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USAID/PAKISTAN

PROGRAM WEEK

APRIL 1987 ACTION PLAN

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## ACRONYMS USED

NGO	Non Governmental Organizations
ASSP	Agricultural Sector Support Program
CHIPS	Commercial Health Initiatives in the Private Sector
SPAP	Supporting Provincial Agricultural Production
WAPDA	Water and Power Development Authority
USPSC	Personal Service Contract (U.S.)
ECC	Economic Coordination Committee
UMR	Usual Marketing Requirement
O&M	Operations and Maintenance
ENERCON	Energy Conservation Unit (GOP)
ORS	Oral Rehydration Salt
SDEP	Special Development and Enforcement Plan
UNFDAC	United Nations Fund for Drug Abuse Control
PNCB	Pakistan Narcotics Control Board
BOP	Balance of Payment
SDF	Special Development Fund
CCC	Commodity Commercial Credit

PART I: INTRODUCTORY OVERVIEW

A. INTRODUCTION

The six-year \$1.625 billion U.S. economic assistance commitment to Pakistan undertaken in 1981 to support Pakistan in its courageous stand against the Soviet invasion of Afghanistan ends this year. FY1988 will begin a renewed six-year commitment to provide \$2.28 billion in economic assistance (including \$480 million under the PL-480 program) through FY1993. The new six-year planning horizon coincides roughly with Pakistan's Seventh Five Year Plan period (PFY1989-1993), providing opportunities for serious policy dialogue and a coordinated approach to development well into the 1990s.

In the joint U.S.-Pakistani statement at the signing of the new agreement, the two parties expressed support for the GOP's program of "economic policy reform to improve domestic resource mobilization, stimulate private sector investment and increase the overall efficiency of the Pakistan economy." Two successful formal economic policy discussions based on that agreement have already taken place (in August 1986 and February 1987); the meetings should continue to serve as a useful forum for elevating major Mission and GOP policy concerns to a high level throughout the Post FY1988-93 program. Additional policy discussions take place on a continuing informal and formal basis throughout the year, of course, on both sectoral and macro economic subjects. Planning discussions about the new program have underscored the need to remain active and build on earlier work in four major sectors--energy, agricultural, social services and "lagging areas." Experience under the current program is playing an important part in designing new activities.

**B. STRATEGIC GOALS**

USAID's strategy is to bolster Pakistan's political stability and national integration through programs supporting more equitable economic growth and an improved social environment. The Mission will concentrate on generic challenges extending across all sectors; reforming the the economic and social environment, improving physical infrastructures, institutions and developing human capital. The development problems identified in the CDSS which the Mission expects to address are: (1) balance of payments pressure; (2) weak domestic resource mobilization; (3) inadequate energy supplies; (4) low agricultural productivity; (5) high population growth rates; (6) high infant and child mortality; (7) low literacy rates; (8) ebbing quality of key institutions; (9) need for expanded development in "lagging areas"; and, (10) narcotics production and use.

**C. RECENT DEVELOPMENTS**

The new CDSS establishes the Mission's objectives for the FY1988-93 program, details strategies for achieving them and describes the types of projects and programs proposed. The document builds on the existing CDSS and experience gained over the past five years. The prior CDSS emphasized quick-disbursing assistance to meet balance of payments pressure and preserve stability while laying the foundation for long-term growth. The program has been largely successful in the view of the GOP and USG, especially in terms of economic stability. Resistance to institutional reforms, insufficient domestic and foreign and resources and increasing social instability, however, are casting shadows over prospects for sustained long-term economic growth during the next six years. As the new CDSS emphasizes, the quality of economic growth greatly

needs to be improved in terms of social services, employment and geographic distribution.

**D. PLANNED ACTIVITIES**

The new projects planned for the FY 1988-93 period are discussed at greater length in Part II of this Action Plan. Major activities planned for the balance of this fiscal year include a possible \$80 million balance of payments support program (AID/W endorsement still pending) which, among other accomplishments, would set up a Rs. 500 million Special Development Fund for NGO/WID and community-based activities; a \$170 million add-on to the Rural Electrification project to expand the Guddu power station by 300 MW, and an initial obligation of the policy reform-based Agricultural Sector Support Program (ASSP).

Probable FY1988 new starts include a social marketing project in health services and commodities (CHIPS), a major Child Survival project, a new project to encourage institutional excellence, and policy reforms and financing to foster private sector power generation and distribution. Starts planned later in the FY1988-FY1993 period include Supporting Provincial Agricultural Production (SPAP), training and infrastructure projects in the lagging areas and a possible intervention in primary education. Design or pre-design work for these activities is underway. This design work must be managed simultaneously with the implementation of a portfolio of about twenty projects and commodity import programs, and the preparation of a number of project amendments to extend or expand successful activities from the current program.

Activities are driven by the Mission's large policy reform agenda covering the entire FY1988-93 CDSS period. The emphasis is on policy and institutional

reforms needed to stimulate investment and improve efficiency in important sectors. These efforts are pursued in the overall context of the Mission's macroeconomic concerns regarding the fragile balance of payments situation and inadequacies in domestic resource mobilization. In both energy and agriculture emphasis is placed on significant institutional reform--principally in WAPDA and the provincial irrigation departments, installing realistic pricing and cost recovery regimes and lifting constraints which hinder the private sector's assumption of a greater role in these sectors. In health and population the focus is on improving public sector service delivery, on effective preventive strategies and on enlarged private sector delivery of goods and services. Over the near-term the Mission will examine the costs and benefits of possible involvement in primary education reform. USAID and the Embassy, as part of the concern for domestic resource mobilization, have been working quietly with the Ministry of Finance and State Bank of Pakistan to map ways for moving parastatals off budget. Ultimately, we hope these efforts can lead to a program of privatization supported by a more vigorous financial sector, including an enlarged private sector in finance.

#### E. MANAGEMENT IMPLICATIONS

The FY1988-93 program must be managed under the same USOH staff ceiling now in effect (42 U.S. DH). Limits on USPSCs will also continue, while the overall number of contractors will be reduced because of continuing security concerns. FSN staff, already an essential feature of the current program, will take on even more responsibility. The use of local Pakistani consultants will also be expanded. This stretches funds further and builds confidence and track records for Pakistan private sector firms, thus promoting the institution building and private sector concerns that are so much a part of our goal for Pakistan. As the program enlarges its policy agenda, the composition of staffing may require adjustment.

PART II: PERFORMANCE AND PLANS

A. MACROECONOMIC CONCERNS

Goals and Strategy: The Mission has two major objectives in the macroeconomic policy area: (1) increasing Pakistan's domestic resource mobilization capacity; and, (2) improving the balance of payments situation.

Domestic resource mobilization, both for public sector finance and private sector investment, is hindered by a maze of regulatory barriers, an ineffective revenue collection system and overwhelming governmental control of the financial sector.

Implicit in the precarious balance of payments situation is the need for economic reforms to induce greater domestic investment and efficiency as well as to improve Pakistan's export competitiveness. Tariff and investment reforms are necessary to make production for export more attractive than for the domestic market. The Mission's strategy is to provide financial resources on a limited basis to mitigate short-term balance of payments crises while pursuing policy and institutional reforms to correct structural BOP problems and to address resource mobilization needs. This approach embraces sector-specific activities as well as policy dialogue and assistance at the macroeconomic level. Program targets can be found in the FY1988-93 CDSS.

Benchmarks for increasing domestic resource mobilization during the first two years of the new program include: issuance of regulations to allow private investment companies to operate, enactment of disinvestment legislation, preparation of a privatization strategy, and inauguration of reforms based upon the National Tax Commission's recent study including implementation of a sales or value-added tax.

Improved balance of payments benchmarks include: export earnings equal to 60 percent of import, tariff reforms of agricultural and agribusiness inputs and further deregulation of investment controls. Supporting these two economic objectives are other benchmarks reflected in the agriculture and energy targets (see subsequent sections).

Recent Developments: The Mission and GOP have successfully conducted two high level macroeconomic policy dialogue meetings since August 1986 and a third is scheduled for February 1988. Just prior to the second meeting in February 1987, the GOP announced reforms allowing greater private sector importation and distribution of fertilizer, derationing of wheat flour to cut the subsidy by \$60 million (about one third), and endorsement of private sector production of power. In addition, the GOP has released the National Tax Commission's report for public debate in the hope of building a consensus for reforms. On April 1, the GOP Economic Coordination Committee of the Cabinet announced the lifting of investment sanctioning requirements for twelve specific industries and raised the review level to Rs.500 million. During the past year, progress has been achieved on previous USAID benchmarks, which included maintaining electricity tariffs to cover 40 percent of WAPDA's investment budget and reducing major budget subsidies for wheat flour, edible oil, and fertilizer.

Policy Action Agenda: Over the next few years the Mission will continue to promote greater private sector investment and stimulate exports in the energy and agricultural sectors through reduced subsidies and increased user fees and through a liberalized regulatory climate and reformed tariff structure. We continue to urge the government to issue regulations allowing private investment companies to operate and to promote other efforts to strengthen capital markets and the financial sector generally. We expect to assist the

to work with the State Bank of Pakistan and Ministry of Finance to modernize its finance management system and to help bring some parastatals off budget and into the capital market. To help redress current balance of payments problems, the Mission will continue to provide support through PL-480, the CIPs, and the new Agriculture Sector Support Program. Building on our current agro-industry study we intend to develop a Mission deregulation strategy that will encompass further reductions of government sanctioning requirements and tariff and trade reforms. We are providing analytical support to help assure greater realism in the forthcoming 1988-93 Plan.

Problems and Constraints: Any attempt at fundamental market restructuring and policy reform obviously must take into account the political dimension. It is fully recognized that the timing of decisions and their implementation is the GOP's. Our leverage is tempered by the nature of the U.S. Government's overarching assistance goals in Pakistan. Still, we have choices as to where and what kind of assistance to give. We have found that policy reforms also can bring problems: for example, success in deregulating oil imports has now made it difficult for Pakistan to meet its UMR under the PL 480 Title I program.

### B. AGRICULTURE AND RURAL DEVELOPMENT

Goals and Strategy: The Mission's goal for the COSS period is to maintain agricultural growth in constant prices above 3.6 percent annually. Necessary conditions for attaining this objective include: more rapid increases in water availability, technology development/transfer to increase production and efficiency, increased private sector investment in agribusiness, reduction in subsidies and increased reliance on open market mechanisms.

A number of specific benchmarks for the first two years of the FY1988-93 program have been developed in support of these objectives across a range of subsectors. These include: 50 percent reduction in the wheat and fertilizer subsidies, full cost financing of operations and maintenance costs for public sector wheat storage; 25 percent increase in budget allocations to cover irrigation system operations and maintenance; increase private sector share in the distribution of imported fertilizer to 65 percent; and, with the exception of Iqra (a special duty dedication to education and social welfare) and import surcharges, elimination of import tariffs on animal feed ingredients.

Benchmarks for irrigation have a six-year horizon and depend upon institutional and policy changes. The benchmarks are: 300,000 farms covering over 3 million acres benefiting from improved irrigation system service; 3000 miles of rehabilitated irrigation canals and water courses; and 1000 miles of irrigation inspection paths upgraded to meet farm-to-market transportation needs.

Recent Developments: A number of prior benchmarks relating to intermediate steps were achieved during the last twelve months. The edible oil sub-sector was substantially deregulated and more than one-third of Pakistan's annual edible oil imports are now handled by the private sector. The private sector share of imported fertilizer distribution has increased to over 50 percent and is expected to reach 60 percent in the near future. The private sector can also now import fertilizer as well as distribute it. Urea prices were decontrolled and the phosphate subsidy decreased by up to 25 percent. Wheat was derationed, abolishing a system riddled with graft and corruption, and replaced with a lesser, general subsidy which can be more easily removed over time. The formal merger of agricultural research and education in the NWFP was also finally achieved in 1986. Progress in irrigation has been slower

annually, and provincial fertilizer subsidies removed. Other areas--including institutional and policy reform in irrigation and agricultural research and education--are part of a long-term process that will continue to be pursued under the FY1988-93 program. Finally, new policy initiatives promoting deregulation and private sector expansion are planned as part of our effort to support more rapid growth in agribusiness. USAID and the GOP are already pursuing the commercialization of the seed industry and privatization of grain storage. The poultry industry has just been the subject of an important study and should be next on the list for policy reform. Legislative and administrative changes in support of this agribusiness strategy are expected during FY1988.

Problems and Constraints: Recent GOP policy decisions, including important reforms in areas that seemed unlikely even two years ago, provide grounds for cautious optimism. At the same time, difficult decisions to be faced concerning O&M cost recovery in irrigation, agribusiness investment, private sector food storage and improved seeds and feed for poultry and livestock. Institutional reform in agricultural research, education and irrigation is very difficult; public announcements alone are insufficient to change approaches firmly entrenched for decades. Seemingly more simple reform measures, such as elimination of subsidies or changes in a stifling regulatory environment, are opposed by groups that benefit from such distortions. Analytically sound research demonstrating the potential economic benefits of change is an essential part of the policy dialogue process and has worked well for the Mission in Pakistan.

### C. ENERGY

Goals and Strategy: Mission activities in energy are based on the objective of eliminating energy constraints to economic growth in a self-sustaining,

since we are dealing with monolithic provincial departments not easily reformed. While many of the drainage, cost recovery and other studies referred to in the 1986 Action plan were finished, the politically difficult steps needed to increase water user charges and improve funding for O&M have yet to take place.

Planned Actions: Two major new activities are planned for the FY1988-93 period. The first--Agricultural Sector Support Project (ASSP)--combines elements of the Agricultural Commodities and Equipment (ACE) program and Food Security Management (FSM) project (these activities will then be phased out) to link analysis with the Mission's policy dialogue agenda. An initial ASSP obligation is planned this fiscal year, to hire TA and fund some analytical studies that will form the basis for our policy dialogue in the later years. The second--Supporting Provincial Agricultural Production (SPAP)--is at the concept stage but will emphasize required policy reform along with targeted interventions aimed at improving agricultural productivity at the provincial level. We hope to design activities that directly affect the poorest farmers and farm laborers. Finally, several project evaluations scheduled for FY1988 will be used to guide decision-making on which current activities need to be expanded and which ones are no longer essential to achieving overall programing goals.

Policy Agenda: The medium-term policy agenda for agriculture will focus first on finishing reforms that figured prominently under the current program and then on new initiatives. Extensive reforms have been undertaken in edible oils, fertilizer and wheat, however, further steps are needed to bring these policy initiatives to a completely successful conclusion; the wheat subsidy further decreased, the phosphatic fertilizer subsidy reduced one third

economically rational manner. The FY1988-93 CDSS details specific objectives for 1993. Major intermediate targets include effective implementation of national conservation and energy efficiency programs, institutional reform and modernization including moving public sector energy entities such as WAPDA and OGDC toward self-financing, and energy pricing reform that encourages rational use of scarce energy resources and encourages private exploration for oil and gas.

During the coming year, USAID will assist the GOP to meet several key benchmarks which include: (1) staffing of key senior positions for the Distribution Wing at WAPDA, the Energy Wing, ENERCON and the geodata center of the Geological Survey of Pakistan; (2) instituting a monitorable action plan to meet the 40 percent self-financing requirements for WAPDA; (through electricity pricing reforms, rationalization, reduced administrative losses, and improved collection of arrears and billings) (3) developing a monitorable action plan for full self-financing at OGDC; (4) National Energy Conservation Council approving key energy conservation legislation and implementation of energy conservation demonstrations; (5) rationalization/integration of the Master Rural Electrification Master Plan with the Prime Minister's plan to electrify 90 percent of remaining villages by 1990; and, (6) development of the Seventh Five Year National Energy Plan.

Recent Developments: A number of prior energy-related benchmarks were achieved during 1986. Energy planning and conservation offices were formally established within the Ministry of Planning. A national energy conservation program commenced, as has drafting of the Seventh Five Year Energy Plan. WAPDA established a consolidated and potentially detachable power distribution

wing. The fuel adjustment charge was applied in October for major electricity consumers in the residential sector, allowing WAPDA to meet its 40 percent self-financing target for the year.

Planned Actions: The Private Sector Power Generation and Distribution project now under design represents the Mission's major new initiative in energy under the new program. The project is designed to help operationalize GOP policy initiatives encouraging private sector participation in both power generation and distribution. Expansion of the highly successful Guddu combined cycle power project is expected to proceed and should provide short-term relief to Pakistan's pressing power generation requirements. The future of Lakhra is expected to be determined during the summer of 1987 following receipt of private sector coal supply proposals. A FY88 project is tentatively planned.

Policy Agenda: The Mission's policy agenda in energy is based on a combination of pricing and institutional reform, both designed to encourage more efficient use of scarce energy and stimulate development of indigenous energy resources. The policy agenda is closely coordinated with that of other major donors in the energy sector. On the pricing side, the goal in the power sub-sector is to rationalize electricity rates to maintain and, if possible, increase the 40 percent WAPDA self-financing of investment. This rate structure should also help moderate demand and begin to move WAPDA toward long run marginal cost pricing. On the institutional reform side, formal approval of a separate power distribution wing at WAPDA needs to be followed by adequate staffing and cost accountability measures, along with the establishment of a similarly accountable power generation and transmission wing. Preparation and implementation of a monitorable action plan for self-financing of OGDC is also on the agenda for the rest of FY1987 and

FY1988. A third policy goal--related to both pricing and regulatory reform--is to promote private sector participation, not only in power but also in energy exploration and development.

Problems and Constraints: Inefficient energy use has enormous implications for the rest of the economy, especially when it is remembered that the energy sector already absorbs nearly 40 percent of all public development funds under the Sixth Plan. The GOP clearly appreciates the need for pricing and institutional reform in order to stimulate energy efficiency. Its willingness to act is often constrained by political concerns. In addition, popular demands for immediate action on rural electrification result in highly inefficient expansion plans. High annual electricity rate increases between 15 and 30 percent will be required simply to continue to meet WAPDA's self-financing targets.

#### D. HEALTH AND POPULATION

Goals and Strategy: USAID programs in health and population are driven by two strategic objectives: (1) reducing infant mortality 25 percent by 1993; and, (2) reducing total fertility rate to 5 births. At the operational level, medium-term targets include establishing the roles of NGOs and commercial enterprises as a means of increasing delivery of needed preventive health and family planning services. Within the next two years, the Mission's benchmarks include: increasing tetanus toxoid immunization coverage by approximately 40 percent among married women, four million married women in endemic goiter areas administered iodated oil, 300 physicians trained in control of diarrheal diseases and 500 simple rehydration centers established in rural health facilities. In addition we will help the GOP and private doctors expand contraceptive surgery capacity and introduce new family planning product lines through social marketing.

Recent Developments: In population, the pioneering social marketing project got off to an excellent start and is being expanded. According to surveys, contraceptive prevalence rates have increased nearly threefold since the current program was initiated, from 3 percent in 1982 to 10 percent in 1985 but this is still abysmally low. By the end of 1986, the number of married women of reproductive age receiving family planning services through USAID-supported public sector programs was about 1.9 million. Although a few rural health facilities offer family planning services, indifference and footdragging has delayed implementation of the September 1985 policy decision to incorporate family planning services into all MOH facilities. In health, child survival initiatives are receiving considerable publicity. The signing of a joint agreement involving the GOP, USAID, UNICEF and WHO was especially noteworthy, linking these donors to support of Pakistan's successful national immunization program which in 1986 achieved full immunization for 45 percent of all infants and 67 percent of all 12-23 month olds. Progress was made in refining an oral rehydration therapy strategy with plans for training, adding rehydration units, distributing ORS mixing containers and establishing communications and monitoring systems. The government is drafting documents for a National Children's Commission, a National Institute for Child Survival and Development, and a National Children's Fund for NGOs and new public sector initiatives.

Planned Activities: The Child Survival and the Commercial Humanitarian Initiatives in the Private Sector (CHIPS) projects represent two new Mission initiatives in health for the FY 1988-93 period; design activities for both will be underway during the next several months. Immunization and oral rehydration therapy will be strengthened under Child Survival. CHIPS is an innovative attempt to support private firms services and products of significance to health and child survival such as oral rehydration salts and

iodized salt. Support for private and public sector family planning activities will also continue through add-ons to existing projects rather than new ones. Evaluating the Social Marketing of Contraceptives project in early FY1988 will help to decide whether to add new products under that project. Evaluation of the Malaria Control II project, now scheduled to end this fiscal year, will assist in determining the nature and extent of Mission involvement in malaria control during the new program.

Policy Agenda: Support for NGO and commercial activities are central to the Mission's overall policy agenda in health and population. Since an estimated 71 percent of total health expenditures are already in the private sector, it is essential that we work to improve this area. The Government supports a greater role for the private sector but has not yet found many effective ways to mobilize the private sector in health. Support for commercial initiatives is the key feature in the CHIPS project. Under Child Survival, support to NGOs and training of private sector health care providers is planned. In population, the Mission will increase its support of the commercial sector to deliver services. Policy level discussion to promote health investment strategies emphasizing preventive health and child survival as well as better management of malaria surveillance are planned.

Problems and Constraints: Health and family planning service delivery is poor for a country at Pakistan's level of development. Infant mortality is extremely high at 116 per 1,000 live births (1984), while the 3.1 percent annual population growth rate is the highest in Asia. Although there is little debate within the GOP on the need to address both problems, implementation at the operational level is weak. Management of government services, low status of women and low literacy are major constraints. Family

planning, although less controversial than in former years, still must be approached with sensitivity and care.

#### E. EDUCATION AND TRAINING

Goals and Strategy: The strategic objective of Mission activities in education is to help Pakistan more effectively meet its economic and social needs by providing training and institutional investments which upgrade technical expertise and management capabilities and lead to improved planning, financial analysis and accountability. USAID's training program has focused on (a) public sector senior managers involved in the development and implementation of Pakistan's priority development programs, and, (b) private sector organizations and individuals dedicated to improving their efficiency and economic performance. The Mission is analyzing GOP performance in the primary education sector, particularly in regard to strengthening rural education for girls. The Mission expects to decide in FY88 whether it should support these activities.

Recent Developments: Prior benchmarks relating to private sector and female participation have largely been met. During FY1986, 300 women applied for 65 scholarships. Private sector training opportunities drew 700 applications for 133 positions. The primary education assessment conducted in 1986 has generated serious discussions among the GOP and donor agencies. The Mission buy-in to the S&T "BRIDGES" project is being used by the GOP to identify ways to improve education management.

Planned Actions: The Development Support Training (DST) project, effectively used in support of almost all other projects under the current program, will be expanded in FY1988. The Mission will assist the GOP at the provincial level develop two training need assessments, identify and send approximately

1,000 public and private sector candidates for training in the U.S. and third countries, and provide in-country training for some 350 managers and trainees at improved and newly developed management courses. During FY1987, the project will be supporting 1500 new and existing participants overseas. Design work is moving ahead on the Institutional Excellence project aimed at improving the effectiveness of selected management and technical institutions in Pakistan, including some in the private sector. Although a decision as to USAID involvement in primary education has not been made, the Mission will continue to explore the topic. Questions include: 1) is the GOP commitment increased and sustaining; 2) would USAID participation remove pressure on domestic resource mobilization; 3) do we have the management capacity to undertake a new program?

Policy Agenda: In a low-key but effective manner, the Mission has been able substantially to increase female and private sector participation in overseas training programs as part of its broader goal of including women and individuals from the private sector more fully in project-related activities. This effort will be continued throughout the program. The Institutional Excellence project and a possible intervention in primary education will encompass policy initiatives aimed at improving the financial base and decentralization.

Problems and Constraints: Problems affecting educational development in Pakistan are well known and need be only briefly summarized here: chronic underfunding and poor management of existing resources, which have resulted in one of the lowest literacy rates in Asia. Donors, including ourselves, need to devise assistance modes that do not relieve the GOP of its fundamental responsibility to raise sufficient domestic resources to meet education

needs. Decentralization of authority over the primary education system will be resisted by many parties that benefit from more central control.

F. OTHER AREAS

(i) Private Sector: Promotion of the private sector is integrated throughout the portfolio. The importance of private sector resource mobilization is recognized by the GOP; the problem is changing policies to move towards this goal. Recent developments in edible oils, fertilizer, wheat, power generation, training and other areas have already been described. Each proposed new project includes a major private sector element, ranging from support for agribusiness to private sector initiatives in the social sectors. The Mission considers policy-driven activities across a range of sectors to be a more effective approach over the long-term than sponsoring a few discrete but isolated private sector or privatization initiatives. Budgetary constraints, if not conviction, are causing greater realization of the benefits to be achieved by allowing a greater private sector role in the economy. We intend to assist the government remove barriers to placing parastatals off budget. Such moves may serve as a prelude to a program of expanding private sector ownership and later full privatization.

(ii) Lagging Areas: Support for "lagging areas" of the NWFP and Baluchistan was agreed to at the outset of the current program and reaffirmed by the two governments during negotiations for the new package. The overall strategic goal is to integrate these isolated and largely underdeveloped regions into the economic mainstream of Pakistan. Many small- and medium-scale physical infrastructure projects are either complete or underway in the NWFP, while in Baluchistan several small projects have been completed, many more are planned, and two large sub-projects are through the design stage. Possible major new activities include construction of the Thal-Parachinar road, paving of the

Turbat-Karachi highway and building the Lowari Tunnel to connect Chitral with the rest of the country.

(iii) Women in Development (WID): The Mission has taken a number of steps to develop a credible WID program that more directly addresses the problems confronting women in Pakistan. . The proposed Special Development Fund, targeted primarily at local NGOs and other decentralized development entities, represents the centerpiece of that effort and would substantially increase funds going to women-related programs in Pakistan. If successful, the activity would also represent a major policy dialogue success in terms of GOP support for NGOs and WID as well as decentralized development. Elsewhere in the program, WID-related concerns are increasingly being addressed through project-specific interventions such as a scholarship program for women and a proposed female income generation activity under the Tribal Areas Development project. Involvement in education would offer further opportunity to support WID concerns at the primary and secondary school level.

(iv) Narcotics: Development assistance to back up the GOP's implementation of the Special Development and Enforcement Plan (SDEP) will continue to be important throughout the FY1988-93 period. The GOP has carried out an extremely well organized enforcement action in the Gadoon-Amazai area this spring. The USAID-supported UNFDAC project in Dir is now finally underway. A new public information activity which provided support for two national narcotics awareness campaigns was begun in 1986 and continued in 1987. Plans are underway to establish a narcotics information unit at the Pakistan Narcotics Control Board (PNCB) that will build on those campaigns. Although the SDEP is inherently difficult and fraught with political mine fields, there has been a substantial shift in popular opinion over the past year, largely

because it is becoming increasingly clear that narcotics trafficking and drug addiction are as much a Pakistani problem as American.

### PART III: SPECIAL CONSIDERATIONS

#### A. FINANCIAL ISSUES AND ANTICIPATED ACTIONS

1. Pipeline: By the end of FY1986, the Mission's pipeline was \$565 million (\$1,297 million obligated, \$732 million expended including \$259 million PL-480). This dropped to \$528 million by March 31, 1987 but only because there were few obligations during the first half of the fiscal year. Projections suggest that the pipeline by the end of FY 1987 could be approximately \$538 million if we are able to proceed with the Guddu expansion under the Rural Electrification add-on and an \$80 million balance of payments program planned for later this year. However, a pipeline of \$630 million is envisaged if we have to add those amounts to our existing projects. This is slightly over the two year obligation level used as a rule of thumb to determine a normal pipeline.

If we are unable to use cash transfers for balance of payments support or for sector support and related policy reforms, the pipeline is likely to rise above the \$630 million figure to perhaps \$750 million before expenditures match annual obligations. The higher pipeline figures associated with a project portfolio do not necessarily reflect implementation problems, but rather the slower expenditures inherent in project financing. Annual obligations will be higher under the post 87 program than they have been in the initial six year program. The only way to keep the pipeline closer to \$500 million will be to expend substantial sums in cash transfers and sector support payments in order to match obligations with disbursement shortly after signature. If a pipeline of \$750 million is regarded as a liability in

itself, then different modes of assistance with more rapid forms of expenditure will have to be sought.

2. Mortgage: The Mission's current portfolio contains authorized and planned ESF and DA obligations for the final year of the first six year program totaling \$273.9 million. Amendments are planned for several current projects to extend them well into the new program. The out-year mortgage for projects from the current program for FY1988 and beyond is over \$600 million, the bulk of which is ASSP at \$290 million and Rural Electrification at \$140 million. This commitment will be met under the FY1988-93 program, with the full amount of \$1.621 billion having been provided to Pakistan by the end of this fiscal year. The existence of a small mortgage for the remaining 19 projects indicates a relatively high level of forward funding--and, therefore, a fairly high pipeline.

3. Planned Obligations by Month (Revise for Final Draft):

<u>Month</u>	<u>Project</u>	<u>Amount</u> (\$ million)
February	Irrigation Systems Management	\$13.0
	Baluchistan Area Development	8.0
March	Development Support Training	6.5
	Tribal Areas Development	9.0
April	Roads Resources Management	2.0
	Project Design and Implementation	5.0
	TIPAN	17.0
May	Primary Health Care	10.0
	Energy Planning and Development	15.0
	Social Marketing of Contraceptives	4.3
	Rural Electrification *	71.0
July	Agricultural Commodities and Equipment	19.0
	Balance of Payments Support **	80.0
	Population Welfare Planning	5.2
August	Agricultural Sector Support Program	8.9
TOTAL		\$273.9

\* Awaiting Letter of Request

\*\* Should BOP support prove not to be feasible, funds could be utilized to expand ACE or ASSP, to reformulate SDF and to add-on to Rural Electrification, the Tribal Area Development project or other projects.

4. Deob/Reob Plans for FY1987: Remaining funds in the On-Farm Water Management project, scheduled to end on 30 June 1987, will need to be reobligated to similar activities taking place under the Irrigation Systems Management project. In addition, consideration is being given to reprogramming a large portion of the private sector component funds under the Agricultural Commodities and Equipment (ACE) program in order to finance fertilizer, the bulk of which would be distributed through the private sector.

#### 8. EVALUATION PLAN

1. Introduction: This year's evaluation plan constitutes the heaviest evaluation schedule thus far under the current program. Eight projects or programs accounting for nearly half of all obligated funds are scheduled for external evaluations. (Four of these evaluations are scheduled for the final quarter of FY1987. As a result, completed evaluation summaries are unlikely to be received in AID/W until the first quarter FY1988).

Most of the external evaluations scheduled for FY1987 and FY1988 are interim assessments focusing on management and implementation issues. When possible, questions about broader program impact are also included. For example, the joint evaluation of the two Mission's main CIP activities planned for April/May 1987 will look at balance of payment and policy dialogue issues along with assessing overall program management and effectiveness. This joint CIP evaluation, as well as assessments in other areas such as forestry, malaria control and area development, will also help in design and implementation for the new program.

2. Evaluations Completed in FY1986:

<u>Project</u>	<u>Type</u>	<u>Quarter</u>
Primary Health Care (391-0475)	Interim	1
Malaria Control II (391-0472)	Special	1
Development Support Training (391-0474)	Interim	1
Participant Training Component of Agricultural Research (391-0296)	Special	2
Tribal Areas Development (391-0471)	Interim	3
Rural Electrification (391-0473)	Interim	4

3. Evaluations Planned for FY1987:

<u>Project</u>	<u>Type</u>	<u>Quarter</u>	<u>Status</u>
Project Design and Implementation (391-0470)	Interim	2	Complete
Agricultural Commodities & Equipment (391-0468) and Energy Commodities & Equipment (391-0486)	Interim	3	Team Selected
Malaria Control II (391-0472)	Final	3	Team Selected
Baluchistan Area Development (391-0479)	Interim	4	SOW Complete
Northwest Frontier Area Development (391-0485)	Interim	4	SOW under preparation
Forestry Planning and Development (391-0481)	Interim	4	SOW completed
Transformation and Integration of Provincial Agricultural Network (391-0488)	Interim	4	SOW under preparation

4. Provisional Evaluation Plan for FY1988

<u>Project</u>	<u>Type</u>	<u>Quarter</u>
Energy Planning and Development (391-0478) <u>Purpose:</u> To assess progress made in implementing the various components of the project, particularly the effectiveness of newly-established energy planning and energy conservation entities and the status of the coal resource assessment program.	Interim	2
Social Marketing of Contraceptives (391-0484) <u>Purpose:</u> To assess the effectiveness of social marketing activities (both in the pilot and extended programs) and to make recommendations regarding expanded private sector involvement in the population field.	Interim	2
Food Security Management (391-0491) <u>Purpose:</u> To review overall project implementation, in particular management issues relating to institutional arrangement and progress made in providing required inputs.	Interim	1
Management of Agricultural Research and Technology (391-0489) <u>Purpose:</u> To review overall project implementation, in particular management issues, effectiveness of technical assistance, and progress made in meeting project goals.	Interim	2

C. PL-480: For the past six years, \$50 million in edible oil has been provided annually to the GOP. In FY1988 and FY1989, the annual program increases to \$80 million. Local currency generations will continue to support GOP population planning, education, irrigation and agricultural research activities. We expect to be able to negotiate Section 106 uses for the private sector but are less sanguine about a Section 108 uses program. Basically, the country is strapped for local currency and will not easily give up those resources. Title I self-help measures are closely linked with the Mission's overall policy dialogue initiatives and have encouraged several policy reforms, including deregulation of vegetable ghee prices and the domestic cottonseed market, elimination of production limits on ghee and authorization of the private sector to import edible oil. More is needed, including abolishing cumbersome sanctioning procedures, divesting or liquidating inefficient publicly owned facilities and establishing an edible oils and oilseed exchange. The Ghee Corporation may have some difficulty this year in using all the PL 480 edible oil plus the amount needed to meet Pakistan's UMR. The Mission is encouraging the GOP to open up both PL-480 and CCC to the private sector and to consider importing other PL-480 commodities such as corn.

D. Work Force: The size and scope of the program will continue to require the current 42 fulltime USDH staff. Overall work requirements remain heavy as the Mission both implements projects developed under the current program and designs new projects for the FY 1988-93 program. A growing emphasis on policy dialogue may require some changes in staff skill requirements;

USAID/Pakistan Staffing Pattern

	<u>FT USDH</u>	<u>PT USDH</u>	<u>IDI</u>	<u>USPC</u>	<u>PASA</u>	<u>FSN DH</u>	<u>FSN PSC</u>
FY1985	43	2	1	9	6	39	274
FY1987	42	2	0.4	9	6	38	313
FY1988	42	2	1	10	6	38	319

E. Gray Amendment Requirement: From FY1985 to FY1987 the Mission will obligate \$99 million of Development Assistance funds. The goal established for the Mission by ANE is 10 percent of this amount or \$9.9 million. To date, actual commitments to 8(a) firms are \$10.2 million (under ESF), actual expenditures are \$2.4 million. Significant increases in contracting Gray Amendment firms in FY87 and FY88 reflect the Mission's vigorous internal examination of opportunities to increase utilization of Gray Amendment organizations.

	<u>Actual FY84</u>	<u>Actual FY85</u>	<u>Actual FY86</u>	<u>Planned FY87</u>	<u>Planned FY88</u>
Total	\$4.1	\$1.0	\$5.1	\$6.1	\$7.6
Cumulative	4.1	5.1	10.2	16.3	23.9

F. Summary Budget Tables:

Development Assistance, Economic Support Fund And PL-480  
Budget Summary - FY 1987 & FY 1988 (\$ 000)

<u>Project No. and Title</u>	<u>Loan/Grant</u>	<u>FY 1987</u>	<u>FY 1988</u>
<u>Development Assistance (DA)</u>			
391-0469 Population Welfare Planning	G	5.2	8.95
391-0474 Development Support Training	G		6.55
391-0475 Primary Health Care	G	10.0	
391-0481 Forestry of Planning & Development	G		7.0
391-0484 Social Marketing of Contraceptives	G	4.3	
391-0488 TIPAN	G	5.5	2.5
391-0489 MART	G		10.0
391-0496 Child Survival	G		15.0
Total DA	G	<u>25.0</u>	<u>50.0</u>
<u>Economic Support Fund</u>			
391-0467 Irrigation System Management	G	13.0	15.0
391-0468 Agri. Comm. & Equipment	L	12.3	
	G	6.7	35.0
391-0470 Project Design & Impl. Fund	G	5.0	
391-0471 Tribal Areas Development	G	9.0	2.0
391-0472 Malaria Control II	G		8.0
391-0473 Rural Electrification	L	69.0	
	G	2.0	20.0
391-0474 Development Support Training	G	6.5	
391-0478 Energy Planning & Development	L	10.0	
	G	5.0	15.0

391-0479	Baluchistan Area Development	G	8.0	3.4
391-0480	Roads Resources Management	G	2.0	11.0
391-0484	Social Marketing of Contraceptives	G		7.0
391-0487	Lakhra Coal Power Generation	G		25.0
391-0488	TIPAN	G	11.5	
391-0491	Food Security Management	G		8.0
391-0492	ASSP	G	8.9	58.6
391-0494	Private Sector Power	G		20.0
391-0498	Institutional Excellence	G		12.0
391-T8D	Balance of Payment Support *	G	80.0	
391-T8D	CHIPs	G		10.0
391-T88	Lahore University of Management Sciences	G		10.0
	Total ESF		<u>248.9</u>	<u>250.0</u>
		L	91.3	--
		G	157.6	250.0
	PL-480 Title I	L	50.0	80.0
	Grand Total (ESF + DA + PL-480)		<u>323.9</u>	<u>380.0</u>

\*(See footnote on page 21)

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1987 ACTION PLAN

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PAKISTAN

1987

ACTION PLAN