

PD- ARA-147

A.I.D. Program No. 391-0492  
Dollar Appropriation No. 72-119/01037  
Budget Plan Code: QES9-89-37391-KG39  
Project Agreement No. 89-25

Loan and Grant Agreements

FM, LMD (if Loan)  
FM, P&D  
FM/CA)  
GC/ANE  
ANE/Desk  
ANE/TR Officer  
ANE/TD Officer & File  
PPC/CDIE/DIV

PROGRAM GRANT AGREEMENT

BETWEEN

THE PRESIDENT OF THE ISLAMIC REPUBLIC OF PAKISTAN

AND THE

UNITED STATES OF AMERICA

FOR

AGRICULTURAL SECTOR SUPPORT PROGRAM (ASSP)

DATED: September 27, 1989

(CONFORMED COPY)

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PROGRAM GRANT AGREEMENT FOR THE  
AGRICULTURAL SECTOR SUPPORT PROGRAM (ASSP)

Dated: September 27, 1989

Between

The President of the Islamic Republic of Pakistan (hereinafter referred to as the "Grantee")

and

The United States of America, acting through the Agency for International Development ("A.I.D.").

**Article 1: The Agreement**

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Grantee of the Agricultural Sector Support Program (ASSP) as described in (1) the Project Grant Agreement for the Project Component of the Agricultural Sector Support Program (ASSP) dated September 24, 1987 and its subsequent Amendments dated September 29, 1987 and April 16, 1989;

(2) the Program Grant Agreement for the Sectoral Assistance Component of the Agricultural Sector Support Program dated August 4, 1988 and (3) the Commodity Import Grant Agreement for the Agricultural Sector Support Program dated August 4, 1988 and its subsequent Amendments dated April 16, 1989 and April 17, 1989, and with respect to the financing of the Program by the Parties.

**Article 2: The Program**

SECTION 2.1. Definition of Program Components. The Program is divided into three (3) principal elements: a Commodity Import Program, Sector Support Grants, and, Training and Technical Assistance as defined in the Agreement specified in Article 1. Annex 1 to this Agreement provides a Summary of Costs for the Program, however, it does not supersede previous Summary Tables in earlier agreements for the Program.

**Article 3: Financing**

SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Program, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed Twenty-Five Million United States ("U.S.") Dollars \$25,000,000 ("Grant"). Funds available for the Program, including this Program Grant Agreement, and funds separately obligated under the Agreements referred to in Article 1 are One Hundred and Ninety-Five Million U.S. Dollars (\$195,000,000).

The Grant may be used to finance foreign exchange costs and local currency costs of goods and services required for the Program.

Any disbursement by A.I.D. hereunder, as between Program components, shall be at the sole discretion of A.I.D. in accordance with the Agreements specified in Article 1, above.

**Article 4: Grantee Agreement to Policy Benchmarks**

Except as A.I.D. may otherwise agree in writing, prior to any disbursement under this Agreement for purposes of carrying out the Sector Assistance Program (SAP), the Grantee agrees to conclude negotiations for a set of policy benchmarks, each by the date indicated, as described in Annex 2 of this Agreement. Agreed upon policy benchmarks will be set forth in a Project Implementation Letter(s).

**Article 5: Other Terms and Conditions**

Any disbursements under the Policy component shall be subject to the provisions of the Program Grant Agreement for the Sectoral Assistance Component of ASSP which shall remain in full force and effect. Any disbursements under the Commodity Import Program Component shall be subject to the provisions of the Commodity Import Grant Agreement for the Commodity Import Program Component of ASSP and its subsequent amendments which shall remain in full force and effect. This will be further set forth in Project Implementation Letters (PILs), as from time to time issued.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Program Grant Agreement to be signed in their names and delivered as of the day and year first above written.

FOR AND ON BEHALF OF THE  
GOVERNMENT OF PAKISTAN

BY: sd/-  
NAME: Saad Ashraf  
TITLE: Joint Secretary  
Economic Affairs Division

FOR AND ON BEHALF OF THE  
UNITED STATES GOVERNMENT

BY: sd/-  
NAME: James A. Norris  
TITLE: Mission Director  
USAID/Pakistan

ILLUSTRATIVE

SUMMARY OF COSTS FOR ASSP  
BY EXPENSE CATEGORY AND SOURCE OF FUNDING  
 (000s)

Annex 1  
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| Project Component | Cumulative FY 1987, FY 1988 and FY 1989 To date |              | Funding for each Component Over the Life of Project 1/ |              |
|-------------------|---|--------------|--|--------------|
|                   | A.I.D. Grant (In \$)                            | GOP (In Rs.) | A.I.D. Grant (In \$)                                   | GOP (In Rs.) |
| 1. SG/CIP         | 165,000   | -            | 270,000  | -            |
| 2. TATA           | 30,000  | -            | 30,000   | -            |
| TOTAL             | 195,000   | -            | 300,000  | -            |

1. Subject to the availability of funds to A.I.D. for this purpose, and to the mutual agreement of both parties to proceed at the time of each subsequent increment.

POLICY BENCHMARKS

I. FY 89 Benchmarks

1. Fertilizer Benchmark #1. By October 31, 1989, increase the retail price of DAP fertilizer by at least 25 percent from the October 1988 price of Rs. 185 per 50 kg for DAP (new price should not be less than Rs. 231 per 50 kg).
2. Fertilizer Benchmark #2. By October 31, 1989, permit the private sector to allocate up to one-third of its quota for imported fertilizer (60 percent for the private sector) between provinces and markets without regard to provincial quotas.
3. Fertilizer Benchmark #3. Announce that the Government does not intend to increase capacity in existing state owned fertilizer plants nor to build new plants, but that it will encourage the private sector to manufacture and market fertilizer. Increase in state owned fertilizer production capacity, if any, shall follow the procedures specified in Benchmark C of Agreement No. 88-13B of August 4, 1988.
4. Wheat Benchmark #1. Subject to the quantity of 1990 wheat harvested, target a wheat release-procurement price ratio of 115 percent in 1990. The new release price should be announced in early May 1990 (when wheat harvesting is in full swing) and be effective July 1, 1990 (when the wheat procurement is about completed).
5. Wheat Benchmark #2. By August 31, 1989, publicly and explicitly reaffirm the Government's policy that the release of wheat from public sector godowns will be unrestricted in both quantity and with regard to purchaser.
6. Wheat Benchmark #3. Based on the study of "no loss" policy and "Fair Average Quality" conducted by Food and Feed Grain Institute, Kansas State University and Pest Management Research Institute, the Government will conduct a seminar/workshop to review the recommendations of the study and as appropriate, eliminate the "no loss" policy and modify grain quality standards. Policy changes, as appropriate, will be implemented by June 30, 1990.
7. Sugar Benchmark. By August 31, 1989, announce a list of negative areas where sugar mills may not be established and announce that mills may be established in areas not in the list in the Punjab, Sind and NWFP.
8. Rice Benchmark #1. By November 30, 1989, convene a meeting to be attended by USAID/Islamabad representatives to review the study on the cost structure of the Rice Export Corporation of Pakistan and private and public performance in basmati rice exports during Pakistan fiscal year 1988/89, and to agree upon measures to increase private sector participation in rice trade.

9. Rice Benchmark #2. By December 31, 1989 reduce export duties for private sector from the existing Rs. 4,000 to Rs. 2,000 per metric ton provided it is not at variance with the findings of the study (expected to be completed in October 1989) on the cost structure of the Rice Export Corporation of Pakistan and subsequent discussions with the World Bank.

10. Agricultural Credit Benchmark. By May 31, 1990, with the assistance of USAID/Islamabad, complete a study to determine the impact of changes in mark up rate on flow of credit to small farmers.

11. Milk Benchmark. By September 30, 1989, revise Export Control trade Order 1987, as amended by SRO 553(1)88 of June 30, 1988 to allow the private sector to export UHT milk and milk products.

12. Agricultural Research Benchmark #1. For the 1989/90 fiscal year budget not more than 80 percent of the budget for agricultural research institutions (PARC, NARC, etc.) will be for salaries and allowances etc. Operational research expenses will be increased to Rs. 125 million in PFY 1989/90, freeze on numbers of overall staff will appropriately be imposed until operating cost is about 40 percent of the research budget.

13. Agricultural Research Benchmark #2. For the 1989/90 fiscal year budget will provide adequate funding and ADP budget cover for all continuing USAID funded agricultural and rural development projects in accordance with the projected requirements, unless otherwise agreed upon by USAID and the relevant Ministry involved. In the case of research, the total 1989/90 development budget will be Rs. 180 million of which the estimated required GOP local currency funding is Rs. 46 million.

14. Export Restriction Study Benchmark. By August 31, 1989, the GOP with assistance of USAID/Islamabad, will develop and approve the terms of reference of an export restriction study to be funded under the Technical Assistance and Training component of ASSP.

II. Unaccomplished FY 1988 Benchmarks included in FY 1989 Agreement

Implementation schedule for three unaccomplished FY 1988 benchmarks is as follows:

1. Announce private sector led fertilizer production policy (FY 88 benchmark #3). The GOP has already agreed to implement this benchmark. The required announcement should be made by December 31, 1989.

2, Complete and adopt a water-charges assessment study (FY 88 benchmark #7). According to the schedule given by the GOP, the benchmark should be implemented by October 31, 1989.

3. Complete studies regarding development of schedule for privatization of public tubewells FY 88 benchmark #8). According to the schedule given by the GOP, the benchmark should be implemented by October 31, 1989.

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