	34	0	69	136	0	274	185	0	373	160	0	323	0	696	696
Administrative Support	PM	0.0	0.5	24	0	12	5	0	2	6	0	3	125	0	61	160	0	78	150	0	74	0	152	152
b. Agricultural Data Collection				42	102	40	44	272	80	60	414	85	63	414	92	209	1203	297	189	1050	275	2252	572	2824
Long-term expatriates	PM	12.1	3.9	0	0	0	14	170	55	11	133	43	11	133	43	36	436	141	36	436	141	873	282	1155
Short-term expatriates	PM	12.8	1.0	8	102	8	8	102	8	22	281	22	22	281	22	60	766	61	48	613	49	1380	109	1489
Long-term in-country	PM	0.0	0.3	0	0	0	9	0	3	11	0	4	11	0	4	31	0	10	30	0	10	0	20	20
Short-term in-country	PM	0.0	2.0	10	0	20	5	0	10	5	0	10	9	0	18	29	0	58	25	0	50	0	108	108
Administrative Support	PM	0.0	0.5	24	0	12	8	0	4	11	0	6	10	0	5	53	0	27	50	0	25	0	52	52
c. Policy Analysis TOC				71	319	118	51	422	70	44	281	67	44	281	67	210	1303	321	278	1533	424	2836	746	3581
Short-term expatriates	PM	12.8	1.0	25	319	25	33	422	33	22	281	22	22	281	22	102	1303	103	120	1533	122	2836	225	3061
Short-term in-country	PM	0.0	2.0	46	0	93	18	0	36	22	0	44	22	0	44	108	0	218	150	0	303	0	521	521
d. ASSP Program Support				39	473	42	45	570	69	44	557	68	48	600	72	176	2232	251	175	2219	250	4451	501	4952
ASSP Economist (PSC)	PM	12.1	3.9	1	12	4	8	97	31	8	97	31	8	97	32	25	303	98	25	303	98	606	196	802
Special studies program	PM	12.8	1.0	22	281	22	19	243	19	22	281	22	22	281	22	85	1086	86	75	958	76	2044	162	2206
Evaluation	PM	12.8	1.0	0	0	0	0	0	0	0	0	0	5	64	5	5	64	5	5	64	5	128	10	138
Other short-term assistance	PM	12.8	1.0	16	204	16	18	230	18	14	179	14	13	166	13	61	779	62	70	894	71	1673	133	1806

2. TRAINING					2750	630		2670	665		2000	760		3000	1160		12100	3215		8750	2600	20850	5815	26665
Long-term U.S.	Budget				1325	100		1600	200		1520	200		1700	330		6140	910		3500	500	9640	1410	11050
Short-term U.S.	Budget				850	230		510	190		870	200		1200	280		3460	900		3000	750	6460	1650	8110
Short-term in-country	Budget				250	100		130	120		200	170		330	250		910	680		800	650	1710	1330	3040
Workshops in-country	Budget				175	100		100	80		90	50		310	190		670	420		550	400	1220	820	2040
Study tours	Budget				150	100		330	75		120	40		340	110		910	320		900	300	1810	620	2430
3. COMMODITIES AND OTHER SERVICES					110	0		107	0		576	1503		520	354		1301	1877		1909	630	3210	2507	5717
a. Economic Analysis Network					100	0		41	0		194	263		506	298		861	561		339	330	1200	891	2091
Computer systems	Systems	9.0	0.0	10	90	0	5	45	0	9	81	0	7	63	0	31	279	0	15	135	0	414	0	414
Office equipment	Budget				0	0		2	0		0	12		23	115		25	127		0	0	25	127	152
Research libraries	Lib.	90.0	160.0	0	0	0	0	0	0	1	90	160	1	90	160	2	180	320	2	180	320	360	640	1000
Other	Budget				10	0		14	0		23	21		23	23		70	114		24	10	94	124	218
b. Agricultural Data Collection					10	0		176	0		332	1260		22	56		540	1316		1470	300	2010	1616	3626
Computer systems	Number	9.0	0.0	0	0	0	10	90	0	14	126	0	1	9	0	25	225	0	50	450	0	675	0	675
Lab equipment	Budget				0	0		14	0		200	800		3	44		217	844		0	0	217	844	1061
Vehicles	Number	10.0	0.0	0	0	0	1	10	0	4	40	0	0	0	0	5	50	0	12	120	0	170	0	170
Training institute supplies	Budget				0	0		5	0		8	230		5	12		18	242		0	0	18	242	260
Miscellaneous	Budget				10	0		7	0		8	230		5	0		30	230		900	300	930	530	1460
4. CONSTRUCTION					0	0		0	0		0	0		0	289		0	289		0	0	0	289	289
a. EAN office upgrading	Budget				0	0		0	0		0	0		0	273		0	273		0	0	0	273	273
b. ADC office upgrading	Budget				0	0		0	0		0	0		0	16		0	16		0	0	0	16	16

5. OPERATING EXPENSES		0	10	0	17	0	90	0	220	0	337	0	1940	0	2272	2272
a. Economic Analysis Network	Budget	0	10	0	5	0	35	0	85	0	135	0	140	0	275	275
b. Agricultural Data Collection	Budget	0	0	0	12	0	55	0	135	0	202	0	1000	0	2002	2002
SUBTOTAL		3301	801	4201	950	4029	2697	5905	2744	10977	7272	15035	6709	31842	13980	45842
6. INFLATION AND CONTINGENCY		194	44	381	119	620	556	1029	801	2232	1520	4146	3260	6578	4700	11158
Inflation		0	0	167	71	380	421	730	664	1203	1156	3352	2925	4635	4081	8716
Contingency		194	44	214	47	241	135	299	137	949	364	794	335	1743	699	2442
TOTAL		4075	925	4662	1060	5457	3252	7015	3546	21209	8791	20031	9969	41240	18760	60001

VI. CONDITIONS, COVENANTS, AND NEGOTIATING STATUS

A. Conditions Precedent to Disbursement

1. Conditions Precedent to Initial Disbursement

Prior to the first disbursement under this Grant or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish or have furnished to AID in form and substance satisfactory to AID within thirty (30) days after signing of the Program Agreement:

a. An opinion of Counsel acceptable to AID that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

b. A statement setting forth the names and titles of persons holding or acting in the Office of the Grantee and representing that the named person or persons have the authority to act as the representative or representatives of the Grantee together with a specimen signature of each such person certified as to its authenticity.

2. Conditions Precedent to Disbursements Under the Commodity Import Program

a. Prior to the first disbursement for importation of commodities under this Grant or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish or have furnished to AID in form and substance satisfactory to AID:

i. A proposed Invitation for Bid (IFB) and a proposed designation of Charter Party for the importation of the commodity;

ii. A statement of the name and title of any additional representatives acting for the Grantee who are authorized to sign procurement documents together with a specimen signature of each such person certified as to its authenticity;

iii. Documentation satisfactory to AID in form and substance indicating that a special account has been established into which the local currency equivalent of the dollar value of the commodities to be imported will be deposited, together with a statement of the expected amounts thereof (the cif value of the commodities converted to rupees at the exchange rate prevailing on the date the commodities are ordered) and the projected schedule for their deposit; and

iv. A statement satisfactory to AID setting forth the procedures established to monitor all withdrawals from the account, to record the amount, purpose, and timing of each such withdrawal and the account into which the withdrawal was deposited, and to report this information to AID on a semi-annual basis or according to such other schedule as the parties may otherwise agree upon in writing.

b. Prior to each subsequent disbursement for importation of commodities under this Grant or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish or have furnished to AID in form and substance satisfactory to AID:

i. A proposed Invitation for Bid (IFB) and a proposed designation of Charter Party for the importation of the commodity; and

ii. a statement of the amount of local currency expected to be generated and the projected schedule for their deposit into the special account.

3. Conditions Precedent to Disbursement Under the Sector Grant

Prior to the first disbursement of sector grents Funds under this Grant or to the issuance by AID of documentation pursuant to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish or have furnished to AID in form and substance satisfactory to AID:

a. Documentation satisfactory to AID in form and substance indicating that a special account has been established into which all Sector Grant Funds will be deposited;

b. A statement satisfactory to AID setting forth the procedures established to monitor all withdrawals from the account, to record the amount, purpose, and timing of each such withdrawal and the account into which the withdrawal was deposited, and to report this information to AID on a semi-annual basis or according to such other schedule as the parties may otherwise agree upon in writing; and

c. Documentation satisfactory to AID in form and substance indicating that a special account has been established into which the local currency equivalent of the dollar value of the sector support grant will be deposited, together with a statement of the expected amounts thereof (the dollar value converted to rupees at the exchange rate prevailing on the date of disbursement).

B. Covenants

The covenants section of the Program Agreement and each subsequent modification of the agreement will include as Annex B a statement of the policy reforms to be implemented by the Government of Pakistan (the "action benchmarks") together with a list of actions that the Government of Pakistan will take in support of analysis financed by the program (the "process benchmarks"). In addition, the following covenants will be included:

1. Use of Local Currency Generated

All local currency generated under the commodity import program and the sector grants provided under this Agreement will be credited to the Federal Consolidated Fund of the Grantee. The Grantee agrees to credit these proceeds immediately to a special subsidiary account to be named "USAID Agricultural Sector Support Fund."

Funds in the special subsidiary account may be used for such purposes as may be specified in the Program Agreement Amendment or as the parties may otherwise agree in writing. The Grantee agrees to maintain documentation indicating all deposits of funds into and withdrawals of funds from the special account and to report thereon to AID on a regular basis.

2. Reporting

As long as balances remain in the special subsidiary account, the Grantee shall provide to USAID/Pakistan annual reports on the balances remaining in the account and the withdrawals and uses of the funds from that account during the current reporting period, with the first report covering deposits and withdrawals through June 30, 1988 to be provided by July 31, 1988.

3. Authorization

The Grantee authorizes USAID/Pakistan to act as its lawful Agent and to execute, in said capacity, all letters and documents on behalf of the Grantee in accordance with AID Handbook 11, Chapter 3, as necessary for the following:

a. To procure, administer, and compensate one or more Procurement Services Agents under this Agreement. Activities contemplated include, by illustration, advertising for Agent(s) services, evaluating and selecting Agent(s), and instructing, answering inquiries, and otherwise communicating with Agent(s); and

b. To procure, administer, and finance equipment under this Agreement. Activities contemplated include, by illustration, preparing and executing Project Implementation Orders (PIOs) for equipment, arranging for issuance of Letters of Commitment to the Agent(s), clearing of equipment through customs, and arranging with provincial authorities for delivery to appropriate sites.

The Grantee shall, upon the request of USAID/Pakistan, execute Project Implementation Orders (PIOs) and other documents necessary for the procurement of goods, services, and equipment under this Agreement.

4. Eligible Items

The commodities eligible for financing under this Grant shall be such commodities eligible under AID regulations as are mutually agreed upon in writing by the Parties and specified in Implementation Letter(s) issued to the Grantee.

C. Negotiating Status

The above Conditions Precedent and Covenants are being discussed with the Government of Pakistan and their agreement to the covenants and conditions precedent outlined above is expected, based on previous negotiations and the status of the current discussions. During final Program Agreement negotiations, USAID/Pakistan will incorporate into the Agreement appropriate language to cover these terms and conditions.

VII.

AGRICULTURE SECTOR SUPPORT PROGRAM

(391-0492)

A N N E X E S

ANNEX A.1
Page 1

ACTION AID INFO AMB DCM ECON AREP

VZCZCILO742
OO RUEHIL
DE RUEHC #0936/01 1040119
ZNR UUUUU ZZH
O 140117Z APR 87
FM SECSTATE WASHDC
TO AMEMBASSY ISLAMABAD IMMEDIATE 7478
BT
UNCLAS SECTION 01 OF 02 STATE 110936

14-APR-87 TOR: 01:42
CN: 49884
CHRG: AID
DIST: AID
ADD:

OFF FILE: ARD
ACTION: ARD
INFO: D,DD,PRO,PDM,
EXO,RF,CH

AIDAC

ACTION
Due Date: 4/
Action
Taken
Date:
Initial:

E.O. 12356: N/A
TAGS:
SUBJECT: PAKISTAN: ANPAC REVIEW, AGRICULTURE SECTOR SUPPORT PROGRAM PARD

1. ANPAC, CHAIRED BY DAA NORRIS, REVIEWED PROGRAM ASSISTANCE REVIEW DOCUMENT 2/26/87, AND APPROVED MISSION'S PROCEEDING WITH FINAL PAAD DESIGN. MISSION IS COMPLIMENTED ON A WELL ARTICULATED PARD WHICH DOES AN EXCELLENT JOB OF LAYING OUT MISSION STRATEGY AND POLICY ISSUES REQUIRING FURTHER EXAMINATION. FOLLOWING IS SUMMARY OF MAIN DISCUSSION POINTS AND GUIDANCE FOR FINAL DESIGN.

2. INCLUSION OF SECTOR SUPPORT GRANTS: ASSP'S INNOVATIVE PROGRAM APPROACH, COMBINING TRADITIONAL TA AND TRAINING COMPONENT WITH CIP AND SECTOR GRANTS, WAS ENDORSED. ANPAC AGREES ABILITY TO MOVE FROM ONE TYPE OF ASSISTANCE TO ANOTHER WILL GREATLY ASSIST MISSION IN PROMOTING ITS POLICY AGENDA. THE INCLUSION OF SECTOR GRANTS AS A PROGRAM INSTRUMENT IN THE PAKISTAN PROGRAM SHOULD BE FULLY DISCUSSED IN THE UPCOMING CDSS.

3. PROGRAM JUSTIFICATION: THE PROGRAM COMPONENTS ARE UNDERSTOOD TO BE JUSTIFIED BY BOTH A STRONG BALANCE OF PAYMENTS REQUIREMENT AND AN AGRICULTURE SECTOR POLICY ANALYIS INDICATING OPPORTUNITIES FOR SUPPORT OF POLICY CHANGES SIGNIFICANT TO AGRICULTURAL PERFORMANCE. THIS DUAL RATIONALE SHOULD BE INCLUDED IN THE PAAD, AS IT WAS IN THE PARD. SEE STATE 246904 (AUGUST 3, 1983, ISSUED AS HANDBOOK 1, PART VII, OCTOBER 30, 1985) FOR HELPFUL GUIDANCE.

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4. LINE ITEM FLEXIBILITY: PARD SUGGESTS FULL FLEXIBILITY TO MOVE FUNDS FROM ONE TYPE OF ASSISTANCE TO ANOTHER, TO RESPOND FLEXIBLY TO THE PACE OF GOP POLICY REFORMS. ANPAC AGREES ON CONCEPT OF GRADUATED PROGRAM ASSISTANCE RELATED TO THE SENSITIVITY OR IMPORTANCE OF POLICY CHANGES. AT THE SAME TIME, THE AGENCY NEEDS SOME SPECIFICITY IN EXPECTED AMOUNT OF SECTOR SUPPORT GRANTS EACH YEAR. UNDERSTAND THE MISSION'S EXPECTATION IS THAT APPROXIMATELY HALF OF THE ANNUAL 100 MILLION DOLLARS

OBLIGATION AMOUNT WOULD BE BUDGETED FOR COMMODITIES, TECHNICAL ASSISTANCE AND TRAINING, LEAVING APPROXIMATELY HALF FOR SECTOR SUPPORT GRANTS, AND THIS WILL BE THE BASIS ON WHICH WE DESCRIBE THE PROGRAM AS WE PROCEED WITH CONGRESSIONAL NOTIFICATION. ANPAC AND MISSION REPS AGREED THAT MISSION WILL CONSULT WITH AID/W ANNUALLY ON ITS NEGOTIATING OBJECTIVES AND BUDGET PLAN FOR THAT YEAR, AND REACH AGREEMENT WITH AID/W ON THE SIGNIFICANT POLICY ACHIEVEMENTS THAT ARE EXPECTED THAT YEAR AND THE AMOUNT OF THE ANNUAL LEVEL TO BE DISBURSED TO A SECTOR SUPPORT GRANT. THE EXACT LEVEL MAY VARY PRIOR TO FINAL NEGOTIATION WITH THE GOP, BUT SHOULD BE FIXED PRIOR TO OBLIGATION. (SEE PARA 7 BELOW VS. TIMING OF DISBURSEMENTS.)

5. TIED VS. UNTIED SECTOR SUPPORT: ANPAC AND MISSION REPS AGREED THAT ALL POLICY ORIENTED SECTOR GRANTS REPRESENT AN OPPORTUNITY IN WHICH COUNTERPART CAN BE GENERATED AND PROGRAMMED IN THE AGRICULTURE SECTOR. SOME POLICY CHANGES MAY HAVE ASSOCIATED RUPEE COSTS FOR WHICH COUNTERPART WOULD BE PROGRAMMED AND CLOSELY TRACKED, WHILE OTHERS MAY HAVE LITTLE OR NO IDENTIFIABLE COSTS. IN LATTER CASES, COUNTERPART COULD BE PROGRAMMED FOR NEEDS OF THE GENERAL AGRICULTURE SECTOR BUDGET, AND WOULD BE TRACKED LESS CLOSELY THAN IN THE FORMER. THUS IT APPEARS THAT THE DISTINCTION BETWEEN TIED AND UNTIED SECTOR SUPPORT MAY NOT BE A USEFUL CONSTRUCT TO CARRY FORWARD IN THE PAAD.

6. THE POLICY AGENDA: THE PARD DESCRIBES A WIDE RANGE OF POLICY CHANGES WHICH WILL BE OF CONCERN UNDER THE PROGRAM, AND INDICATES A NEED FOR FLEXIBILITY IN

APPROACH TO TAKE ADVANTAGE OF OPPORTUNITIES AS THEY ARISE, PARTICULARLY SINCE SOME MAJOR POLICY CHANGES MAY ONLY BE ATTAINABLE IF SMALLER INCREMENTAL STEPS ARE SOUGHT YEAR BY YEAR. ANPAC AND MISSION REPS AGREED THAT THE PAAD SHOULD ARTICULATE BROAD SECTORAL POLICY OBJECTIVES FOR THE PROGRAM LIFE AGAINST WHICH PROGRESS COULD BE MEASURED OVER SOME TIME PERIOD (E.G. THREE YEARS). IN ADDITION, A SPECIFIC AGENDA OF NEGOTIATING OBJECTIVES WOULD BE DEFINED PRIOR TO EACH YEAR'S OBLIGATION, AND WOULD BE ASSOCIATED WITH PARTICULAR LEVELS AND MODES OF PROGRAM ASSISTANCE, I.E., CIP, SECTOR GRANT. THESE SHOULD BE ADDITIONAL TO POLICY CHANGES ALREADY NEGOTIATED AS CONDITIONS OF ACE OR PL 480 AGREEMENTS. MISSION AND AID/W SHOULD REACH AGREEMENT ON THIS AGENDA EACH YEAR, THROUGH CABLE EXCHANGE OR OTHER APPROPRIATE MECHANISM.

7. BASIS FOR DISBURSEMENTS: AFTER CONSIDERABLE DISCUSSION, ANPAC AND MISSION REPS AGREED THAT PREFERRED

AIDAC

PERFORMANCE DISBURSEMENT MECHANISM WOULD INVOLVE NEGOTIATION OF FIRM GOP POLICY RELATED OBJECTIVES AND BENCHMARKS TOWARD PERFORMANCE, AS APPROPRIATE, EACH YEAR, WITH DISBURSEMENT IN MOST CASES FOLLOWING UPON GOP AGREEMENT. WITH THIS QUOTE UP FRONT UNQUOTE DISBURSEMENT, MISSION WOULD FOLLOW CLOSELY GOP'S PERFORMANCE OF AGREED ACTIONS DURING THE YEAR, JUDGING IT AGAINST A CLEAR SET OF BENCHMARKS OR STANDARDS AS AGREED IN ADVANCE. EXTENT OF PERFORMANCE WOULD AFFECT THE NEXT YEAR'S NEGOTIATIONS; LESSER PERFORMANCE MIGHT INDICATE MORE CIP AND LESS SECTOR GRANT IN THE NEXT YEAR, FOR EXAMPLE; OR IF OVERALL PERFORMANCE IN THE AGRICULTURE SECTOR WERE UNSATISFACTORY, MISSION MIGHT DECREASE THE ASSP ALLOCATION AND INCREASE OTHER SECTOR PROGRAMMING. POSSIBILITY ALSO EXISTS WITHIN THE PARAMETERS OF THE US-GOP MULTI-YEAR ECONOMIC ASSISTANCE PROGRAM THAT IF POLICY PERFORMANCE GENERALLY ACROSS ALL SECTORS IS INADEQUATE, THE PROGRAM LEVEL FOR A GIVEN YEAR MIGHT BE REDUCED, AND THIS FACTOR SHOULD BE BORNE IN MIND AS MISSION PLANS ITS NEGOTIATING STRATEGY EACH YEAR.

8. PAAD APPROVAL: ASSUMING AID/W AND THE MISSION REACH PRIOR AGREEMENT ON PROGRAM GOALS AND NEGOTIATING OBJECTIVES FOR THE COMING YEAR, AND AN UNDERSTANDING OF HOW PROGRAM MODES AND AMOUNTS ARE RELATED TO THESE OBJECTIVES, DELEGATION OF PAAD APPROVAL AUTHORITY TO THE MISSION DIRECTOR IS APPROPRIATE. PRIOR TO APPROVAL OF PAAD, MISSION WILL NEED TO REQUEST BUDGET ALLOWANCE FROM FM, SINCE THE PAAD SERVES THE DUAL FUNCTION OF FUNDS

RESERVATION AND SUBSTANTIVE AUTHORIZATION.

9. DESIGN GUIDANCE:

A. TIMING OF REFORMS REQUIRING FURTHER STUDY: MANY POLICY REFORMS INCLUDED IN THE PARD POLICY MATRIX REQUIRE FURTHER STUDY, WHILE OTHERS ARE ALREADY WELL DEFINED AND WOULD NOT NEED A GREAT DEAL MORE STUDY. THE NORMAL LENGTHY PROCESS INVOLVED IN CONTRACTING, CARRYING OUT AND VETTING STUDY RESULTS MAKES IT UNLIKELY THAT POLICY CHANGES IN THOSE AREAS REQUIRING STUDY WOULD BE READY FOR ACTION DURING THE FIRST THREE YEARS. THE PAAD ANALYSIS SHOULD LOOK HARD AT THE REALISM OF ACHIEVING ADEQUATE AND ADDITIONAL POLICY CHANGES FOR THE PLANNED LEVEL OF RESOURCES IN THE NEXT THREE YEARS.

B. PRIVATE SECTOR OBJECTIVES: MISSION SHOULD REVIEW ITS EXPERIENCE WITH THE PRIVATE SECTOR WINDOW OF ACE, TO SEE IF THERE IS ANY PRACTICAL WAY TO OFFER COMMODITY SUPPORT TO THE PRIVATE SECTOR. MIGHT THERE BE POTENTIAL FOR SUPPORTING OUR POLICY OBJECTIVE OF PRIVATE FERTILIZER IMPORTATION, FOR EXAMPLE, BY FINANCING PRIVATE FERTILIZER IMPORTS UNDER ASSP?

C. PROGRAMMING OF FOREIGN EXCHANGE AND LOCAL CURRENCY

UNDER CASH TRANSFERS: UNDER TERMS OF THE FY 87 CONTINUING RESOLUTION, BOTH FX AND LOCAL CURRENCIES GENERATED BY CASH TRANSFER ACTIVITIES MUST BE PLACED IN SPECIAL ACCOUNTS AND THE USES TRACKED. STATE 52618 PROVIDES GUIDANCE ON THIS REQUIREMENT. WHETHER ESF SECTOR SUPPORT GRANT, PARTICULARLY IF IT RELIES TO SOME EXTENT ON BALANCE OF PAYMENTS RATIONALE, WOULD BE CONSIDERED CASH TRANSFER WITHIN MEANING OF CP IS STILL SOMEWHAT UNCLEAR. SAFEST COURSE FOR PLANNING PURPOSES IS TO TREAT IT AS IF IT WOULD BE.

D. U.S. DOMESTIC COMMODITY INTERESTS: THE MISSION SHOULD FULLY CONSIDER U.S. DOMESTIC INTERESTS IN SUCH AREAS AS EXPORT OF EDIBLE OILS, RICE, COTTON, ETC., AS IT FORMULATES PROPOSED POLICY ACTIONS. THE GOP SHOULD NOT BE ENCOURAGED TO ADOPT PROTECTIONIST MEASURES. POLICY CHANGE SHOULD CONSIDER THE GLOBAL CONTEXT, AND ANY EFFECTS ON U.S. MARKET SHARES. REQUIREMENTS OF BOTH THE ZORINSKY AND BUMPERS AMENDMENTS WILL NEED TO BE FULLY MET, AND SHOULD BE DISCUSSED IN THE PAAD.

E. BENCHMARKS: THE ILLUSTRATIVE BENCHMARKS FOR FERTILIZER POLICY ACTIONS INCLUDE A NUMBER OF STUDIES. AS THE MISSION FIRMS ITS APPROACH IN THE PAAD AND IN

NEGOTIATIONS, THE EMPHASIS SHOULD BE ON ACTIONS RATHER THAN REPORTS.

F. DIVESTITURE OF GHEE CORPORATION: IN EXAMINING THIS AREA, WE ASSUME THE MISSION WILL SEEK ASSISTANCE FROM PRIVATIZATION EXPERTS. THE ABILITY OF THE PRIVATE SECTOR TO ABSORB PL 480 OIL IMPORTS SHOULD ALSO BE CONSIDERED.

G. OTHER: TECHNICAL SUGGESTIONS ON FERTILIZER AND SEED POLICY HAVE BEEN PROVIDED TO THE MISSION REPRESENTATIVES BY ST/AGR. WHITEHEAD
BT
#0936

NNNN

ANNEX A.2
Page 1

//GT// UNCLASSIFIED STATE 143403

ACTION AID INFO AMB DCM ECON AREP

VZCZCIL0497
PP RUEHIL
DE RUEHC #3403 1320800
ZNR UUUUU ZZH
P 120320Z MAY 87
FM SECSTATE WASHDC
TO AMEMBASSY ISLAMABAD PRIORITY 8362
BT
UNCLAS STATE 143403

12-MAY-87 TOR: 07:59
CN: 59399
CHRG: AID
DIST: AID
ADD:

OFF FILE: PDM
ACTION: ARD
INFO: DD,PRO,PDM,
FM,RF,CH

AIDAC

E.O. 12356: N/A
TAGS: N/A
SUBJECT: ASSP PAAD APPROVAL

REFS: A) STATE 112936; B) ISLAMABAD 10076; C) MATHESON/GOLDMAN TELECON 5/7/87

1. REF B INDICATES FY 87 OBLIGATION WILL BE LIMITED TO DOLS 8.9 MILLION FOR TECHNICAL ASSISTANCE AND TRAINING, AND THAT NO POLICY CONDITIONALITY WOULD BE APPROPRIATE AT THIS TIME SINCE NO COMMODITY OR SECTOR SUPPORT FUNDS ARE BEING PROVIDED. MISSION WILL USE NEXT SEVERAL MONTHS TO COMPLETE THE DIALOGUE AND NEGOTIATION OF SPECIFIC POLICY BENCHMARKS FOR INCLUSION IN LARGER FY 88 TRANCHE, TO BE OBLIGATED EARLY IN FY 88.

2. ANE CONCURS IN THIS SCENARIO FOR ADDRESSING POLICY CONDITIONALITY. MISSION MAY COMPLETE PAAD DOCUMENTATION AND, WHEN FUNDS ARE AVAILABLE, AUTHORIZE THE PAAD. AS YOU KNOW, THE PAAD FACESHEET SERVES THE DUAL FUNCTION OF FUNDS RESERVATION AND SUBSTANTIVE AUTHORIZATION, THUS CANNOT BE APPROVED UNTIL FUNDS ARE AVAILABLE.

3. SEPTEL REPORTS ON ESF APPORTIONMENT SITUATION. WE DO NOT EXPECT FUNDS TO BE AVAILABLE FOR ASSP PRIOR TO FOURTH QUARTER. WE WILL ADVISE AS WE KNOW MORE.

4. REGARDING CN REQUIREMENT, WE WILL PREPARE DOCUMENT, BUT WILL NOT SUBMIT IT UNTIL CLOSER TO THE TARGET OBLIGATION DATE. SINCE THERE IS STILL UNCERTAINTY IN OTHER ELEMENTS OF THE MISSION OBLIGATION PLAN, IT IS POSSIBLE THE NUMBERS MIGHT CHANGE SOMEWHAT. EVEN A SINGLE DOLLAR INCREASE WOULD REQUIRE AN ADDITIONAL NOTIFICATION. CN PROCESS NEED NOT BE COMPLETED PRIOR TO PAAD AUTHORIZATION, BUT MUST BE DONE PRIOR TO FUNDS OBLIGATION. SHULTZ
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ANNEX A.3
Page 1

ACTION AID INFO AMB DCM ECON AREP

VZCZCIL0449 25-JUL-87 TOR: 11:30
OO RUEHIL CN: 10184
DE RUEHC #5579 1840312 CHRG: AID
ZNR UUUUU ZZH DIST: AID
P 030310Z JUL 87 ZDK CTG UR SVC 0029 1850533 ADD:
FM SECSTATE ~~WASHDC~~
TO AMEMBASSY ISLAMABAD PRIORITY 9897
BT
UNCLAS STATE 205579

AIDAC

E.O. 12356: N/A

SUBJECT: TRANSPORTATION SOURCE WAIVER FOR SHIPPING UNDER THE AGRICULTURE SECTOR SUPPORT PROGRAM (391-0492)

REFS: (A) ISLAMABAD 10206 (B) ISLAMABAD 12943

OFFICIAL FILE	ACTION	OFFICE	INFO
		D	✓
		DD-A	✓
		PRO	
		[illegible]	
		EC CO	✓
		[illegible]	✓
		[illegible]	
		[illegible]	
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		[illegible]	
		[illegible]	
		CFM	✓
		EXO	
		GSO	
		PER	
		PROC	
		DMS	
		AMP	

1. RECEIPT OF REF (A) ACKNOWLEDGED, REGRET DELAY IN RESPONDING TO REF (B) WHICH REQUESTED M/SER/OP TO WAIVE U.S. FLAG ELIGIBILITY FINANCING REQUIREMENTS FOR SHIPMENT OF BULK COMMODITIES (FERTILIZER ONLY) UNDER THE AGRICULTURE SECTOR SUPPORT PROGRAM (391-0492) TO ALLOW USE OF VESSELS INCLUDED IN CODE 935.

2. THE JUSTIFICATION USED FOR 935 FINANCING ELIGIBILITY IN THE ACE PAAD (391-0468) WAS TO ASSURE ADEQUATE COMPETITION AND COMPETITIVE PRICING WHERE THERE WAS INSUFFICIENT U.S. FLAG CARRIERS TO ACCOMPLISH DELIVERY. BASED ON THIS JUSTIFICATION, M/SER/OP, PURSUANT TO THE STATEMENT OF POLICY IN HANDBOOK 1B, 7B1B(5), APPROVED AN EXPANDED AUTHORIZATION THAT ALLOWED THE FINANCING OF OCEAN TRANSPORTATION ON CODE 935 VESSELS, OTHER THAN U.S. FLAG VESSELS, ONLY TO THE EXTENT THAT U.S. FLAG VESSELS ARE NOT AVAILABLE TO CARRY THE COMMODITIES FOR WHICH TRANSPORTATION IS SOLICITED. STATE 323974 (1981). THIS DID NOT CONSTITUTE A WAIVER OF U.S. FLAG REQUIREMENTS (HANDBOOK 1B, 7B4); A TRANSPORTATION SOURCE WAIVER IS BASED ON A FACTUAL DETERMINATION THAT SUITABLE U.S. FLAG VESSELS ARE NOT AVAILABLE, WHILE THE EXPANDED AUTHORIZATION PREVIOUSLY GRANTED DOES NOT ESTABLISH THAT OTHERWISE ELIGIBLE FLAG VESSELS ARE UNAVAILABLE, IT MERELY ALLOWS FOR FINANCING OF 935 VESSELS WHEN SPECIFIC CIRCUMSTANCES OCCUR (I.E. INSUFFICIENT ELIGIBLE FLAG SHIPS ARE OFFERED TO COVER THE AMOUNT OF CARGO GENERATED UNDER A SPECIFIC COMMODITY TENDER).

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3. M/SER/OP DOES NOT CONSIDER THAT THE WAIVER CRITERIA (HB1B, 7B4) PERMITS AUTHORIZING THE REQUESTED WAIVER, BUT DOES HEREBY AUTHORIZE THE FINANCING OF OCEAN TRANSPORTATION OF FERTILIZER ONLY ON CODE 935 (INCLUDING PAKISTAN) VESSELS TO THE EXTENT THAT U.S. FLAG VESSELS ARE NOT AVAILABLE TO MEET THE TRANSPORTATION SERVICE REQUIREMENTS UNDER A SPECIFIC TENDER, PURSUANT TO HANDBOOK 1B, 7B1B(5), FYI THE LIKELIHOOD IS THAT

SUFFICIENT U.S. FLAG VESSELS WILL BE AVAILABLE TO L. : THE MAJORITY OF THE DAP PURCHASED, END FYI.

4. MORE SPECIFICALLY, THE EXPANDED AUTHORIZATION FOR FINANCING OF OCEAN TRANSPORTATION ON CODE 935 VESSELS PURSUANT TO HANDBOOK 1B, 7B1B(5) OPERATES ONLY IN WHAT UNDER CURRENT MARKET CONDITIONS WOULD BE VERY UNUSUAL CIRCUMSTANCES. ALTHOUGH THE GOP CAN SOLICIT FOR BOTH FOREIGN AND U.S. FLAG SHIPS, IT CAN FIX (CHARTER) NON-U.S. FLAG VESSELS WHEN A.I.D. IS FINANCING FREIGHT ONLY WHEN ALL U.S. FLAG VESSELS OFFERED UNDER THE SOLICITATION HAVE BEEN EXHAUSTED. FOR EXAMPLE, IN A TENDER OF 100,000 TONS OF FERTILIZER, THE IMPORT OF THIS EXPANDED AUTHORIZATION WOULD BE THAT IF 100,000 TONS OF U.S. FLAG SHIP CAPACITY WERE OFFERED ALL 100,000 TONS WOULD HAVE TO MOVE ON U.S. FLAG PURSUANT TO A.I.D. REG. 1 PARAGRAPH 201.13, BUT IF ONLY 70,000 TONS OF U.S. CAPACITY WERE OFFERED THE REMAINING 30,000 TONS COULD BE MOVED ON A FOREIGN FLAG SHIP AND REMAIN ELIGIBLE FOR A.I.D. FINANCING.

5. FINALLY, THE AUTHORIZATION FOR EXPANDING ELIGIBILITY OF FREIGHT FINANCING MAY NOT BE NECESSARY AT ALL. ON THE LAST TWO TENDERS ISSUED, THE GOVERNMENT OF PAKISTAN HAS MADE THE DECISION TO FINANCE ALL FOREIGN FLAG FREIGHT IN RUPEES. THIS DECISION APPARENTLY IS IN PART DRIVEN BY GOP PREFERENCE TO INSURE INVOLVEMENT OF THE PAKISTAN NATIONAL SHIPPING COMPANY (PNSC). IN ANY CASE, UNDER THESE CONDITIONS ONLY 50 PERCENT OF THE TONNAGE UNDER A SPECIFIC TENDER WOULD BE FINANCED BY A.I.D. AND ALL OF THAT TONNAGE WOULD BE ON U.S. FLAG VESSELS WHICH WILL

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ALMOST CERTAINLY BE AVAILABLE. THIS WILLINGNESS BY THE GOP TO FINANCE THEIR OWN FOREIGN FLAG FREIGHT COSTS WOULD APPEAR TO OBVIATE THE NEED FOR THE REQUESTED EXPANSION OF FINANCING ELIGIBILITY TO CODE 935 REGISTRY VESSELS.
SHULTZ
BT
#5579

NNNN

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO PAKISTAN

Cable: USAIDPAK

HEADQUARTERS OFFICE
ISLAMABAD

Office of the Director

AGRICULTURAL SECTOR SUPPORT PROGRAM

FAA SECTION 611(e) CERTIFICATION

I, Eugene S. Staples, the principal officer of the Agency for International Development in the Islamic Republic of Pakistan, having taken into account, among other things, the maintenance and utilization of projects in the Islamic Republic of Pakistan previously financed or assisted by the United States, do hereby certify, pursuant to Section 611(e) of the Foreign Assistance Act of 1961, as amended, that, in my judgment, the Islamic Republic of Pakistan has both the financial capability and the human resources capability to effectively implement, utilize, and maintain the proposed Agricultural Sector Support Program, 391-0492.

This judgment is based on the analyses as detailed in the Agricultural Sector Support Program Assistance Approval Document and is subject to the conditions imposed therein.

E S Staples
Eugene S. Staples
Director
USAID/Pakistan

9/24/87
Date

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO PAKISTAN

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HEADQUARTERS OFFICE
ISLAMABAD

Office of the Director

AGRICULTURAL SECTOR SUPPORT PROGRAM

FAA SECTION 612 (b) CERTIFICATION

A major purpose of the economic assistance program negotiated between the governments of the U.S. and Pakistan, acknowledged by both governments as a primary reason for both governments having decided to develop an economic assistance package, is to provide balance of payments assistance to Pakistan.

I have carefully reviewed the advisability of disbursing U.S. dollars in lieu of U.S.-owned excess foreign currency to pay for local costs of project and non-project assistance in Pakistan. In light of the U.S. Government's objectives concerning the program, I have determined that it would be prejudicial to U.S. interests and goals to pay for all local currency costs with U.S.-owned rupees. Such a procedure would prevent the U.S. from providing the maximum amount of balance of payments support under the economic assistance package, and would consequently undercut one of the basic objective of the program. The objective of providing balance of payments assistance to Pakistan can best be achieved by disbursing U.S. dollars to pay for local costs of the program. Section 612(b) of the Foreign Assistance Act of 1961, as amended, authorizes the administrative official approving the voucher to determine that local costs will be funded with direct payment of dollars for the program. Pursuant to this provision, Handbook 19 requires that the Mission Director (or his designee) make a determination as to the reason in any instance where U.S. dollars are used (disbursed) when U.S.-owned foreign currency is available. Where dollars are used for local cost financing, USAID/Pakistan will, therefore, make disbursements to the Government of Pakistan in U.S. currency.

In view of the above rationale, I, Eugene S. Staples, principal officer of the Agency for International Development in Pakistan, pursuant to Section 612(b) of the Foreign Assistance Act of 1961, as amended, do hereby certify the need to disburse United States dollars to cover local currency costs in lieu of using United States-owned excess rupees under the Agricultural Sector Support Program.

E.S. Staples

Eugene S. Staples
Director
USAID/Pakistan

9/24/87

Date

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT
MISSION TO PAKISTAN

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HEADQUARTERS OFFICE
ISLAMABAD

Office of the Director

CERTIFICATION FOR COMPLIANCE WITH GRAY AMENDMENT

I, Eugene S. Staples, the principal officer of the Agency for International Development in the Islamic Republic of Pakistan, do hereby certify that the acquisition plan in the Agricultural Sector Support Program Assistance Approval Document was developed with full consideration of maximally involving Minority- and Women-Owned Firms, or Gray Amendment Organizations, in the provision of required goods and services. To the extent possible at this stage, opportunities for such organizations to participate in the program have been identified and are described in the acquisition plan. During the course of implementation, further opportunities for such organizations to participate will be fully considered.

E.S. Staples

Eugene S. Staples
Director
USAID/Pakistan

9/29/87
Date

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

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

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1987 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.	The FY 1988 CP listed the program as an FY1987 start. A Congressional Notification will be submitted prior to obligation
2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	No legislative action necessary.
3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.	No. This program is not designed to encourage regional development programs.

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

This program will (a) increase the flow of trade by financing U.S. imports; (b) foster private initiative by promoting policy change favorable to it; (c) have little or no effect on cooperatives, etc.; (d) discourage monopolistic practices by encouraging private competition and an end to public sector monopolies; (e) improve technical efficiency by removing policy constraints to efficiency; and (f) have no impact on labor unions

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

The program will promote U.S. trade by financing U.S. imports and it will promote private investments by removing policy barriers and restrictions; U.S. private contractors will provide technical assistance services.

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

Use of local government funds or U.S.-owned local currency to meet in-country costs would not be consistent with the balance of payments and budget support object ives of this program.

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

Yes, the U.S. government owns Pakistani rupees, which are jointly programmed by AID and the GOP to support agreed-upon development activities.

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

Yes.

9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

Not applicable.

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

No.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

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

Yes.

Yes.

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

No.

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

CIP assistance under this program will generate local currency, which will be programmed for activities consistent with FAA sections 103 thru 106 as mutually agreed by AID and the GOP.

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

CIP funds will be used primarily for the importation of fertilizer, but part of the funds will finance ag. commodities, incl. animal feed, edible oils, wheat and cotton, as required by the Pakistani economy and consistent with Sec. 205.

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

Not applicable.

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

Not applicable.

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development;	Not applicable.
(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;	Not applicable.
(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;	Not applicable.
(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;	Not applicable.
(vi)(A) 75 percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;	Not applicable.

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

Not applicable.

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

No.

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

Such arrangements will be made prior to the disbursement of funds.

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

Yes.

Yes. Funds in the Special Account will be used in accordance with FAA Section 609.

2. <u>Nonproject Criteria for Development Assistance</u>

a. <u>FAA Secs. 102(a), 111, 113, 281(a)</u>. Extent to which activity will (a) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

Not applicable.

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

Not applicable.

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

NA

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

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

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

[106] for technical assistance, energy, earch, reconstruction, and selected elopment problems; if so, extent activity NA

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

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

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

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

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

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

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

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

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

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

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. PROCUREMENT

1.	FAA Sec. 602(a). Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes.
2.	FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?	Yes.
3.	FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	There is no discrimination against U.S. marine insurance companies.
4.	FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	Yes
5.	FAA Sec. 604(g). Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those	No.

countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

6.	FAA Sec. 603. Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?	No.
7.	FAA Sec. 621(a). If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?	Technical assistance will be furnished by private enterprises to the greatest extent possible, with the exception that the U.S.Dept. of Ag. will provide specialized technical assistance in agricultural data collection not available from the private sector and international research institutions may provide additional technical assistance.
8.	International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?	Yes.
9.	FY 1987 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?	Yes.
10.	FY 1987 Continuing Resolution Sec. 524. If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?	Yes.

B. CONSTRUCTION

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? — Not applicable.

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — Yes.

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP), or does assistance have the express approval of Congress? — Not applicable.

C. OTHER RESTRICTIONS

1. FAA Sec. 122(b). If development loan repayable in dollars, is interest rate at least 2 percent per annum during a grace period which is not to exceed ten years, and at least 3 percent per annum thereafter? — Not applicable.

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — Not applicable.

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes.

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1987 Continuing Resolution Secs. 525, 540. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; or (4) to lobby for abortion? — Yes.

b. FAA Sec. 483. To make reimburse-bursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? — Yes.

c. FAA Sec. 620(g). To compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? — Yes.

d. FAA Sec. 660. To provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes.

e. FAA Sec. 662. For CIA activities? — Yes.

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — Yes.

g. FY 1987 Continuing Resolution Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? — Yes.

h. FY 1987 Continuing Resolution Sec. 505. To pay U.N. assessments, arrearages or dues? Yes.

i. FY 1987 Continuing Resolution Sec. 506. To carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? Yes.

j. FY 1987 Continuing Resolution Sec. 510. To finance the export of nuclear equipment, fuel, or technology? Yes.

k. FY 1987 Continuing Resolution Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? Yes.

l. FY 1986 Continuing Resolution Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? Yes.

ANNEX D

CONTRIBUTORS TO THE ASSP DESIGN

The following individuals contributed to the development of the Agricultural Sector Suppport Program.

U.S.A.I.D.

Mr. Russell B. Backus, Agricultural Development Officer, Office of Agriculture and Rural Development, (ARD), USAID/Pakistan
Mr. T.J. Byram, Chief of Party, Agricultural Data Collection, Food Security Management Project
Ms. Marian Fuchs-Carsch, Consultant, Project Design, Project Development and Monitoring (PDM), USAID/Pakistan
Ms. Susan Gant, Consultant, Training, ARD, USAID/Pakistan
Mr. Richard H. Goldman, Chief (A), ARD, USAID/Pakistan
Mr. Allen C. Hankins, Chief (Ret.), ARD, USAID/Pakistan
Mr. Ahmed Masood Khalid, Program Specialist, ARD, USAID/Pakistan
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Mr. Robert W. Nachtrieb, Chief, PDM, USAID/Pakistan
Mr. Shahid Perwaiz, Program Specialist, ARD, USAID/Pakistan
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Dr. Barry K. Primm, Agricultural Economist, ARD, USAID/Pakistan
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Consultants

Dr. Jennifer Bremer, Economist, Robert R. Nathan Associates, Washington, D.C.
Dr. Ray Hooker, Economist
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No. 3(1)US-I/87
Government of Pakistan
MINISTRY OF FINANCE AND
ECONOMIC AFFAIRS
(ECONOMIC AFFAIRS DIVISION)

ANNEX E

Telegram : ECONOMIC
Telex : ECDIV No. 05-634

JOINT SECRETARY
PHONE: 821437

ACTION
Due Date... 10/5

Islamabad the. 24th September, 1987.

Dear Mr. Staples,

As part of the understanding between our Governments under the economic assistance programmes, the Government of Pakistan formally requests USAID to provide three hundred million dollars ($ 300,000,000) through a sector activity to be known as the Agriculture Sector Support Programme (ASSP). The Agricultural Sector Support Programme will provide required support for Pakistan's agricultural sector and assist in improving Pakistan's balance of payments position.

ACC # 4798

2. It is our understanding that, in United States fiscal year 1987, $ 8,000,000 will be obligated in support of the technical assistance and training component only. For US FY 88/89 and subsequent years, I understand that the amount, type of imports to be financed and levels of sector grants will be jointly developed by both our governments on an annual basis.

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3. The Government of Pakistan assures the United States Government of its full cooperation in carrying out the Agricultural Sector Support Programme and looks forward to a continued, combined, effort by both our Governments to yield a productive assistance programme.

With regards,

Yours sincerely,

(A. Ghafoor Mirza)

Mr. Eugene S. Staples
Director
USAID Mission

AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

COUNTRY:	Pakistan
PROGRAM TITLE:	Agricultural Sector Support Program
PROGRAM NUMBER:	391-0492
FY87 CP REFERENCE:	None
APPROPRIATION CATEGORY:	ESF
LIFE-OF-PROGRAM FUNDING:	$600 million
INTENDED FY87 OBLIGATION:	$9 million

This is to advise that AID intends to obligate $9 million for the Agricultural Sector Support Program (ASSP). This is a new program, which was not included in the Congressional Presentation for FY87. As shown in the Congressional Presentation for FY88, initial obligation is being advanced from FY88 to FY87.

The program will provide needed balance of payments support to the Government of Pakistan and will lay the groundwork for sustained development by encouraging the adoption of difficult but necessary reforms in the agricultural sector. The program will address the removal of policy constraints to expanded private sector participation in agriculture, modernization of agribusiness, and realignment of pricing to allow market signals to determine investment and production. Over the initial three years of the program, $330 million in commodity import program, sector support grant, training, technical assistance, and other support will be provided. Continuation of the program into a second three-year cycle, with up to $270 million in additional assistance, will be conditional on satisfactory progress on policy reform.

PLANNED PROGRAM SUMMARY SHEET

TITLE	FUNDS	PROPOSED OBLIGATION (In thousands of dollars)		
Agricultural Sector Support Program (ASSP)	ESF	FY 1987	LIFE OF PROGRAM 600,000	
NUMBER 391-0492 GRANT ☒ LOAN ☐ / NEW ☒ CONTINUING ☐	PRIOR REFERENCE	INITIAL OBLIGATION FY 87- 8,900	ESTIMATED FINAL OBLIGATION FY 100,000	ESTIMATED COMPLETION DATE OF PROJECT FY 93

Purpose: To reduce or eliminate constraints to expanded private sector participation in agriculture, modernize agri-businesses, allow market signals to determine investment and production, expand employment and increase rural incomes.

Program Description: The ASSP program constitutes AID's major intervention in agriculture during the Post FY1987 period and is part of an overall effort to support and sustain agricultural policy reform. Complementary financing of commodities, training, technical assistance and other types of sector support conditioned on policy reform are envisaged. The broad sectoral goal is to increase Pakistan's overall food security by removing policy, pricing, marketing and structural constraints and increasing private sector investment and participation in agriculture. This will be accomplished through performance-based sector support disbursements and public and private sector import programs as well as through research and training in support of a variety of agriculture-related implementation activities.

Relationship of the Program to AID Country Strategy: This program promotes several objectives of AID's strategy in Pakistan. It provides quick disbursing assistance to support balance of payments deficits, meets emergency import requirements, and contributes to increased food production and small farmer incomes. As an important element of AID's policy dialogue, it serves as an instrument for advancing policy objectives in such areas as privatization, pricing and overall national food security.

Host Country and Other Donors: A vibrant agriculture sector is key to Pakistan's overall economic well-being. The program is designed to support ongoing GOP initiatives in this area, especially those policy measured designed to improve productivity. The program supports the work of other donors such as the World Bank and the Asian Development Bank which are also providing policy-based support for Pakistan's agricultural sector.

Beneficiaries: The Pakistan economy as a whole will benefit from the balance of payments support provided under the program. In addition, the sale of imported commodities will generate local currency which the GOP and AID can jointly program for use in a variety of development activities. Ultimately, the program will benefit food consumers as well as small farmers needing goods and services for improving their agricultural productivity.

Major Outputs:	All Years
Balance of Payments Support	X
Enhanced Food Security	X
Increased Agricultural Production	X
Increased Agricultural Incomes and Employment	X
Expanded Private Sector Investment in Agriculture	X
Expanded Agri-Business Activity	X

AID Financed Inputs:	Life of Program ($ million) 1st Tranche	2nd Tranche
Technical Assistance and Training	60	-
Imports (fertilizer, wheat, commodities, feedgrains, agri-business and farm equipment, etc.)	133	140
Direct Balance of Payments Support (SSG):	129	130
Other	8	-
Total	330	270

GRAND TOTAL: 1st & 2nd Tranche: 600 million

U.S. FINANCING (In thousands of dollars)		Obligations	Expenditures	Unliquidated
Through September 30,	1986			
Estimated Fiscal Year	1987			
Estimated through September 30,	1988	8,900		
			Future Year Obligations	Estimated Total Cost
Proposed Fiscal Year	1988	120,000	4[illegible],000	600,000

PRINCIPAL CONTRACTORS OR AGENCIES

TO BE DETERMINED

DRAFT PROGRAM DESCRIPTION FOR INCLUSION IN THE PROGRAM AGREEMENT

A. Program Goal and Purpose

The goal of the six years $600 million Agriculture Sector Support Program is to sustain economic growth in Pakistan through increased productivity in the agriculture sector. The Program purpose is to provide balance of payments support and remove key constraints to growth in the agricultural sector.

B. Program Elements

The Agriculture Sector Support Program provides balance of payments, budgetary, and institutional development support to the GOP under three principal elements: a Commodity Import Program; Sector Support Grants; and, Training and Technical Assistance. These three integrated elements will establish a firm basis for sustained agricultural growth through institutional and structural policy reforms.

1. Commodity Import Program

The Commodity Import Program will finance importation of agricultural inputs (particularly fertilizers); commodities and equipment needed to support agricultural production, processing and marketing (for example, irrigation equipment); agricultural commodities required for local processing and consumption (for instance, wheat); and, machinery and raw material needed by the local agribusiness (like agricultural product processing machinery). This element of the Program will also encourage policy reforms specific to the imported commodities and equipment.

2. Sector Grants

Sector Grants will take the form of direct cash transfers to encourage adoption of major agricultural policy reforms. The cash transfers, placed in a dedicated account, would be used by the GOP to finance its foreign exchange requirements. The cash transfers will be mirrored in a GOP provided rupee equivalent account which will be used for mutually agreed upon economic development activities.

3. Training and Technical Assistance

This component will upgrade the capabilities of public and private institutions engaged in agricultural research, education and extension and provide analytical support to the GOP for agricultural policy formulation, implementation and monitoring. The Technical Assistance and Training component will have two distinct but interrelated elements:

a. Sectoral Training : This will provide long and short term local and overseas training to public and private sector professionals engaged in agricultural and rural development and in national agribusiness as well as visiting assignments for U.S. academicians in local institutions.

b. Policy Information and Management : The objective of this aspect of the Program will be to provide analytical support to agricultural policy formulation, implementation and monitoring processes. Analytical studies would be undertaken to address removal of distortions in input and output prices; deregulation of production, processing and marketing of agribusiness; elimination of subsidies in agriculture and such other mutually agreed upon areas. The analytical content of the Program will be reinforced by the continuation in expanded form of agricultural data collection, economic analysis network and post harvest management activities initiated under the Food Security Management (FSM) Project.

C. Implementation Plan

1. Implementation Schedule

To initiate training and technical assistance activities, $8.9 million will be obligated for U.S. fiscal year 1987. Subsequently, implementation will follow annual cycles where level of annual funding would be determined on the basis of GOP balance of payments needs, progress in implementing agricultural policy reforms and effectiveness in allocating generated local currency to mutually agreed upon development activities. Until U.S. FY 89, the Program will be closely coordinated with the FSM Project after which all FSM activities will be incorporated into the Program. Indicative schedule of Program obligations is as follows:

INDICATIVE SCHEDULE OF OBLIGATIONS
(Millions of U.S. Dollars)

	U.S. Fiscal Year			
	1987	1988 -1990	1991-93	Total
Commodity Import Program	0	135	135	270
Sector Grants	0	135	135	270
Technical Assistance & Training	8.9	51.1	0	60
Total	8.9	321.1	270	600

2. A.I.D. Responsibilities

A.I.D. will be responsible for: (a) contracting techinical assistance; (b) arranging for short and long-term incountry and overseas training; (c) procuring vehicles, computers and such other agricultural commodities and equipment as may be mutually agreed upon between the two Governments.

3. GOP Responsibilities

Given the broad dimensions of the Program, the Economic Affairs Division will convene quarterly meetings attended by representatives of Food & Agriculture, Finance, Industries and other related GOP Divisions to discuss Program development and implementation. The Secretary, Food & Agriculture Division, however, will serve as the single overall Program counterpart. The GOP counterparts for each Program element will be as indicated below and others as GOP and USAID may agree to in writing.:

Commodity Import Program	Joint Secretary (Inputs) Food & Agriculture Division
Sector Support Grant	Joint Secretary (External Finance) Finance Division
Technical Assistance and Training	Additional Secretary Food and Agriculture Division

The GOP counterparts would be responsible for (a) all aspects of the implementation of the assigned Program element; (b) providing adequate counterparts to work with consultants; (c) liaisoning on a day to day basis with A.I.D. representatives and visiting consultants; (d) and, procuring commodities and equipment as may be mutually agreed upon between the two Governments.

ANNEX H

LIST OF AGRICULTURAL POLICY CHANGES

This annex describes a system for assessing progress on policy reform and translating this assessment into a level of program assistance funding. This method has been developed to meet the special needs of the Agricultural Sector Support Program. Further negotiation with the GOP is necessary, however, to determine whether this system will be used in implementing the ASSP or whether the situation requires a more informal method or another approach altogether to completing the annual assessment leading up to amendment of the PAAD and ProAg.

The method described here is consistent with the overall procedure described in section III, in which a set of action benchmarks is negotiated with the GOP, consisting of a list of reform actions to be undertaken in a given year, with each reform being ranked by AID as a high-priority or medium-priority action. A more general list of possible future reforms may also be included in the initial agreement, and updated annually, as an aid in identifying desirable policy actions that have not yet been agreed upon by the GOP. An initial listing is presented at the end of this annex.

Experience in other countries strongly confirms the importance of clarity and unambiguity in defining both the policy changes desired and the level of performance required of the host government in implementing them. At the same time, the agreed-upon agenda must be sufficiently flexible to remain valid in the face of unforeseen circumstances and to reflect unexpectedly rapid progress by the GOP in implementing important reforms in other areas. The procedure described here represents a compromise between these two potentially contradictory aims. It provides a quantitative ranking system, so that both the GOP and AID can readily assess what is expected and what has been achieved, but also allows for flexibilty in selecting from among a set of policies to be implemented during a specific time period.

In the method proposed here, the annual assessment will have three steps. In the first step, AID and the GOP will determine whether the reforms in the action set have been implemented and whether, in addition, any other reforms have been implemented. Where additional reforms are identified, AID will determine whether these actions should be considered high-value or medium-value reforms, given their importance for overall progress toward the reform program's goals and the perceived difficulty of the actions taken.

In the second step, the level of performance will be translated into a quantitative score, by adding up the value of the reforms implemented during the year, as follows:

High-value reforms:	5 points
Medium-value reforms:	3 points

If a reform has been implemented partially, AID may choose to award partial credit.

The somewhat unusual procedure of ranking specific policies has been developed to address two concerns:

1. While it is expected that the GOP will implement most of the reforms on the action list, it is also recognized that circumstances may prevent full implementation of every reform agreed to during the year under assessment; at the same time, there must be an agreed-upon dividing line between adequate and inadequate performance.

2. While emphasis should be given to the reforms specifically agreed to and included in the PAAD action list, it is highly desirable to be able to reward the GOP for moving more rapidly than expected in other areas.

Each year, the value of reforms actually implemented will be assessed relative to the value of reforms agreed upon in the action set, in order to determine whether the progress made during the year merits continued program support. For the first two years, performance would be considered adequate if the total value of the reforms reached at least 50 percent of the value of the reforms in the action set. This target would be reassessed during the mid-program evaluation.

In the third step of the assessment, the level of performance would be translated into a program assistance level. As the total score translates to a total level of assistance, it is not necessary to assign dollar values to individual actions. As the example given below indicates, a given score can be achieved by many different combinations of reform actions. While the overall level of assistance will be subject to negotiation and will be affected by programming considerations on both the AID and GOP sides, regardless of the assessment method used, the overall relationship between performance and funding levels may be depicted as follows:

Performance Level	Program Assistance CIP ($ million)	SG	TATA	Total
50% of actions taken (adequate performance)	50	0	10	60
70% of actions taken	50	25	10	85
90% of actions taken	40	50	10	100
100% of actions taken	30	60	10	100

This funding level would then serve as the provisional funding level to be used in negotiating the next year's action list and finalizing the funding level for inclusion in the PAAD and ProAg amendments.

An example may help to clarify how the action benchmark system will work. The draft action benchmarks for FY88, presented in section III of the text, include three high-value reforms and five medium-value reforms. If the GOP implemented all of these reforms, it would receive a total score of 30 (three high-value reforms at five points each plus five medium-value reforms at three points each). The GOP's performance would be considered adequate if it implemented reforms worth a total of 15 points (50% of 30), which it could achieve in a number of ways, including the following:

- implementing all three high-value reforms (3 x 5 = 15);
- implementing all five medium-value reforms (5 x 3 = 15);
- implementing one high-value reform and four medium-value reforms (1 x 5 plus 4 x 3 = 17); or
- implementing two high-value reforms and one medium-value reform plus taking an additional high-valued measure not included on that year's action list (2 x 5 plus 1 x 3 plus 1 x 5 = 15).

These levels of performance would all result in the same provisional funding level as the basis for finalizing the annual negotiation, that is, $60 million, excluding the TATA component. Reforms totaling 21 points (70% of 30) would earn $85 million ($75 million plus $10 million of TATA), and reforms totaling more than 27 points (90% of 30) would earn the full $100 million, with an increasing proportion of sector grants to reflect better performance by the GOP.

The actual level of assistance programmed would depend on the GOP's commitment to continued progress in the coming year and mission programming considerations.

Illustrative List of Policy Reforms

Based on information available as of April 1987, the following policy reforms are viewed as necessary or desirable actions to promote improved food security and rural incomes in Pakistan. Full (and, where appropriate, partial) implementation of any of these reforms by the GOP will therefore be viewed by AID as contributing to a positive assessment of GOP performance in agricultural policy reform for the purpose of determining the level of sector grants and commodity import funds to be allocated under the ASSP. This list is illustrative rather than all-inclusive; other policy reform actions taken by the GOP over the course of the year will also be considered in making the assessment, on a case-by-case basis.

Reforms are identified as high value or medium value, based on AID's assessment of their potential contribution to agricultural growth and the difficulty of implementing them, as indicated by "H" or "M" following the reform. If a quantitative ranking system is used, implementation of a large reform (e.g., complete removal of subsidies on phosphatic fertilizer) would be considered equal to several separate actions. Conversely, partial implementation of a high-valued reform may also be considered equivalent to a medium reform.

INPUT SUBSECTOR

1. Fertilizer

a. Subsidies

Reduction of the subsidy on phosphatic fertilizers:

-- to 75% of its 1986 level (M)
-- to less than 70% of its 1986 level (H)

Reduction of the subsidy on potassic fertilizers:

-- to 75% of its 1986 level (H)
-- to less than 70% of its 1986 level (H)

b. Administrative controls

Removal of limits on geographical marketing of fertilizer (H)

Open private sector importation of potassic/phosphatic fertilizers (M)

Eliminate restrictions on private sector production (M)

c. Public sector marketing and production activities

Implement a distribution system for fertilizer resulting in the private sector receiving more than 80% of the total (M)

Withdrawal of provincial marketing organizations from fertilizer (H)

End subsidy on private sector plants (M)

Divest of state-owned production capacity:

-- Divest 50% of equity in any single plant (M)
-- Divest any single plant (H)
-- Divest all plants (H)

Implement a reserve stock policy based on 15% or less of national demand for nitrogen and 25% or less of national demand for phosphorus (M)

2. Water

a. Operations and maintenance expenditures

Increase O&M expenditures to meet full technical requirement on gravity systems (H).

Increase O&M expenditures to meet full technical requirement on tubewell systems (H).

b. Farmer water charges

Increase farmer water charges on gravity systems to meet O&M costs (M)

Increase farmer water charges on gravity systems to meet O&M costs and 50% of capital costs (H)

Increase farmer water charges on tubewell systems to meet O&M costs (H)

c. Tubewell subsidies

Increase electricity rates to same level as non-agricultural users (H)

Eliminate subsidy on tubewell installation (M)

Eliminate subsidy on electrification of tubewells (M)

Privatize public sector tubewells:

-- Privatize at least 50% of capacity (M)
-- Privatize all of capacity (H)

3. Seed

a. Administrative controls

Establish a national policy classifying seeds as agribusiness (M)

Revise the national seed law to encourage private sector investment and provide appropriate protections for consumers (H)

Remove seed production from list of investments requiring sanctioning (M)

Eliminate import tariffs for genetic material (M)

b. Public sector production

Denationalize provincial seed companies (H)

Eliminate subsidy on public sector seed (M)

5. Credit

a. Identify and implement a program to promote rural savings (M)

b. Reduce subsidized credit:

-- Raise interest rates to level necessary to cover costs of administration (M)

-- Raise interest rates to level of commercial credit (H)

DOMESTIC MARKETING, PROCESSING AND CONSUMPTION SUBSECTOR

1. Agribusiness

Eliminate sanctioning for agribusinesses:

-- Eliminate sanctioning for selected major production and processing categories (M)

-- Eliminate all sanctioning requirements (H)

Eliminate import controls/tariffs for materials used in input distribution (packaging, etc.) and processing of agricultural products (H)

Rationalize policies on indigenization and royalties to facilitate technology transfer (M)

2. Wheat

a. Administrative controls on marketing

Increase release price to cover 90% of marketing costs (including procurement) or to market price, whichever is higher (H)

Introduce system of state procurement through tenders at open price (H)

Conduct 50 percent of releases on auction basis (H)

b. Public sector storage

Increase O&M expenditures on provincial warehouses to full technical requirement (M)

Denationalize 50 percent of provincial Feed Department godowns (H)

3. Ghee/oils

a. Administrative controls on marketing and investment

Maintain duty on edible oil imports at level consistent with long-run price trend in international markets (do not overprotect or restore subsidy if prices rise) (M)

Announce policy supporting establishment of a futures market for edible oil, if it is found to be consistent with Sharia (M)

Remove tariffs on equipment needed to establish new private processing plants (M)

Remove sanctioning requirements for construction of new private sector processing plants or expansion of existing plants (M)

b. Public sector production

Denationalize Ghee Corporation processing capacity:

-- Announce policy of denationalizing (M)
-- Denationalize 25% of capacity (H)
-- Denationalize all of capacity (H)

Reduce operating subsidy to GCP by 50% or more (M)

Build no new Ghee Corporation facilities and do not expand or update existing plants (M)

4. Sugar

Bring price to mills into line with World Bank's estimated long-run equilibrium price for world sugar (H)

Remove marketing controls on farmer marketing of sugarcane (M)

PUBLIC SUBSECTOR

1. Education, research and extension

Increase budget for research to 10 percent of total operating budget for educational and research institutions (H)

Restructure provincial education, research, and extension network in at least one province into single organization (H)

Adopt policies to encourage private sector extension (directly or indirectly) (M)

2. Management information

Increase budget for basic crop data collection and reporting by at least 50% (M)

Establish regular and timely publication of production, price, and marketing data and forecasts (M)

Integrate data collection activities under the umbrella of one national organization (M)

Establish regular budget for economic and policy analysis in MINFAC (M)

Institutionalize EAN within MINFAC by creating positions and staffing them (M)

ANNEX I.1

PUBLIC FINANCE

During the 1980s, combined expenditures by the federal and provincial governments were growing at a faster rate than growth in GDP. Such expenditures, as shown in Table I.1-I, amounted to 25.1% of GDP in 1986 with the ratio growing at an average of 0.4 percentage points annually, 1980-86. Combined revenue -- tax, non-tax, and the surplus from (public) autonomous bodies -- grew at the same rate as GDP. The overall deficit was thus rising relative to GDP, increasing by an average of 0.4 percentage points annually over the period. The deficit was 30% of total expenditures in 1986. This proportion was rising by an average of one percentage point annually, 1980-86.

About 48% of the total deficit was financed from external sources in the early eighties. This proportion fell sharply, to 14% in 1985 and to 23% in the following year. To keep bank financing down, the GOP promoted the sale of debt instruments to the non-bank public at very attractive rates. The promotion was very successful; many bonds were sold, which increased total internal debt by 227%, 1980-86 (Table I.1-II). In 1986 alone, such debt increased by Rs. 8 billion. Growth in unfunded debt was especially rapid over the period, increasing by 467%, 1980-86. Consequently, non-bank (domestic) borrowing has been growing very rapidly, financing 10% of the deficit in 1980 and 65% in 1986. Bank financing has been falling, from 43% of the deficit in 1980 to 12% in 1986, after a jump to 51% in 1985 (Table I.1-II).

Note that the trend of development expenditures as a share of total budgetary expenditures was falling in the eighties (Table I.1-I) and that the corresponding trend for current expenditures was rising. The average growth rate in current expenditures over the period was twice as fast as development expenditures. Current expenditures, in nominal terms, grew at an average annual rate of 18% during the eighties, while development expenditures grew at a rate of 9%.

The falling trend of the share of development expenditures reflects in some degree the stated Government policy of relying more and more on the private sector for investment and participation in economic development. It also reflects the rapid growth in defense and interest costs. Note that the proportions of both defense and interest expenditures to total expenditures were rising, 1980-86, with the increase in interest especially large (Table I.1-III). The proportion for subsidies was about constant, 1981-86. The three together accounted for a rising share in total expenditures, reaching 48% in 1986 and to about two-thirds of total current expenditures. After meeting these claims on government resources, the resources available for the provision of social services (education and health) and physical infrastructure are very limited.

With regard to interest expense, growth in interest on external debt was substantially lower than growth on domestic debt. Thus, in current Pakistani rupees, interest on external debt increased from Rs. 2.4 billion in 1980 to Rs. 6.3 billion in 1986, an increase of 163%. Interest on domestic debt increased by about 430%, from Rs. 2.5 billion to Rs. 13.2 billion during the same years (Table I.1-IV).

TABLE I.1-I
SUMMARY OF PUBLIC FINANCES IN Rs. MILLIONS
(CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENTS)

	1980	1981	1982	1983	1984	1985 (P.A.)	1986 (Revised)	1987 (Budget)
REVENUE	38,502	47,002	51,937	59,181	72,290	77,403	90,036	103,334
Tax	32,507	38,846	43,010	49,029	53,646	55,963	61,169	66,655
Non-Tax	5,995	8,156	8,927	10,152	18,644	21,440	28,867	36,719
SURPLUS OF STATE AUTONOMOUS BODIES	1,464	2,019	1,909	2,286	2,565	2,639	3,411	3,724
EXPENDITURES	54,629	63,639	71,013	87,121	100,002	116,819	132,894	153,654
Current *	35,547	40,318	46,370	59,686	73,411	85,270	97,767	109,464
Development	19,082	23,321	24,643	27,435	26,591	31,549	35,127	44,190
OVERALL DEFICIT	(14,663)	(14,618)	(17,174)	(25,654)	(25,147)	(36,777)	(39,447)	(46,556)
FINANCING (NET)	14,663	14,618	17,174	25,654	25,147	36,777	39,447	46,556
External (Net)	6,951	6,997	5,345	5,162	5,001	5,169	9,008	15,309
Domestic (Non-Bank)	1,407	5,286	6,313	14,368	12,280	12,873	25,682	26,487
Banking System	6,305	2,355	5,516	6,124	7,866	18,735	4,757	4,760
MEMORANDUM ITEMS:								
DOMESTIC BANK FINANCING	7,369	6,502	6,576	9,690	6,608	18,024	4,720	7,564
Budgetary Support**	6,305	2,355	5,516	6,124	7,866	18,735	4,757	4,766
Commodity Operations***	1,054	4,147	1,060	3,566	(1,258)	(711)	(37)	2,798
GDP (AT CURRENT MARKET PRICES IN Rs. BILLIONS)	234.5	278.0	321.8	362.2	418.2	469.9	526.5	593.3
AS % OF GDP AT MARKET PRICES								
Tax Revenue	13.9	14.0	13.4	13.5	12.8	11.7	11.6	11.2
Total Revenue	16.4	16.9	16.1	16.3	17.3	16.2	17.1	17.4
Autonomous Bodies	0.6	0.7	0.6	[illegible]	0.6	0.5	0.6	0.6
Expenditures	23.3	22.9	22.1	24.1	23.9	24.4	25.1	25.9
Overall Deficit	6.3	5.3	5.3	7.1	6.0	7.6	7.4	7.8
Domestic Bank Financing	3.1	2.3	2.0	2.7	1.6	3.7	0.8	1.3
of which: Budgetary Support	2.7	0.8	1.7	1.7	1.9	3.9	0.9	0.8
Domestic (Non-bank)	0.6	1.9	2.0	4.0	2.9	2.7	4.9	4.5
External	3.0	2.5	1.7	1.4	1.2	1.1	1.7	2.6

P.A. = Provisional Actuals

*Differs from the standard presentation in that subsidies in the ADP are classified as current rather than development expenditures.

**Differs from monetary statistics due to coverage and timing.

***Falls outside of Government's deficit financing from the banking system.

Source: Pakistan Budgets, 1986-87, GOP, p. 429.

TABLE I.1-II
INTERNAL DEBT OUTSTANDING
(END OF PERIOD IN RS. MILLIONS)

	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
PERMANENT DEBT	20,942	20,995	24,763	31,761	36,018	36,835	56,709
Prize Bonds	1,290	1,576	3,542	9,279	13,538	13,884	16,322
Special National Fund Bonds	-	-	-	-	-	-	13,666
Bearer National Fund Bonds	-	-	-	-	-	-	1,522
Foreign Exchange Bearer Certificate	-	-	-	-	-	-	2,376
Market Loans	18,911	18,682	19,704	20,219	19,513	19,374	18,611
Income Tax Bonds	38	33	31	30	25	24	23
Government Bonds	703	704	703	710	715	716	717
Government Bonds for State Life Insurance Corp.	-	-	766	1,506	2,194	2,786	3,417
Land Reform Act, 1977	-	-	17	17	33	51	55
FLOATING DEBT	29,998	30,777	40,334	48,395	56,940	72,830	86,996
Ad hoc Treasury Bills for Ways and Means	21,304	21,406	30,426	22,886	32,120	50,636	55,736
Treasury Bills on Tap	5,415	5,966	5,704	20,348	20,144	17,633	26,637
Government Treasury Deposits Receipts	3,279	3,405	3,504	4,530	4,188	4,141	4,273
Ad hoc Treasury Bills for Capital Investment in Pakistan Railways	-	-	700	630	490	420	350
UNFUNDED DEBT SCHEMES	9,542	10,711	13,992	21,571	29,725	40,251	54,070
Defence Saving/National Deposit/Khas Deposit/Premium Savings Certificates	6,107	6,857	9,054	12,971	17,887	24,365	37,837
Khas Deposit Account/National Deposits/Savings Account/Fixed Deposit/Mahana Amdani/Special Savings Account	3,042	3,408	4,422	7,956	11,090	14,881	15,048
Postal Life Insurance	393	446	516	642	748	1,005	1,185
GRAND TOTAL INTERNAL DEBT	60,482	62,483	79,089	101,727	122,683	149,916	197,775

Source: Pakistan Budgets, 1986-87, GOP, September 1986, p. 63.

TABLE I.1-III
STRUCTURE OF CONSOLIDATED GOVERNMENT (FEDERAL AND PROVINCIAL) BUDGET, PFYs 1980-87

Expenditures (Rs. billions)

PFY	Defense	Interest	Subsidies	Sub-Total	Other Current	Current Total	Development	Total
1980	12.7	4.8	7.0	24.5	11.0	35.5	19.1	54.6
1981	15.3	5.9	5.4	26.6	13.7	40.3	23.3	63.6
1982	18.6	7.7	4.3	30.6	13.9	44.5	26.5	71.0
1983	23.2	11.1	4.8	39.1	18.6	57.7	29.4	87.1
1984	26.8	14.1	6.1	47.0	26.4	73.4	26.6	100.0
1985	31.9	16.5	6.9	55.3	28.5	83.8	33.0	116.8
1986	35.0	20.3	9.1	64.4	30.3	94.7	38.2	132.9
1987	38.6	22.0	9.5	70.1	37.5	107.6	46.1	153.7

Percent of Total Expenditures (%)

PFY	Defense	Interest	Subsidies	A+B+C	Other Current	Current Total	Development	Total	A+B+C as % of Current
	A	B	C	D	E	F	G	H	I
1980	23	9	13	45	20	65	35	100	69
1981	24	9	8	42	22	63	37	100	66
1982	26	11	6	43	20	63	37	100	69
1983	27	13	6	45	21	66	34	100	68
1984	27	14	6	47	26	73	27	100	64
1985	27	14	6	47	24	72	28	100	66
1986	26	15	7	48	23	71	29	100	68
1987	25	14	6	46	24	70	30	100	65

Source: Pakistan Budgets, 1986-87, Table 3, p. 58. Subsidies are from Table 4, p. 432. "Other Current" is a residual. Figures for 1985 are provisional actual; 1986 are revised estimates; and 1987 are budget figures.

Subsidies on wheat and sugar, fertilizer, and exports are shown in Table I.1-V at Rs. 3.8, Rs. 3.0 and Rs. 2.1 billion respectively. These accounted for practically all the "direct" subsidies in 1986. Subsidies on edible oil were Rs. 2.25 billion in 1985 but were zero in the following year because the price of edible oil dropped substantially in international markets and the domestic prices of edible oil were decontrolled. The sudsidy for wheat and sugar increased sharply in both 1985 and 1986 and a further increase is budgeted for 1987. Due to poor crops in 1984 and 1985, wheat was imported in both years but the record crop in 1986 resulted in record government procurement. Fertilizer subsidies were up sharply in 1986 as offtake moved up rapidly but the subsidy is budgeted to fall sharply in 1987 as the price of nitrogenous fertilizer was derregulated. With respect to revenue, customs duties is the largest source, followed by excise taxes. These two sources yielded 49% of total revenue

TABLE I.1-IV
DEBT SERVICING IN RS MILLION

	1979	1980	1981	1982	1983	1984	1985 (P.A.)	1986 Revised	1987 Budget
Interest on both Domestic and Foreign Debt	3,834	4,870	5,631	7,260	10,624	13,591	15,930	19,507	21,294
Interest on Domestic Debt	1,826	2,494	3,351	4,490	6,249	8,443	10,067	13,246	14,747
Interest on Foreign Debt	2,007	2,375	2,280	2,270	4,375	5,148	5,863	6,261	6,547
Foreign Loans	1,536	1,703	1,607	1,336	2,197	2,817	3,114	3,758	4,241
IMF Drawings	331	253	253	562	1,295	1,520	1,[illegible]74	1,768	1,504
Food Credit/Short Term Borrowings	140	419	419	872	883	811	975	734	803
Repayments/Amortization	2,505	5,604	3,633	5,918	8,734	8,618	9,031	11,065	10,637
Foreign Loans	1,479	2,660	2,313	2,432	3,194	4,359	5,237	7,397	8,245
Food Credits	1,026	2,945	1,320	3,486	5,540	4,259	3,794	3,608	2,322
Partition Debt	-	-	-	-	-	-	-	-	70
TOTAL DEBT SERVICING	6,339	10,474	9,264	13,178	19,357	22,209	24,962	30,572	31,931

TABLE I.1-V
FEDERAL AND PROVINCIAL GOVERNMENT SUBSIDIES IN RS MILLION

	1977	1978	1979	1980	1981	1982	1983	1984	1985 (P.A.)	1986 Rev.	1987 Budget
Wheat and Sugar	1,096	1,636	2,524	1,777	1,135	1,303	1,160	1,282	2,888	3,810	4,064
Edible Oils	-	-	577	884	583	1	-	1,485	2,250	-	-
Fertilizer	381	617	1,692	2,454	2,457	1,794	1,948	1,466	1,501	3,041	1,842
Plant Protection, Pest. & Equip.	485	523	267	218	-	-	-	-	-	-	-
Tubewells	48	20	24	22	20	24	24	-	-	16	18
Export Subsidies	-	-	500	550	705	1,153	1,380	1,694	-	2,143	2,208
Petroleum Prod.*	4	400	424	480	450	-	-	-	-	-	-
Others**	538	414	94	639	28	28	267	207	222	105	1,321
TOTAL	2,428	3,290	6,030	7,024	5,378	4,333	4,779	6,134	6,861	9,115	9,453
% of Cur. Exp.	12.05	12.88	19.77	19.76	13.33	9.34	8.00	8.35	8.05	9.32	8.63
% of GDP	1.62	1.86	3.90	2.99	1.93	1.34	1.31	1.46	1.43	1.73	1.59

*Includes only direct subsidies and excludes refund of surcharges on petroleum products.
**Includes losses of Cotton Export Corporation of Rs 575 million in 1979-80 and Rs 2,208 million in 1986-87.
P.A.- Provisional Actuals
Source: Pakistan Budgets, 1986-87, GOP, September 1986, p. 432.

(customs duties, 31%; excise taxes, 18%) in 1986. And these two sources, along with sales taxes and income/corporation taxes accounted for 65% of total revenue. From 1980 to 1986, the yield from custom duties increased 93% and receipts from excise taxes increased 50% (Table I.1-VI). The excise tax on tobacco is the largest yielder of the excises, accounting for one-third of total excise yield. Sugar is next, then cement and POL products. These four excises accounted for 70% of the total revenue generated by the excise tax in 1986.

Non-tax revenue has been growing substantially faster than tax revenue. While the former accounted for 16% of total revenue in 1980, this increased to 32% in 1986.

TABLE I.1-VI
SUMMARY, CONSOLIDATED FEDERAL AND PROVINCIAL GOVERNMENTS
REVENUES BY SOURCE

	Revenue Source (Rs.billions)					Total Revenue (Rs.billions)		
PFY	Customs	Excise	Sales	Income/ Corporation	Sub-Total	Tax	Non-Tax	Total
1980	14.3	10.5	2.4	5.2	32.4	32.5	6.0	38.5
1986	27.6	15.8	5.0	9.7	58.1	61.2	28.9	90.0
1987	29.2	16.8	5.7	11.0	62.7	66.7	36.7	103.4
Increase, 1980-86 (%)	9.	50	108	87	79	74	382	134
Percent of Total Tax Revenue (%)								
1980	44	32	7	16	100			
1986	45	26	8	16	95			
1987	44	25	9	16	94			
Percent of Total Revenue (%)								
1980	37	27	6	14	84	84	16	100
1986	31	18	6	11	65	68	32	100
1987	28	16	6	11	61	65	35	100

Source: Pakistan Budgets, 1986-87, Table 2, p. 430. Figures for 1987 are budget figures.

In summary, the Government budgetary position has been deteriorating during the eighties. Expenditures have been growing at a faster rate than receipts, resulting in a budgetary deficit which is increasing relative to GDP. Projections of the budget deficit, assuming historic rates of growth in receipts and expenditures, suggest that the deficit will grow to some 100 billion rupees by 1993 (See Figure I.1-I). If current trends are not reversed, the domestic debt servicing requirements of the GOP will increase to uncomfortable

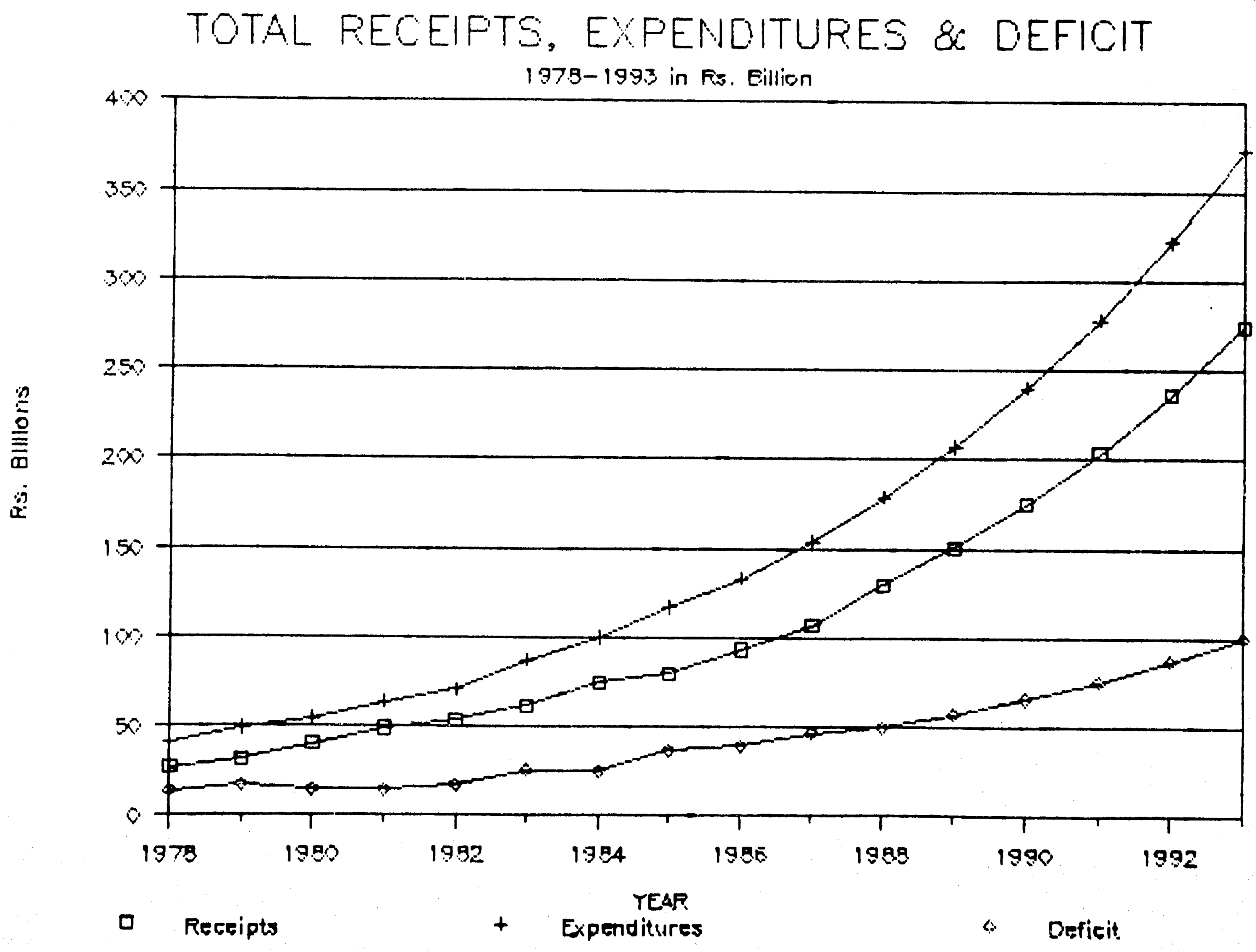


Figure I.1-I

Total Receipts, Expenditures and Deficit levels. The current budget is growing twice as fast as the development budget. To help keep down domestic bank financing of the deficit, the Government promoted, by offering very attractive rates, the sale of debt instruments to the non-bank public. Domestic non-bank debt has increased very rapidly as has interest cost. The latter, along with defense and subsidies, now accounts for almost 50% of total budgetary expenditures and two-thirds of current expenditures.

The non-bank borrowing mode of "mobilizing domestic resources" has to be considered as a stop-gap measure. More fundamental changes in the revenue, and expenditure in public finance, on both the receipts and expenditures sides, are required. In his budget address (May 29, 1986) the Federal Finance Minister noted that the newly established National Taxation Reform Commission had just submitted an interim report but not in time to incorporate much of it in the 1986/87 budget. He noted that the Government would study the Commission's recommendations in depth and then initiate basic long-term reform of the taxation system. The Minister has since hinted that a new, broad-based sales tax will be introduced.

The promised reform should include a rationalization of duties, tariffs, and taxes to reduce the protection now accorded a number of mature industries. However, attention to the expenditure side is just as important. Budgetary (and economic) performance can be improved by hastening the denationalization and deregulation process to reduce expenditures, including those for subsidies, and to improve economic performance.

ANNEX I.2

EXTERNAL SECTOR

International trade is an essential part of Pakistan's economy; imports and exports of goods and services were equivalent to 23% and 18% respectively of GNP in 1985. Yet, the country's balance of payments is structurally weak due mainly to a lack of export diversification and a heavy reliance on remittances from Pakistani workers abroad. Two primary commodity exports --cotton and rice-- account for a large proportion of export earnings. However, receipts from these two sources are subject to sharp fluctuations, which reflect wide variations in domestic production and the volatility of international prices for these commodities.

A large proportion of manufactured exports consists of cotton-based textiles and yarn, which are also affected by variations in domestic cotton production, international prices for raw cotton, and protectionist measures in some major export markets. While there has been some progress in export diversification, manufactured exports have not contributed to a substantial widening of the export base. This situation is largely a consequence of the protectionist policy that has been pursued in recent years to promote import substitution. This protectionism shields industries from foreign competition and reduces incentives to keep production costs down and to produce quality products.

The Trade Account. Growth (current dollar value) in both commodity exports and imports was very slow during the 1980s. There was, however, a tendency for export growth to be marginally less than that for imports. Consequently, there was a trend for the trade account deficit to rise. The variability for exports was much greater than for imports. For the 1981-86 period, the deficit in the trade balance averaged $3.2 billion annually (exports $2.6 billion and imports, $5.8 billion) with commodity export earnings amounting to 45% of the commodity import bill (Table I.2-I). Since annual movements in imports and exports tended to move in the opposite direction, 1981-86, the year-to-year variability in the trade account was greater than the variability of either export receipts or import costs.

A large percentage of Pakistan's exports are raw agricultural commodities or products derived directly from agricultural commodities. Thus, for the 1983-85 period, exports of cotton (raw, yarn and cloth), rice, carpets, leather, guar and products, wool, fish, and fish preparations yielded 56% of total export earnings. Table I.2-II shows the proportion of major agricultural exports to total exports on an annual basis, 1980- 1985. The share in total export earnings of raw cotton, rice (both basmati and other), rugs and carpets, and raw wool was falling while the share for cotton yarn, cotton cloth, raw wool, fish, and fish preparations rose. Export earnings from raw cotton and rice fluctuated widely. Table I.2-II shows that while the relative contribution of agricultural exports to total export earnings declined rather rapidly, 1980-1985, the contribution was still very large.

TABLE I.2-I

BALANCE OF PAYMENTS SUMMARY TABLE ($ millions)

	1981	1982	1983	1984	1985	1986	1987 (Est)
TRADE BALANCE	-2765	-3450	-2989	-3324	-3552	-3042	-2565
Exports (fob)	2798	2319	2627	2669	2457	2942	3278
Imports (fob)	-5563	-5769	-5616	-5993	-6009	-5984	-5843
INVISIBLES BALANCE, net	1802	1895	2436	2294	1867	1806	1565
Services	-430	-492	-603	-713	-822	-1016	-1026
Private Transfers	2232	2387	3039	3007	2689	2822	2591
Workers' Remittances	2097	2224	2886	2739	2446	2596	2300
CURRENT ACCOUNT BALANCE	-963	-1555	-553	-1030	-1685	-1236	-1000
CAPITAL ACCOUNT BALANCE	939	975	1252	944	718	1229	985
Official Transfers	253	421	327	296	360	478	370
Long Term Capital (net)	419	491	867	622	524	611	536
Official Disbursements	719	696	1168	1114	1069	1080	1135
Amortization	-383	-288	-389	-557	-632	-654	-717
Private (net)	83	83	88	65	87	185	118
Short Term Capital (net)	217	54	40	-7	18	166	79
Official Disbursements	492	462	219	111	na	118	50
Repayments	-333	-471	-452	-220	na	na	na
Foreign curency Deposit	58	63	273	102	na	148	29
SDR Allocation	37	0	0	0	0	na	na
Other	na	na	na	na	-167	na	na
Errors/omissions	13	9	18	33	-17	-26	0
BALANCE OF PAYMENTS	-24	-580	699	-86	-967	-7	-15
Net Foreign Assets	24	580	-699	86	967	7	967
IMF (net)	308	374	426	-15	-82	-236	-349
Change in net reserves (- = increase)	-284	206	-1125	101	1049	243	364
Memo Items:							
Current Account Deficit as percent of GNP	3.2	4.9	1.8	3.1	4.9	3.0	3.5
Reserves as weeks of imports	8.8	6.8	15.8	14.0	5.6	8.4	4.4

Source: World Bank, Pakistan: Economic and Social Development Prospects, February 18, 1986, p. 21 with revisions provided by GOP. Data for 1986 and 1987 (projected) are from World Bank, Pakistan: Sixth Plan Progress and Future Prospects, February 26, 1987.

TABLE I.2-II
MAJOR AGRICULTURAL EXPORTS AS A PERCENT (%) OF TOTAL EXPORTS, 1980-85

	1980	1981	1982	1983	1984	1985
Raw Cotton	14.2	17.8	10.6	11.3	4.8	9.6
Basmati Rice	9.5	9.8	7.4	5.5	8.9	4.4
Other Rice	8.3	9.3	8.3	5.2	6.5	4.5
Cotton Yarn	8.7	7.0	7.9	9.1	7.9	10.5
Cotton Cloth	10.3	8.2	11.2	10.4	13.1	12.1
Leather	5.4	3.0	4.4	3.5	5.3	6.1
Carpets	9.4	7.7	6.4	5.6	6.3	5.0
Fish and Prep.	2.3	1.9	3.0	2.6	2.7	3.3
Guar & Prod.	1.4	1.0	1.2	0.8	0.9	0.9
Raw wool	0.4	0.2	0.4	0.5	0.5	0.7
Total	70.0	65.8	60.8	54.4	56.9	57.1

Source: Computed from p. 141, World Bank, Pakistan: Economic and Social Development Prospects, February 18, 1986.

The composition of Pakistan's exports according to economic category has changed substantially over the last decade or so. Exports of manufactured goods contributed about 39% to total export earnings in 1975-76, rising to about 56% in 1984-85 (Table I.2-III). Primary commodities accounted for approximately 30% of the total, 1984-85, and semi-manufactured goods, about 15%. The relative contribution to export earning of the latter two commodity groups has gradually been declining.

TABLE I.2-III
ECONOMIC CLASSIFICATION OF EXPORTS AND IMPORTS

	% of all Exports			% of all Imports			
				Industrial Raw Materials for:			
FY	Primary Commodities	Semi-Manufactures	Manufactured Goods	Capital Goods	Consumer Goods	Capital Goods	Consumer Goods
1972	45	27	28	11	24	42	23
1973	39	30	30	10	31	30	30
1974	39	23	38	7	40	30	24
1975	48	13	39	9	40	29	23
1976	44	18	38	6	28	35	21
1977	41	17	42	6	40	38	16
1978	36	15	50	7	40	34	20
1979	32	21	47	6	42	30	22
1980	42	15	43	6	42	36	16
1981	44	11	45	8	50	28	15
1982	35	13	52	8	48	30	14
1983	30	13	57	6	49	31	14
1984	29	14	57	6	48	32	14
1985	29	17	54	6	46	32	16

Source: 1985-86 Economic Survey, Economic Advisors' Wing, GOP, p. 122.

Table I.2-IV shows, for 1980-81 and 1984-85, the proportion of important import items to total imports. Note that "food" imports (tea, food grains - mainly wheat, and edible oil) constitute a significant portion (14% in 1984-85) of total commodity imports. The growth in edible oil imports reflects in part a very poor cotton crop in 1984 and high international oil prices. It also reflects a rapidly rising import trend since domestic production of oilseeds is growing at a much slower rate than domestic consumption of edible oil. The growth in food grain imports also reflects poor wheat crops in 1984-85. Fertilizer imports peaked in 1979 (1.58 million tons) and since then have been declining as new domestic production capacity has come on-stream.

TABLE I.2-IV

IMPORTS OF SOME IMPORTANT COMMODITIES AS A PERCENT OF TOTAL COMMODITY IMPORT COST (%)

	1979/80-80/81	1983/84-84/85
Petroleum & Products	25.8	24.6
Machinery (non-electrical)	11.3	8.1
Transport Equipment	9.6	8.5
Edible Oil	4.9	8.1
Tea	2.1	3.7
Food Grain	1.7	2.2
Fertilizer	3.7	2.0
Chemicals	2.0	6.1

Source: Computed from data in 1985-86 Economic Survey, Government of Pakistan, Economic Advisers' Wing, p. 137.

Capital goods constitute about 30% of total imports and consumer goods about 15% (Table I.2-III). The long-run trend for these commodity groups as a percentage of total imports is downward. Imports of raw material for consumer goods are slightly less than 50% of total imports and raw materials for capital goods, about 6%. The long-run trend for the share of the former is upward whereas the trend for the latter is flat. The unit value of major imports rose sharply (almost doubled), 1978-82, but has been rather constant for the last 5-6 years.

Although petroleum prices have been down in recent years, it is the general consensus that the market price will eventually rebound. Under current demand levels, every five dollar increase in the per barrel price of crude oil adds some $210 million to the annual import bill. At the same time, when oil prices increase to a price between $20-$30 per barrel, workers remittances from Middle Eastern countries will also increase according to a recent study done by the ILO, Impact of Out and Return Migration on Domestic Employment in Pakistan.

The terms of trade index fell sharply 1980-82 but has been rather stable since. It did decline some in 1986, however (with 1975-76 = 100, the index 1977-85 is as follows: 108.9, 105.3, 126.1, 111.4, 97.0, 89.2, 93.1, 92.0, 92.9 and 88.9. Source: p.121, 1985-86 Economic Survey).

Invisibles. Workers' remittances make a very important contribution to foreign exchange earnings (Table I.2-I). These remittances grew by an average of $333 million annually, 1975-83. In that latter year, remittances peaked, reaching $2.9 billion, and for the first time surpassed commodity export earnings. Remittances have been trending downward since 1983 and were $2.6 billion in 1986. As Table I.2-I shows, the deficit in services is increasing rather sharply, due in no small part to growth in interest payments on external debt.

There is the very real likelihood of a fall of remittances because of the sharply reduced earnings of the Gulf States from their oil exports and the resultant pressures on their foreign reserves. Remittances dropped 12.5 percent in the first half of PFY 1986-87. It is generally believed that workers who repatriate their foreign savings when returning permanently to Pakistan will help to keep total for the year from falling drastically, but an 11.5 percent decline in remittances is now anticipated in PFY1987. This level of decline in remittances would amount to over $275 million.

The ILO study of Pakistani workers in the Middle East suggests that remittances could continue to drop if the price of oil stays below $20 per barrel, estimating a 32 percent decline by 1990. If the price of a barrel of oil rises to the $20-30 range, the study's estimates are much less pessimistic, suggesting that remittances could actually increase by 2.5% by 1990. On balance, however, an oil price at the lower end of this range appears the most likely outcome, suggesting that remittances will not increase from present levels between now and 1990, and that, on the contrary, a 15-20% decline over the three year period would be a reasonable estimate.

Foreign Capital Inflows. Exclusive of relief assistance for Afghan refugees, which amounts to $150 million-$200 million annually, gross disbursements of foreign capital averaged $842 million annually, 1978-82; to $1083 million, 1983-85; and rose to $1357 million in 1986. Such disbursements are expected to increase again in 1987. Debt service payments averaged 67% of gross disbursements for the three years, 1984-86. This is exclusive of charges on IMF and short-term borrowing. When these latter two items are taken into account, net transfers amounted to only 18.5% of gross disbursements for the 1984-86 period. While gross disbursements are rising, debt servicing is rising faster. Net transfers as a percentage of gross disbursements have been falling. For the 1977-78 and 1980-1985/86 period, the respective percentages are: 56, 22, 22, 29, 13, 13 and 27. In millions of dollars, the net transfers for the same years were: 482, 186, 177, 322, 129, 148 and 368. (Source, GOP, 1985-86 Economic Survey, p. 51.)

<u>Current Account</u>. The current account deficit averaged $1.14 billion annually, 1981-86. Year-to-year changes were very large. Thus, the deficit rose by 61% in 1982, then fell by 64%, rose by 84%, increased again by 64% and then fell by 36% in 1986. As a percent of GNP, there is no indication that the current account deficit was either increasing or decreasing during the 1981-86 period (see bottom of Table I.2-I).

The sharp deterioration in the current account balance in 1982 was due to the recession in industrialized countries and a weakening of world cotton and rice prices. Also, Pakistan's external competitiveness was reduced because during most of 1981 the rupee appreciated against most non-US currencies, making Pakistani exports relatively more expensive. In 1985, the fall in export performance, and the sharp deterioration in the current account was due to weakening conditions in world commodity markets and reduced external competitiveness resulting partly from the effective appreciation of the rupee against major European currencies. Cotton exports rose in volume terms by 170% as cotton output increased dramatically from the very poor crop of the prior year. While cotton prices fell (by 11%) export earnings from cotton increased by about 110%. Rice receipts fell by almost 50%, reflecting mainly a lower export volume. Receipts from manufactured goods fell by about 10%. This was due partly to the above noted appreciation of the rupee but also to quantitative restrictions in some markets and weaker demand in some of the Middle East countries. The share of exports to oil-producing countries increased from 16% in 1981 to 27% in 1984 but fell sharply to about 11% in 1985.

<u>Overall Balance of Payments</u>. Over the last six years, 1981-86, the overall balance of payments was in surplus for two years and in deficit for four (See Figure I.2-I). The deficits totaled $1.66 billion and the surpluses $0.82 billion, with the net deficit over the period averaging $140 million annually.

Looking at the 1981-86 period, there was a small deficit in the balance of payments in 1981. The deficit increased sharply in 1982 as export earnings fell abruptly. Had it not been for the debt rescheduling in 1981, the deficits would presumably have been substantially larger. The debt relief was sizeable for those two years, amounting to $161 million in 1981 ($133 million principal and $28 million interest) and to $258 million in 1982 ($204 million principal and $54 million interest).

In 1983, there was a sizeable surplus in the balance of payments as export earnings and remittances both rose markedly while imports fell. This resulted in a very modest current account deficit. Also in that year, the capital account surplus was larger than for any of the six years, 1981-86. Net reserves increased by over a billion dollars and gross official reserves more than doubled, reaching almost $2 billion at the end of FY 83. The following year experienced a modest deficit in the payments balance but there was a severe deterioration in the external account in 1985. In that year both exports and remittances fell, the latter rather sharply, and the current account deficit rose by over 60%. The capital account surplus also fell abruptly and the deficit in the balance of payments was almost $1 billion. Net reserves fell by more than $1 billion as did foreign exchange, with gross reserves being equal to about 5-6 weeks of imports.

There was an improvement in 1986, with earnings from exports growing strongly and imports declining some, leading to a greatly improved trade balance. Workers' remittances recovered some from the prior year and the deficit in the current account balance declined by 36%. The capital account balance also increased sharply. The overall surplus in the balance of payments is now estimated at $117 million. During the period 1981-83, the GOP was making substantial use of Fund credit, which increased from $308 million in 1981 to $426 million in 1983. However, repurchases have been greater than purchases for each of the three years, 1984-86.

<u>Foreign Reserves</u>. During 1981-83 Pakistan's gross official reserves (including about 1.8 million ounces of gold valued at SDR 35 per fine ounce) increased by $1.15 billion to $1.98 billion, equivalent to some 15 weeks of imports (Table I.2- V). This result reflected a cumulative overall balance of payments surplus of $95 million, net purchases from the Fund of $1.01 billion and rollovers of deposits by oil producing countries at the State Bank. Gross official reserves peaked at over $2.0 billion at the end of December, 1983 and declined somewhat in 1984 before plunging by almost 60% in 1985 to $739 million. At the end of December, 1985, reserves amounted to $854. Gross official reserves (foreign exchange, SDR's, reserve position in the Fund and gold) increased rather rapidly in CYs 1980-83, but fell sharply in CYs 1984-85. At the end of June 1983, these reserves were equivalent to 15.2 weeks of imports (c.i.f.) but fell to 5.2 weeks at the end of June 1985. In March, 1987, Pakistan's official reserves stood at $508 million, or about 4.4 weeks of imports, which is about one-third of the normally accepted level of 13 weeks worth of imports.

TABLE I.2-V
GROSS OFFICIAL RESERVES ($ millions)

End of Month	Reserve Position in Fund	SDRs	FX	Sub-Total	Gold	Total
6/79	0	58	328	386	80	466
6/80	0	54	694	748	84	832
6/81	0	85	973	1058	74	1132
6/82	47	44	718	809	71	880
6/83	63	29	1819	1911	70	1981
6/84	91	36	1604	1732	67	1799
6/85	89	3	581	673	66	739
12/85	0	1	780	781	73	854
3/86	0	1	924	925	76	1001
5/86	0	4	915	919	76	995

Source: IMF, <u>International Financial Statistics</u>. Gold is valued at SDR 35 per fine ounce and converted to dollars at end-month SDR/$ rates.

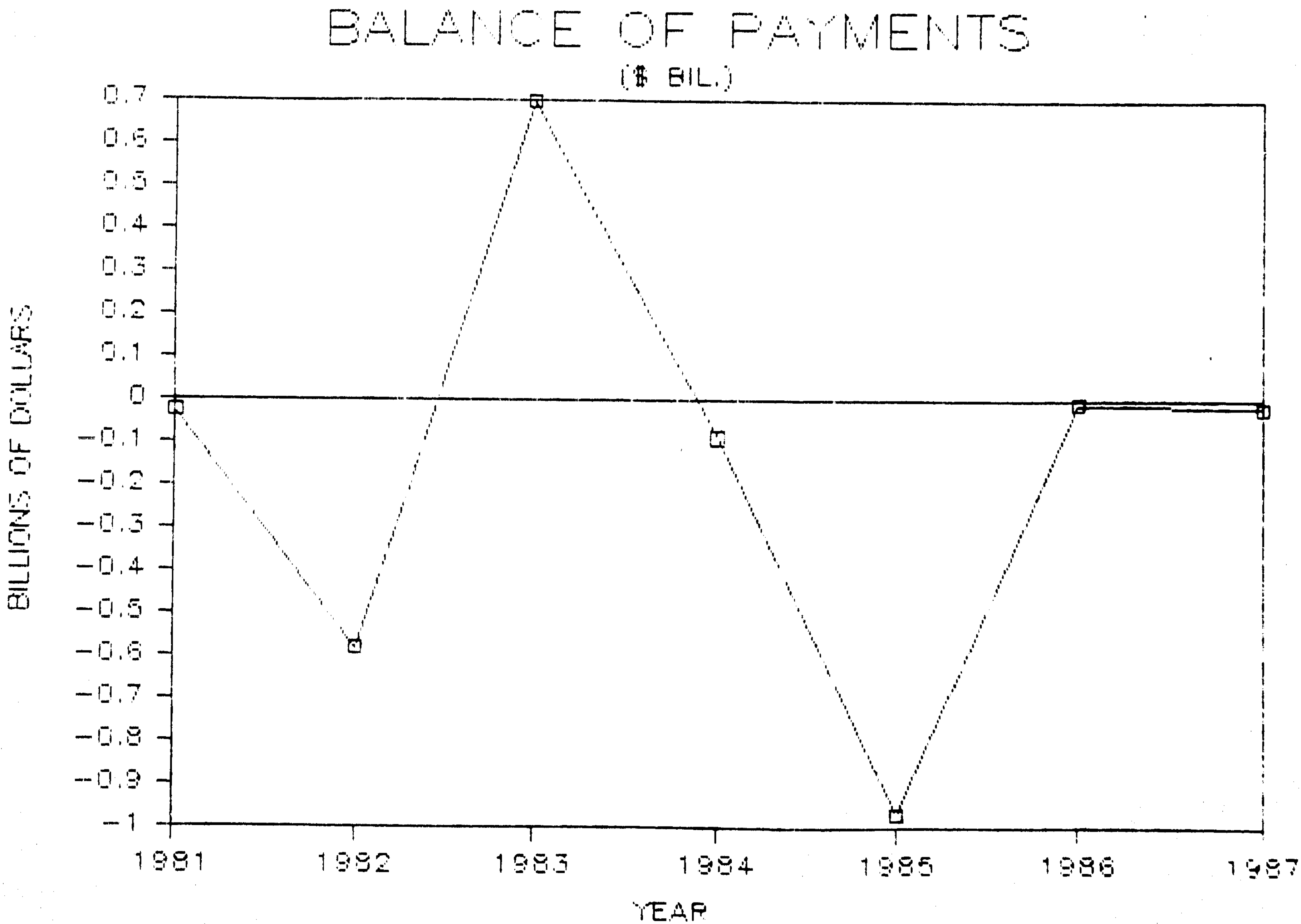


Figure 1.2-I

PAKISTAN - BALANCE OF PAYMENTS

External Public Debt/Debt Servicing. Total external debt, disbursed and outstanding, rose from $10.9 billion at end of 1981 to $12.7 billion at the end of 1985. The largest increase was in 1983, mainly as a result of a large use of Fund credit. The ratio of total debt to GNP rose from 36% to 38%. While relatively low compared to GNP, it is quite sizeable relative to the balance of payments current account receipts. The latter ratio rose from 183% in 1981 to 212% in 1985.

The medium and long term external debt amounted to $12.0 billion at the end of 1965. This does not include military and non-guaranteed private debt. Short term debt is estimated to have been $0.75 billion at the end of 1985. Short term debt fell by about 25% over the 5-year period, due entirely to a sharp decline in government short term debt to foreign financial institutions, in particular commercial banks, following the lengthening of maturities in the 1982-84 period. Debt servicing amounts to about 2.3% of GNP.

Annual debt repayment on loans from the U.S. Government will rise from some $250 million in FY87 to over $500 million by FY93 (Table I.2-VI) as shown below.

TABLE I.2-VI

ESTIMATED DEBT REPAYMENT ON US GOVERNMENT LOANS
1986-1993 ($ mil.)

	FY86	FY87	FY88	FY89	FY90	FY91	FY92	FY93
AMOUNT	192	250	400	436	475	493	499	531

Source: Mission Estimates. N.B. These debt repayments have been included as part of the "Foreign Loans" line item in Annex Table I.1-IV.

Actual debt service payments (i.e., after debt relief and including use of Fund credit) rose from $880 million in 1981 to $1178 million in 1985 As a percent of current account receipts, the debt service ratio rose from 14.7% in 1981 to 19.7% in 1985. The ratio is much higher when remittances are excluded, amounting to 35.1% at the end of 1985. These ratios do not take into account repayment of short-term debt, but include interest on such debt.

The comparatively low debt service ratios for Pakistan, notwithstanding the relatively high ratio of external debt to exports of goods and services, is a reflection of the favorable terms of borrowing, on average. The average interest rate on disbursed debt outstanding (excluding deposits of monetary authorities with the State Bank and foreign liabilities of commercial banks) rose from 3.2% to 3.8% over the period. (The source for this section, External Public Debt/Debt Servicing, is IMF, Pakistan: Recent Economic Developments, March 10, 1985. pp 78-80.)

Exchange Rate Management. Between February 16, 1973 and January 7, 1982, the rupee was pegged to the U.S. dollar at the rate of Rs. 9.90 = US $ 1.00. In a move aimed at restoring the country's rapidly deteriorating external competitiveness, on January 8, 1982 the rupee was delinked from the dollar and a managed floating rate system based on a trade-weighted basket was introduced. Since September 1985 the rate has been managed on the basis of several currency baskets including, inter alia, the trade weighted basket, an industrial countries weighted basket, and developments in certain bilateral rates.

The current rate of about Rs. 17 = US $1 represents a depreciation of the rupee against the dollar by about 40% since the introduction of the managed floating system in 1982.

Trade Regime/The Quest for Reserves. Prior to 1984, Pakistan relied on an import system that specified permitted imports. The 1983/84 Import Policy Order introduced a negative/restricted list of import system in its place. However, the restrictive list is extensive and import procedures generally remain complex. The country has a long history of promoting import substitution by protecting domestic industry with tariff barriers. The high degree of protection is an obstacle to improvements in efficiency and in product quality in many existing industries. On July 1983, a study of the effective protection accorded to the industrial sector was undertaken. This study was intended to be used as the basis of a comprehensive tariff reform. While there has not been a tariff reform, a large number of tariff adjustments have been made aimed at reducing anomalies and adjusting levels of protection.

The GOP has provided a number of incentives to promote exports and to earn additional foreign exchange. Such incentives include export subsidies, import duty/sales tax (paid on raw materials required for production of exports of manufactured goods) rebates, income tax rebates, and concessional export financing. However, the system of export incentives still leaves production for the (protected) domestic market considerably more profitable than for the export market.

In addition to the export incentives, foreign exchange bearer certificates were introduced on August 1, 1985 as a means of increasing foreign exchange reserves. These certificates may be purchased by foreigners as well as Pakistanis. The certificates must be purchased in foreign exchange and are available in denominations ranging from Rs. 500 to Rs. 100,000. If purchased in Pakistan, the payment has to be made either from a foreign currency account, by travelers' check, or through remittances from abroad. The certificates are tax-exempt, and bearer in character. They can be freely taken in and out of the country, and can be encashed at any time in rupees or in foreign exchange at the exchange rate prevailing at the time of the encashment. The amount payable in terms of Pakistani Rupees is 14.5% higher than the certificate's face value one year after issuance, 31% after two years, and 52% after three years. The certificates may be used by residents to undertake any current and capital exchange transactions.

The GOP has also taken other measures to encourage the repatriation of foreign exchange by nationals. The seriousness of the problem of foreign exchange shortages as perceived by the GOP is perhaps best exemplified by one of the Ministry of Industries' many criteria for sanctioning: the import requirements of the proposed project and "the overriding consideration of the net effect on foreign reserves." To bolster their international reserves, the Government recently signed (October 1986) a $100 million loan agreement in London with a group of fourteen international banks. The Government also announced that it was negotiating with the IMF for a $50 million loan from the Fund's Structural Adjustment Facility. However, it is becoming clear from the negotiations that terms for new lending will become increasingly strict, and it may become difficult for Pakistan to obtain new commercial credit or IMF loans on politically acceptable terms.

Summary/Conclusions. It seems reasonable to expect that workers' remittances will continue to decline as the oil exporting Gulf States adjust to lower oil prices and sharply lower earnings from oil exports. There has already been a marked decline in Pakistan's exports to those countries where prospects for a rapidly growing market were once so bright. Neither is the weak world demand for some of Pakistan's major exports (cotton and rice) likely to revive for some time. Moreover, it is difficult to see net concessional aid growing very rapidly; the trend for the last seven years has been downward. The country is also going to experience difficulties in obtaining new commercial loans.

Given these various factors, we believe that there will be continuing and increasing pressures on the country's balance of payments position. If remittances fell by 10 percent, the price of oil increased by $5 per barrel, donor disbursements declined, and foreign debt servicing scheduling remained the same, the total would be over $500 million dollars of foreign exchange lost. This would have a serious impact on foreign exchange and require difficult adjustments in Pakistan's economy.

Yet, for the country to maintain a relatively high rate of economic growth, imports will also have to grow. To earn the foreign exchange to help finance these imports, it is critical that the country promote exports and expand its capacity to successfully compete in the world markets for both raw and especially manufactured goods. This means that exchange rate management will be especially important. It also means that over the intermediate and longer term, domestic industries will need to become more competitive, to be more exposed to the discipline of foreign competition as an incentive to keep costs down and to improve product quality. It will thus require a liberalization in import policy.

ANNEX I.3

THE FERTILIZER SUBSECTOR

Consumption. Growth in consumption of fertilizer during the last half of the seventies was very rapid, averaging 19% annually 1975-80, increasing from 425 thousand nutrient tons (nt) to 1.04 million (Table I.3-I). However, during the first half of the eighties, growth was slow as the retail price of fertilizer was increased sharply to slow the burgeoning growth in fertilizer subsidies (see section I.1 above).

TABLE I.3-I
ANNUAL FERTILIZER OFFTAKE (1000 nutrient tons)

Year	N	P2O5	K2O	TOTAL
1970	274.0	36.6	1.34	311.9
1971	251.5	30.5	1.24	283.2
1972	344.0	37.2	0.74	381.9
1973	386.4	48.7	1.38	436.5
1974	341.9	58.1	2.67	402.7
1975	362.8	60.6	2.09	425.5
1976	441.6	103.6	2.91	548.1
1977	511.0	117.9	2.36	631.3
1978	549.9	156.3	5.98	712.2
1979	684.3	188.0	7.58	879.9
1980	806.0	228.5	9.60	1044.1
1981	842.9	226.9	9.63	1079.4
1982	830.7	225.3	21.78	1077.8
1983	952.7	265.3	25.64	1243.6
1984	914.3	259.8	28.50	1202.6
1985	934.8	293.8	24.67	1253.3
1986	1128.4	350.1	33.30	1511.8

Source: NFDC, Pakistan Fertilizer Statistics, April 1986, p.15

The average growth rate in consumption was 4% annually 1980-85, increasing from 1.04 million nt to 1.25 million. From their 1979 levels, the retail prices of almost all fertilizers were doubled during 1980-83 (Table I-3-II). The growth rate in the procurement prices of crops was much slower (Table I-3-III). However, since mid-1983 the retail price of fertilizers has not been changed while the procurement price of most crops has been increased for an improving crop/fertilizer price ratio and a greater incentive for farmers to use fertilizer (Table I-3-IV).

TABLE I.3-II

RETAIL SALE PRICE OF FERTILIZERS
(Rs/50-kg bag)

Date	Urea 46% N	AN/CAN 26% N	AS 21% N	NP 23:23	SSP 18% P	DAP 18:46	TSP 46% P	SOP 50% K
10/17/78	63	36.5	29	46.5	17	67	43	27
01/01/79	63	36.5	29	46.5		67	43	27
02/25/80	93	50	42	78	25	100	43	30
04/13/80	93	50	42	78	25	100	43	30
10/27/81	93	50	42	78	25	100	43	30
03/15/82	103	55	47	84	25	105	43	30
10/06/82	118	58	54	97	29	121	43	35
06/11/83	128	60	59	110	40	133	43	40
12/08/83	128	60	59	110	40	133	95	40
1984/85	128	60	59	110	40	133	95	40
1985/86	128	60	59	110	40	133	95	40
1986/87	128	60	59	110	40	133	95	40

Source: NFDC, Pakistan Fertilizer Statistics, GOP, April, 1986, p.37.

AN/CAN: ammonium nitrate/calcium ammonium nitrate
AS: ammonium sulphate
NP: nitrophos
SSP: single superphosphate
TSP: triple superphosphate
DAP: diammonium phosphate
SOP: sulphate of potash

Table I.3-III

PROCUREMENT PRICES OF MAJOR AGRICULTURAL COMMODITIES
(Rs/40 kg.)

Year	Wheat	Rice		Sugarcane			Seed Cotton	
		Basmati	IRRI6	NWFP	Punjab	Sind	Desi	Delta-pine
1976/77	39.65	108.80	57.87	5.89	6.16	6.32	128.60	155.40
1977/78	39.65	108.80	49.30	5.89	6.16	6.32	141.46	171.47
1978/79	48.23	117.89	52.51	5.89	6.16	6.32	143.61	171.47
1979/80	58.00	117.89	52.57	7.23	7.50	7.66	143.61	171.47
1980/81	58.00	137.00	63.00	9.38	9.65	9.81	156.00	182.00
1981/82	58.00	150.00	72.50	9.38	9.65	9.81	166.00	192.00
1982/83	64.00	154.00	80.00	9.38	9.65	9.81	168.00	197.00
1983/84	64.00	157.00	83.00	9.38	9.65	9.81	169.50	200.00
1984/85	70.00	160.00	83.00	9.38	9.65	9.81	169.50	203.00
1985/86	80.00	166.00	86.00	9.38	9.65	9.81	173.50	207.00
1986/87	80.00	204.00	102.00				173.50	207.00

Source: 1985-86 Economic Survey, GOP, May 1986, p.46.

TABLE I.3-IV

CROP-FERTILIZER PRICE RATIOS*

Year	Wheat	Basmati Rice	Sugarcane (Punjab)
1975	0.33	0.80	0.05
1976	0.33	0.81	0.05
1977	0.36	0.99	0.05
1978	0.37	1.01	0.06
1979	0.47	1.16	0.06
1980	0.46	1.08	0.07
1981	0.39	0.92	0.06
1982	0.39	1.00	0.06
1983	0.36	0.86	0.05
1984	0.32	0.80	0.05
1985	0.35	0.80	0.05

*Crop procurement prices per ton divided by weighted average fertilizer prices per ton of nutrient.
Source: NFDC, Pakistan Fertilizer Statistics, GOP, April 1986, p. 51.

The retail price of nitrogenous fertilizer was decontrolled in May 1986. Field observations indicate that this has had a negligible impact on retail prices. In addition to higher (relative) prices for fertilizers in the early 1980s, there were two poor crop years which discouraged fertilizer use. However, in 1986, offtake increased sharply, by 21% over the prior year, and this rate is being maintained thus far in 1987.

Production. Domestic production of fertilizer increased rapidly in the early 1980s, from, for example, 389 thousand nutrient tons of nitrogenous fertilizer in 1980 to 100 million tons in 1983 and from 27 thousand nutrient tons of phosphatic fertilizer in 1979 to 92 thousand in 1984 (Table I.3-V). With the sharp growth in production and slow growth in consumption, output of nitrogenous fertilizer exceeded offtake in 1983-85 and 900 thousand tons of urea were exported in those three years. However, consumption growth has been faster than projected over the past 12 months or so and the Government expects to import 200,000 tons of urea during the last months of FY86. Deficits in nitrogenous fertilizer will likely reappear in the fall of CY87 and certainly in the following years.

Domestic production of phosphatic fertilizer currently meets only 30% of consumption requirements. The country produces no potassic fertilizer and not much is used, an average of about 27 thousand nutrient tons annually over the last five years, 1982-86. The country's fertilizer plants are identified below (Table I.3-VI) and their current capacities are shown.

TABLE I.3-VI

FERTILIZER PLANTS AND PRODUCTION CAPACITY
(1000 mt)

	Factory	Present Capacity	FY85 Output
UREA			
	Dawood Hercules	348	273
	Exxon	265	248
	Pak-Saudi	557	587
	Pak-Arab	59	47
	Pak-China	96	75
	Fauji Fertilizer	570	582
	Total	1,895	1,812
CAN	Pak-Arab	450	406
AS	Pak-American	90	79
N:P	Pak-Arab	305	308
SSP	Lyallpur	100	106

Source: NFDC.
Urea (46%N)
CAN- Calcium ammonium nitrate (26%N)
AS - Ammonium Sulfate (21%N)
NP - Nitrophos (23%N; 23%P2O5)
SSP- Single superphosphate (18%P2O5)
TSP- Triple superphosphate (46%P2O5)
DAP- Diammonium phosphate (18%N; 46%P2O5)

Import Requirements. To obtain an order of magnitude of import requirements, 1988-93, projections were made of annual domestic production and consumption of N and P2O5. Annual domestic production of N and P2O5 are projected at 1040 thousand and 93 thousand tons respectively. Projections of the production deficit/import requirement are shown below. No account is taken of reserve requirements. Declining rates of growth (from the current high levels) in consumption are projected on the assumption that retail fertilizer prices will rise as a policy of phasing out fertilizer subsidies is pursued. Currently, urea can be purchased abroad at less than $70 (bulk, fob) per ton. One can reasonably expect this price to rise some and there are now subsidies on (imported) phosphatic fertilizer. The projections are shown in Table I.3-V.

On the assumption that the phosphate deficit will be met by importing DAP and the nitrogen deficit by importing urea, projected imports of DAP for 1988-91 would total 3.2 million tons, an average of 800,000 tons annually. Projected urea imports over the same period would total 2.7 million tons, or 675,000 tons annually. The import bill would perhaps average $215 million annually. New production capacity may begin to appear in the early 1990s.

TABLE I.3-V

DOMESTIC PRODUCTION, CONSUMPTION AND DEFICIT FOR NITROGENOUS AND PHOSPHATIC FERTILIZER (1000 nutrient tons)

	N			P205		
PFY	Output	Offtake	Deficit	Output	Offtake	Deficit
Actual						
1979	334	684	350	27	188	161
1980	389	806	417	50	228	178
1981	581	843	262	58	226	168
1982	701	831	130	67	225	158
1983	1003	953	-50	73	265	192
1984	1015	914	-101	92	260	168
1985	1029	935	-94	90	294	204
1986	1016	1128	112	93	350	257
Projected						
1987	1040	1275	235	93	403	310
1988	1040	1364	324	93	431	338
1989	1040	1459	419	93	452	359
1990	1040	1547	507	93	470	377
1991	1040	1624	584	93	489	396
1992	n/a	1705	n/a	93	509	416
1993	n/a	1790	n/a	93	530	437

Source: NFDC for actual. There may be new capacity in nitrogen fertilizer production by the early 1990's.

By the late 1980s, the domestic market will be able to absorb the output of another urea plant of the size of Fauji or Pak-Saudi. Also by that time, the deficit in domestic production of phosphatic fertilizer is projected to be in the neighborhood of 350,000 nt (760,000 tons of DAP or TSP). Our information is that interest in constructing new plants for the manufacture of DAP fertilizer has been expressed by at least three private groups/firms and sanctions have been applied for. However, the projects' feasibility studies indicated that they were not feasible in the absence of protection from imports. As yet, the Government has not been willing to provide such protection. Since most of the raw material would have to be imported, it may be very difficult to profitably manufacture phosphatic fertilizer in Pakistan without protection. However, new private sector urea manufacturing plants should be able to compete with urea imports. While there do not seem to be any firm plans for the construction of new urea capacity in the country, it seems reasonable to expect that there will be such new capacity, certainly by the the early nineties.

Policy Issues

<u>Fertilizer Price Deregulation/Phasing Out of Subsidies</u>. The Government recently deregulated the price of nitrogen fertilizer. The prices of phosphatic and potassic fertilizers, for which subsidies have been relatively larger, are still controlled. The Pakistan Fertilizer Policy study notes that deregulation of phosphatic fertilizers would likely be very disruptive to the market, and that a workable approach would include first raising the domestic prices of these fertilizers to their world market price equivalent over a two year period at which time prices could be deregulated. We agree with this. We note, however, that for imported DAP, prices could be partially deregulated at any time. Prices could be set and the subsidy calculated and paid either ex-port or on delivery to main distribution centers, with retail prices decontrolled.

DAP, all imported, is by far Pakistan's largest source of phosphatic fertilizer and will continue to be so in the foreseeable future. Some single superphosphate is produced locally; however, production costs are high and an industrial subsidy would have to be made to the plant for it to be able to continue production if its output was sold at import parity prices.

Using the bagging, distribution and marketing costs as set forth in the Fertilizer Policy study (ocean freight, $30/MT; bagging, $10/MT; and internal distribution and marketing costs of $60/MT) and current international DAP prices ($140/MT, bulk, f.o.b., U.S. Gulf) gives a retail price of $240/MT, or Rs 4080/MT at the current exchange rate of Rs 17/$1. The controlled retail price is Rs.2660/mt (Rs. 133/50-kg bag). The retail price would have to be increased by 53% to eliminate subsidies at current prices. We note that the estimated cost of internal distribution and marketing ($60/MT) by the policy study is $10-$20/MT higher than is estimated by the World Bank and by GOP officials with whom we have talked. However, costs are generally underestimated so the $60 figure is likely more realistic.

We do not know what will happen to world prices of DAP. However, at the International Fertilizer Association's raw materials meeting in California recently, the consensus was that the price outlook was dim, for the next few years anyway, with "oversupplies" and low prices seen for P and K. Yet, even if the nominal world price of DAP does not rise, as noted earlier, the Pakistani rupee is likely to continue a slow depreciation against the dollar and there will very likely be some domestic inflation. The price increase would have to be larger than 53% -- say 60% -- to eliminate subsidies in the post 87 period. Such an increase spread over 2-3 years in 4-6 roughly equal increments should be tolerable. (Such is implied in the Fertilizer Policy study. Also, in <u>Fertilizer Pricing and Subsidy Removal</u>, Working Paper, 12/12/85, p. 6, the World Bank notes that the cost structure of the main crops--in two project areas for which the Bank was providing assistance--was remarkably similar and that fertilizer cost per acre was in all cases between

10% and 15% of gross revenue. Thus, a 1% increase in output price would suffice to offset a 10-7% increase in fertilizer price; or a 6% increase in output price would suffice to offset a 60-40% increase in fertilizer price. The price increase in fertilizer might need to be accompanied by some increase in output prices. In any case, the impact of the price increase in fertilizer should be closely monitored.

In the absence of subsidies, the high cost provincial distributors could not continue to stay in business.

Thus far we have said nothing about phasing out the subsidy on potassic fertilizer. All such fertilizer is imported, almost altogether sulfate of potash (SOP, 50%K2O). Consumption of potash is very small relative to total fertilizer consumption. Thus, of total nutrient tons of offtake of N, P2O5 and K2O, the latter amounted to only 2%, 1983-85. However, the unit subsidy is very large for SOP. NFDC financial data (Pakistan Fertilizer Data, April, 1986, p. 65) show that the unit cost of delivering SOP to farmers was Rs 4109/ton (import cost, Rs 3413; marketing/distribution cost, Rs 696) in 1985. The sales proceeds (i.e., fixed retail price) were Rs 800/ton. Thus, the retail price of SOP would have to be increased by over 300%, from Rs 800/ton to Rs 3309/ton to remove the subsidy. And while consumption of potash was relatively very small, NFDC data show that the subsidy on SOP accounted for 15% of the total fertilizer subsidy in 1985. The low price for SOP has been rationalized as a means to encourage farmers to use a fertilizer with which they are not familiar. While we believe that the price of SOP should be gradually increased, the analytical basis of how much is not available. There is, for example, no analysis of this fertilizer in the Fertilizer Policy study.

The country produces no TSP and very little is imported or used. The controlled retail price for TSP is Rs 95/50-kg bag (Rs. 1900/ton). At current world prices the domestic retail price of TSP would have to be increased by 91% to eliminate the subsidy on that product (f.o.b. bulk, US Gulf price is \$114/ton; ocean freight, bagging and internal marketing cost is estimated at \$100/ton; \$214 x Rs 17/\$1 = Rs 3638/ton vs Rs 1900/ton current retail price, Table I.3-VII).

Privatization of Fertilizer Imports. An objective of ASSP is to expand the role of the private sector in the fertilizer subsector. For example, it will attempt to encourage private sector fertilizer imports. While we are told that there are now no restrictions on private sector imports of fertilizer, things are not always what they seem. Consequently, an action benchmark for the first year could require the GOP to issue a public statement that the GOP encourages the private sector to import fertilizer and that the foreign exchange would be available once financing arrangements had been made. Since nitrogenous fertilizer is now decontrolled, importers should be able to compete with Government imports of urea and perhaps nitrophos.

TABLE I.3-VII

IMPORT OF FERTILIZER PRODUCTS (1,000 PRODUCT TONS)

Year	CAN	Urea	NP	NPK	DAP	TSP	SOP	Other	Total
1968	0.0	192.2	16.6	0.0	0.0	100.0	0.0	45.9	354.7
1969	0.0	205.2	20.0	0.0	57.3	3.5	11.4	34.0	331.4
1970	0.0	610.5	7.8	0.0	21.0	0.0	0.0	22.3	661.6
1971	0.0	193.8	21.9	0.0	72.9	0.0	10.0	1.9	300.5
1972	0.0	157.7	0.0	0.0	0.0	0.0	0.0	1.0	158.7
1973	0.0	179.1	35.7	0.0	138.9	0.0	0.0	0.0	353.7
1974	36.7	361.2	41.9	5.5	204.0	0.0	11.0	9.9	670.2
1975	23.7	185.8	48.8	5.0	10.5	11.0	0.0	8.8	293.6
1976	0.0	59.9	29.1	0.0	211.4	0.0	0.0	10.9	311.3
1977	0.0	120.9	191.8	0.0	209.3	0.0	5.0	0.0	527.0
1978	0.0	435.7	437.8	0.0	226.3	0.0	4.2	0.0	1103.9
1979	0.0	653.5	447.9	4.5	221.0	0.0	18.0	0.0	1344.8
1980	0.0	726.3	363.9	0.0	125.2	0.0	26.0	5.4	1246.8
1981	0.0	496.2	286.3	0.0	514.1	0.0	44.1	0.0	1340.7
1982	0.0	132.6	100.0	38.6	0.0	0.0	15.0	0.0	286.1
1983	0.0	0.0	201.2	102.7	410.8	0.0	0.0	0.0	714.7
1984	0.0	0.0	27.5	28.3	366.1	104.5	42.9	0.0	475.3
1985	0.0	0.0	28.3	0.0	446.3	47.0	42.6	0.0	564.1

Source: NFDC, Pakistan Fertilizer Statistics, GOP, April, 1986.

Since there is still a subsidy on phosphatic fertilizers (both locally produced and imported), private importers could not compete in the importation of, say, DAP or TSP unless they were paid a subsidy. Once the subsidy is removed, they could compete. While studies indicate that FDFI is an efficient importer of fertilizer, this is a function that the private sector could perform, thereby reducing the growing demands on a Government which is experiencing rising budgetary problems. FDFI may have to continue to do the importing for government-to-government assistance programs.

Change in Formula for Allocating Imported Fertilizers. Currently, the FDFI imports and delivers at port and/or to main distribution centers operated by the fertilizer producers or by the provincial input distribution agencies. These "wholesalers" receive supplies according to an allocation formula rather than in response to their demands. For a more rational and efficient allocation, A.I.D. should propose that the allocation of imported fertilizer among the country's eight distributors, viz, FFC, DH, Exxon, NFML, ADA, PADSC, SASO and BDAG, be based on their retail sales and their respective shares in total offtake. This could be based on a 2-year moving average. The individual distributors should be allowed, for any individual shipment, to adjust their shares among themselves if mutually agreeable to the distributors involved. The importation by distributors themselves would complicate such an allocation but an arrangement could be worked out where, for example, the imports made by the distributors would count toward the overall allocation of imports.

There are two alternative approaches which the PAAD design team should consider. One, domestic distributors would bid for fertilizer imported by FDFI ex-port. The Government would presumably insist on maintaining a reservation price, i.e., a price below which it would not sell. The other alternative would be that of setting quotas as between the private distributors and the public, with the share going to the private sector increasing over time.

__Denationalization: Divestiture of Public Manufacturing Plants__. The Exxon, Fauji and Dawood Hercules (urea) fertilizer manufacturing plants are privately owned. The remaining factories are state plants. Of the latter, Pak-Saudi and Pak-China produce urea; Pak-Arab produces urea, CAN and NP; Pak-America produces AS and Lyallpur Chemical and Fertilizer has two small plants that produce SSP. The AS and SSP plants are very small and very old. The Pak-China plant is also small. While the plant is relatively new, its technology is obsolete. Production costs for these plants are very high and industrial subsidies would have to be made to the plants for them to be able to continue production if output was sold at import parity prices. There is likely to be little private interest in acquiring these plants. However, Pak-Saudi and Pak-Arab are apparently viable and denationalization of them provides the GOP the opportunity to more vigorously pursue its objective of promoting greater investment and participation by the private sector in the country's economic development.

According to the fertilizer policy study, the equity of Pak-Arab amounts to roughly $65 million and Pak-Saudi equity is roughly $115 million based on current market value. Individual investors would be required to provide the equity capital and refinancing of private loans. Loans for Pak-Arab are now with the World Bank, the Asian Development Bank, and the OPEC Fund. Loans for Pak-Saudi are with the Asian Development Bank, the Saudi Government, and the Saudi Fund for Development. The total equity of $180 million represents a potential capital recovery by the Government of Pakistan that could be redirected to make loans for new fertilizer production facilities or into other development investments.

Pak-Saudi should be attractive to investors because it is a relatively modern, technically-efficient, low-cost production plant. Since it is a modern plant, it could be cost competitive for a number of years. Pak-Arab may be attractive to investors because of its basic ammonia facility and the ability to produce combination nitrogen/phosphorous/potash fertilizers.

There are a number of approaches to transfering the facilities from the government to local investors, including contract sales by the GOP and sale of stock by the GOP to reduce equity. The plants could be sold by contract with the current loan obligation transferred to the new owners. The Government of Pakistan could also underwrite and sell stock on the Karachi or Lahore stock exchanges to lower its equity in the facilities being sold. It is also possible that individuals or an investment syndicate from Pakistan and Saudi Arabia could raise capital in much the same way (for legal implications, see the Fertilizer Policy study). Although these two plants are reasonably efficient under public ownership, and although NFML, the marketing arm, also appears to be efficient, increased efficiency through an enhanced "bottom line" discipline can be expected if denationalized.

Sector grants might be transfered to the GOP to the extent that it did not recover its equity, or to the extent that costs were incurred (e.g., in paying off loans). The benchmark for performance payment could be the execution of the transaction (e.g., the sale of stock). Technical assistance would be highly desirable.

Management of Reserve Stock. Maintaining excessive reserve stock of fertilizer is very costly. So are fertilizer shortages, since the latter impacts adversely on production when farmers do not get the amount and kind of fertilizer when needed. Stock management is complicated by the fact that demand is highly seasonal and also dependent on weather conditions. It is time for the Government to once again closely examine its reserve stock policy, and its management of reserve stocks, to determine what changes it should make to reduce the cost of maintaining fertilizer reserve stocks.

Fertilizer Efficiency. That the productivity of fertilizer in Pakistan is relatively low has been of concern for some time. There are at this time at least three comparatively large studies underway which are investigating the reasons for this phenomenon. We do not suggest any new studies but do recommend that the ASSP provide technical assistance for such studies if requests are made. The task is that of identifying the determinants of the problem in highly specific and quantified terms. Broad generalizations void of any practical operational content are of dubious utility.

Illustrative Benchmarks

This section suggests a possible course of action to complete and consolidate reform in the fertilizer sector. The action benchmarks for all years after the first year must be regarded as purely illustrative, however, as the GOP has not agreed to a multi-year proggram of specific reforms, and such agreement is not expected. As discussed in the text, actions will be negotiated on a year-by-year basis and incorporated into PAAD and ProAg amendments.

First Year of the Fertilizer Program

Policy Reform	Benchmarks
1. Phasing out of fertilizer subsidies	Raise retail price of DAP by Rs.16 per 50 kg. bag (or 20% of the difference between total costs including distribution costs and the official price) by July 1, 1988.*
2. Reallocating imported fertilizer	Permit private sector distributors to reallocate up to 10% of their allocation without respect to provincial quotas.
3. Fertilizer imports by the private sector	Announce, within a month of the PAAD signing, that Government encourages private sector import of fertilizer; that there are no regulatory impediments to such imports; that foreign exchange will be made available; that Government will not sell imported fertilizer to distributors at less than the cost of price-deregulated fertilizers.
4. Reserve stock management (process benchmark)	Develop by end of year terms of reference for a reserve stock management study. A.I.D. will collaborate. Begin implementation of study.

Second Year

A.I.D. will agree to release funds for importing fertilizer during the second year if the benchmarks negotiated and agreed to for the first year have been met and another set of benchmarks, to be achieved in the second year, has been agreed to and incorporated into the amended PAAD.

1. Phasing out of fertilizer subsidy	Raise retail price of DAP by 25% of the value of the current subsidy but not less than Rs. 16 per bag o/a January 1, 1989, and again by the same amount o/a July 1, 1989. Develop plans for reducing subsidy on potassic fertilizer (SOP).
2. Reallocating imported fertilizer	Make appraisal of new scheme for allocating imported fertilizer; provide report to A.I.D. by October, 1989. Report will contain written appraisals provided by each distributor.
3. Fertilizer imports by private sector	Provide status report to A.I.D. by July, 1989. Identify constraints to greater participation by private sector.

*One 50 kg. bag of DAP currently retails for 133 rs. and the current subsidy is approximately 70 rs. per bag. $1 US = 17 rupees, approx.

4. Reserve stock management	Conduct review with A.I.D of study on reserve stock management by mid-year; finalize study by end of the year.
5. Denationalization of fertilizer plants	Present to A.I.D. by end of year a plan for a phased divestiture of state-owned plants.

Third Year

A.I.D. will release funds for importing fertilizer during the third year of the program life if the benchmarks negotiated and agreed to during the second year have been met and another set of benchmarks to be achieved in the third year has been agreed to and incorporated into the amended PAAD.

1. Phasing out fertilizer subsidy	Raise retail price of DAP by the amount needed to reach import parity price by July 1, 1990. Report on progress in reducing subsidy on SOP.
2. Price deregulation of fertilizer	As domestic retail price of DAP nears import parity price, deregulate price of all phosphatic fertilizers. At this time all fertilizer prices should be deregulated, except potassic fertilizers. Monitor prices.
3. Reallocation of imported fertilizer	Provide status/appraisal reports to A.I.D. by end of year; assess feasibility of distributors bidding for fertilizer delivered to port by government, rather than allocating via formula.
4. Fertilizer imports by private sector	Provide status/appraisal report to A.I.D. by end of year.
5. Reserve stock management	Begin implementation of new stock management scheme by mid-year.
6. Denationalization of fertiizer plants	Provide A.I.D. a report by end of year on actions taken and progress made in divestiture of fertilizer plants.

Fourth Year

Disbursement of funds conditionality same as for third year except that adjustments for dates have to be made.

1. Fertilizer price deregulation	Prices on all fertilizers except potassic fertilizers remain deregulated.
2. Fertilizer imports by private sector	No restrictions on private sector imports of fertilizer; except for SOP, no sales by Government of imported fertilizers below costs; identical treatment of private and government importers with respect to duties/taxes on imports.

Fifth Year

Disbursement of funds conditionality same as for fourth year.

1. Phasing out of fertilizer subsidies	Progress being made on increasing retail price of SOP, according to schedule determined in Year Two of the program.
2. Fertilizer price deregulation	Deregulated fertilizer prices maintained on all fertilizers except SOP.
3. Fertilizer imports by private sector	Conditions regarding private sector fertilizer importation maintained.
4. Government fertilizer imports	Joint GOP - A.I.D. study undertaken to investigate feasibility of Government meeting its fertilizer import requirements through competitively let contracts to private domestic companies, including fertilizer manufacturers and distributors.
5. Denationalization of fertilizer plants	Disinvestment of State-owned fertilizer plants proceeding.
6. Policy reform program assessment	Develop jointly with A.I.D. by end of year terms of reference for a comprehensive review to assess impact of policy reform program.

Sixth Year

Disbursement of funds conditionality same as for fourth year.

1. Policy reform program assessment	Complete study by April 1993 to assess impact of deregulation of fertilizer industry; will be financed with ASSP funds.
2. Phasing out fertilizer subsidies	Subsidy on SOP reduced by half to two thirds of 1988 level.
3. Government fertilizer imports	If study indicated that it was feasible for government to import its fertilizer through competitively-let private sector contracts, government will generally adopt this mode of importing.
4. Denationalization of fertilizer plants	Both Pak-Saudi and Pak-Arab denationalized by end of program life.

ANNEX I.4

WHEAT PROCUREMENT AND MARKETING

Wheat is one of the major crops produced in Pakistan and is the staple of the national diet. As shown in Table I.4-I, wheat production grew by an average of 4.3% per annum in Pakistan over the last ten years. Yields increased by 1.9% annually while the area cropped grew at an average rate of 2.4% each year.

Table I.4-I

WHEAT PRODUCTION IN PAKISTAN

	PAKISTAN Area '000 h.	PAKISTAN Yield kg./h.	Pakistan	PUNJAB	SIND	NWFP	Baluchistan
			Production '000 mt.				
YEAR							
1974/75	5,813	1,320	7,674	5,786	1,144	613	131
1975/76	6,111	1,422	8,691	6,572	1,321	660	138
1976/77	6,390	1,431	9,145	6,808	1,479	712	146
1977/78	6,360	1,316	8,367	6,090	1,427	689	161
1978/79	6,688	1,488	9,951	7,324	1,680	738	209
1979/80	6,925	1,568	10,857	7,914	1,849	863	231
1980/81	6,983	1,643	11,475	8,350	1,946	941	238
1981/82	7,222	1,565	11,304	7,962	2,062	962	318
1982/83	7,399	1,678	12,414	8,935	2,067	998	414
1983/84	7,343	1,482	10,862	7,623	1,946	860	453
1984/85	7,303	1,619	11,820	8,315	2,151	896	458
Growth Rate (%)	2.4%	1.9%	4.3%	3.5%	6.0%	4.4%	14.2%

Source: Price Commission Statistics, GOP

This rate of growth allowed Pakistan to achieve self-sufficiency in wheat in the late 1970's and early 1980's, but poor harvests in 1983-84 forced the GOP to import grain in 1984 and 1985. Good harvests in 1986 have restored the condition of self-sufficiency, even permitting small quantities of wheat to be exported, but it is evident that additional gains in productivity are necessary to ensure self-sufficiency in all years. There is also critical need, agronomists at CIMMYT warn, to make different varieties of wheat available to farmers because the country is quite vulnerable to a rust epidemic.

Support prices were set higher in 1985-86 to encourage production (Table I.4-II). At this level, Pakistan will have difficulty competing in world wheat markets, unless exports are subsidized. As the current exchange rate of Rs. 17/USD 1, the 1986/87 support price of Rs. 2/kg implies a price of USD 118/MT, even before adding in handling charges, compared to the PL-480 fob gulf price of USD

Table I.4-II

Wheat Procurement Prices- 1976/77-1985/86
(Rs./maund (40 kg))

Year	76/77	77/78	78/79	79/80	80/81	81/82	82/83	83/84	84/85	35/86
Support Price	39	39	48	58	58	58	64	64	70	80

Source: Economic Survey, 1985-86, p.45

112/MT. Pakistani agricultural officials have voiced their concern overthe need to lower wheat production costs through measures such as the provision of late varieties seed, better research and extension on the optimum sowing time, improvements in fertilizer use efficiency, better weed control, and more reliable supply of water at critical periods in the growth cycle of wheat. (Changes at the macroeconomic level. particularly a devaluation of the rupee, would also have a significant impact on competitiveness.)

1. Issues in Wheat Policy

According to a recent study done for the World Bank, Foodgrain Storage and Processing Study, (Agroprogress Kienbaum International GmbH and Indus Associated Consultants Ltd, 1986), the wheat policies of the GOP have been guided by the following objectives:

- to ensure that market or farmgate prices do not drop below the announced support price;
- to make wheat or wheat flour (atta) available at low (subsidized) prices to customers of the rationing system;
- to procure the required quantities for the public distribution system (ration shop system); and
- to stabilize open market prices during the off-season.

The GOP's recently-announced plan to abolish ration shop atta sales signals a major departure from this policy set, but the new policy guidelines for the wheat market have not yet become fully clear. Available information suggests that the GOP plans to continue procurement at the announced support price and to replace both open market sales and ration shop sales with open releases at a fixed price. This price is currently set at Rs. 2/kg, the same as the procurement price.

a. Procurement

To guarantee the announced support prices and to procure wheat for the ration shops, the GOP has built up a network of procurement centers under the management of Provincial Food Departments and the Pakistan Agricultural Storage and Service Corporation (PASSCO). Farmers have the alternative of selling directly to the Government via these procurement centers or of selling to traders and commission agents in the local market subsystem (Figure I.4-1). The German study estimates that farmers sell on average about 45% of their marketable surplus directly to the GOP (Table I.4-III). However, the local market subsystem again sells a signficant portion of its grain to the GOP, bringing the total share of procurement on average to about 60-70% of the marketed surplus. Of the remainding 30-40%, an estimated 65% (20-25% of the marketed surplus) is purchased by private mills and 35% (10-15% of the marketed surplus) by consumers directly for home processing.

Wheat purchased by the government procurement centers has in the past been sold mainly to mills working to supply the ration shop system. This system came under increasing fire during recent years, leading to the GOP decision to abolish it. Both the German study and preliminary results from the IFPRI Ration Shop Study, funded under the Food Security Management Project, suggest that major portions of the wheat put into the ration shop system has in fact been diverted to the open market. The IFPRI study interprets the large difference between the officially reported drawdown figures (2.9 million tons) and those reported by the households (500,000 tons) as an indication of substantial leakage in the system. IFPRI concludes that some "80% of the amount released to the mills is not drawn by consumers from the ration depots."

There are other problems with the present system of procurement and storage. Public grain storage losses are estimated at 5.1 percent for wheat, which is several times the acceptable industry standard of 1.0 to 1.5 percent loss per year. Public sector marketing costs for milled wheat are estimated to be 11 percent higher than those of the private sector (World Bank, 1986, p. 80).

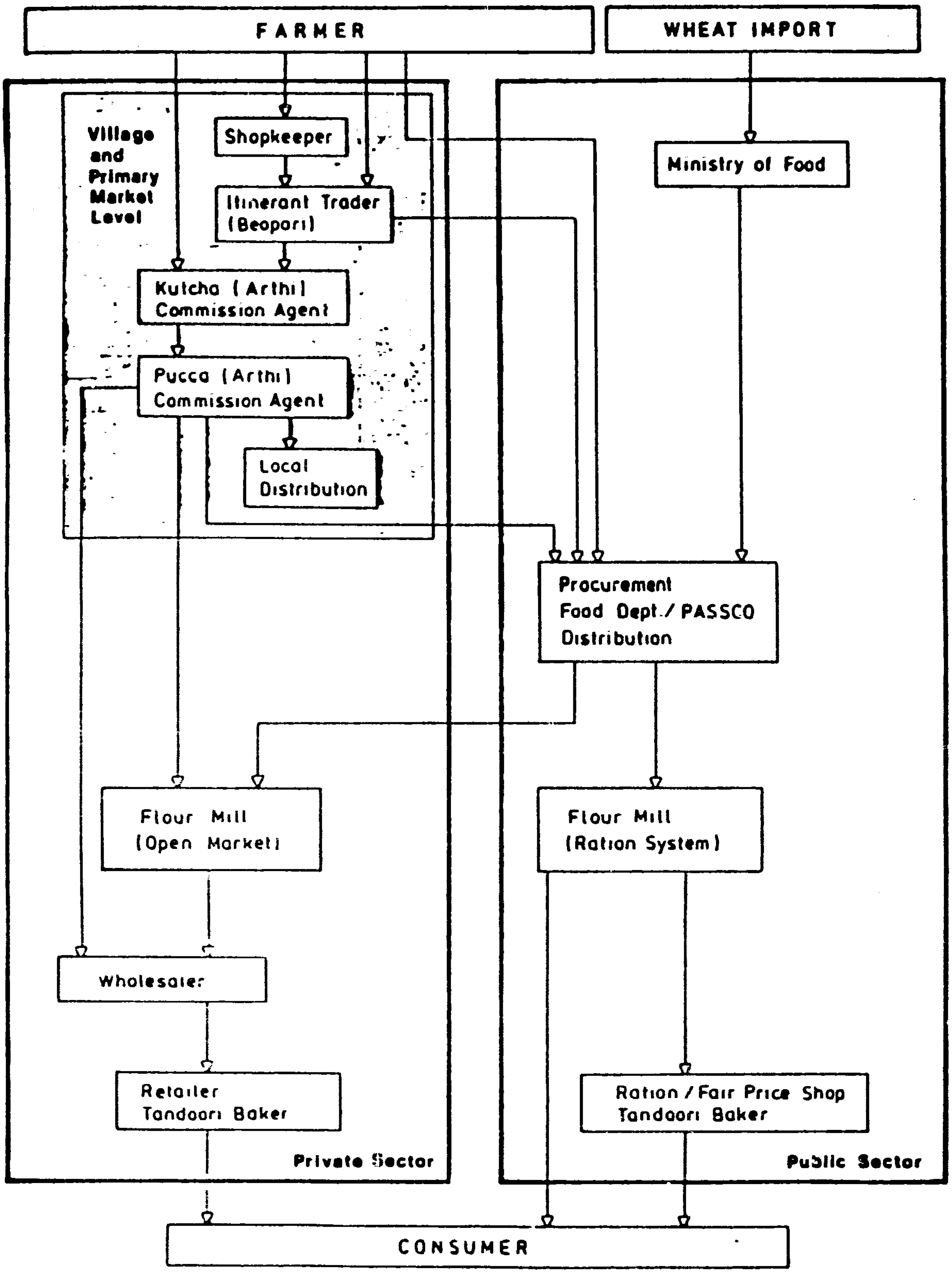
In order to meet its public grain procurement targets. the GOP has had to impose a set of restricting regulations on traders and millers, grain movements, and private storage. For example, only commissioned agents and licensed buyers (mills) are legally allowed to operate within a specified market area. Although general grain movement restrictions on wheat have been lifted, restrictions are re-imposed in specific districts if considered necessary to achieve government procurement targets, often at the discretion of the local district commissioner. This creates extra risk and uncertainty for private grain traders, which tends to lower their profitability and therefore their level of participation in the system.

A final problem is the degree of uncertainty surrounding GOP procurement. Prior to the harvest, the GOP announces a procurement plan specifying the targets for each area of the country. In fact, however, the amount of grain procured may differ substantially from this level. In most years, the private market price tends to be higher than the procurement price, except in scattered locales, and government agents find it difficult to meet their target. In good years, the GOP comes under pressure to increase purchases to make the support price effective. The lack of financial resources and storage space prevents the GOP from doing so effectively if the quantities being offered are large. In consequence, the state

Figure I.4-1

WHEAT MARKETING SYSTEM (Commercial)

Main Channel Structure



Source: Foodgrain Storage and Processing Study, Vol. I, p. 20.

Table I.4-III

Wheat Marketing Outlets for Farmers
(Per Cent of Marketed Surplus)

Province/Division	Sales to Local Market	Sales To Procurement Centers
N.W.F.P.	94.3	5.7
Peshawar	95.6	4.4
Malakand	98.2	1.8
Hawara	99.7	0.3
Kohat	99.1	0.9
D.I. Khan	87.5	12.5
Punjab	54.4	45.6
Rawalpindi	99.5	0.5
Sargodha	72.1	27.9
Faisalabad	56.2	43.8
Gujranwala	52.8	47.2
Lahore	67.8	32.2
Multan	35.2	64.8
D.G. Khan	56.2	43.8
Bahawalpur	43.9	56.2
Sind	34.7	56.4
Sukkur	43.6	56.4
Hyderabad	43.7	56.3
Karachi	100.0	–
Baluchistan	88.3	11.7
Quetta	100.0	–
Kalat	99.2	0.8
Sibi	81.7	18.3
Makran	100.0	–
F.A.T.A.	100.0	-
PAKISTAN	56.3	44.7

Source: Model based on estimated marketed surplus, actual procurements, assuming that 70% of total procurements stem directly from farmers.

In Foodgrain Storage and Processing Study, Vol. 1, p.21.

procurement agencies may end up with the worst of all possible outcomes for a support price system, which is to say large quantities of grain purchased at a price above the market price.

b. Storage

Almost all of the large-scale grain storage facilities in Pakistan are publicly owned. The inventory of state-owned godowns has been built up over time to manage the grain procurement system that feeds into the ration shops and is the government's main tool for stabilizing prices. The parallel absence of private sector storage results from the lack of an incentive to incur costs by storing grain or building storage facilities, when the government's release price is constant year-round and there are, therefore, no profits to be made from storage. Public sector wheat storage capacity is estimated as follows:

Table I.4-IV

Grain Storage Capacity in Pakistan

Permanent public storage capacity	4.30 million mt
Reserve (plinths, hired godowns, etc.)	.75 million mt
Total storage capacity	5.05 million mt

Source: Foodgrain Storage and Processing Study, Vol. I, p. 44

Private storage is also strongly discouraged by existing policies. According to the regulations, private storage is permitted for license holders on the condition that stocks are reported to the Licensing Authority (District Food Controller) who is authorized to direct the sale of these stocks at a specified price to specified persons or agencies. Private sector foodgrain storage in Pakistan exists mainly at the farm level for on-farm consumption and at the market level for intermediate periods by private traders. Some private foodgrain godowns have, however, been constructed for rental to the public sector.

Official GOP policy statements call for movement toward a larger private sector role in grain marketing. To date, the main mechanism put forward to achieve this is partial financing for private construction of storage facilities to be rented to the public sector storage authorities. It appears unlikely that this weak measure will have any real impact on the situation, as businessmen report that the scheme is not financially attractive. The set of regulations governing trade and storage, along with the procurement and release system, needs to be thoroughly overhauled before the private sector will get involved in storage in any serious way.

c. GOP Sales of Wheat

The abolition of the ration shops is too recent to judge its impact on the GOP's wheat sales system. Available information on the new structure suggests that the GOP has exchanged a subsidy of around Rs. 900/kg applied only to ration shop atta with a subsidy of around Rs. 600/kg applied to the entire volume moving through the state system. On balance this would appear to be a move in the right direction, as the ration shops previously accounted for over 80% of total state sales volumes (an estimated 3.1 mmt out of total state sales of 3.7 mmt in 1985/86, for example). State procurement levels have been trending upward in recent years, however, and if this trend continues the total subsidy could surpass its present level.

The impact of the sales program on the federal budget also depends on whether the state is able to sell the full amount purchased. This has not been perceived as a problem in the past, as ration shop atta was priced well below competing products. Recent studies by IFPRI and others have made it clear, however, that as much as 80% of the grain designated for the ration shops never reached their customers and, presumably, did not generate the anticipated sales revenues.

Thus far, sales have not been a problem under the new policy, as the sales price is below the price that had prevailed on the private market. Shortly before the government began unlimited releases at Rs. 80/maund, prices on the open market had been running at around Rs. 90/maund. As noted above, the current release price has been set at the same level as the procurement price, implying a subsidy equal to the GOP's cost of storage and handling. The latter is estimated at approximately Rs. 600/mt or Rs. 24 per maund.

It is too early to say whether the policy of open sales at a fixed price accurately reflects the GOP's intentions for management of the wheat market or whether, instead, it is only an interim measure, designed to drive down the market price of wheat during the transition from the ration shop system to a new, unsubsidized regime. If the rationale is the latter, then judgment of the reform in the wheat market must wait for the final policy to emerge. Indeed, flooding the market during the transition could be interpreted as skillful management of a difficult period, preventing potential disruption of the wheat market caused by uncertainty or speculation.

If the rationale is the former, however, and the new policies are permanent, then there is substantial cause for concern. Rather than increasing the scope for private sector activity, a zero-margin sales policy virtually precludes private sales as long as the government has any grain that it is willing to sell. It also implies continuing large budgetary subsidies.

In either case, the situation of uncertainty surrounding the wheat market as it enters the critical harvest period is illustrative of the risk-augmenting capacity of the GOP's market interventions. Should private traders buy on their own account, hoping that the government's unfair competition is temporary or, on the contrary, should they plan to take advantage of it themselves by buying on the government's account, selling at Rs. 2/kg, and then buying the same grain back later for the same price?

The results of an IFPRI study of the Pakistan wheat market are anticipated in June 1987. It is hoped that this study will clarify both the current role of the GOP in management of the wheat market and the appropriate role for government managers as Pakistan consolidates its position of self-sufficiency in wheat.

A critical question is the relationship of the private market price to the official procurement and sales prices. As noted above, the GOP procurement price has generally fallen below the private sector procurement price, even in years of average-to-good production. The differential has not been large, however. It is, therefore, difficult to say whether the support price has been effective, and the difference simply reflects a quality premium paid by the private sector for the pick of the crop, or whether the support price has not been effective. A detailed examination of prices and volumes moving through the private sector channels is necessary to resolve this issue, and it is expected that the IFPRI study will provide at least an initial judgment on this key issue.

2. Policy Reforms

Despite recent changes in the wheat marketing system, a clear need for additional reform exists. A very key step towards reform will have been taken if the GOP proceeds to abolish the ration shop system on schedule. As discussed above, this step must be followed up with additional measures to make expanded private sector activity possible. The challenge will be to reconcile the GOP's policy of turning the wheat market over to the private sector, and reducing budgetary outlays, with the commitment to support prices for farmers. It remains to be seen whether the GOP has sufficient resources to implement a support price system effectively, much less the additional financial resources needed to combine a support price program for farmers with a system of open market releases designed to inhibit price rises on the consumer side.

IFPRI's report on wheat marketing should help to clarify these issues. Their earlier report on the ration shop system proposed that consumers and farmers be protected from excessive price fluctuations by government market interventions (open market sales or purchases). A 15-20% market share is usually assumed sufficient to achieve price stabilization objectives, if (and this is a big if) consumer prices are not heavily subsidized and if there is a developed private sector possessing its own storage facilities. This reduction in government procurement (by as much as 50%) would reduce the present level of government subsidy considerably and create the basic conditions for increased private sector procurement and storage. The announced policy for government procurement and release includes a large subsidy component for consumers that is not compatible with a reduction in market share on this magnitude.

There is a need for several other policy changes to encourage private storage. The restrictive regulations concerning grain movement and private storage should be revised. This is relatively simple in theory, once the GOP's procurement targets have been lowered, but in practice the long history of local market controls in the subcontinent may be quite difficult to eradicate.

Ideally, a variable price support system should also be established to encourage private storage. This system might operate on the following basis: once a base level support price is determined, adjustments could be made monthly, for example, to take into account carrying and storage costs. Experience in other countries does not encourage optimism regarding the GOP's ability to increase official prices as smoothly and regularly as this system implies, however.

Much the same impact could be achieved by introducing seasonal variability into the GOP's trigger price, i.e., the open market price that triggers a GOP decision to begin selling at the official release price. A variable trigger price has very much the same impact on the market as a variable release price, so long as the release price is not too far distant from the trigger price. The simplest way to ensure that the GOP's intervention in the market reflects seasonality and storage costs is to shift to open market sales (e.g., by auction) or to abolish state procurement altogether. Neither of these moves appears to be politically feasible at the present time.

These measures imply a shift in the GOP's mode of market control from a price-based system to a quantity-based system. At present, the government attempts to regulate producer prices by setting a price that it believes to be appropriate and then making grain purchases at that price. This method is only effective if the government is able to purchase enough to drive the open-market price up to the support price. If the support price has been set too high with respect to supply and demand conditions prevailing in a given year, then the government may have to purchase a very large quantity of grain in order to meet its objective, which may or may not be feasible.

On the consumer side, a price-based market regulation system has also been used. Previously, sales of limited quantities were made at a highly subsidized price. At present, unlimited sales are made at a subsidized price, although the subsidy is lower than previously. If the government price is below the price at which the private sector can operate profitably, the government will once again find itself alone in the marketplace. The private sector will either sell at a loss, if it perceives that government sales will continue for a long period, or wait for the exhaustion of government stocks. A large-scale price-based intervention is therefore extremely destabilizing to private sector activities.

In a quantity-based system, all purchases and sales are at the market price. The system relies on the oft-noted tendency of prices to fall when supply is increased and to rise when demand is increased. By entering the market as a purchaser at harvest-time, the government increases demand and therefore pushes the price up. By selling its grain toward the end of the season, it increases supply when prices would otherwise be highest, and tends to drive prices down. This system is much less expensive than a price-based system. Its costs are also more controllable, as there is no need to purchase as much as is offered or sell as much as is demanded in order for the program to be effective. The quantities to be bought and sold can easily be set to reflect the budget and storage space available.

Summary

The overall goal of policy reform in the wheat sector should be to encourage the government to reduce controls in the marketplace, limit its interventions to match the resources available, and encourage greater private sector participation. The following policy actions can be identified as appropriate near-term steps:

1. The instauration of a market stabilization system in which open-market operations for releases of publicly procured and stored grain are made to keep consumer prices within a specified band;

2. Increased private sector participation in the grain storage system of the country by revising restrictive regulations; and

3. Introduction of a variable wheat pricing system allowing for normal seasonal price fluctuations in order to encourage private sector storage.

Additional actions are expected to be identified as a result of analytic work now under way, which should further clarify the costs and benefits of alternative intervention strategies under differing supply and demand conditions.

ANNEX I.5

THE SEED INDUSTRY

While Pakistan has made considerable progress in seed production during the last decade, the seed program suffers from a number of serious deficiencies. The assessment of Pakistan's seed industry recently completed by the Industry Council for Development for USAID/Pakistan identified two basic problems that impede the rapid growth of a private seed industry and improvement in the quality of seed planted by Pakistani farmers:

1. Until recently, the emphasis in seed industry development has been on building up public sector seed companies, a move that was encouraged by the donors; and

2. The approach to private seed companies has stressed control and regulation, rather than balancing protection for purchasers with measures to protect and encourage private seed producers.

Both problems are reflected in the legal framework embodied in the "controlling and regulatory concepts" of the Seed Act of 1976, which forms the core of seed legislation in Pakistan. This law was drafted to reflect the public-sector based policy, and consequently does not meet the needs of private seed industry, as there was little support for it at the time the legislation was enacted. The legislation leaves the legal status of seed production in doubt (i.e., whether it is classified in the industrial, agricultural or commercial sector), which creates problems for investors in Pakistan's heavily regulated environment, as it is unclear which set of regulations applies to them.

The historical reticence of the GOP toward a private seed industry development policy, coupled with the existing legal and administrative barriers to potential private producers has made the private sector hesitant to move aggressively into this area. New legislation is needed to reflect the shift in policy to favor private sector producers and to address concerns excluded at the time the current legislation was drafted. Changes in the law and supporting modifications in the composition and function of existing seed agencies are needed to create the regulatory environment in which seed production can expand to supply a larger share of the planted area.

The authors of the ICD seed study concluded that there is both a great potential and need for much higher farmer use of improved seeds in Pakistan. The authors note that the production of wheat and rice seed (which are self-pollinated, meaning that farmers can use seed from their own land, rather than purchasing seed each year) does not appear to offer private firms the margins they would require to enter production. They view oilseeds, particularly sunflower seed, as an especially attractive crop. Their analysis also suggests a great potential for high quality fodder and feed grains to meet the large demand of the livestock industry, especially dairy, as well as considerable potential in the vegetable seed sector (particularly for seed potatoes), although the specialized nature of vegetable production makes it difficult to generalize in this area.

1. Areas of Special Concern

Specific problems exist in several areas: sanctioning, subsidies, registration, importation, marketing, certification and quality control, and wheat variety release.

a. Sanctioning. The investment approval process is slow and cumbersome and constitutes a needless barrier to private investment in Pakistan. Sanctioning should be drastically simplified (or eliminated altogether for Pakistani investors).

b. Subsidies. The price of seeds for distribution by the public sector is subsidized. Such subsidies should be eliminated if there is to be "fair" competition with the private sector and improved efficiency in resource allocation.

c. Registration. One of the most common complaints of potential seed producers concerns the length of time required to register a variety: if a new variety is approved for propagation, it is registered and notified; obtaining notification status of a new variety can take up to four years, which is excessively long. The process could be substantially shortened and made less costly by changing and/or eliminating a number of procedures and regulations, and otherwise streamlining the process, without adversely affecting seed quality. Private seed companies should be permitted to make independent tests, subject to inspection and verification. These tests should be based on proven performance under typical conditions and not simply on controlled plot tests as at present.

d. Importation. Private firms should be permitted to import experimental materials, lines, and varieties freely, subject only to quarantine and phytosanitary regulations. There are restrictions on such imports now. Crop breeding research in the private sector is still very limited and importation of new lines for testing should be encouraged.

e. Marketing. Promotion appears to be one of the weakest components in the marketing matrix. While advertising and related activities are clearly the private sector's responsibility, better government supervision of marketing and trade practices is needed to improve consumer protection and ensure that the reputable dealers are not discredited by the actions of a few.

f. <u>Certification and Quality Control</u>. In Pakistan there is no clear separation of rules concerning genetic identity (certification) and quality control for seed (physical and physiological). Both genetic identity and quality control are covered by the present certification process. By restricting control only to certified seed, current regulations generate a great deal of harmful confusion by leading farmers to believe, for example, that non-certified seed is substandard, whereas in fact it may be quite good. At the same time, post harvest seed quality control is very weak for certified seed during the storage/distribution period and such control is totally absent for non-certified seed. The separation of consumer protection regulations from certification control is badly needed. By establishing and monitoring a "truth-in-labelling" system and regular testing of all seeds in commercial channels, wide-spread seed quality control could be accomplished in Pakistan.

g. <u>Wheat Varieities</u>. While the results of wheat research have generally been satisfactory, the public seed corporations commonly restrict seed production to a small number of varieties. This sharply increases the risk of serious outbreaks of recurring, quick-spreading diseases (epiphytotic diseases). The repeated error of supplying farmers with only one variety of wheat for large contiguous land areas could result in a repeat of the very costly rust epidemic of 1977/78.

2. <u>Possible Reforms</u>

Following is an illustrative list of possible policy reforms and regulatory changes that could be included in the dialogue agenda for the ASSP:

a. Passage of new seed legislation that delineates the roles of the private and public sectors; that clarifies the seed industry status as an agricultural industry; and that both promotes private sector activity and provides adequate production for seed purchasers;

b. Elimination of subsidies on government marketed seed;

c. Drastic simplification or elimination of the sanctioning process;

d. Removal of restrictions on the free importation by private firms of experimental materials, lines, and varieties;

e. Reduction in the time required for seed registration by private producers, mainly through streamlining the process;

f. Improvements in consumer protection, through, for example, enforced truth-in-labelling, with spot checking at final points of sale; and

g. Support to greater promotional efforts for the use of improved, high-quality seed.

The agribusiness study, now under way, is expected to shed additional light on the need for policy reforms affecting agro-industries.

ANNEX I.6

ASSP TRAINING AND TECHNICAL ASSISTANCE COMPONENT

The Training and Technical Assistance component will have two distinct elements:

- A sectoral training program providing long- and short-term training to build up the research and training capabilities of Pakistani institutions in the agricultural sector and to expand the pool of skilled personnel available to the national agribusiness sector; and

- A policy information and management program, which will continue and expand the program of policy analysis, data collec-tion, and institution-building begun under the Food Security Management Project and provide technical support to the ASSP's policy dialogue.

1. Sectoral Training Program

The training component of ASSP works toward removing one of the key constraints to economic growth in the agriculture sector - the low level of education. There is little dissent to the proposition that Pakistan has been spending too little money on education. The GOP presently budgets less than 2% of the GNP for educational purposes. ASSP seeks to help Pakistan address this urgent need within agriculture-related sectors of the country by participating in a comprehensive training program to upgrade the educational level of personnel involved in agriculture-related businesses and institutions.

The training component of TATA is designed to provide opportunities for upgrading the professional and administrative skills of Pakistani nationals involved in the field of agriculture. The ASSP training program will have two major components:

a. Public Sector training: long- and short-term training in the United States for university personnel and others in institutions supporting the agricultural sector, reinforced by short-term in-country training and visiting professorships for US faculty in Pakistani institutions; and

b. Private sector training: long- and short-term training in the United States to upgrade the technical, professional, and administrative skills of individuals with a background in Pakistan's private sector production, processing, and marketing sectors, as well as short courses in-country to reach a wider agribusiness audience.

Training will be offered in a wide range of specialties needed to improve performance in the private and public sectors. While the specific categories will depend on the training needs expressed by local institutions (public and private) and the availability of suitable candidates, it is anticipated that degree training will be offered in agricultural sciences (agronomy, plant pathology, genetics, etc.), livestock sciences, food processing, marketing and distribution, business management and public administration, and economics.

The public sector training program will provide scholarships for 44 individuals to complete Ph.Ds and 71 to complete M.S. degrees in the United States. The Ph.D training will be provided primarily to faculty members of Pakistani agricultural universities and public sector employees with direct responsibility for policy analysis and advice to senior officials. To the greatest extent possible, individuals will be identified in cooperation with local universities or other Pakistani centers of research and training, which will be encouraged to submit candidates in accordance with their institutional training plans. Some candidates will, however, be chosen for training to reinforce the institution-building activities being carried out by EAN and ADC. To further strengthen the impact on agricultural training and research in Pakistan, the program will also finance visiting professors from the United States, who will spend an academic year at a Pakistani university or other training institution. Approximately 12 person-years will be funded under this program, which will be an extension of USAID's Institutional Excellence Program (which will begin implementation in FY1988). An illustrative list of GOP institutions from which public sector scholarships will be identified can be found on pages 14-17 of this section.

The private sector training program will provide scholarships for Pakistanis in technical fields related to agricultural production, processing, and marketing. Nineteen Ph.D and 68 M.S. scholarships will be provided. Candidates will be chosen through open competition on the basis of proven commitment to agribusiness (with strong preference to individuals with an employment history in the sector or sponsorship by a local firm), academic preparation, and language skills.

Short-term US training will also be offered under both programs (some 1000 person-months under the public sector program and 300 under the private sector program). In addition, in-country training workshops and seminars will be funded under the ASSP, as well as a limited number of invitational travel tours, primarily in support of the EAN and ADC activities. The programmed levels of U.S. training are shown in Table I.6-I.

c. <u>US Training Activities</u>

The long-term training program will be managed by ARD staff in cooperation with the mission's Office of Human Resources and Training (HRT), under the auspices of the Development Support Training Program (DSTP). A training manager (PSC) will be added to the ARD staff to handle the scholarship and training program, to set up selection criteria, and to carry the program through final selection of the first round of participants. This position will be funded from PDIF funds for a period of one year with the need for continued assistance assessed at the end of this period. It is anticipated that mission staff should be able to manage the program once it is established, with assistance from the Academy for Educational Development (AED), the contractor for the DSTP, which administers all US and third country training for the mission. Representatives from MINFAC and EAD will participate in the interview process and approve the candidates prior to final approval by USAID.

PIO/Ps for the candidates selected will be prepared by USAID/HRT citing ASSP funds. Tuition costs and fees for the participants will be paid to the training institution concerned and health insurance premiums will also be paid. The GOP will pay the salaries of public sector employees. (Payment of private sector trainees' salaries will be regarded as a matter for negotiation between the trainee and his/her employer.) All other training costs will be paid by USAID.

d. Training Programs in Pakistan

In-country training will take the form of local scholarships, workshops, and seminars. While some in-country training programs will be carried out under the rubric of program training, particularly the visiting professor program outlined above and short courses in the agribusiness field, most of the activities in this area will be undertaken as part of the ADC and EAN activities.

ADC plans to provide specialized training in subjects closely related to collection of agricultural statistics such as the management of data systems. the training of trainers, and computer applications in statistics through a series of workshops and seminars conducted by local and expatriate consultants over the life of the ADC project.

ADC also plans to work toward the establishment of an in-service training institute for entry level and mid-career statisticians in Lahore. The institute, managed and operated by the Statistics Division of the Ministry of Finance, will offer a range of courses in statistics and related fields. ADC will support the institute through the provision of visiting lecturers, and purchase of textbooks, other training materials, and microcomputers to furnish a computer training laboratory. Procurement of goods and services in support of this activity will be implemented by USDA through its PASA agreement.

The EAN Project plans to conduct four applied economic analysis workshops annually. Each workshop will consist of approximately 17 training days over three calendar weeks, with each workshop costing about $35,000. The principal topics of these workshops will include: applied economic analysis, agricultural marketing, econometrics, agricultural policy, and international trade. In addition, EAN plans to conduct two special local agricultural policy seminars each year. Each seminar will deal with key agricultural policy issues that have been analyzed during recent EAN contract research studies.

ARD will organize additional in-country training through its agri-business program. Two workshops are planned each year for five years, costing approximately $100,000 each. US experts will be brought in to conduct these workshops. American educators will also be brought in to teach in Pakistani universities, technical institutes, and research institutions through a buy-in to the mission's Institutional Excellence Program.

e. Summary of Training Outputs

Table I.6-I indicates the training accomplishments expected over the ASSP's six-year life in the areas of long-term training and US short-term training.

Table I.6-I

Summary of Principal Training Outputs

Year Training Begins:	1987-1988	1989	1990	1991-93	TOTAL
Public Sector Training					
Ph.D (persons)	22	10	10	2	44
M.S. (persons)	26	14	19	12	71
Short-term US (PM)	221	180	216	396	1013
Private Sector Training					
Ph.D (persons)	9	5	5	--	19
M.S. (persons)	38	20	10	--	68
Short-term US (PM)	160	80	80	--	320

The proposed budget for the entire training program for the the period from 1987-1993 is provided in Table I.6-II. It is assumed that Ph.D's will be completed in three year and M.S.'s in two years. The budget assumes that each candidate is fully funded for the entire training program in the year of departure for the training. This means that the costs in the first half of the six-year period are substantially higher than the second half.

Table I.6-II

Illustrative Budget of ASSP Training Program (1987-1993)

ILLUSTRATIVE BUDGET FOR THE PROPOSED TRAINING PLAN
AGRICULTURE SECTOR SUPPORT PROGRAM
(U.S.$'s)

EXPENSE CATEGORY	Unit	Unit Cost FX	Unit Cost LC	FY 87 FX	FY 87 LC	FY 88 FX	FY 88 LC	FY 89 FX	FY 89 LC	FY 90 FX	FY 90 LC	FY 91-93 FX	FY 91-93 LC	TOTAL FX	TOTAL LC	TOTAL FX+LC
TRAINING																
a.Long-Term U.S.																
i)Public Sector (EAN;ADC;ARD)	PM	1800	2516	1,296,000	60,384	1,382,400	65,416	1,252,800	60,384	1,340,800	67,932	648,000	35,224	5,940,000	289,340	6,229,340
ii)Private Sector (ARD)	PM	1800	2516	928,800	57,868	1,101,600	57,868	1,101,600	57,868	1,015,200	52,836			4,147,200	226,440	4,373,640
Sub-Total				2,224,800	118,252	2,484,000	123,284	2,354,400	118,252	2,376,000	120,768	648,000	35,224	10,087,200	515,780	10,602,980
b.Short-Term U.S.																
i)Public Sector (EAN;ADC;ARD)	PM	3500	2516	378,000	115,736	395,500	115,736	630,000	148,444	756,000	161,024	1,554,000	201,290	3,713,500	742,220	4,455,720
ii)Private Sector (ARD)		3500	2516	280,000	100,640	280,000	100,640	280,000	100,640	280,000	100,640			1,120,000	402,560	1,522,560
Sub-Total				658,000	216,376	675,500	216,376	910,000	249,084	1,036,000	261,664	1,554,000	201,280	4,833,500	1,144,780	5,978,280
c.Institutional Execellence Prog	PM	6978	2278	125,600	41,000	125,600	41,000	125,600	41,000	125,600	41,000	251,200	82,000	753,600	246,000	999,600
d.In-Country (EAN;ABC;ARD)				180,000	150,000	180,000	182,381	180;000	209,310	180,000	209,310	180,000	328,530	900,000	1,079,931	1,979,931
e.Study Tours (ARD)				165,000	35,000	165,000	35,000	165,000	35,000	165,000	35,000	260,000	140,000	920,000	280,000	1,200,000
f.Miscellaneous					250,000		250,000		250,000		357,096			0	1,107,096	1,107,096
TOTAL				3,353,400	810,628	3,630,100	848,041	3,735,000	902,846	3,882,600	1,025,038	2,893,200	787,034	17,494,300	4,373,587	21,867,887

Note-U.S. $ 1.00 = Rs. 17.00

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2. <u>Policy Information and Management</u>

The program of analysis, data collection, and institution-building begun under FSM will be continued and expanded under ASSP. The program will have two distinct elements:

a. <u>Institution-building activities</u>, including technical assistance, formal and informal training, equipment, and other assistance to strengthen the capabilities of the Economic Analysis Network in the Ministry of Food and Agriculture, and the agricultural data collection and dissemination activities of the Federal Bureau of Statistics; and

b. <u>Analytic support</u> to the identification and clarification of policy issues, the formulation of reform packages, and the development of consensus on actions to be taken.

While the institutional development component will largely build on existing activities under the FSM Project (particularly the Economic Analysis Network and Agricultural Data Collection activities), the analytic support will be provided through a number of mechanisms, including the EAN as well as a mission-managed policy analysis IQC (or other basic ordering agreement mechanism) and supplemental technical assistance.

Under the FSM Project, the <u>Economic Analysis Network</u> (EAN) demonstrated the value of drawing on Pakistani and expatriate expertise to generate high-quality analysis of priority policy issues. This experience has reinforced the lesson learned through policy dialogue under ACE and PL-480: success in encouraging the GOP to adopt needed policy reforms is much greater where the mission (and reform advocates within the GOP and the private sector) can draw on timely and relevant information. The bold steps taken by the GOP in recent months were based in part on the recommendations and findings of mission-funded studies, including IFPRI's analysis of ration shops funded under FSM and earlier studies of fertilizer and oilseeds policy.

This experience and other work under the EAN has also demonstrated the value of following up the analytic work with seminars and publications as a means of developing a consensus among government and private sector leaders. Under the ASSP, AID and the GOP will continue to draw on the EAN for analytic support to identify the costs and benefits of alternative reforms in the agricultural sector.

Finally, the EAN has proven the value of an informal network linking analysts in a wide range of Pakistani research and policy institutions. In addition to broadening the resources available to the GOP for analysis of agricultural issues, the network has proven to be a useful mechanism for providing training and technical assistance to these institutions.

Despite this positive experience, progress in institutionalizing the EAN within the Ministry of Food and Agriculture and building up the analytic capacity of MINFAC itself has been slower than anticipated.

Consequently, the extension of the EAN under the ASSP will give particular emphasis to establishment of a permanent capacity for policy analysis of agricultural issues, based on both in-house analysts in the GOP and improved abilityto draw on the analytic capabilities of other Pakistani institutions, particularly agricultural universities. Greater attention will also be given to building up the capabilities of the latter institutions.

At the present time, development of in-house capacity is expected to continue to emphasize strengthening of the Directorate for Policy Analysis in MINFAC. The ASSP evaluation at the end of the program's first three years will reexamine this decision in preparation for extending the EAN activity into the 1990-93 period. If institutionalization of policy analysis capacity within MINFAC continues to lag, consideration will be given to broadening the institutional base to include other institutions, or otherwise redesigning the program to strengthen it institution-building impact.

Under the EAN, institution-building activities will include provision of long- and short-term technical assistance, U.S. and in-country training (with a strong emphasis on the latter), development of economic research facilities through provision of computers and libraries as well as improvements to the physical plant, and other assistance.

3. <u>Post-1987 Economic Assistance Requirements for Economic Analysis Network (EAN) Project</u>

The proposed strategy for the EAN Project after 1989 is based on the following assumptions:

a. By 1990, the Directorate of Agricultural Policy (DAP) will employ a staff of at least 15, of whom at least 7 are staff economists or directors;

b. By 1990, at least one-half of the DAP staff are in the GOP civil service;

c. By 1990, at least 5 major sector-level policy analyses are completed under the EAN research program;

d. Local economics training through applied economic analysis workshops and seminars will continue to be effective; and

e. MINFAC will increasingly recognize the value of the DAP and rely on the DAP for most of its policy analysis needs.

By 1990, the DAP will have evolved to become MINFAC's primary supplier of relevant, credible economic and policy analyses. During the next three years, the DAP will develop three major research programs: economic analysis, price analysis, and farm management. These programs will be developed through support from the EAN PLA and concentrated technical assistance from a long term expatriate DAP Advisor, who will be fielded in the summer of 1987. During 1986-89, the EAN will continue to be strengthened through a series of applied economic analysis workshops and financial and technical assistance to EAN studies conducted by cooperating EAN institutions.

The accomplishments of the EAN Project through 1989 will set the stage for the maturation of the DAP and the EAN during 1989-1994 Much of the research to be conducted after 1989 will use data collected by the ADC on agricultural prices, inputs, market linkages, labor, machinery, costs of production, and trade. Most economics training will be implemented through local applied economic analysis workshops and seminars because of continuing difficulty in placing participants in overseas academic programs. When necessary, EAN studies will supplement ADC data with rigorous, narrowly defined economic surveys of agricultural producers, households, processors, and marketers.

The analytical capability of the DAP and the EAN will be further strengthened by an additional 80 advanced microcomputer systems and five economic research libraries. In recognition of the premier role of the DAP as MINPAC's policy advisor, a permanent DAP office complex will be constructed for the GOP. Three long-term expatriate advisors will assist MINPAC in strengthening the DAP's staff economic capability, providing technical assistance to EAN institutions and EAN research projects, and coordinating local training programs for workshops and seminars. About 60 person-months of short-term expatriate technical assistance will be supplied to assist the EAN and the DAP to implement specific studies. Most of the technical assistance will be drawn from local expertise: 300 person-months of short-term consultancies, and 1,800 person-months of research support. The estimated cost of the donor assistance required for these activities is summarized in Table I.6-III. A detailed budget by project year is provided in Table V-1 in the main text.

TABLE I.6-III

EAN Project Donor Assistance Needs For 1989-1995

COMPONENT	AMOUNT	COST
I. Technical Assistance		$ 4,738,000
A. Long Term Expatriate Advisors	96 Person-Months	1,540,000
B. Economic Studies	[illegible] Studies	3,198,000
1. Local Consultants	300 Person-Months	807,000
2. Short-term Exp. Advisors	60 Person-Months	951,000
3. Local Staff Support	1,800 Person-Months	884,000
4. Local Indirect Costs		556,000
II. Commodities		2,370,000
A. Computers/Software	80 Systems	720,000
B. Office Equipment		250,000
C. DAP Office Construction		400,000
D. Economic Research Libraries	4 (3,000 vol. @)	1,000,000
III. Operating Expenses (est.)		208,000
TOTAL COST (without inflation or contingencies)		$7,316,000

Below are specific activities planned under the EAN component.

I. Technical Assistance

A. Long Term Expatriate Advisors

Two long term advisors will be assigned annually to strengthen the DAP's capability to conduct economic analyses and monitor the EAN Contract Research Program, strengthen the economic research capabilities of key EAN cooperating institutions, such as the University of Faisalabad, and assist EAN cooperating institutions in conducting contract research in support of the EAN Annual Economic Research Agenda.

B. Economic Studies

Thirty studies (five studies per year) will be contracted to cooperating EAN institutions. Each study will be designed to support the EAN Annual Economic Research Agenda. The studies will focus primarily on the following issues: sector analyses of specific commodities, sector analyses of specific agricultural resources or inputs, trade policy, investment policy, regulatory policy and marketing policy. Each study will generally be funded for four to six months. In no case will funding be provided for more than nine calendar months after a contract is signed.

The annual technical assistance support required for these studies will include 50 person-months of local consultants, 10 person-months of expatriate short term advisors, and 300 person-months of local research staff in the DAP. The local research staff will be mainly responsible for providing MINFAC with briefing papers developed from the results of the contract research studies.

II. Training

A. Local Workshops

Four applied economic analysis workshops are planned annually. The prime topics of these workshops will be applied economic analysis, agricultural marketing, econometrics, agricultural policy, and international trade. Each workshop will consist of approximately 17 training days over three calendar weeks. The estimated costs of per diem and transport for over 100 participants (20 per workshop) is $85,000 the first project year, increasing at five percent per annum thereafter.

B. Local Seminars

Two special local agricultural policy seminars are planned annually. Each seminar will deal with key agricultural policy issues that have been analyzed during recent EAN contract research studies.

C. Local Instructors

All workshops will be conducted by local instructors who have been identified and trained during the initial phase of the EAN project. It is estimated that local instructors will be engaged for approximately 49 person-weeks per year.

D. Overseas Study Tours

The first phase of the EAN project did not include responsibility for overseas training. In the post-87 program, it is anticipated that the EAN project will implement an overseas study tour program to supplement local workshop training. Study tours will include workshops and customized short term research training programs with US agricultural universities.

III. Commodities

A. Computers/Software

During the first year of the post-87 program, 80 microcomputer systems based on the Itel 80386, or later microprocessor technology, will be distributed throughout the EAN to supplement IBM-PC/AT systems supplied under the first phase of the EAN project. Each microcomputer will be supplied with standard word processing, spreadsheet, database, graphics, and econometrics software. Each microcomputer system will meet or exceed the computational capacities of most mainframe computer systems currently operating in Pakistan. The estimated cost of each system is $12,000.

B. Office Equipment

During the first year, ten photocopiers and other office equipment will be distributed among the DAP and key EAN cooperating institutions.

C. DAP Office Construction

To further the institutionalization of the DAP, a DAP office will be constructed during the first two years of the post-87 program. The office will have approximately 30,000 square feet of space and will cost approximately $400,000.

D. Economic Research Libraries

During the first three years of the post-87 program, four economic research libraries will be established in the EAN. It is expected that one of the libraries will be housed in the DAP. The other four libraries will be located in each province in a key EAN cooperating institution. Each library will be provided an initial acquisition of 3,000 volumes. The cooperating institutions will be expected to provide the floor space for each library. The estimated cost of 15,000 volumes, library furniture and equipment, and renovation of the facilities is $1,000,000.

4. Agricultural Data Collection (ADC) Project, 1986-89

The Agricultural Data Collection component of the FSM Project will also be continued under the ASSP. The ADC is assisting the GOP to modify the present agricultural statistics collection system to develop a more accurate and efficient system based in part on the area sampling frame methodology, but incorporating more traditional data collection and publication methods as well. By the end of the FSM Project, it is expected that the area sampling frame will have been fully implemented in the pilot areas, but due to a late start, a second phase will be needed to implement the area sampling frame nationwide.

The objectives of the Agricultural Data Collection activity are as follows:

a. Completion of the area sampling frame for the original seven pilot districts (as revised; based on MOD restrictions) and one district in NWFP and Baluchistan (conditional upon the acquisition of aerial photography).

b. Complete at least one area survey for major crops in the pilot districts.

c. Initiate a demonstration objective yield survey for three major crops in at least one pilot district.

In the 1989-1993 period, the ADC should continue under the same organizational structure as the 1985-89 project because substantial work will remain to complete the national area sampling frame. The primary objective of ADC will continue to be the collection and publication of basic statistics on agriculture. The area sampling frame will be used as the sampling base for production statistics and other major agricultural surveys, however, the project should begin using several other methodologies in the collection of related basic agricultural statistics. All data generated by ADC will be made available on a timely basis to all users throughout the country for planning and decision making.

The outline below shows the proposed structure of ADC for the Agriculture Sector Support Program.

I. Production Statistics

A. Complete national area frame
B. Initiate yield estimates for major crops
C. Investigate alternate methods for estimates on area and yield of minor crops
D. Explore methods for providing interim livestock statistics between census, and livestock products data, i.e., milk production and slaughter.

II. Economic Statistics

A. Prices; farm, wholesale, retail
B. Price of index series
C. Cost of production and production inputs
D. Agriculture labor; including labor force, cost and migration effects on labor supply
E. Land tenure
F. Farm credit, cost use availability, sources
G. Cold storage
H. On-farm grain stocks
I. Marketing
  a. Agriculture market structure
  b. Market channels
  c. Marketing costs
  d. Losses in the market
  e. Transportation
  f. Export-Import trade (monitoring of international markets)

III. Training

A. Foreign degree training
B. Foreign short-term training
C. In-country training
D. Statistical training institute

IV. Technical Assistance

A. Long-term technical assistance
B. Short-term technical assistance

V. Commodities

A. Vehicles
B. Computers, 100 microcomputers, 1 mainframe
C. Miscellaneous: textbooks, training equipment, office equipment (typewriters, photocopiers, etc.)

VI. Aerial Photography

A. Photographic lab equipment
B. Nationwide aerial photography

The table below shows estimated cost for the ADC activities.

Table I.6-IV
Estimated Costs for ADC (1988-1993)

A.	Technical Assistance		4,729,000
	1. Long-Term	2,503,000	
	2. Short-term	2,151,000	
	3. Long-term (in-country)	51,000	
	4. Administrative Support	24,000	
B.	Commodities		$ 13,806,000
	1. Vehicles	931,000	
	2. Computers	1,080,000	
	3. Miscellaneous	1,545,000	
	4. Aerial Photography	8,000,000	
	5. Laboratory Equip.	2,000,000	
	6. Training Inst. Supplies	250,000	
C.	Operating Expenses	2,231,000	2,231,000
TOTAL COST (without inflation or contingencies)			$20,766,000

Table V-2 in the main text provides information about the estimated expenditures of ADC in each year.

5. Post Harvest Management (PHM)

Some of the activities of the PHM component of the FSM project, including technical assistance and training for storage management, will continue at a smaller scale under ASSP. In addition, with the GOP planning to convert the existing bag handling and transportation of wheat system into a bulk handling system, a $45 million pilot project exploring the feasibility of instituting a bulk storage system for the handling of commodities coming in-country under the CIP component of ASSP will be initiated. Specifically, a pilot project will be undertaken to determine such facts as existing constraints, operating costs, how bulk transport would function, and how the operations of a bulk system could be adopted within the current system.

It is anticipated that the pilot project would be implemented by the Pakistan Agricultural Storages and Services Corporation (PASSCO), a federal agency responsible for the procurement and storage of grains. Training as well as technical assistance would be required to assist PASSCO. Invitational study tours to observe bulk systems of other countries would also be helpful. Comprehensive incountry training would be available to management and operational staff of the proposed facility to understand the fundamentals of bulk grain storage, inventory control, quality preservation and overall management. Equipment for the pilot project, including installation and allied civil works, would also be required. A complete plan of work analyzing in greater detail the parameters of the proposed bulk storage pilot project is currently underway. Results will be evaluated for possible implementation under ASSP.

ILLUSTRATIVE LIST OF GOP INSTITUTIONS
FROM WHICH PUBLIC SECTOR SCHOLARSHIP CANDIDATES
WILL BE IDENTIFIED FOR ASSP TRAINING

Sr. No.	Name of Institute

MULTI-DISCIPLINE WITH EMPHASIS ON FIELD CROPS

1. College of Veterinary Sciences, Lahore.
2. NWFP Agricultural University, Peshawar.
3. Sind Agriculture University, Tandojam.
4. University of Agriculture, Faisalabad.
5. Agricultural Research Institute, Sariab, Quetta.
6. Agricultural Research Institute, Tandojam, Sind.
7. Agricultural Research Institute, Tarnab, Peshawar.
8. Arid Zone Research Institute, Quetta, Baluchistan.
9. Cereal Diseases Research Institute, Islamabad.
10. Commonwealth Institute of Biological Control, Rawalpindi.
11. Directorate of Land Reclamation, Lahore.
12. Directorate of Soil Conservation, Punjab, Rawalpindi.
13. Drainage and Reclamation Institute of Pakistan, Latifabad, Hyderabad.
14. Pakistan Council for Research in Water Resources Islamabad.
15. Irrigation Research Institute, Lahore.
16. Cereal Crops Research Institute, Pirsabak, Nowshera N.W.F.P.
17. Maize and Millet Research Institute, Yousafwala, Sahiwal.
18. Oilseeds Research Institute, Faisalabad.
19. Pakistan Agricultural Research Council, Islamabad (National Agricultural Research Center)
20. Plant Protection Institute, Faisalabad.

21. Ayub Agricultural Research Institute, Faisalabad.

CROPS

22. Rapid Soil Fertility Survey and
    Soil Testing Institute, Lahore.

23. Rice Research Institute, Dokri, Sind.

24. Rice Research Institute, Kala Shah Kaku.

25. Sind Horticulture Institute, Mirpur Khas.

26. Soil Mechanics and Hydraulics Laboratory, Karachi.

27. Soil Survey of Pakistan, Lahore.

28. Vegetable Research Institute, Faisalabad.

29. Water Quality and Soils Monitoring
    Directorate, Lahore.

30. Wheat Research Institute, Faisalabad.

31. Barani Agriculture Collage, Rawalpindi.

ANIMAL HUSBANDRY

32. Directorate of Wool,Hair and
    Mutton Production, Punjab. Multan.

33. Fine Wool Sheep Farm,
    Sarai Karishna, Mianwali.

34. Kamori Goat Farm, Khudabad, Dadu, Sind.

35. Livestock Development Research
    Farm for Kundi Buffaloes, Rohri, Sind.

36. Livestock Experiment Station,
    Angora Goat, Muzaffargarh.

37. Livestock Experiment Station,
    Fazilpur, Dera Ghazi Khan.

38. Livestock Experiment Station, Hasilpur.

39. Livestock Experiment Station,
    Jaba, Mansehra, Hazara.

40. Livestock Experiment Station, Karachi.

41. Livestock Experiment Station, Khairimurat, Attock.

37. Livestock Experiment Station, Khushab.

38. Livestock Experiment Station, Naibisar Road, Tharparker.

39. Livestock Experiment Station, Qadirabad, Sahiwal.

40. Livestock Production Research Institute, Bahadurnagar, Okara.

41. Poultry Research Institute, Karachi.

42. Poultry Research Institute, Rawalpindi.

43. Red Sindhi Cattle Breeding Farm, Tando Mohammad Khan.

44. Veterinary Research Institute, Lahore.

45. Veterinary Research Institute, Peshawar.

FORESTRY

46. Pakistan Forest Institute, Peshawar.

47. Sericulture Research Laboratory, Lahore

48. Silvicultural Research Division, Hyderabad.

49. Silvicultural Research Forest Division, Lahore.

FISHERIES

50. Directorate of Marine Fisheries, Karachi

51. Fisheries Research Institute Qadirabad, Gujranwala

52. Atomic Energy Agricultural Research Centre, Tandojam, Sind.

53. Nuclear Institute for Agriculture and Biology, Faisalabad

54. Nuclear Institute for Food and Agriculture, Peshawar,(NWFP)

ECONOMIC INSTITUTIONS

55. Peshawar University, Center for Applied Policy and Economic Studies (CAPE).

56. AJK University, Muzaffarabad, Department of Economics.

57. Baluchistan University, Quetta, Department of Economics.

58. Punjab Economic Research Institute, Lahore.

59. Institute of Development Studies, Peshawar.

60. Pakistan Institute of Development Economics, Islamabad.

61. Applied Economic Research Institute, Karachi.

62. Gomal University, Dera Ismail Khan.

63. Bah-ud-Din Zikria University, Multan.

64. University of the Punjab, Lahore.

ANNEX I.7

AGRICULTURAL TRADE CONCERNS

Increased Congressional concern regarding potential trade competition between U.S. and developing country agricultural products makes it appropriate to give special attention to this issue in the design of a sectoral assistance program such as the ASSP. This annex discusses the potential for "significant impact on U.S. exports to third countries" arising from ASSP activities, as defined in AID PD-15.

The primary emphases of ASSP-supported activities are to strengthen Pakistani food security and to assist the GOP to put the agricultural sector on a more efficient footing by increasing the role of the private sector in marketing and processing subsectors. As a result of these emphases, the majority of the program-supported activities will be directed toward increasing the production of food crops (basic grains, pulses, and edible oils) for domestic consumption, and to increasing efficiency in the agricultural sector in general, in line with Pakistan's comparative advantage. Consequently, the program is not expected to result directly or indirectly in an increase in agricultural exports that would have a significant negative consequence on U.S. exports.

The situation with regard to crops and livestock products of special concern may be summarized as follows:

1. Basic Grains

An expansion of the private sector role in wheat marketing and processing will be a major program emphasis. While this shift is expected to increase efficiency in the sector and promote production, it will not have a significant impact on U.S. trade in wheat to third countries. Pakistan is currently approaching self-sufficiency and, due to the variability of local production, may export small quantities in some years. It does not have the capacity to become a major wheat exporter, however, and current projections prepared by IFPRI indicate that the country will continue to import wheat in an average year through the end of the century. Moreover, the lack of adequate grading procedures and export facilities makes Pakistani wheat uncompetitive with the output of the U.S. or other major exporters. The program is not expected to have an impact on exports of other grains, such as rice; indeed, the rationalization of agricultural prices encouraged by the program should lead to phasing out of the current policy of subsidizing exports of low-grade rice.

2. Edible Oils

Pakistan is currently a major importer of edible oils, in both processed and unprocessed forms, and its dependence on international markets for supply of this basic food commodity is increasing. There is effectively no possibility that Pakistan will become an exporter of edible oils for the foreseeable future.

3. Sugar

A similar situation exists in the sugar market. Pakistan is a net importer and despite the current subsidization provided for local producers, is likely to remain so indefinitely. Increases in local production are not likely to keep pace with the rapid growth of domestic consumption that has accompanied rising incomes.

4. Cotton

Pakistan is a leading cotton exporter. No activities designed to increase Pakistani cotton production are envisioned under the ASSP, and none will be undertaken without a thorough review of any potential for significant negative impact on U.S. exports. Given current prices on international markets, a rationalizaton of Pakistani prices relative to world levels would result in decreased cotton production and exports, rather than the reverse. Removal of subsidies on domestic mills, a reform to be sought under the ASSP, will have a similar impact.

5. Feedgrains and Livestock Products

Pakistan's livestock industry is currently constrained by a high import tariff on imported feedgrains, which has particularly restricted the import of high-protein feed components, such as soybeans and other products for which the U.S. is a likely supplier. The ASSP will promote removal of these tariffs, a major barrier to agribusiness development in Pakistan. Analysis of the domestic poultry industry indicates that Pakistan is not currently a price-competitive producer for export, even for nearby markets such as the Gulf. Consequently, no potential for competition with U.S. poultry exports exists at the present time.

6. Other Products

No other agricultural or agribusiness products have been identified where ASSP activities in any way promote increased Pakistani production that could have a significant negative impact on U.S. agricultural exports to third countries.

ANNEX J

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