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WORLD BANK / INTERNATIONAL FINANCE CORPORATION

OFFICE MEMORANDUM

TO: Mr. W. David Hopper, Vice President, South Asia Region DATE: December 3, 1980

FROM: S.M.P. Suriyaarachchi, ASADA

SUBJECT: PAKISTAN - EFF Arrangement

As requested by you yesterday, a summary of the main elements of the EFF arrangement between GOP and the IMF is enclosed.

Enclosure

cc: Messrs. Wiehen, Rowe, Holsen, Clements, Elek

PSuriyaarachchi/lr

Main Elements of the EFF Arrangement

1. General Objectives

The Three-Year Program seeks to attain the following macroeconomic objectives:

(a) Annual average growth rate in real GDP of 5-6%;

(b) Raise the Investment/GNP ratio from 16.5% in FY80 to about 17.3% by FY83;

(c) Increase the National Savings/GNP ratio from 12% in FY80 to 14% in FY83;

(d) Limit domestic inflation to an average annual rate of about 10%;

(e) Reduce the ratio of the current account deficit to GNP from 5.0% in FY79-80 to below 4.0% by FY83.

2. To achieve these objectives, the EFF Program includes the following fiscal monetary, external sector and "supply side" measures:

(a) Fiscal Policy

(i) The primary fiscal objective is to limit the overall budget deficit and recourse to bank financing; net bank credit to government for both budgetary support and commodity operations set at 2.2% of GDP for FY81, and at about 2% on an annual average basis for the three-year period FY81-FY83.

(ii) In order to improve revenues, strengthen tax administration, reform the tax system especially with regard to indirect taxes to improve its elasticity; and set prices and financial charges for services rendered by the Government at levels sufficient to at least cover their costs.

(iii) Limit expenditure growth, especially by reducing subsidies; and re-order expenditure priorities to ensure adequate funding of recurrent outlays on essential economic and social services and to support productive investments. Subsidies on consumer goods and inputs will be limited to Rs 5.9 billion or 9.2% of total expenditures in FY81 compared with 12.6% in FY80. Over the program period subsidies will be maintained at this level or progressively reduced in nominal terms.

(b) Monetary Policy

(i) Restrict annual average growth rate of domestic liquidity to 14-15% over program period, or below the expected rate of increase in nominal GDP, at market prices.

(ii) The limit on bank borrowing by the Government will be a sub-ceiling within the overall liquidity ceiling.

(c) External Policies

(i) To encourage exports, maintain and/or re-establish financial incentives by extending rebates of customs duties, excise and sales taxes and compensatory rebates, where necessary, on a temporary basis.

(ii) Import Liberalization - Main objective is to gradually liberalize the import regime by making all items freely importable except those which will remain explicitly prohibited; and by shifting from present system of import bans and quantitative restrictions to tariff protection.

- In the first year, remove licensing ceilings on currently permitted goods other than consumer goods and synthetic yarn;
- In the second year, by January 1, 1982, allow 50% of presently banned raw materials, intermediate and capital goods (other than those which will remain banned for various reasons) to be freely imported;
- In the third year, by January 1, 1983, add the remaining 50% of presently banned raw materials, intermediate and capital goods to the free list.
- Gradually open up items which are now reserved for the Trading Corporation of Pakistan (TCP) for import by the private sector, and reduce the scope and extent of the Tied List.

At the start of FY84, the Government will continue to maintain import bans on:

(a) imports prohibited for religious or security reasons, and of luxury consumer goods banned for socio-economic reasons; and

(b) a second list of specified consumer and capital goods banned temporarily for protective reasons. In the case of capital goods, the banned items will be relatively small.

(d) Supply Policies

(i) Re-orient the public sector investment program away from capital-intensive long gestation projects towards more quick-yielding investments designed to improve productivity and capacity utilization; giving priority to agriculture, energy, social sectors and the development of backward areas. A first draft of a three-year public investment program covering the period FY82-FY84 will be prepared by end-March 1981; the program will provide the basis for the FY82 Annual Development Program (ADP).

(ii) Revised agricultural sector strategy to promote agricultural production and remove major constraints. This will include

- restructuring agriculture and water sector investment programs and projects;

- appropriate price adjustments designed to increase farm incomes in real terms; and reduce input subsidies;

- setting up of an Agricultural Prices Commission not later than March 31, 1981, to formulate and recommend agricultural pricing decisions in a consistent way;

- phased increases in water charges over the next few years and stepped-up maintenance of irrigation facilities.

(iii) Improve management, capacity utilization and financial performance of public enterprises by:

- further disinvestment of additional public sector units to appropriate private sector buyers;

- assure operational autonomy for individual units in production, planning, maintenance, procurement, marketing and pricing decisions;

- renovation and modernization of plants, improved availability of inputs, closer monitoring and evaluation of performance by and technical assistance through the Experts Advisory Cell of the Ministry of Production, and strengthened training programs for workers and managers;

(iv) Encourage private investment and industrial production by:

- streamlining and simplifying investment approval procedures;

- rationalizing tariff structure and commercial policy;

- monitoring performance of individual export industries and developing policies to deal with specific problems;

- drawing up a program of support for small-scale industry sector;

- setting up special authority to deal with closed or ailing textile mills;

- improving the application of labor laws in order to improve labor-management relations and efficiency.

(v) Increase domestic production and conservation of energy by:

- enhancing national energy planning capability with technical assistance from IDA;

- frequent review of the level and structure of energy prices to provide adequate incentives to producers for developing domestic energy resources;

- accelerating petroleum exploration and development effort with a view to at least doubling domestic production during the program period;

- improving domestic refinery output mix, natural gas distribution system and domestic production of LPG;

- developing experimental programs in bio-gas and other forms of renewable energy;

- conserving energy by reducing consumption of petroleum products by passing on increased import costs fully to domestic consumers.

Letter from Minister of Finance, Pakistan
to the Managing Director, International Monetary Fund

Islamabad, Pakistan

November 3, 1980

Dear Mr. de Larosiere:

1. The attached memorandum outlines Pakistan's broad economic and financial objectives and policies for the three fiscal years 1980/81-1982/83 and within this framework the measures the Government intends to implement in the first programme year (fiscal year ending June 30, 1981). For the second and third years of the programme, we intend to formulate detailed economic policies in a flexible manner in the light of the domestic and international circumstances which prevail at the time.

2. In recent years the Government has implemented a number of policies to rectify structural imbalances in production, trade, and prices. As a result, economic growth has accelerated, export performance has improved significantly, and financial imbalances have been reduced. Over the last three years, growth rates of 6 per cent per annum have been sustained, export volume has expanded by 50 per cent, and the proportion of government expenditures financed from bank borrowing has dropped from 17.1 per cent to 10.7 per cent. Nevertheless, the balance of payments situation continues to be difficult and much remains to be done in the area of structural reform. The problems being faced in this area by Pakistan and most other developing countries are primarily induced by external factors and there appears to be small likelihood of an abatement in the international economic pressures within the next several years. If Pakistan is to pursue its development goals and simultaneously manage the balance of payments and moderate inflation, stress will have to be laid on supply aspects which, of course, will have to be complemented by appropriate demand management policies. The policies and measures outlined in the attached memorandum are expected to help consolidate our recent gains and make a substantial contribution towards realizing our economic objectives. In support of these policies, Pakistan requests a three-year extended arrangement for an amount equivalent to SDR 1,268 million. In addition, the Government would like to purchase the balance of the first credit tranche which remains at present.

3. The Government believes that the policies set forth in the attached memorandum are adequate to meet the objectives of its first-year programme, but it will take any further measures that may become appropriate for this purpose and will consult with the Fund on the adoption of such measures. Because of substantial uncertainties concerning future developments during the programme period, the Pakistan authorities will initiate consultations with the Fund during April/May 1981. At that time, the Government's macroeconomic policies, including policies to strengthen the balance of payments, as well as policies to implement the import liberalization programme referred to in paragraphs 14c and 14d of the attached memorandum, will be reviewed. The Pakistan authorities will, at that time, also initiate consultations with the Fund in order to establish

suitable quantitative targets for 1981/82. Before July 1, 1982, which constitutes the beginning of the 1982/83 fiscal year, the authorities will consult with the Fund on policies for the third year of the extended arrangement. As stated above, we are confident that our policies over the next three years will go a long way towards achieving our objectives. Nevertheless, we recognize that to completely implement our programme of structural reform and fully achieve external equilibrium in the prevailing international environment will be a lengthy process and therefore we expect to continue our adjustment efforts beyond the current three-year period.

Yours sincerely,

/s/

Ghulam Ishaq Khan
Minister of Finance

Attachment

Mr. Jacques de Larosiere
Managing Director
International Monetary Fund
Washington, D.C. 20431

Memorandum of the Government of Pakistan on Its Economic and Financial Policies

1. Over the past three years, the Pakistan Government has been concerned with bringing about a reorientation of economic policies aimed at correcting the imbalances that had resulted from the policies of the early and mid-1970s. During that period far-reaching nationalization measures had eroded private sector confidence, and excessive credit expansion resulted in strong inflationary pressures. As a consequence, the growth of the commodity-producing sectors had slumped, export competitiveness suffered, and imports grew sharply. Since 1977/78 the Government has pursued the objective of accelerating the rate of economic expansion while at the same time reducing financial imbalances. To this end, the Government has striven to restore a responsible and realistic attitude toward economic and financial management and to improve efficiency in the use of resources in the productive sectors. Even though Pakistan has been confronted with adverse external developments--such as protectionism in the developed economies, a declining real flow of concessional aid, sharp increases in import prices, in particular for energy and related products, and unanticipated political developments in the region--a good beginning has been made towards realizing our objectives. The impact of the measures we have taken has already become manifest in a much improved rate of economic growth as well as in other economic indicators.

2. In the agricultural sector, which has a decisive influence on economic prosperity, the Government's approach has been to ensure an ample supply of all inputs necessary for the adoption of modern farming practices at prices which encourage their widespread use, even though this has entailed a significant subsidy cost to the budget. More recently, however, there has been a shift of policies from increasing the quantity of inputs alone in favour of more efficient utilization of resources. In addition, over the past two years substantial upward adjustments were made in government floor prices for major crops. These factors have contributed to a significant acceleration in the growth of agricultural output, which recently has increased at about double the rate of population increase. In the manufacturing sector, the thrust of the Government's policies has been essentially two-pronged: first, to assign high priority to the early completion of ongoing capital-intensive development projects in the public sector and, second, to encourage the private sector to make a larger contribution to the country's economic growth. To achieve the latter, the Government has denationalized agro-based industries, opened most major industries to private investment, streamlined the procedures for approval of investment applications, and introduced numerous incentives. In the energy sector, the Government has sought to reduce dependence on imported petroleum by accelerating the development of domestic oil, gas, and other energy resources.

3. With respect to the budget, strong fiscal measures and controls were introduced in 1979/80 in order to avert a reoccurrence of the substantial departures from budget policy and the consequent excessive reliance on bank financing which took place in 1978/79. These measures included large price increases for subsidized wheat flour and petroleum products, sharply higher excise and import duties, greatly improved tax administration, strong restraint in most categories of nondevelopment spending, and a reduction in real terms in spending on development projects. These measures yielded positive results as the ratios of the overall budget deficit and bank financing to GDP declined substantially, compared with the levels of 1978/79. However, the final budgetary outcome was not as favourable as projected, indicating several areas in which improved fiscal performance will be required.

4. A major element of our external sector policies has been to revive export growth. In this area, the Government's initiatives have included the extension of export rebates to important categories of manufactures, the enhancement of preferential interest rates on export credits, and reduced tax rates on income derived from export activities, as well as administrative improvements. As a result of these policies and generally good crops in 1979/80, Pakistan's exports more than doubled over the past three years, with half of the increase attributable to expanded volume.

5. Despite these encouraging results, serious difficulties remain. Structural imbalances continue to constrain overall economic performance; the productivity and efficiency gains in agriculture and manufacturing have been uneven; savings and investment continue to be low; and the balance of payments remains subject to strong pressures. The solution of these problems is all the more difficult as Pakistan, like most non-oil developing countries, is confronted with an unfavourable world economic situation. Prices for our import goods are projected to rise faster than those for our exports; the expansion of our exports is hampered by the poor growth prospects of the world economy; we are facing protectionist tendencies in some of our major markets; and interest rates in international markets are now much higher than they were a few years ago. These factors notwithstanding, the Government is fully cognizant that the main responsibility to cope with Pakistan's economic problems rests with the country itself. Thus, an interrelated set of effectively managed policies will continue to be required to further alleviate structural imbalances, so as to secure the sustained growth of the productive sectors in a context of internal and external financial stability and to provide enhanced basic economic and social benefits to the population. However, we want to emphasize that our policies need to be implemented flexibly, taking into account, inter alia, recent developments in the economy, changes in the international economic situation, and the effects on Pakistan of developments in the region.

The Three-Year Programme

6. During the three fiscal years ending mid-1983, we will aim for an average annual growth rate in real GDP of 5-6 per cent. Achievement of this target will require considerable efforts to boost production. We are conscious of the need to raise significantly the share of resources devoted to investment which recently has averaged about 16.5 per cent of GNP, a ratio lower than that of most developing countries in our situation; tentatively, by 1982/83, it is hoped to increase the investment/GNP ratio to about 17.3 per cent. Concomitantly, a major objective will be to increase the ratio of gross national savings to GNP from 12 per cent to about 14 per cent by 1982/83 in order to contain domestic and external financial pressures. Thus, during the programme period, domestic inflation is intended to be kept to an average annual rate of about 10 per cent, a slightly lower rate than in 1979/80. In the external sector, the current account deficit as a proportion of GNP will rise during the first year of the programme, owing largely to the impact of import liberalization measures to be introduced. However, by 1982/83 the ratio of the current account deficit to GNP should be reduced to below 4 per cent, compared with the average of 5.0 per cent in the past two years. A further reduction can be expected in subsequent years once the impact of the structural adjustment measures is fully felt. It is our objective to finance the current account deficit exclusively through long-term loans on concessional terms and direct investment inflows by the end of a five- to six-year period.

7. To achieve the above objectives, we have adopted a comprehensive economic policy programme for the three fiscal years 1980/81-1982/83. On the supply side, policies include a major review of the public investment programme, adjustments of prices so as to further reduce cost-price distortions and enhance incentives, the expansion of energy production, improvements in the operation and financial performance of the nonfinancial public enterprises, a liberalization of the import system, an expansion of the incentives for exports, and improvements in labour-management relations with the object of enhancing productivity. In the area of demand management, we intend to strengthen fiscal and monetary policies so as to ensure that the above structural measures can be implemented in an environment of domestic and external financial stability. Our policies in these areas are outlined below.

a. Supply policies

8a. The far-reaching structural adjustments to be made in the economy will necessitate the preparation of thorough studies and action plans in a number of interrelated areas. In the area of investment, the Government is presently endeavouring to improve the climate for private investment and to reorient the structure of public investment under its Annual Development Programme (ADP) away from capital-intensive, long-gestation projects towards more quick-yielding investments designed to improve productivity and capacity utilization in key sectors. Our ability to achieve this reorientation, up to now, has been hampered by the need to complete ongoing large projects and by overall financial constraints. However, with the expected improvement in external resource availability during 1980/81 and the next two years and our recent and expected future resource mobilization efforts, it should be possible to complete these ongoing projects and initiate new programmes giving priority to agriculture, energy, social sectors, and the development of backward areas. The choice of individual projects will be guided by the framework articulated in the Government's Fifth Five-Year Plan; but, due to shortfalls in resources in the first three years of the Plan, cost overruns on several projects, and unforeseen additional outlays, the Plan programmes and projects cannot be fully implemented and it is necessary to alter and recast its content and phasing.

8b. We believe that such a reordering of investment priorities should take place within the framework of a medium-term economic programme to ensure consistency among public sector investment decisions. Consequently, we intend to prepare by end-March 1981 a first draft of a three-year public investment programme for the period 1981/82-1983/84 covering the investment plans of the federal and provincial governments, as well as of the public sector enterprises, while taking into account larger assistance expected from the World Bank and other external donors. This draft programme will reflect the national objectives and policies of the Fifth Five-Year Plan. We intend to discuss the main aspect of this programme with the staff of the World Bank. The programme will form the basis for the preparation of the ADP for 1981/82. The medium-term investment programme would be reviewed again before the preparation of the 1982/83 ADP so that any needed adjustments could be made in light of changed circumstances.

8c. While we have recently taken several measures to promote agricultural production, a number of fundamental constraints continue to limit output growth. The need for a revision of agricultural strategy in order to remove these constraints has been receiving special attention in recent months. Therefore, within the context of the medium-term public investment programme, we intend to give priority to programmes and projects in the agriculture and water sectors, in particular to agricultural research; extension services; quality seed production; credit arrangements and other essential complementary activities; rehabilitation of the existing irrigation and drainage system, accompanied by improved overall management; watercourse and on-farm improvements; and necessary drainage to complement the existing surface distribution and tubewell system where inadequate drainage or salinity are the key constraints. These policies will be reinforced by moves to transfer increasing responsibility to the private sector for various operations now in the public sector's domain, such as sweet water tubewells and distribution of fertilizer and seed, in order to release public resources for other purposes. Wherever conditions permit, ground-water exploitation will be left increasingly to the private sector, supported by appropriate supervised credit schemes and the expansion of rural electrification. Furthermore, the Government is committed to a major sustained increase in maintenance outlays on the irrigation system.

8d. These changes in investment priorities and programmes in the agriculture and water sectors will be complemented by appropriate price adjustments designed to provide adequate incentives for increasing production. We intend to continue with price adjustments aimed at eliminating fertilizer subsidies by June 30, 1985, so long as this does not render Pakistan's exports uncompetitive in world markets, seriously disrupt cropping patterns, or impose socially unacceptable cost increases. We also recognize that it is essential to ensure that coordinated pricing decisions are made for agriculture inputs and crops in order to offset any adverse effects of input price adjustments on producer incentives. To this end, the Government will establish an Agricultural Prices Commission as early as possible but not later than March 1981. In establishing terms of reference and guidelines for this Commission, we plan to seek the advice of the World Bank. A major objective of the Government will be to ensure through price and other policy measures that the real net incomes of agricultural producers are increased.

8e. Aside from the programmes mentioned above aimed at increasing production, the Government has already decided to prepare and introduce by December 1981 a special programme of action for expanding cultivation of oilseeds aimed at curtailing edible oil imports and subsidies over the next few years and eliminating imports altogether by the end of the decade.

8f. The Government believes that particular attention needs to be given to improve the management and capacity utilization in the public enterprise sector in order to achieve improved financial performance. This improvement would contribute, inter alia, to greater internal financing of investment, mobilizing more revenue for the budget, and an expansion in exports. In addition, it is the aim of the Government to further rationalize the division of responsibilities between the public and private sector and to rehabilitate chronically sick units or divest them from the public sector. To achieve this goal, four units have already been closed down and two have been transferred to the private sector. The Government is now actively considering divesting an additional six or seven units to appropriate private sector buyers. For those units which are to remain in the public sector, emphasis will be placed on improving financial performance through better capacity utilization and management. Among general measures which the Government is implementing to increase capacity utilization in industrial enterprises are: extensive renovation of plants and replacement of outlived equipment; establishing of detailed preventative maintenance schedules in all factories; expansion, modernization, and balancing in existing plants; and assuring the timely availability of raw materials. The liberalization of the Government's import policy will also ease production bottlenecks in several sectors. In order to improve management, several decisions have been recently taken which will bear fruit during the programme period. Boards of directors have been established in each unit to assure operational autonomy in the areas of production planning, maintenance, procurement and purchase of raw materials, and marketing. Subject to overall government pricing policies, which are applicable to both public and private sectors, full decision-making autonomy in pricing decisions has also been given for all products. Support for management will be provided by the recently organized Experts Advisory Cell which will examine units on an individual basis, will provide technical assistance for the introduction of the latest management techniques, and will monitor and evaluate the operational results of all units by instituting a system of monthly and quarterly reporting by all units on standardized forms. The information thus obtained will allow the Government to more quickly identify poor performance by comparing actual results with norms established for each enterprise. The Government also proposes to intensify and strengthen training programmes for public sector managers and workers and has drawn up a project in collaboration with ILO, which will be approved and implemented during the first year of the programme. Furthermore, during the first year of the programme the Government, in collaboration with the World Bank, will undertake a study of the objectives and policies of the state manufacturing enterprises. A specific study of the organization and management of the main subsidiaries of the National Fertilizer Corporation will also be undertaken during 1980/81.

8g. In the case of the Water and Power Development Authority (WAPDA), the country's major utility, there has been a steady improvement in operating performance. We intend to take further steps to consolidate and build on this improvement during the next three years. In addition to a tariff increase of about 10 per cent, which will be introduced later this year, a further tariff increase of at least 10 per cent will be made by July 1, 1981. A programme to improve WAPDA's accounting and management systems and procedures in accordance with a management consultants' study concluded in 1978 is now under implementation. These measures are expected to enable WAPDA, beginning in 1982/83, to finance at least 40 per cent of average capital expenditures on electricity operations made during the preceding three fiscal years, in accordance with a covenant with the International Development Association, representing a substantial improvement over the average performance in recent years.

8h. The Government places high reliance on the private sector for the development of industrial capacity and production, and in recent years has taken a number of steps to restore confidence and encourage initiative, investment, competitiveness, productivity, and profitability in this sector. However, the process of recovery is far from complete and it is necessary to reinforce the measures taken so far. Therefore, we will further streamline and simplify the procedures for approving private sector investment projects. In this connection, we are considering a reduction in the number of levels of administration involved in the clearance process and a limitation and redefinition of the scope of examination by the principal administrative body concerned (the Central Investment Promotion and Coordination Committee). We have also initiated a study of effective protection rates in the manufacturing sector, to be conducted by the Pakistan Institute of Development Economics in collaboration with the World Bank. Another study is proposed to be conducted which will directly focus on the tariff structure and the conversion of protection from import bans to reliance on tariffs. In the light of these studies, it is proposed to bring about rationalization of the tariff structure and the commercial policy. In addition, we will monitor the performance of individual export industries and conduct studies to identify specific problems which could be solved by policy action. Given the importance of small-scale enterprises in the export sector, we intend to prepare during 1980/81 and implement by the beginning of 1981/82 a programme of support for the small-scale industrial sector. We also intend to examine the possibility of establishing large export houses to provide marketing, credit, design, and quality control support to small-scale producers on a competitive basis. In the industrial sector there are a number of closed and ailing textile mills which will either need a change in ownership or management, financial restructuring, or liquidation; during the current fiscal year we will establish a special authority to recommend suitable action in these cases. Finally, in addition to these measures, an important impetus to both production and investment in the industrial sector is expected from the liberalization of imports described in paragraph 14.

8i. The Government recognizes that poor labour-management relations, particularly in the industrial sector, have constrained productivity gains in the past. Steps will be taken to improve application of labour laws in order to improve labour-management relations and to promote efficiency.

8j. In view of the growing burden of financing oil imports, the Government attaches particular importance to increasing domestic energy production and reducing the consumption of petroleum-based energy. We intend to substantially enhance our national energy planning capability. In this connection, we will shortly be requesting an IDA credit from the World Bank to provide technical and financial assistance for national energy planning. We also recognize the importance of pricing energy products to reflect their economic cost. We will therefore continue to review frequently both the level and structure of energy prices to ensure that producer prices provide an adequate incentive for the development of indigenous energy resources, particularly in the petroleum sector, and that the prices of various energy products are adjusted to ensure an appropriate balance between supply and demand for different fuels. In addition, we will pass through to consumers all increases in the costs of petroleum and petroleum products. With regard to domestic energy production, we will accelerate our petroleum exploration and development effort with a view to at least doubling domestic production during the programme period. We will also expand natural gas production, and expect to increase connections of households to the distribution system by one half during the three years of the programme. In electricity generation and distribution, our immediate priority is to increase the generating capacity at the Tarbela Dam and to improve the efficiency of the transmission system by installing high voltage lines in the national grid and by making other related investments. We are also proceeding with the development of liquified petroleum gas (LPG) as well as an experimental programme of biogas and other alternative renewable energy sources, with a view to reducing the consumption by the household sector of both kerosene and our limited forest resources. Finally, we are changing the output mix from our refineries by adding new capacity with a view to meeting a larger share of the demand for deficit products from these sources, permitting a reduction in the requirements for product imports.

b. Fiscal policy

9. Our primary fiscal policy objective for the programme period is to improve further the structure of government revenues and expenditures and thereby move towards a more appropriate balance in order to contain the size of the overall budget deficit and recourse to domestic bank financing. On the expenditure side, while our goal is to match outlays with available resources, we shall also seek to shift expenditures away from the subsidization of both consumer and producer goods and towards productive investments, adequate funding of recurrent outlays to promote capacity utilization, and the provision of essential social and economic services. Apart from their substantial magnitude, subsidies have had a negative impact on the economy by giving rise to price distortions and have had a destabilizing influence on fiscal policy, as they have often exceeded budgeted amounts. Therefore, as stated in the Budget Speech last June, it is our intention that, except for those subsidies directly focused on ameliorating the lot of the very poor, budgetary subsidization will be substantially eliminated over the next few years. It has already been decided to eliminate the subsidy on fertilizer over a five-year period, and the subsidies on wheat and edible oils, which are oriented towards the poor and which comprise the bulk of consumer subsidies, will be held constant or reduced in nominal terms during the programme period. The recent institution of the Zakat Fund, which will provide assistance to the poor, will in any event reduce the need for broadly based consumer subsidization through the budget. In each year of the programme period, it has been decided that the level of subsidies permitted within the limit of overall budgetary resources will be specified and, if necessary, measures will be taken to prevent an increase in the aggregate subsidy bill beyond the level provided in the budget.

10. On the revenue side, significant improvements have recently been achieved in the field of tax administration and we intend to further strengthen our efforts in this area. The relative inelasticity of the tax system, particularly with respect to indirect taxes, has required frequent discretionary measures to maintain revenue growth at pace with that of expenditure. Therefore, one of our principal goals will be to restructure the revenue system in order to make it more responsive to increases in the level of economic activity. This will necessitate a comprehensive review of the tax system, with special emphasis on customs and excise duties and sales taxes, during the first year of the programme with the objective of implementing appropriately phased tax reforms in the years 1981/82 and 1982/83. It is our intention to request assistance from the IMF to carry out the necessary tax analysis. In setting fees and charges for services provided by the Government, the guiding principle will be to progressively raise them to levels that at least cover costs in order to reduce cost-price distortions and add to budgetary resources. Through these measures we believe that the Government, while increasing public sector savings and investment in real terms, will also be able to contain the gap between expenditures and revenues and hold recourse to financing from the domestic banking system to about 2 per cent of GDP on an average annual basis over the programme period.

c. Monetary policy

11. During the programme period, monetary and credit policies will be an important component of our strengthened demand management effort. To this end, the Government intends to restrict the average annual growth rate of domestic liquidity to 14-15 per cent. This monetary expansion is less than the expected increase in nominal gross domestic product (at market prices) and thus will provide for some abatement of excess demand pressures in the economy. The containment of overall budget deficits and recourse by the Government to domestic bank financing will contribute substantially to achieving these goals, while at the same time allowing scope for the banking system to meet the expanded credit requirements of the nongovernment and particularly the private sectors, which are expected to result from our policies directed at restructuring the economy.

12. Over the past two years, the Government has introduced a number of measures to move the economy towards a system in harmony with Islamic principles, of which interest-free banking is a major element. In 1979/80 we have taken several important steps in this direction, and we plan to introduce gradually additional components of an interest-free banking system in the coming years. In implementing the new system, we will make every effort to ensure that it does not adversely affect the growth of domestic savings or our investment objectives, both of which are essential to our plans for sound and sustainable economic growth.

d. External policies

13. As previously mentioned, the Government has undertaken major efforts in recent years to stimulate exports. During the programme period, the policy measures to be taken in the areas of investment and pricing structure are expected to contribute further to export growth. Particular attention is already being given to providing remedies for those manufactures which have experienced difficulties in recent years. The provision of required imported inputs will be facilitated by the intended reform and liberalization of the import system described below. In addition, the Government will maintain or re-establish, if necessary, adequate financial incentives for attracting resources to the export sector. For this purpose, the Government will extend the standardization of drawbacks of customs and excise duties and sales taxes to other commodities. As indicated in paragraph 23, compensatory rebates will also be given in 1980/81 and subsequently, as necessary, on the basis of case-by-case studies. These rebates are essentially and largely intended to offset the cost effect of the indirect taxes on the products and profitability of these industries which under a set of policies pursued in the past (and which the present Government has since phased out) have suffered serious decline in capacity utilization and productivity and therefore of cash flows precluding necessary investment in balancing and modernization. These are not intended as permanent features of the export regime and are intended to be phased out as soon as the process of restructuring and modernization which is now under way enables them to regain fuller capacity utilization and achieve reasonable levels of productivity. In line with our policy of facilitating

restructuring and modernization, import duty exemptions were extended on July 1, 1980 for the balancing, modernization, and replacement requirements of the tanning, cutlery, surgical goods, sports goods, and leather garments and leather gloves industries.

14a. In recent years the Government has sought to preserve the nation's scarce foreign exchange resources by pursuing a commercial policy which has closely regulated the number and amount of permitted imports. All items which are not explicitly listed on either the Free List or the Tied List cannot be imported, except by special authorization in certain cases; at present a large number of items are implicitly banned. In addition, since October 1979, quantitative restrictions have been placed on licensing of permitted imports. The automatic banning of all items not explicitly permitted may have impeded innovation and cost reductions in the productive sectors with a concomitant adverse effect on overall economic performance as well as export competitiveness. In particular, the granting of absolute protection to many domestic industries has led to the emergence of inefficiencies in some sectors. The Government recognizes that, in order to achieve a principal structural objective of the programme, namely, an improvement in resource allocation, steps need to be taken to remove these inefficiencies. We have therefore decided to undertake a gradual but fundamental reform of our import policy.

14b. The objectives of the reform are the following: (i) to raise the level of industrial production and exports by removing constraints on the availability of genuine needs of raw materials and intermediate and capital goods; (ii) to promote a pattern of industrial output and growth which is best suited to attaining the growth and welfare objectives of the country including the gradual lessening of dependence on foreign assistance; (iii) to introduce a policy which can be sustained for a number of years in a highly uncertain global environment and which does not need frequent revisions or reversal in subsequent years; (iv) to prevent disruptive and speculative hoarding, as experience with abrupt liberalization has demonstrated in the past; (v) to restrict the imports of such items which do not contribute to output and which lead to socially undesirable and economically unsustainable levels and forms of consumption; and (vi) to cushion the adverse impact that the change may have on the profitable operations of existing and planned industrial units. In pursuance of the above objectives, it is our intention to move towards greater equilibrium between exports and imports over the medium to long run. For this purpose, determined efforts will continue to be made to expand exports, as mentioned in paragraph 13. At the same time, considerable scope exists for efficient import substitution in many sectors (such as energy, edible oils, fertilizer, and food) for which appropriate domestic incentives and protection policies will remain necessary. It is only through these policies of export expansion and import substitution that a relative balance will be restored over time in the external accounts. In the short run, however, the basic disequilibrium between exports and imports is likely to continue--and may become wider as a programme of import liberalization is pursued. The overall size of this disequilibrium has to be managed within the external resources of the country. For this purpose, we intend to use changes in import tariffs in preference to outright bans or quantitative restrictions on imports so that the efficiency of resource allocation is improved while keeping the size of the external gap in check.

14c. We intend to gradually liberalize and reform the import system so that by the start of 1983/84 all commodities not explicitly prohibited will be freely importable. In the first year of the programme, as described in paragraph 24 below, we will remove the existing licensing ceilings on all currently permitted commodities other than consumer goods and certain synthetic yarn and will also add many basic raw materials to the Free List. By January 1, 1982 we will add more than 50 per cent of all currently banned capital goods, raw materials, and intermediate goods items (other than those defined in the following subparagraph) to the importable list (Free List and Tied List) without ceiling restrictions. To the extent possible, these items will be placed on Part A of the Free List. By January 1, 1983 we will, subject to the provisions of the following subparagraph, add the remaining banned items in the above categories to the importable list. We are currently undertaking a detailed study of our tariff structure with a view to introducing suitable revisions where appropriate. However, we intend to ensure that the protective tariffs to be applied would not be so excessive as to vitiate the stated objective of reducing inefficiencies.

14d. Although bans on consumer imports, which constitute absolute protection for a large part of our domestic manufacturing sector, may have contributed to inefficiencies, balance of payments constraints as well as social values and the dictates of orderly adjustment require us to proceed with caution as regards the liberalization of imported consumer goods. Some of the above considerations also apply to a restricted number of raw materials, intermediate goods, and capital goods. Accordingly, at the start of 1983/84 we will continue to maintain certain import bans which will be enumerated in (a) a list of imports prohibited for religious or security reasons and of luxury consumer goods banned for socio-economic reasons, and (b) a second list of specified consumer and capital goods banned temporarily for protective reasons. In the case of capital goods, the economic importance of the items banned at the end of the programme period will be small relative to total domestic production of capital goods for the domestic market. It is also our intention to have achieved by the start of 1983/84 a significant liberalization of items presently banned for protective reasons. Based on the studies referred to in paragraph 24, by the start of 1981/82 we will have drawn up, in consultation with the Fund, a broad programme of action to achieve this objective. This programme of action will provide for significant progress towards this objective by adding items to the present Free List by January 1, 1982, with further additions to be made by January 1, 1983. The addition of consumer goods may be accompanied by the imposition of quotas, as well as increased protective tariffs and temporary surcharges; the combined effect of the latter, however, should not be such as to restrain unduly the actual volume of imports below the levels of the quotas. In addition, a list (c) may be maintained to ban temporarily raw materials and intermediate goods used exclusively or almost exclusively in the production of those goods in list (b) which are produced mainly for the domestic market.

14e. During the programme period we will progressively reduce the size and scope of existing Part C items, so that private importers may compete with public sector agencies in the import of items currently reserved for the latter. Also, during the transition period, we will refrain from transferring items from the Free to the Tied List and, to the extent permitted by untying of aid by donor countries, will endeavour to reduce both the scope and amount of imports under the Tied List. Furthermore, when utilization of licenses issued for new items on the Tied List appear to exhaust the available funds, the import of such items will be allowed under the Free List.

14f. By the start of 1983/84 we will convert to an import system relying on explicit bans. The import regime will consist of the lists (a), (b), and (c) of explicitly prohibited items referred to above. All other commodities will be freely importable except for Part C of the present Free List, a Tied List (to the extent necessary), and a list of consumer goods subject to quantitative ceilings.

15. The Government believes that the broad objectives of the three-year programme and the specific measures taken in the first year will provide the basis for an agaeement with the Consortium on substantial debt relief. However, even with such relief, debt service payments will remain sizeable. The Government will therefore continue its policy of limiting the incurrence of external debt on nonconcessional terms so as to avoid the emergence of debt servicing difficulties. To this effect, annual ceilings and subceilings will be placed on the contracting and guaranteeing of medium-term external debt in the 1-12 year maturity range and 1-5 year maturity range, respectively. In addition, external short-term credits to the public sector will be limited to the amount projected to be outstanding on June 30, 1981.

The 1980/81 Programme

16. The economic and financial programme for 1980/81 is based on a GDP growth target (at factor cost) of 5.5 per cent and a slight reduction in the domestic inflation rate to 10 per cent. Our external objective is to limit the current account deficit to $1,607 million, equivalent to 5.5 per cent of GNP, which we trust will be largely financed by external assistance including prospective financing from the Fund, debt relief, and additional assistance from the Consortium and others; there would thus be only a moderate reduction in our gross external reserves. The measures to be taken during the first year are described below.

a. Supply policies

17. As a first step in implementing a far-reaching programme of structural reform, the Government has already taken a number of important measures in the area of pricing policies. In February 1980 fertilizer prices were raised by 50 per cent. The procurement price for wheat, our single most important agricultural commodity, was raised by 16 per cent on October 28, 1980 in addition to the increase of 3.7 per cent in April 1980. In the case of other agricultural products, increases in procurement prices of 28-30 per cent for sugarcane, 17-20 per cent for rice, and 9 per cent for cotton were announced in April 1980. In September 1980 the procurement price for cottonseed oil was raised by 25 per cent in order to encourage domestic production of edible oils. Other appropriate price adjustments will be announced in 1981 prior to the planting of the crops. In line with our overall policy of eliminating producer subsidies and the distortions they create, a decision has been taken to introduce a phased increase in water charges in order, within the next few years, to cover the costs of operating and the stepped-up maintenance of the irrigation facilities; water charges were raised on average by about 25 per cent in three provinces in the 1980/81 budget. As indicated in paragraph 8d above, the Government has decided to establish an Agricultural Prices Commission, which will commence operations as early as possible but not later than March 1981, so that its recommendations can form the basis for agricultural pricing decisions during the second year of the programme.

18. Apart from the area of agricultural input and procurement prices, a continuing need exists for frequent review and prompt action on other prices with a view to gradually eliminating subsidies. In line with this objective, a decision was announced in the Budget Speech to permit public utilities and enterprises to raise their prices as and when necessary to cover their cost increases in addition to generating some funds for financing their future growth. However, such adjustments will be made after a scientific analysis of costs so that the consumer is not burdened with increases in tariffs and prices in excess of what externally induced rising costs require. Thus, on July 1, 1980 the television license fee was raised by 33 per cent and television advertising charges by 25 per cent. Also, electricity charges will be raised by about 10 per cent by the end of 1980. As mentioned earlier, it is our intention to pass on fully to domestic users all increases in the cost of imported and domestic petroleum products during the remainder of 1980/81.

19. The 1980/81 public investment programme continues to reflect the reorientation of priorities towards the completion of on-going projects and towards quick-yielding investments in the agriculture and energy sectors. In line with our objective of providing for substantial real increases in public investment, the programme for 1980/81 represents a 9 per cent increase over 1979/80 in real terms if extraordinary purchases of commercial aircraft and ships are excluded. In the 1980/81 development programme the allocation for the fuel sector has been doubled and that for nonsubsidy agricultural programmes has been raised by 77 per cent. In the petroleum

sector we hope to increase domestic production during 1980/81 from 10,000 barrels per day to at least 15,000 barrels per day; to increase the number of households supplied by natural gas from 634,000 to 734,000; and to initiate construction of an LPG plant with a capacity of 70,000 tons to begin production by December 1981.

b. Demand management policies

20. The 1980/81 budget was formulated with the objective of further improving fiscal performance and of limiting further the amount of domestic bank financing. On the revenue side, new tax measures with a total expected yield of PRs 1.4 billion were introduced. The most important measures are increases in excise duties, particularly on cigarettes (PRs 610 million); customs duties (PRs 200 million); sales taxes (PRs 88 million) due primarily to an increase in the rate on imported motor cars; and income taxes (PRs 500 million). In addition to these tax measures, price increases for sugar, wheat, and telephone services are expected to have a positive impact on the budget of PRs 1.1 billion. Since the introduction of the budget, based on recent fiscal performance, contingency has been made for possible shortfalls in revenue and supplementary outlays particularly for defence and refugee assistance, and this will have an expected negative impact on the budget of PRs 2.5 billion. On the other hand, the import liberalization measures, described in paragraph 23 below, will lead to an increase in import duties and sales taxes estimated at about PRs 1.7 billion during the fiscal year. In order to reinforce our supply objectives, a number of tax incentives have been introduced to encourage industrial development, promote development of backward areas, and increase savings and investment. As mentioned above, during 1980/81 the Government will conduct a comprehensive review of the tax system, concentrating on customs and excise duties and sales taxes, the principal objective of which will be to design structural improvements which will make revenue yields more responsive to changes in economic activity. As a result of the above measures and a further strengthening of tax administration, total revenues for 1980/81 are projected to increase by 23 per cent. The increase in total expenditures will be limited to 17 per cent; the rise in nondevelopment expenditures for 1980/81 is to be kept to less than 15 per cent, while development expenditures are budgeted to rise by 21 per cent. In view of their distorting resource allocative effects as well as the associated financial burden on the budget, the Government has placed a ceiling on expenditures for direct subsidies by federal and provincial governments of consumer goods and producer inputs (excluding refunds on petroleum and fertilizer products and export rebates) of PRs 5.9 billion, or 9.2 per cent of total expenditure, compared with 12.6 per cent in 1979/80.

21. As a result of the above-mentioned measures, we are establishing a ceiling on the increase in net credit to Government for both budgetary support and commodity operations of PRs 6,028 million, equal to 2.2 per cent of expected GDP, compared with 3.1 per cent in 1979/80 and 4.9 per cent in 1978/79. However, if foreign cash loans or grants credited to the budget and foreign loans for commodity imports (other than normal trade

credits), which benefit budgetary and/or commodity operations, exceed PRs 5,414 million, the excess will be subtracted from the ceilings on net credit to Government and net domestic assets. No additional budgetary measures appear to be required at this time to remain within the ceiling on net credit to the Government. However, as part of our continuing programme to improve control and monitoring of government financial activities, we will conduct a comprehensive review of the budgetary position in January 1981 to assess, inter alia: the increase in import duties expected to result from liberalization; the financial position of public enterprises in order to evaluate their ability to meet debt servicing obligations to Government; the rate of drawings on expected foreign assistance including project and cash loans; and flows of nonbank domestic financing. If this review indicates that the ceiling for net credit to Government from the banking system is not likely to be achieved, sufficient corrective measures will be taken at that time.

22. The monetary and credit programme for 1980/81 is designed with the objective of containing balance of payments pressures and reducing the rate of domestic inflation, while at the same time ensuring that the legitimate credit needs of the productive sectors are adequately met. To this end, we will limit the increase in net domestic assets of the domestic banking system during 1980/81 to PRs 16,428 million in accordance with the ceilings set forth in the attached Table 1. These ceilings will be reduced by the amount of net disbursements of foreign cash loans other than those referred to in paragraph 21, received by any government-owned corporation, to the extent that such borrowings and the loans and grants referred to in paragraph 21 exceed PRs 5,414 million. Also in accordance with Table 1, the increase in net claims on Government (defined to include financing for both budgetary support and commodity operations) will be limited during the same period to PRs 6,028 million. Given the expected reduction in net foreign assets, the above expansion in credit implies an increase of slightly more than 14 per cent in domestic liquidity, which will be below the anticipated rate of growth of GDP in nominal terms but necessary to reducing the domestic inflation rate to 10 per cent.

c. External policies

23. Despite the impressive overall growth of exports in recent years, the performance of manufactured exports has been short of expectations. To further improve financial incentives for such exports, the Government will extend the availability of standardized rebates of customs and excise duties and sales taxes to cover almost all manufactured exports by the end of 1980/81. In addition, compensatory rebates will be introduced by January 1, 1981 at the rate of 10 per cent of the f.o.b. value of exports of cutlery, surgical goods, and sports goods. In order to streamline export procedures, we also have abolished the export price checks carried out formerly by the Export Promotion Bureau and the minimum export prices enforced formerly by the Customs Department (except in the case of woollen carpets and onyx blocks). We are currently undertaking studies of the latter two commodities with a view to also removing minimum export price requirements for these products in the near future.

24. As a first step towards a substantially liberalized import system, as described in paragraph 14 above, the Government intends, no later than January 1, 1981, to change the present import system in the following respects: (a) the ceilings on the value of licensing of items on the Free List and the Tied List, which were introduced in October 1979 and increased under the 1980/81 Import Policy Order, will be removed except for consumer goods and synthetic yarn used in the production of cloth for the domestic market; (b) the ceiling on the import of machinery for which no permission from any government agency is required will be raised from PRs 2.5 million to PRs 10.0 million, while the limit on the value of total new investment eligible for this facility will be raised from PRs 5 million to PRs 20 million; and (c) the scope of the Free List will be expanded by permitting the import of more than 120 raw material items under Part A or Part B, subject to the duty rates in the Pakistan Customs Tariff and temporary surcharges where necessary, and by allowing the private sector to import specified nonferrous metals and mercury in competition with the Trading Corporation of Pakistan (TCP). In addition, the Government is examining the possibility of allowing imports by the private sector of other items on Part C of the Free List. To prepare for the subsequent steps towards liberalization and reform of the import system, two studies will be initiated in 1980/81 and sufficiently completed by July 1, 1981 to permit the adoption of further liberalization measures. The first study will identify additional items which can be permitted subject to appropriate tariff protection. The second study will aim at deriving a comprehensive tariff structure satisfying the needs for fiscal revenues, price stability, protection of domestic production, and containment of consumption of luxury items.

25. In pursuance of the objective of avoiding debt servicing difficulties, the Government will limit its contracting or guaranteeing of external debt in the 1-12 year maturity range to $300 million during 1980/81. Since borrowing at the shorter end of this range would particularly worsen the debt servicing profile, the Government will limit the contracting or guaranteeing of loans in the 1-5 year maturity range (including deferred payments arrangements) in 1980/81 to $70 million. Exempt from these ceilings are concessional loans and refinancing loans obtained from existing creditors within the framework of bilateral or multilateral rescheduling arrangements.

Table 1. Pakistan: Ceilings on Domestic Assets (Net) of the Banking System and Claims on the Government (Net)

(In millions of Pakistan rupees)

	Stock on June 30, 1980	Ceilings for Dec. 31, 1980	Ceilings for March 31, 1981	Ceilings for June 30, 1981
Domestic assets (net) 1/	89,612	100,687	104,349	106,040
Claims on the Government (net) 1/2/	53,130	56,405	57,499	59,158

1/ The ceilings will be reduced as provided in the second sentence of paragraph 21 and the third sentence of paragraph 22 as applicable. The stock data and the ceilings exclude Zakat Fund deposits at the State Bank of Pakistan.
2/ Budgetary support and commodity financing.

H

STATUS OF BANK GROUP OPERATIONS IN PAKISTAN

A. STATEMENT OF BANK LOANS AND IDA CREDITS (as of December 31, 1980)

Loan or Credit Number	Year	Borrower	Purpose		US$ million Amount (less cancellation) Bank	TW	IDA	Undisbursed
Seventy-eight loans and credits fully disbursed /a					611.2		581.3	
422	1973	Pakistan	Karachi Port III		--		18.0	0.3
492	1974	Pakistan	Karachi Port IV		--		16.0	1.7
1107	1975	SNGPL	Gas Pipeline IV		53.0		--	2.0
546	1975	Pakistan	Industrial Development (NDFC)		--		30.0	1.7
1208T	1976	Pakistan	Power Transmission		--	35.0	--	5.5
620	1976	Pakistan	Seed		--		23.0	9.2
1326	1976	PICIC	Industrial Development		25.0		--	1.3
630	1976	Pakistan	Lahore Water II		--		26.6	10.1
648	1976	Pakistan	Irrigation and Drainage		--		14.0	8.0
1366	1977	Pakistan	Livestock		--	10.0	--	9.8
1372/684	1977	Pakistan	Railways		35.0		25.0	25.3
678	1977	Pakistan	Education		--		15.0	11.2
751	1977	Pakistan	Hill Farming		--		3.0	2.0
754	1978	Pakistan	SCARP-VI		--		70.0	69.3
755	1978	Pakistan	Hazara Forestry		--		1.7	1.6
771	1978	Pakistan	Tarbela II		--		35.0	2.2
813	1978	Pakistan	Punjab Extension		--		12.5	10.4
846	1978	Pakistan	Fauji Fertilizer		--		55.0	24.1
867	1979	Pakistan	Toot Oil & Gas Development		--		30.0	19.6
877	1979	Pakistan	Salinity Control & Reclamation		--		60.0	59.5
892	1979	Pakistan	Primary Education		--		10.0	9.2
922	1979	Pakistan	Sind Agricultural Extension /b		--		(9.0)	(9.0)
957	1979	Pakistan	Fourth Agricultural Dev. Bank		--		30.0	27.3
968	1980	Pakistan	Third WAPDA Power		--		45.0	42.1
974	1980	Pakistan	Third Highway		--		50.0	49.8
1019	1980	Pakistan	PICIC Industrial Development		--		40.0	40.0
1066	1981	Pakistan	Fertilizer Imports (SDR 38.2 M)		--		50.0	50.0
Total					724.2	45.0	1,241.1	
of which has been repaid					397.3	--	23.7	
Total now outstanding					326.9	45.0	1,217.4	
Amount sold				23.9				
of which has been repaid				22.3	1.6	--	--	
Total now held by Bank and IDA /c					325.3	45.0	1,217.4	
Total undisbursed					27.0	15.3	450.9	493.2

/a Excludes the disbursed portion of loans and credits wholly or partly for projects in the former East Pakistan which have now been taken over by Bangladesh.
/b Not included in totals: Credit number 922-PAK is not yet effective.
/c Prior to exchange adjustments.

B. STATEMENT OF IFC INVESTMENTS (December 31, 1980)

Fiscal Year	Obligor	Type of Business	Amount Loan	In US$ Equity	Million Total
1958	Steel Corp of Pakistan Ltd.	Rolled Steel Products	0.63	-	0.63
1959	Adamjee Industries Ltd.	Textiles	0.75	-	0.75
1962-1965	Gharibwal Cement Industries Ltd.	Cement	5.25	0.42	5.67
1963-1969-1975	PICIC	Development Financing	-	0.52	0.52
1965	Crescent Jute Products	Textiles	1.84	0.11	1.95
1965-1980	Packages Ltd.	Paper Products	4.43	0.84	5.27
1967 1976	Pakistan Paper Corp. Ltd.	Paper	5.38	2.02	7.40
1969	Dawood Hercules Chemicals Ltd.	Fertilizers	1.00	2.92	3.92
1969	Karnaphuli Paper Mills Ltd.	Pulp and Paper	5.60	0.63	6.23
1979	Milkpak Limited	Food & Food Processing	2.40	0.40	2.80
1979	Pakistan Oilfields Limited and Attock Refinery Ltd.	Chemicals & Petrochemicals	29.00	1.62	30.62
1980	Fauji Foundation	Woven Polypropylene bags	1.78	-	1.78
1980	Premier Board Mills Limited	Particle Board	2.70	-	2.70
	Total Gross Commitments		60.76	9.48	70.24
	Less: Cancellations, Terminations Repayments and Sales		33.25	1.01	34.26
	Total Commitments Now Held by IFC		27.51	8.47	35.98
	Undisbursed (including participants)		21.23	0.37	21.60

PAKISTAN - Project Implementation Review

1. The overall economic and political situation in Pakistan in the last several years has had its impact upon project implementation. Pakistan has faced a difficult and unpredictable political environment with consequent effects on civil service morale and staff turnover. In addition, while Pakistan's economic performance has improved significantly during the last three years in several respects, domestic resource mobilization efforts have only been partially successful in alleviating local currency constraints which have become a major factor inhibiting project implementation.

2. A review of the implementation of Bank Group projects in Pakistan presents a mixed picture. Implementation of a number of projects by our more traditional borrowers, particularly repeater operations of the conventional type largely involving the development of infrastructure e.g., gas pipeline, power, telecommunications, railways, ports, and highways, has been reasonably satisfactory, though in some of these cases improvements in operational and financial performance could have been better.

3. By contrast, the implementation of some "new style" projects and those that are dependent upon or involve the creation of new institutions or major administrative reorganization, such as the seeds, extension and livestock projects in agriculture, water supply and education, have experienced project delays and operational difficulties. Institutional change inevitably takes time and our experience in these cases and with other "new style" projects is probably no worse than in other countries. Irrigation projects, which often involve complex design issues and procurement documentation, have also progressed more slowly than expected.

4. In most of these cases, the problems have been compounded by shortages in local funds due to budget constraints, the low general level of salaries of managerial and technical staff which has led to rapid staff turnover, and the general resistance to employing expatriate consultants to assist with project implementation, for reasons elaborated in the foregoing. These general problems will continue to be addressed in connection with prospective operations and in our operational dialogue with the Government.

5. In spite of the above implementation problems, the overall rate of loan and credit disbursement, though often behind the usually optimistic appraisal estimates, has generally been satisfactory, and we have succeeded in maintaining a flow of resources to Pakistan at an acceptable level. Disbursements have averaged about $90 million a year over the past five years, while new commitments during the same period have averaged $155 million. In fact, Pakistan's disbursement rate is better than the Bankwide IBRD/IDA average and the Region's average rate over that period.

6. In addition, it is encouraging to note that a number of projects have recently graduated from the "problem" category. For example, Credit 422-PAK (Third Ports) has been practically fully disbursed and good progress has been noted towards completion of physical components of both the Third and Fourth Ports Projects. In the Toot Oil and Gas Development Project (Credit No. 867-PAK) there has been a noticeable improvement in well drilling performance with the assistance of a new drilling contractor and Government has agreed to a financial and organizational study of OGDC, which could lead to the necessary institutional improvements.

7. Several measures have been and can be taken in the short-term to reduce the impact of domestic resource constraints on project implementation. We are continuing to emphasize to the Government the need for fiscal measures to improve the overall resource position, and for the Provincial Governments, mainly Sind and Punjab, to introduce measures to increase provincial revenues, notably municipal taxes and water charges, which would help improve Provincial development budgets. Since funding difficulties at the provincial level may be traced frequently to the lack of additional financing in the case of externally financed (including Bank) projects, we have impressed on the Government the need for additional budgetary allocations to the Provinces for financing high-priority development projects.

8. The Government's resource constraints are largely due to its performance in the allocation and efficient use of resources. Public investment plans have not taken adequate account of the resources likely to be available, and they have been concentrated on large, capital-intensive long-gestation projects and in physical infrastructure, pre-empting resources from high-priority projects in the agricultural and social sectors. In order to reorder investment priorities, the Government has now agreed with the IMF within the framework of the recently concluded EFF arrangement, to formulate by end-March 1981 in consultation with the Bank, a medium-term investment program covering the plans for 1982-84 of the Federal and Provincial governments as well as of the public sector enterprises. It is expected that the launching of such a medium-term investment program complemented by a restoration of the role and effectiveness of the Federal Planning Division through an infusion of technical expertise on a short-term basis, will help to coordinate availability of resources with development planning.

9. Problems in general development administration, of which those relating to project implementation are only one part, reflect a slow, highly centralized decision-making process; a substantial brain drain to the private sector and the Middle East; a consequent lack of adequately trained technical staff and experienced management cadres; and intermittent political intervention. Some of these problems can be overcome by instituting enhanced salary levels and incentives. Due to Government reluctance for adopting such measures across the board and because of continuing resource constraints, we have attempted to address this issue on a project-by-project basis with some success. Other approaches have included the financing of manpower training under several projects, vocationally-oriented education projects aimed at providing and upgrading skills needed for development activity and the engagement of expatriate as well as local consultants to supervise as well as supplement staff strengths in project implementation.

10. While the engagement of expatriate consultants to help implement projects is amply justified by its beneficial impact on the efficiency of resource use, and therefore by savings to the economy, we have experienced a general Pakistani resistance to expatriate employment, both on the grounds of need and their high cost. The engagement of joint venture firms, in which there is expatriate collaboration but also prominent local expertise, could be a compromise solution, where appropriate.

11. Long delays in obtaining the necessary Government approvals for projects following established internal clearance procedures have sometimes hampered project implementation. Government machinery for project approval is such that projects assisted by us have sometimes in the past been negotiated and approved without sufficient inter-agency consultation at appropriately high levels. Occasionally ECNEC's final approval has often been deferred until well after the credit has been signed and its anticipatory approval has been based on a cursory review of the project, without an appreciation of the investment costs entailed in relation to available resources. These problems have been exacerbated by recent domestic resource constraints and culminated in fundamental objections about basic project concepts and components, and their relative priority, at a time when project implementation should be well underway. Our experience with delayed ECNEC approval for the SCARP VI and SCARP-Mardan Projects and the two Agriculture Extension Projects are cases in point.

12. In the context of the Fertilizer Imports Credit, we have emphasized to the Government the need to strengthen its internal procedures for the review and approval of project proposals, in order to ensure that these proposals conform with Government investment priorities and resource availability. Accordingly, the Government has recently issued instructions to all concerned federal and provincial agencies that the necessary project approval (PC-1) forms must be formulated and processed in terms of standing instructions, and that, in the case of externally funded projects, full approval of the Central Development Working Party must be obtained before credit negotiations and of ECNEC (the Cabinet sub-committee) before Board approval.

13. We propose to take the following principal steps to improve project implementation and increase Pakistan's absorptive capacity for higher lending levels:

- To reduce resource constraints, we shall follow up closely on the Government's actions (paragraph 51) to improve investment programming and internal project formulation and review procedures.

- We propose to adhere strictly to the Government's agreement that future projects would not be negotiated before they have been approved at the highest bureaucratic level (The Central Development Working Party, chaired by the Finance Minister) and that financial agreements for future projects would not be signed (and therefore not presented to our Executive Directors) until they have been approved at Cabinet level (ECNEC).

- Since resource constraints are particularly severe at the provincial level, we shall continue to discuss with GOP the possibility of "additionality" for high-priority provincial projects or other mechanisms such as increases in water charges and other provincial taxes for improving the supply of funds for provincial development programs.

- We shall keep under close review the current efforts of the Economic Affairs Division to increase its effectiveness in monitoring and coordinating the use of external assistance.

- We shall raise the need for more realistic salaries for key project staff and improved project monitoring in the context of possible structural adjustment lending as well as on a project-by-project basis.

- Supervision, particularly of agricultural projects, will be intensified at the field level by strengthening the staff of the Islamabad Office (paragraph 103).

- The Programs Department, with appropriate Projects support, will take the lead in identifying and discussing at a high level within the Government country-wide or sector-wide issues affecting project performance.

- CPS should undertake a detailed review of the capability of the local consulting industry.

October 16, 1980

PAKISTAN

NOTE ON PROSPECTIVE OPERATIONS IN FY81-82

FY81

1. Agricultural Research: $30 Million

In October/November 1979, a sub-sector mission identified problem areas in agricultural research. The proposed project, which is expected to address these problems, aims to: (a) accelerate the implementation of the institutional reforms needed to provide Pakistan with the quality agricultural research it requires to exploit its considerable production potential; (b) provide to Federal and Provincial institutes the physical and human resources needed to plan, coordinate, support and conduct research programs of high priority; and (c) provide training and technical assistance. The project will complement initiatives being taken by GOP to improve agricultural extension (through the training and visit system) with IDA assistance, seed production, credit and fertilizer availability.

We expect to begin negotiations mid-March assuming negotiation conditions relating to new legislation, key appointments and other institutional improvements are met, and present the credit to the Executive Directors mid-May 1981.

2. Water Management: $30 Million

The proposed project's objectives are to: (a) improve water management (by delivering water supply approaching actual crop water requirements) and to integrate and coordinate into this program the necessary agricultural supporting services and non-water inputs; (b) to initiate a first-phase, nation-wide program of watercourse improvement through heavy cleaning and maintenance, as well as installation of water control structures; (c) develop water management techniques; (d) identify and implement land reclamation and soil management practices; and (e) build within provincial agencies and the Water and Power Development Authority (WAPDA) an improved capacity for planning, implementing and operating such programs.

The project reflects GOP's commitment to make investments which would help maximize the benefits of existing infrastructure and yield results in the short term on agricultural production. This emphasis on less capital-intensive projects in the agricultural and water sectors is part of GOP's revised investment strategy.

The project was appraised in November/December 1980. A proposal to increase the amount of the credit to $50 million is under consideration. It is expected to be negotiated late April 1981, and to be submitted to the Executive Directors early June.

3. IDBP (Industrial Development Bank of Pakistan) II: $25 Million

The IDBP was established in 1961 to promote the development of medium and small industries. In 1970, IDA provided a credit of $20 million, and in FY79 the Government requested a further credit for IDBP. However, IDBP had a severe arrears problem, largely through the 1972 devaluation of the rupee, and lack of government action on these arrears delayed appraisal until December 1980. The project is now scheduled to be negotiated early April and to be presented to the Executive Directors in late May 1981.

4. Small-Scale Industries: $30 Million

The proposed IDA project has the following objectives: (a) assist the development of SSI units in promising sub-sectors by providing credit funds through the Industrial Development Bank of Pakistan (IDBP) and the commercial banks. Lending to the SSI units would be done by the commercial banks, while the IDBP would act as a monitoring and evaluation agency; (b) to assist the commercial banks towards a longer-term project appraisal approach in their SSI lending; (c) to provide extension services to wood-working enterprises in Gujrat through the Punjab Small Industries Corporation (PSIC) and to leather goods enterprises in Bannu through the Small Industries Development Bank of NWFP; (d) to support export promotion of selected handicrafts and SSI products; and (e) to initiate project development exercises in Baluchistan. The project was negotiated in late January 1981 and was approved by the Executive Directors on March 17, 1981.

5. Fertilizer Imports: $50 Million

The project was approved by the Executive Directors in September and signed in November 1980. In the context of the project GOP agreed to: (i) eliminate the net subsidy on domestically produced fertilizer; (ii) continue with price adjustments aimed at lowering subsidies on imported fertilizer; and (iii) prevent fertilizer subsidies from pre-empting a large proportion of development funds allocated to the water and agriculture sectors. In the context of the project, GOP also recognized the need to shift the emphasis in the agriculture and water sectors from subsidies and long-gestation projects to those designed to bring about improvements in cropping practices, conservation of water and maintenance of existing infrastructure.

6. Vocational Training: $25 Million

At present Pakistan has a shortage of skilled and semi-skilled labor, largely because opportunities for training and upgrading are severely limited. The scarcity is aggravated by the migration of workers, particularly to the oil-producing countries of the Middle East. Today, the vocational training system in the industrial sector suffers from low quality and quantity of output of existing institutions, and inadequate relevance to the needs of the market, which are the consequence of lack of coordination among the ministries and agencies concerned, inappropriate training methods, insufficient improvement of employers, insufficient training materials and equipment and poorly qualified instructors.

To overcome its shortcomings, the Government, with the assistance of ILO, and IDA, devised a Vocational Training Plan 1978/83, which included a major restructuring of the management of the system. The proposed project would assist the Government in implementing its strategy to strengthen and expand skills training to meet the requirements of the industrial sector and to overcome shortages caused by emigration. The project would have three main objectives: (a) to help increase the Government's ability to plan, manage and evaluate skills training; (b) to increase the output of skills training institutions by about 18,000 p.a., as well as to improve the skill level of trainees; and (c) to improve the skills and productivity of employed workers.

The project was negotiated in mid-January 1981 and approved by the Executive Directors on March 10, 1981.

FY82

1. Irrigation and Flood Rehabilitation: $50 Million

The proposed project aims to: (i) improve the institutional capability of the Provincial Irrigation Departments to carry out adequately the operations and maintenance of flood control and drainage facilities on a continuing basis; and (ii) reduce losses to agricultural production, property and lives resulting from failure of flood protection facilities. GOP consider important from a sectoral point of view rehabilitation of the existing irrigation system, accompanied by improved current maintenance and necessary drainage in water-logged as well as in saline areas.

Project preparation is in its final stages and we expect to appraise the project in May 1981. Board presentation is scheduled for December 1981.

2. Grain Storage: $32 Million

A project comprising a wheat storage construction program for 500,000 MT, paddy/rice storage facilities for 40,000 MT and assistance for wheat procurement and storage operations, foodgrain transportation, grain storage research, training and technical assistance, was appraised in October/November 1980.

We propose to negotiate a credit for this project of about $32 million in early April 1981, and expect the Swiss Government to consider making available about $9 million. Board presentation is scheduled for late May 1981.

3. Telecommunications IV: $40 Million

IDA has assisted the development of Pakistan's telecommunications network with three credits totalling $67 million (of which $5.2 million was cancelled following the independence of Bangladesh). However, many communities remain unserved and others have poor access. International telephone and telegraph services are provided mainly via a satellite earth station. Available telephones are in very heavy use and because of the congestion service in most main city networks is poor.

The main obstacle to adequate expansion of facilities is the shortage of foreign exchange. The proposed project would assist the Pakistan Telegraph and Telephone Department (T&T) with its investment program for 1981-83. The Asian Development Bank has expressed an interest in providing finance (the Government has requested $30 million from the ADB) and other sources are expected to provide the remainder. The main objectives of the proposed project would be to: (a) improve the level of service; (b) extend telecommunications facilities to new areas; (c) encourage the adoption of new switching technology; (d) continue the improvement of T&T's organization; and (e) improve tariff policy.

The project was appraised in February 1981, will be negotiated in July, and is scheduled for presentation to the Executive Directors in September 1981.

4. Sui Northern Gas Pipelines V: $38 Million

The components of this gas transmission project are likely to include: (i) looping to increase the capacity of the SNGPL transmission system; (ii) additional compression facilities; (iii) additional distribution facilities, i.e., 50,000 connections per year from 1982/83 to 1984/85; (iv) supply of gas to Dawood Hercules fertilizer plant; (v) telecommunication; (vi) construction equipment; (vii) management information systems; and (viii) technical assistance in network and system analysis.

The proposed project would provide transmission facilities for an increased supply of about 150 MM cfd on average, since the present system is insufficient to meet projected gas demand for the next five years, particularly during the winter months. The following steps by GOP would precede the Board presentation of the project; (a) a study of the feasibility of securing additional gas supplies from known fields; (b) the negotiation of supply contracts to ensure a minimum supply of gas; and (c) a load management agreement between the various suppliers, major consumers and transmission companies.

Appraisal is planned for March/April 1981, followed by negotiations in September/October 1981 and Board presentation in December 1981.

5. Oil and Gas II: $40 Million

The proposed project would focus on the development of the Dhodak field. The first phase would yield a production of about 40 MM cfd of natural gas by end-1983, which would be used in the transmission system after the Dhodak-Multan pipeline has been built. A spur from this line would supply gas to the Dera Ghazi Khan cement plant. The second phase would be the recycling of gas to maximize the liquid production.

The full assessment of Dhodak field development would require a reservoir engineering study, a conceptual design study and detailed engineering. The two studies should be completed in four months and appraisal of the project can be scheduled for September/October 1981 when enough engineering work has been done to obtain reliable cost estimates. Project pre-appraisal is planned for May/June 1981 at the completion of the reservoir study.

6. Lahore Urban Development: $20 Million

The project, as prepared by the Lahore Development Authority (LDA) and assisted by consultants has been endorsed by a Steering Committee consisting of local officials and elected representatives. The project would comprise a sites and services component, solid waste collection, improvements to the Walled City, traffic management, and consultant/advisory services. The Lahore Development Authority which would implement the project, is being staffed and equipped to undertake the task.

The project is scheduled for appraisal in March 1981 and to be considered by the Executive Directors in January 1982.

7. Structural Adjustment: $70 Million IBRD: $50 Million IDA

Three such lending operations have been included in the current five-year program with the first of them in FY82. Exploratory work to identify the project was undertaken in October/November 1980 mainly through discussions with GOP and the submission of several papers to it outlining a number of structural problems in the economy which we would like to see addressed in a first structural adjustment lending operation (see attached memo).

In summary, a first SAL operation is likely to focus on: (i) the adoption of a medium-term program of public investment covering the period FY82 to FY84 and financing arrangements for it; (ii) development strategy in the agriculture and water sectors, including needed institutional and pricing policy reforms; (iii) a program to improve efficiency in the industrial sector, with specific reference to (non-financial) public enterprises; and (iv) major institutional, planning and pricing policy improvements in the energy sector.

We expect to have further discussions on SAL with the Government in March. The project is now scheduled for Board presentation in September 1981.

FY81-82 Lending Program Summary

FY81

Agricultural Research	30.0	Irrigation and Flood Rehab.	50.0
Water Management	30.0	Oil and Gas II	40.0
IDBP II	25.0	Grain Storage	32.0
Small-Scale Industry	30.0	Telecoms IV	40.0
Fertilizer Imports	50.0	SNGPL V	38.0
Vocational Training	25.0	Lahore Urban Development	20.0
		Structural Adjustment	120.0
	190.0		340.0*

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* Includes $70 million in IBRD funds for SAL.

CRdeSilva/ja

6. The economic report will endeavor to elaborate on some of the above issues. The discussions planned next February/March on agricultural pricing, the three-year public development program, Professor Jones' report on the Public Industrial Sector and the draft economic report will provide an opportunity to pursue these matters with GOP further.

Attachments

cc: Messrs. Hopper, Please, Thalwitz, Geli, Rowe, Holsen, Pilvin
Bourcier, McCarthy, Rowat, Bharier, M. Ahmed, Williams,
T. Husain, Burmeister, Economic Mission, Islamabad Office.

RClements/lr

OFFICE MEMORANDUM

TO: Mr. Michael Wiehen, Director, ASA DATE: November 24, 1980

FROM: Richard Clements, Chief, ASADA

SUBJECT: PAKISTAN: Discussions on Structural Reforms

1. During the economic mission to Pakistan in October/November 1980, representatives of GOP and the Bank 1/ discussed various economic reforms which might be included in a Structural Adjustment Program (SAP). A number of the measures discussed are required under, or are related to, the EFF arrangements recently negotiated by GOP with the IMF.

2. The following papers were submitted to GOP officials during these discussions 2/:

(i) A memorandum on the proposed nature and timing of a review by GOP of its FY82-84 public development program (attachment 1). GOP will, in accordance with the IMF agreement, submit to the Bank and Fund by March 31, 1981, a draft three-year development program which should be consistent with the macro-economic framework of the EFF program and reflect agreed priorities in agriculture and water, energy, and the social sectors;

(ii) A paper outlining key issues in the energy sector relating to energy planning, pricing, sector management and investment strategy (attachment 2);

(iii) A paper elaborating the arguments for a revision of the Government's energy pricing policy by the adoption of import-parity related pricing for all domestically-produced oil and natural gas, together with modifications to the tax system in the sector (attachment 3);

(iv) A paper reviewing the success of the Government's efforts to revitalize the private industrial sector and suggesting additional measures (relating to labor problems, provision of infrastructure, financing, administrative controls and incentives) which appear essential to achieve a more vigorous recovery (attachment 4) 3/; and

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1/ Variously Messrs. Suriyaarachchi, Elek, de Silva, T. Husain, Siebeck, Popiel and myself.

2/ These papers were prepared by staff members in the field, except the paper on the energy sector (attachment 2) which was prepared by the Energy Department.

3/ A report by Professor Karl Schiller on the economy has recently been submitted to the Government. His recommendations are understood to include far-reaching measures to liberalize private industry.

(v) A paper on the proposed objectives, terms of reference and staffing of an Agricultural Prices Commission, to be established by GOP under the IMF agreement by March 31, 1981 (attachment 5) 1/.

3. During the course of the economic mission, a review of the Public Industrial Sector was conducted for GOP and the Bank by Professor Leroy Jones of Boston University. His report is expected to be submitted to GOP in January 1981 and to cover such matters as the consolidation of the size of the Public Industrial Sector; reforms to its structure and realignment of responsibilities and functions; performance indicators and incentives to efficiency; and pricing policy.

4. The discussions with the Government on structural reforms were informal and were purely of an exploratory nature. On a number of critical issues, preparatory work and consideration by the Government are still at an early stage. Prospects of formulating a suitable Structural Adjustment Program for support by the Bank cannot yet be determined.

5. Nevertheless, in the light of our and the IMF's recent discussions with the Government, possible elements of a SAP can be tentatively identified. These could include agreement on:

(a) the broad size and composition of GOP's public development program for FY82-84;

(b) within that framework, detailed investment programs in key sectors such as agriculture, water and energy;

(c) a continuation and broadening of the reforms to agricultural pricing and other policies initiated in connection with the recent Fertilizer Imports Credit;

(d) changes in energy policies to accelerate the development of Pakistan's potential in this sector; and

(e) action programs, including necessary studies and technical assistance, to improve the performance of both public and private industry.

1/ The Government was also earlier provided with a paper (prepared by the Industrial Projects Department) outlining possible improvements to fertilizer producer pricing policies.

REVIEW OF THREE-YEAR DEVELOPMENT PROGRAM

PROPOSED NATURE AND TIMING

Nature

1. The three-year public development program (3YDP) to be drawn up by GOP will include all development expenditures to be undertaken by the public sector, i.e. ADP as well as non-ADP development expenditures of public sector agencies. The program for FY 82-84 will be set in a macro-economic framework consistent with the economic projections which form the basis of the agreed EFF program with the IMF and extended to include FY 84. Total development expenditures and financing plans will be expressed in nominal (cash) terms, with explicit allowance for assumed rates of inflation, and will be such that targets for borrowing from the domestic banking system and external borrowing are consistent with the guidelines of the EFF program.

2. The financing plan will indicate the expected revenues to be generated from existing revenue measures on the basis of the GDP and balance of payments forecasts agreed in the context of the EFF program; the expected degree of self-financing of public sector enterprise investment plans; the expected receipts which will be available for financing the development program from all external sources; and the additional revenues to be raised through new revenue measures in each of the three years of the program. During discussion of the draft 3YDP with the World Bank and IMF, the GOP will outline, in broad terms, the types of new revenue measures which may be considered in order to raise the indicated amounts of additional revenue in each of these years.

3. In order to define the resources available to support development projects over the programing period, the 3YDP will also project the current expenditures planned during the years from FY 82 to FY 84. These projections will indicate any significant expected increases or decreases in spending on various activities; will specify the expected expenditures on all subsidy items; and will provide for substantially increased spending on maintenance, especially of the irrigation system. Consideration will be given to transferring expenditures on irrigation maintenance (excluding power charges for tubewell operation) from the current budget to the development program.

4. The 3YDP will distinguish clearly between expenditures on ongoing projects and projects to be commenced during the years from FY 82 to FY 84 and will indicate the expected annual phasing of expenditures on the projects. The projections of expenditure on each ongoing project will be revised in the course of preparation of the 3YDP and the assumptions (e.g. with regard to expected cost inflation) will be explicitly stated in each case. For projects to be implemented by semi-autonomous public enterprises or by Provincial Governments, the gross expenditures will be indicated, together with any contribution towards their financing from those bodies.

5. The 3YDP will indicate the total amounts of funds available for projects to be commenced in each of FY 82, FY 83 and FY 84. There will be a general discussion of the major priorities for new project initiatives, and a description of the overall program for each of the major sectors (e.g. agriculture, water and energy). The translation of these priorities to financial allocations for new projects in each sector will be compared and contrasted to the composition of development expenditures on ongoing projects in order to indicate the extent of structural adjustments to be achieved.

6. For each new project, the 3YDP will set out the expected time of commencement and phasing of expenditures (including the extent of self-financing for projects to be implemented by other than the Federal Government), together with a brief statement of the nature and objectives of the project and its relation to other components of the 3YDP.

7. The expenditures for FY 82 for ongoing projects and FY 82 project commencements which are set out within the 3YDP will constitute the ADP for FY 82 to be formally approved as part of the Budget for FY 82. The 3YDP will also form the basis of the list of projects which will be presented for possible funding to members of the Pakistan Consortium at the scheduled June 1981 meeting.

Timing

8. A format for collecting information was discussed between the Planning Division and the World Bank during October/November 1980. In order to assure the timely preparation of the 3YDP, a high-level directive setting out the nature and broad objectives of the 3YDP and project formats to be completed will be sent to all relevant agencies by the Planning Division by end-November 1980.

9. All agencies will be requested to complete and return forms setting out revised estimates for future expenditures on ongoing projects 1/ and proposed expenditures on new projects during the period of the 3YDP, together with the projected extent of self-financing, to the Planning Division by mid-January 1981.

1/ In order to facilitate the exercise, the review may concentrate initially on larger on-going projects and a lower limit (for example Rs.50 million) may be set on the size of on-going projects on which information is required.

10. The Planning Division will collate and analyse these expenditure projections and prepare totals of proposed ongoing and new expenditures in each sector. These totals will be related to projected available resources (taking into account the factors outlined in paragraph 2 and 3 above). On the basis of this analysis, guidance will be sought by the Planning Division from the Government at an appropriate level during February or early March 1981 regarding the proposed expenditures for FY 82 - 84 and any modifications which may be necessary to make the size and composition of the three-year investment program consistent with the agreed priorities and the macro-economic framework agreed with the IMF.

11. Detailed discussions will subsequently be held with Government agencies to adjust the program as necessary and a first draft of a 3YDP will be completed by end-March 1981 and sent to the IMF and the World Bank in Washington for their review.

12. A mission will visit Pakistan in April 1981 to discuss the comments of the Bank and Fund on the draft 3YDP. These discussions will be followed by the preparation of a second draft of the 3YDP by GOP by mid-May 1981.

13. This timetable is designed to allow time for preparation of a draft 3YDP which can be submitted to the Cabinet/NEC in June 1981 for approval and the ratification of the first year of expenditures under the 3YDP as the ADP for FY 82, and to allow the presentation of a program which has been discussed with the World Bank and the IMF to the Pakistan Consortium in June 1981.

World Bank,
November 16, 1980

Attachment 2

FOR DISCUSSION ONLY

PAKISTAN

ISSUES IN THE ENERGY SECTOR

Background

1. In June 1980, the World Bank produced a report on Pakistan's energy sector entitled "Pakistan: Issues and Options in the Energy Sector". This document, which had benefitted from earlier discussions with concerned officials in the Government of Pakistan, emphasized the substantial potential of the energy sector in Pakistan but also drew attention to a number of key issues which could hamper the full realization of that potential. These issues were further defined during follow-up discussions on the report with the Government in September, and in the course of the continuing dialogue between subsector implementing agencies and the Bank's operational staff.

2. In view of the importance attached to Pakistan's energy sector, both by the Government and the Bank, the more important of these issues were brought to the attention of the Minister of Finance by the Regional Vice President in a letter in August and during the course of discussions at the Annual Meeting in October. At that meeting, the Minister requested the Bank to provide for discussion a short note setting out these issues and outlining the Bank's views on a program for their resolution. This note has been prepared in response to that request. It deals with four major interrelated areas of concern in the energy sector:

(i) Energy Planning;

(ii) Energy Pricing;

(iii) Sector Management, and

(iv) Investment Strategy

Energy Planning

3. The Bank's energy sector report had pointed out, and Mr. Hopper had reemphasized in his letter, the urgent need to develop an effective national energy planning capability that would enable the Government to tackle the many and complex investment options for the development of alternative indigenous energy sources in the 1980s, and to expand and strengthen the program of energy

conservation and demand management. In this context, the Government has recently taken an important step forward by appointing a high-level interministerial National Energy Policy Committee whose secretariat would be the Directorate General of Energy Resources (DGER) in the Ministry of Petroleum and Natural Resources. Although DGER has long been involved in various aspects of energy sector work, the Government recognizes that its present staff and budget resources need to be strengthened before it can effectively discharge these expanded duties. At the request of the Additional Secretary in the Ministry of Petroleum, therefore, Bank staff have recently identified with appropriate Government agencies the nature and scope of a 3-year program of technical assistance which would be required to strengthen and develop the DGER's energy planning capability. The main elements of this program would be: (a) provision of specialist assistance in evaluating supply prospects in the different energy subsectors, an area which has suffered from chronic weaknesses in the past and where local expertise is limited; (b) assistance for a survey of renewable energy forms and uses; (c) a program of energy audits and conservation; (d) the formulation of a medium-term power expansion program which would allow for the planning of the electric power sector on an integrated basis. Terms of reference for such a plan have already been submitted by Bank staff to concerned agencies for their consideration; and (e) the formulation of a comprehensive and integrated 10-year national energy plan which would draw together the work done at a subsector level. Details of these components and their estimated costs are set out in Annex 1 to this note.

4. The total cost of such a program is estimated at about $5.0 million inclusive of price contingencies. If the Government so requested, the World Bank could assist in the financing of this program through an IDA credit for an Energy Planning Project.

Energy Pricing

5. In spite of recent Government action to increase domestic energy prices and rationalize their structure, there remains a need to develop a long-term pricing policy which, within the Government's broader objectives, provides adequate incentives to develop existing hydrocarbon resources in an optimal manner, reflects more precisely the economic costs of bringing energy products to the consumer, and establishes interfuel price relationships more closely on the basis of the opportunity cost of competing fuels.

6. In the oil and gas sector, the main problem area is producer pricing, particularly as it affects "old" oil (discovered prior to 1975) and both "new" and "old" gas. The present policy is that well-head prices are set by reference to expected average production costs plus a return on capital. While this amounts to imposing an uncollected excise tax equal to the difference between world price and expected average field production costs, there are a number of problems with this approach:

(i) Price is based on estimated production costs. If costs are thought by potential investors to be under-estimated investment is deterred. This could be avoided if producers were certain that prices would be frequently raised on the basis of actual experience but this is not the case at present;

(ii) price is based on average costs rather than marginal costs. Since in all fields marginal costs rise with total production, average cost pricing tends to be a disincentive. This could mean that oil will be left in the ground even though its resource cost is less than import parity; and

(iii) price setting requires detailed cost information. The administrative costs and negotiating delays increase costs and uncertainty and deter investment.

7. There is also a problem with regard to the level of prices. These levels are determined primarily by the rate of return allowed by the Government to private companies on their investment in developing the resource. At present this rate of return has been set at 15% for both oil and gas field investments. There remain serious questions, however, as to whether this constitutes an adequate incentive for the further rapid development of oil fields such as Meyal or for further exploration activity in the vicinity of Sui where considerable gas potential exists. The companies have argued that drilling conditions in Pakistan remain difficult and are not risk-free, even where reserves have already been "proven", and that a 15% rate of return on investment is inadequate to compensate them for the risks involved, especially in the light of alternative return available to this capital both in other sectors of Pakistan and for comparable investment in other countries. The Government, however, is not convinced that the development of a field such as Meyal has been slowed because of inadequate pricing policies but rather because of a shortage of modern drilling equipment. The Ministry of Finance, in particular, has argued that the development of Meyal is not so much a question of "profitability" but rather one of "cash flow" which it is willing to address.

8. More fundamentally, however, the whole method by which prices are set needs to be examined to see if improvements can be made. In this context, Bank staff have recently submitted to the Government a note which sets out a possible approach for the determination of producer prices in the oil and gas sector. This approach would substantially reduce existing disincentives to increased investment while the Government appropriated a high share of profit in excess of a "normal" return on capital. Producers of oil and gas would be paid import parity for their whole production but a tax would be imposed on cash flow designed to progressively tax away a high share of cash flow in excess of specified rates of return on capital.

9. In view of these considerations, the Bank recommends that the Government (i) accept in principle the setting of producer prices for oil and gas at import parity and (ii) give serious consideration to the desirability of levying a progressive profits tax designed to maximize incentives for marginal investments while appropriating a high share of abnormal profits for the Government. The Bank would be happy to assist in such a study. In the meantime, urgent consideration needs to be given to revising upward present oil and gas well-head prices for currently producing fields within the framework of the existing "cost-plus" pricing policy. This in turn would require the compilation of detailed and up-to-date data on production costs for the major operating fields, an area of some weakness in the past.

10. In the power sector, the current tariff structure is complex and distorted. Energy and minimum charges are generally not directly related to the costs of supplying electricity to consumers. In particular, capacity of KW charges are well below long run marginal costs and low voltage consumers are charged significantly below the cost of supply. As a recognition of these problems the Government has carried out, in collaboration with the Bank, a study of the tariff structure in the power sector. It has also accepted in principle the recommendations of this study, which would entail both the raising of average costs and the restructuring of individual tariffs to correspond more closely to the marginal costs of supply to different consumer categories. The Government should now draw up and implement a phased program of tariff changes which will progressively reduce the existing anomalies in the power sector.

11. In regard to consumer pricing for oil products, the Government has increased petroleum products prices at regular intervals and the average price for the composite barrel of crude oil reflects closely the full economic costs. For gas prices, however, there is a need to examine again the adequacy of natural gas tariffs in the light of expected supply and demand requirements, the opportunity cost of the gas, the price of alternative fuels and the economic impact that any increase in gas tariffs would have on sectors of the economy which are large consumers of gas.

Sector Management

12. In the oil and gas sector, some institutional strengthening has already taken place at the level of the Ministry of Petroleum and Natural Resources which provides overall guidances and support for the sector. Nevertheless, because of a shortage of qualified technical staff, the Ministry depends heavily on the Oil and Gas Development Corporation (OGDC) to regulate the activities of all oil companies operating in Pakistan. Not only does this put additional pressure on OGDC which itself lacks staffing, but it also makes some of the international oil companies uneasy as they have to compete with OGDC for exploration rights. This is aggravated by the fact that foreign oil companies are still encountering diffi-

culties in obtaining access to old geological, geophysical and drilling data from the Ministry. What is also required is a clearer definition of the goals of the sector and a policy of managing the various institutions in the sector in the light of those goals. Clear delineation of the status of OGDC vis-a-vis the private oil companies and the Government, and close collaboration with oil companies in achieving sector objectives are necessary for the further development of the sector. A prerequisite to the improved management of one sector is that the senior staff of the Ministry be strengthened; the early appointment of a Minister for Petroleum and Natural Resources would be a first step in this direction.

13. As far as OGDC itself is concerned, recent developments have been more encouraging. An action plan has been drawn up to improve the company's financial and institutional position and the judicious use of technical consultants has improved performance on that front. The need now is to ensure that this momentum is not dissipated through shortages of trained personnel or adequate funding. Competent techical staff, for whom a buoyant market exists in the Gulf States, have been difficult to find and to keep. OGDC's ability to retain and attract these key personnel will be an important factor affecting its capacity to develop efficiently the hydrocarbon potential of Toot, Dhodak and Pirkoh fields. In this context, it is essential that the remuneration package for OGDC's technical staff take adequate account of the salaries available for comparable positions in the private sector.

14. In the power sector, a rationalization of the existing institutional framework is required to enable the sector to cope with the demands that will be made upon it in the 1980s. After 1982, the country will have an integrated national power network which should be planned for as a whole; yet WAPDA and KESC, the main power generating authorities, continue to plan for their own systems largely independently of each other.

15. The development of coal resources will also depend critically on institutional strengthening and the formulation of an integrated national coal policy. The Pakistan Mineral Development Corporation has some qualified and experienced technical staff, but its influence is limited to the small share of coal produced by the public sector (20%), and there is inadequate coordination between it and the provincial development authorities which have primary responsibility for coal development. A mechanism will also need to be developed for providing technical assistance and extension services in modern mining techniques to the numerous small private mine operators which supply the bulk of the country's coal requirements.

16. Finally, in the renewable energy sector a number of government and autonomous bodies have been involved in the initial stages of analysis and experimentation. While this may have been an adequate approach in the past, there now exists a need for the Government to take stock of the work that has been done in this field, to identify the most promising avenues for further analysis and to allocate funds for the development of renewable resources in accordance with these priorities.

Investment Strategy

17. The need to increase both public and private investment to help meet Pakistan's energy needs has been accorded high priority in the Government's overall investment strategy. The bulk of public investment in this sector (about 80%) has been earmarked for the development of electric power generation and transmission facilities but investments in hydrocarbon development have also assumed increasing importance in recent years. As a reflection of this, the annual budget of OGDC has been increased from Rs. 508 million in 1978-79 to approximately Rs. 1,250 million in the present fiscal year.

18. While increased public investment in hydrocarbon development will be an essential prerequisite to finding and developing additional petroleum resources, the Government recognizes that the size of this investment must take into account both the technical and managerial limitations faced by OGDC in implementing a much larger program and by the overall resource constraints for public investment and its intersectoral allocation. At the same time, the investment needs of the petroleum sector are large and expected to grow as additional discoveries are brought on steam. Consequently, the Government has made a concerted effort to increase private sector participation in petroleum exploration and development. These efforts have met with considerable success and significant private investment in exploration is expected over the next two to three years. However, until some positive results are obtained from the present round of activity, it is unlikely that the level of private drilling will rise much above about 6 - 8 wells per year.

19. Given this background, the main problem facing the Government today is how to use most effectively the limited public resources that can be invested in the petroleum sector and to attract additional external resources. One option the Government might consider in this context is to widen the use of joint venture arrangements between OGDC and private oil companies to cover not only exploration concession agreements but also the development of potentially large petroleum resources such as Dhodak and Pirkoh where the current Government thinking is that such fields should be developed exclusively by the public sector. These joint venture agreements would be further encouraged by the formulation of a detailed investment program for OGDC and a clearer definition of the precise roles of the public and private sectors within the Government's overall sector strategy.

The World Bank
October 29, 1980

Attachment 3

FOR DISCUSSION ONLY

PAKISTAN
ENERGY PRICING POLICY

Introduction

1. This paper elaborates the arguments for a revision of Government pricing policy for both oil and natural gas and recommends that GOP accept, in principle, the setting of import-parity related prices for all domestically produced oil and natural gas. It is suggested that, over the next 6-9 months, GOP should investigate in detail the implementation of a progressive profits tax for these sectors designed to maintain incentives for marginal investments while appropriating a high share of the profits from any highly profitable fields as revenues to GOP.

2. For most developing countries, including Pakistan, prospects for development are being seriously hampered by the heavy financial burden of oil imports. Unlike many other countries, Pakistan appears to have good prospects for substantially increasing the domestic rate of production of both crude oil and natural gas. Such additions to production would assist, directly and indirectly, in reducing the volume of oil imports and could further improve the balance of payments through permitting increased domestic production in other sectors (e.g., fertilizers).

3. There is reason to believe that the program to define and develop the potential for increased oil and gas production from known fields could be substantially accelerated. However, GOP's present policies for pricing domestic production of oil and gas from these fields on a rigid cost-plus basis, using anticipated costs as a point of reference, fails to provide the necessary incentive for undertaking an optimal program of development and investment. At the same time, there is also reason to believe that a set of revised policies could be implemented which would provide strong incentives for stepping up the rate of exploration for, and the production, of oil and gas, but would not lead to

unnecessary or "windfall" profits on present or future domestic production. These hypotheses are strongly supported by the contrast between the strong interest shown in developing new oil fields (where prices offered for oil reflect the value of the product) and the sluggish pace of development of already known oil and gas fields together with the general lack of interest shown in exploration and development of new gas fields.

4. The recommended approach to the pricing and taxation of domestic energy supplies relies on a clear distinction between the following concepts:

- the value of an additional unit of domestic production,
- the resource cost per unit of production,
- the net (after tax) return per unit to the producer.

5. Pakistan is a net importer of oil, so it is clear that the economic value of an additional unit of domestically produced crude oil is the cost of a unit of imported crude oil of comparable quality. In the case of natural gas, the economic value per unit is the cost of the alternative energy source displaced by the gas and can be expressed in terms of the equivalent cost of deriving the same amount of energy from a petroleum-based source.

6. Geological and other information relating to Pakistan indicate that oil and gas from already known domestic fields can be delivered to consumers at a price which covers the costs of production, refining and distribution and which is substantially below the cost of delivering comparable products derived from imported sources. Moreover, there are indications that increased supplies of domestic oil and gas could be delivered from known, as well as new fields, at comparable costs per unit. The policy problem for GOP is to determine the appropriate allocation of the "surplus" (i.e. the difference between the value of the product and the cost of production per unit) which follows from being able to meet some of the nation's energy requirements from low-cost domestic sources. Decisions have to be made on whether this "surplus" should accrue to:

- users/consumers of the product; or
- distributors; or
- refiners; or
- domestic producers; or
- the Government as additional revenue.

The recommended approach to making these decisions is set out below, separately for petroleum and natural gas; the principles are the same in both cases.

Petroleum pricing

7. In the case of petroleum, the elements of an appropriate solution for the sharing of the potential benefits to be derived from domestic production would be as follows. To avoid subsidizing the use of oil products, consumers/users would be charged import parity prices without distinction between products derived from local or imported sources. Refiners would pay the same price for imported or locally produced crude (with allowances for differences in quality or content) and would pay normal taxes, or bear losses on their operations, depending upon their efficiency. Domestic producers would receive a price for their product which is equal to the price paid by the refiners. On present indications, such an arrangement would yield very high before-tax profits to domestic producers. In such a situation, it would be appropriate for the Government to impose a taxation regime which was more progressive than normal company taxation. Such a tax regime should encourage the production of oil and gas at costs per unit which approached their economic value per unit, have a built-in incentive for producing at the lowest possible cost but capture an increasing share of returns before tax from lower-cost producers.

8. These elements of the recommended solution (which are discussed in more detail below) may be contrasted with the two, quite different, approaches being pursued towards the production of petroleum from known fields and prospective new fields.

9. Under the present policy on energy pricing, existing and potential increases of production from known domestic fields are priced on the basis of estimated average costs, which vary from field to field, plus a margin which allows for a low, policy determined rate of return to equity for the producers. Under this arrangement, the price paid to producers is not related in any way to th value of the product to the economy: domestically produced crude oil is sold at a price which is around 20 - 25% of the price of the imports which are displaced. This system has a number of serious disadvantages. Investment required to increase production by developing new wells or optimising production from existing fields is deterred: there is no way in which increased production can improve the rate of return to the producers. On the contrary, because of delays in adjusting prices to take account of cost increases, the rate of return could be reduced. In theory, the pricing system provides for periodic price increases in order to compensate for any increases in the costs of production and to recoup development expenditures. In practice, price increases are approved only after lengthy negotiations to convince authorities

that costs have risen and the producing companies are experiencing cash-flow difficulties. The system of cost-plus pricing provides no incentive to minimise costs since any gains to the producers from improvements in efficiency are likely to be eliminated by a subsequent review of estimated costs. The most serious problem is that, although the value of any potential increase in production has increased manifold in recent years, this has not been reflected by corresponding changes in profitability of domestic oil production. The existing pricing policies have prevented the pursuit of an aggressive investment policy to develop the potential of already discovered fields.

10. In contrast, there is clear evidence of intense exploration activity to discover new fields, since the price offered to producers from those fields is clearly linked to the value of the product (i.e. the international price) both before and after tax. This has led to the situation where most of the ongoing expenditure is being undertaken to find new fields where costs are likely to be higher and lead-times longer than for incremental production from known fields and where a high proportion of the gain from increased production will accrue to foreign companies rather than to the economy of Pakistan. There is minimal investment activity in known fields where the potential gains to the economy would be the highest.

11. The extent of the divergence between the present and the "desired" policy on oil pricing and taxation suggests that several steps will be needed in moving towards a revised approach. A first, desirable step would be to rationalize the pricing of crude oil to refineries. At present, domestically produced crude oil is sold to refiners at well below import parity prices. On the other hand the price received for the refined products is in the vicinity of import parity prices and a "development surcharge" is levied on the difference. At the same time there exists a system of refunds in order to make good any losses incurred by refiners of imported crude oil.

12. It is recommended that refineries should be charged the same, import-parity price for all crude oil. This step would not, in itself necessarily involve any changes in income distribution or in the general level of inflation within the economy. However, this step would clarify the role of the present set of levies and subsidies in the chain of costs and prices from producers to users.

13. If the price of domestic oil delivered to refiners from existing fields was set to import parity levels while domestic producers continued to receive a cost-plus price equal to about 25% of the price charged to refiners, then the difference could be collected by the Government as a "development surcharge" on domestic oil production. In this case, there would be no net effect on producers' incomes, or on the net revenue accruing to the Government from the production, refining and sale of domestic oil products. The "development surcharge" on producers would replace the present "development surcharge" on refiners. However, the rearrangement of the points at which charges are levied would clarify the connection between pricing and fiscal policies; it would be clear that a very high proportion of the value of domestically produced crude oil was accruing to the Government as revenue (i.e., a "development surcharge" plus normal taxation of oil producers.

14. Such a rearrangement to price oil to refineries at import parity prices would also make it clear that the economy would benefit if additional oil could be produced in Pakistan at any cost up to import parity. The next policy issue would be to design a system of taxation which would encourage any such additional production, provide an incentive to produce at the lowest possible cost, and have a progressively higher incidence of taxation on the most profitable fields.

15. The following solution is suggested:

(a) The price per unit of crude oil delivered to refineries should be the same import parity price for all domestic producers (with allowances for any differences in quality) irrespective of costs incurred;

(b) There should be no need or attempt to estimate the costs of petroleum production in advance: however, record should be kept of actual costs (including development costs) incurred in generating output in addition to production levels at some cut-off date;

(c) Normal company taxation (with an option of accelerated write-off of past expenditures) would be levied on such production until the internal after-tax rate of return generated by the cash flow from the sale of the additional oil at import parity prices reached an agreed threshold level.

(d) A tax regime would be adopted to tax away a progressively higher share of any cash flow in excess of specified rates of return to capital. The structure of the tax could be such as to impose a minimal burden on relatively low-profit fields while applying marginal tax rates up to 85 - 90% to very profitable fields.

16. The advantages of this policy compared to the present policy are:

(a) The share of the "surplus" accruing to the Government is based on actual production costs rather than highly uncertain expected costs. Therefore marginal investments will not be deterred by uncertainties about prices provided costs are expected to be anywhere below import parity prices.

(b) The imposition of the tax on cash flow (net profit plus amortization less capital investment) would mean that reinvestments to optimize production, for example by enhanced recovery methods, will not be deterred as such investments can be deducted against a very high marginal tax rate.

(c) The administration and information requirements would be less than under the present system. The monitoring of actual production costs would present some difficulties but these are certainly less than the difficulties presently faced in estimating future expected costs in order to quote well-head prices for new production from existing fields. Standard rules for obtaining deductibles in or to determine tax liability have been adopted in a number of important oil producing developing countries.

(d) Changes in costs would be automatically catered for rather than through the present process of negotiation. At the same time, there would be an incentive to keep costs to a minimum: both the producer and the Government would gain from cost reduction as the marginal rate of tax would be less than 100%. Under the present system there is no financial incentive for producers to minimize costs.

17. In view of these advantages, it is strongly suggested that such a system of pricing and taxation be applied to development activities to increase investment and production from known fields. Consideration should also be given to using this approach in negotiating any new contracts for the exploration of new fields.

18. The setting of a uniform price for all crude oil sold to refineries would also allow a considerable simplification in the presently complicated structure of "development surcharges" and refunds. If domestically produced crude oil were sold to refineries at import parity prices, there would no longer be any role for a "development surcharge" to be levied on the refining of this oil: the Government would, instead, take an appropriate share of the "surplus" from domestic production from the high pre-tax profits of producers. On the contrary, in the absence of any adjustment of present ex-refinery prices, refineries would incur a loss on their overall operations to the extent that consumer prices were below the corresponding import parity prices for refined products.

19. There is no economic logic in making refineries pay for consumer subsidies. It is therefore recommended that the refineries sell to distributors at prices designed to allow reasonable profits for efficient refinery operators, and any subsidy to consumers be paid to distributors of the refined products. Making these subsidies explicit would not, in itself, have any effect on income distribution or domestic inflation. Any future policy actions to reduce such subsidies in the interests of energy consideration would, on the other hand have to be taken with due regard to their impact on domestic prices and income distribution.

20. The ex-refinery prices paid by distributors of petroleum products could be set on the following basis:

(a) the weighted average of ex-refinery prices could be set equal to the weighted average of the actual (or potential) c.i.f. prices of a comparable mix of imported refined products. Given the saving of transport costs, as compared to imports, such a weighted average price should allow any reasonably efficient refinery to earn a satisfactory rate of pre-tax returns.

(b) the profits of refineries should be taxed at normal company rates of taxation. This would provide an incentive for cost-efficiency. The present system where refineries are guaranteed a fixed 15% rate of return does not provide any incentive for efficiency.

(c) the relative prices for different refined products could be adjusted so that there are additional financial incentives to adjust the product mix to the pattern of domestic demand.

Natural Gas pricing

21. A similar set of principles to those outlined above could also be applied to resolve existing distortions in the pricing of gas from producers to distributors and then to end-users. At present the price charged to users or consumers is well below the cost of alternative sources of energy, and therefore, well below the value of the product to the economy of Pakistan.

22. In some cases, the benefits of the low prices are retained by the consumers, e.g. for domestic household consumers of natural gas. This leads to a situation of considerable excess demand for connections, since energy from gas is supplied at a considerably lower prices than alternative energy from kerosene; it also appears to lead to inequities between different income groups. In other

cases the benefits of the subsidised natural gas prices do not accrue to the users. For example, in the fertilizer factory sector, prices are generally set on a strictly cost-plus basis so that the benefit of the subsidy accrues to the users of fertilizer, or to the Government in the form of a "development surcharge" on a low cost producers.

23. Although users of natural gas are paying well below energy equivalent prices for their supplies there are no explicit subsidies involved as the producers of domestic natural gas are paid an even smaller proportion of the value of their product. As in the case of petroleum production from known fields, the price paid to producers is on a cost-plus basis, set in relation to the currently very low costs of production, with no relation to the value of the product to the economy. As a result there is no incentive for an aggressive exploration and development policy.

24. There is, moreover, no logical relationship between the price paid to producers and the price paid by end-users. At present this differential is so large that a "development surcharge" can be (and is) levied on pipeline companies, so as to give a fixed rate of return to investment. This policy, in turn, does not provide any incentive for the efficient operation of the pipeline companies.

25. A preferable alternative policy would be to define a clear linkage between the value of gas and its energy equivalent. This value should be the price paid to distributors of gas for delivery to final users. If, for reasons of income distribution or the easing of cost pressures, the Government decides that some users should pay less than this price for natural gas, then an explicit subsidy per unit of gas should be paid to the distributors of gas on behalf of the consumers or users. For example, if the Government wished to continue its present policy of keeping the cost of domestic fertilizer production low by charging a low price for gas feedstock to these factories, then this should be done through a specific subsidy. While such subsidies may be justified by various broader policy considerations, these should not be allowed to have a distorting impact on the economics of gas production and delivery.

26. Since gas supplies are currently delivered at much lower than energy equivalent prices, the adoption of this system would result in the conversion of presently large implicit subsidies to explicit subsidies. Such a conversion would not, in itself, have any effect on the present distribution of income or purchasing power. However, in the interest of energy conservation, it would be desirable to phase out these consumer/user subsidies over time, paying due regard to the effects of such a transition on the cost and price structure and the distribution of income.

27. The next policy issue would be to fix the prices paid to gas producers by gas distributors (or pipeline companies). Since these companies are utilities, there appears to be no simple alternative to a cost-recovery policy. The prices paid to gas producers should allow the distributors a margin over costs which is sufficient to provide for a reasonable degree of self-financing of investments to improve the distribution network and consistent with any covenants agreed with lending agencies. There should also be significant financial or other incentives provided to management (e.g. bonuses) which would be conditional on improvements in efficiency.

28. Once the above policies were adopted to set the prices paid by gas consumers to gas distributors, and by distributors to the domestic producers of natural gas, then the price received by the gas producers would be well above the current unit cost of production. This price would be set to reflect the value of the product to the economy rather than the cost of production. As in the case of oil producers, the Government should seek to adopt a taxation policy which encourages a rapid development of energy sources at least cost while appropriating a progressively higher share of pre-tax profits as tax revenues as the profitability of fields increases for different fields. The elements of the solution would be parallel to those set out for oil production in paragraphs 15 and 16.

Conclusions

29. The implementation of the recommended reforms of pricing and taxation policies would not be a simple matter. However, it would be possible to draw on the experience of other developing countries who have adopted similar rules for the sharing of rents from mineral and petroleum development. The World Bank would be pleased to assist in the development of such a revised policy.

30. It should be emphasized that the adoption of the revised system of taxation and pricing for producers and refiners/distributors would not, in itself, have any impact on the rest of the domestic cost structure. It would merely be a rearrangement of the allocation of the existing share of the economic "surplus" from domestic production between producers, distributors and the Government in a way which would provide the incentives for efficiency and increased production which are not provided by the present system.

31. The adoption of the recommended policies would result in making all consumer subsidies explicit, rather than implicit. Given the heavy burden of payments for imported energy on the economy of Pakistan, it would be desirable to eliminate these subsidies in a phased manner over time, in order to encourage the conservation of energy, paying due regard to the effects of the removal of subsidies on the domestic cost structure and the distribution of income.

World Bank
November 15, 1980

Attachment 4

For discussion purposes

PROMOTION OF PRIVATE INDUSTRY

Further Proposed Action

Introduction

1. This paper reviews the success of the Government's efforts to revitalize the private industrial sector and suggests a number of additional measures which appear to be essential if a more vigorous recovery in private investment and output is to be achieved.

2. During the past few years the Government has been endeavoring to re-orient its industrial sector strategy and policies. These endeavors include measures to reorganize the public industrial sector and improve its efficiency 1/, and to encourage greater private sector participation in industrial activity. To this end, decisions have been made to limit further expansion of the public industrial sector, except in a few selected areas; restrictions which were introduced on private investment during the early seventies have been removed; and several incentives for promoting private industrial investment and exports have been announced.

3. These policy changes have led to a considerable improvement in the investment climate and private sector investment interest; investment approvals by project sanctioning authorities - Investment Promotion Bureau (IPB), PICIC and IDBP - have increased sharply and continued to rise in FY 80. Nonetheless, the actual implementation of sanctioned private projects has been slow; national accounts data indicate a continued decline in relatively large-scale private industrial investment during FY 80, although private investment in smaller - scale projects has increased steadily in real terms.

4. There are some encouraging signs. A survey recently conducted by the IPB indicates that 34% of private sector industrial projects sanctioned by IPB, PICIC and IDBP during the period FY 76-79 and

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1/ A review of the public industrial sector is currently being conducted by Professor Leroy Jones. His report and recommendations will be available in January 1981.

and accounting for 18% of the total value of such sanctions have been fully implemented. Another 16% of sanctioned projects involving 32% of the value of sanctions are in various stages of implementation; while a further 12% of sanctioned projects accounting for 25% of the value of sanctions are at preliminary stages of arranging credit facilities, plot allotments, etc. While this information is consistent with the relatively rapid growth in investment in smaller-scale industry and the considerable lag in the implementation of larger projects (the Ministry of Industries believes that the lag between sanctioning and implementation for larger projects may be about two years), an incipient upturn in medium to large-scale private industrial investment is now evident. This impression has been confirmed by interviews that the World Bank economic mission had with several private businessmen/project sponsors in recent weeks.

Current Problems

5. A number of constraints, however, seem to stand in the way of a more rapid recovery in medium to large-scale private manufacturing investment. Firstly, many project sponsors appear to be seriously handicapped by difficulties in obtaining basic infrastructure - plot allotments, water, electricity, gas connections, etc. Project sanctions are sometimes tied to locations where these facilities do not exist; sometimes the agencies which provide these services do not find it economic to service individual project sites; and sometimes there is a lack of coordination at Federal, Provincial Government and agency levels.

6. Another critical constraint, particularly for larger projects, is financing. The larger projects in cement, chemicals, fertilizers, etc., involve capital costs of several hundred million rupees. These amounts are relatively small by international standards but substantial in relation to the average size of private sector projects in Pakistan, and project sponsors are often unable to secure the necessary funds from any one particular source. Although financial institutions such as the Investment Corporation of Pakistan (ICP) and Bankers' Equity assist investors to overcome this problem in respect of local funds by arranging financing through consortia of banks, there is evidence that commercial banks themselves are being constrained by the prevailing credit ceilings. Similarly, foreign exchange available to development lending agencies (PICIC, IDBP, etc.), together with the credit lines made available by the Government to large private investors, are insufficient to meet the demand for foreign exchange. While the Government encourages investors to arrange financing directly with foreign suppliers in order to overcome this bottleneck , such funds are not easily available on the terms and conditions stipulated by the authorities.

7. Despite the Government's efforts to encourage and provide assurances to the private sector, private investors remain cautious and generally unwilling to invest risk capital in larger projects by themselves in an environment of continuing uncertainty. Some of the sources of this uncertainty, e.g. political developments outside Pakistan, are clearly beyond the Government's control. However, there are other areas, e.g. with regard to labor policy, where the absence of a clear statement of Government policy adds to prevailing uncertainties. There is also some uneasiness among investors about the likely impact and consequences of the Islamization of the economy. Thus, in the case of larger projects, sponsors are seeking to minimize their exposure by seeking equity participation from investment companies such as Pak-Libya and Pak-Kuwait, and from Bankers' Equity.

8. As important as encouraging new investment is the need to maximize production and capacity utilization of existing industrial units. Most industrialists agree that there is no general shortage of imported raw materials and inputs, or insufficient domestic demand. The key constraints, particularly for industrial units which are either average or below average proformers, seem to be shortages of working capital, emerging shortages of skilled labor and high labor turnover associated with emigration to the Middle East, and inadequate local and foreign resources for balancing and modernization investment. Admittedly, some of the industries complaining about shortages of credit are themselves not credit-worthy or have poor repayment records; better managed industries appear to have relatively less problem in obtaining short-term capital. Nevertheless, credit restrictions and rationing, combined with high margin requirements and difficulties in obtaining additional import licenses where production is expanding, appear to have been a definite hindrance to expanding production. Inadequate foreign exchange and rupee funds for BMR purposes in the context of strong domestic and external demand appear to be particularly undesirable, since such investments have high benefit/cost ratios.

Proposed Action

9. The Government's decisions in the context of the EFF arrangements to remove existing administrative controls on the import of items which are presently in the Free List, and to raise the ceiling on imports of capital goods for BMR purposes from Rs.2.5 million to Rs.10 million, will help to reduce bottlenecks to the expansion of presently operating industrial units. In order to assist the recovery in industrial output and investment, the Government could do several further things.

10. A substantial strengthening of programs for skills training is necessary to prevent a further deterioration in the supply of skilled labor. While trained personnel will continue to move out of both the public and private sectors for more remunerative employment opportunities abroad, the consequence of not initiating a major skills development and replacement program (with possibly appropriate restraints on the emigration of such trained personnel for a specified period) would be an increasingly acute skilled labor shortage in the furure. Rapid implementation of the Vocational Training Project now under discussion with the World Bank, as well as of other such programs, is of vital importance.

11. The Government could reduce the prevailing uncertainty in the investment climate by an early and clear statement of labor policy. The clarification of government policy in this field would itself help to provide a firmer basis for industrialists to plan their investment decisions over the next few years.

12. A vigorous investment promotion effort seems to be required by the Government in at least two areas. Firstly, the sanctioning of projects to be located in backward regions makes little sense unless infrastructure facilities are made available to investors. In areas where such facilities exist, better coordination of government agencies (for example through a high-powered committee of decision makers) is necessary to minimise investors' difficulties 1/.

13. Secondly, the Government could help to alleviate the financing problems of investors. Further steps should be considered to encourage the formation and expansion of investment companies to provide risk capital. An effective institutional framework (for example through PICIC, ICP or Bankers' Equity) for packaging investment finance, especially for larger projects, needs to be established. These efforts should be backed up by the provision of additional resources to these and other institutions. This could take the form of expanding the capital structure of institutions such as ICP, Bankers' Equity and Pak-Kuwait Investment Company. In the case of development finance companies, more vigorous steps need to be taken to accelerate recoveries and thereby improve access to foreign lenders.

14. The Government will need to ensure that the demand for credit, both for working and investment capital, from existing and new industrial units is not unduly restricted by credit ceilings. A review of the present credit ceilings appears to be necessary. As a first step, the Ministry of Industries should make a detailed assessment of the credit requirements of projects which are currently under implementation or likely to commence soon on a case-by-case basis.

1/ The Government may consider providing a guarantee of water, telephone and power connections by start-up date to large new investments above a certain minimum size, on the condition that the investor agree to repay the full marginal cost of such connection within (say) two years. Investors may be willing to accept this cost in order to avoid costly delays.

15. A reappraisal and simplication of the approval process for project sanctioning, import licensing and financing would also help considerably to accelerate private sector project implementation. There is now a large number of stages of administrative approval, some of which seem superfluous and of which the "sanctioning" by the IPB is a good example. Sanctioning is of little relevance, since projects are liberally sanctioned because of high non-implementation rates in the past, and no serious evaluation or appraisal of projects is undertaken at this stage. It may be possible to eliminate this and some other stages of administrative approval (e.g. import licensing) by combining the process of project approval, evaluation and financing arrangements at a single point where the Ministry of Industries, Finance Division, State Bank, and import control authorities could be jointly represented. Sanctioning as well as import licensing would thus become a part of the project appraisal, approval and financing process and the Government could make use of this mechanism to ensure that project approvals are consistent with its investment strategy.

16. In the longer run, the Government's measures to promote private investment and exports will need to be supplemented by an appropriate framework of incentives which is designed to ensure the establishment of an industrial structure which is consistent with Pakistan's comparative advantage. At present there is inadequate knowledge of how the present incentive system operates in practice; there are a number of instances where inconsistencies and anomalies in the tariff structure penalise efficient and export-oriented industries, and others where relatively inefficient industries are afforded substantial protection. The Government will be unable to effect appropriate adjustments to the incentive system and to the industrial structure until detailed information on the operation of the present system of incentives is available. In this context, the World Bank is planning to undertake jointly with the Pakistan Institute of Development Economics (PIDE) a study on industrial incentives which could be of considerable significance for the Government. The creation of an adhoc committee of high-level representatives of the Planning Division, Ministry of Industries and PIDE to assist and support the study would help to ensure its successful and timing conclusion.

Conclusion

17. The measures outlined above would considerably facilitate private investment. The failure of the Government to take early action to promote private investment more vigorously could have serious policy implications for the future. Given the likely demand growth in a number of sub-sectors such as cement, fertilizers and

chemicals, the Government itself will have to undertake substantial additional new investment if sanctioned private investment projects in these areas are not implemented. This will impose additional burdens on an already tight Annual Development Program. It will also lead to an unfortunate and unplanned reversal of government policy.

World Bank

November 15, 1980

AIDE MEMOIRE

AGRICULTURAL PRICES COMMISSION

(DISCUSSION DRAFT)

1. The New Agricultural Policy announced earlier this year acknowledged the need to set up an organization to give continuous attention to evolving a balanced agricultural price policy that would be fair both to the producer and the consumer and would facilitate the achievement of national objectives; the Price Policy Statement labelled the proposed organization the Agricultural Prices Commission (APC). In subsequent discussions with the International Monetary Fund (IMF), the Government of Pakistan (GOP) agreed to establish the APC "as early as possible but not later than March 1981". This aide memoire presents Bank staff views on the possible functions, composition, location and terms of reference of the APC based on the premise defined in GOP's new Agricultural Policy, viz:

- the producer of agricultural output must get a reasonable return;
- sharp fluctuations 1/ in output and input prices must be prevented;
- price policy should provide support for farm incomes as well as production of specific commodities; and
- there should be balance between prices received and prices paid by farmers.

2. Mandate. The mandate of the APC should include the responsibility for recommending prices for inputs to as well as outputs of the agricultural sector. Initially, the price setting responsibility could be confined to the major crops and the principal inputs. The crop range should include pulses and oilseeds even though, at present, technology for major yield increases for this class of crops is not available.

3. Staffing. The APC should be headed by a distinguished (preferably agricultural) economist (chairman). It could have two or three full-time Members or Directors supported by a small complement of technical staff. The Members of the Commission should be prominent in their respective disciplines, for example, economics, statistics, practical farming, or fertilizer industry. The staff should include at least a Statistician (for designing sampling details of farm surveys), Computer Programmer, Agricultural Economist, Fiscal Economist and Agronomist. The APC will contract out work to other qualified bodies such as NFDC, WAPDA, NFC, PIDE and universities where appropriate. It is vital that in its early phase the APC should have a Chairman and Members whose counsel is sought and valued by Pakistan's decision-makers. Failure on this count would discredit and could eventually kill the institution.

1/ An elaboration of the economic case for price intervention is presented in Annex 1.

4. <u>Terms of Reference</u>. The APC should be required to:

a) advise on price policy of inputs (fertilizer, pesticides, seed, water[1/], and such other inputs that GOP may specify) and outputs (wheat, rice, maize, cotton, sorghum, sugarcane, pulses, groundnut, soyabean, and such other outputs that GOP may specify) with a view to evolving a balanced price structure in the context of the overall needs of the economy. The guiding principles of the APC should be to:

- provide incentives to farmers to adopt efficient technology and to produce nationally needed output;
- encourage efficient utilization of land, water, infrastructure and other scarce inputs;
- minimize adverse effects on cost of living, wages, cost of raw materials, etc.;
- take account of agriculture's terms of trade when inducing net resource transfers from or to the rest of the economy; and
- facilitate movement towards the gradual removal of subsidies on agricultural inputs, while ensuring an appropriate balance between farm input and output prices in order to stabilize the net income of farmers.

b) advise on any problems relating to agricultural prices and production that may be referred to it by GOP;

c) advise on measures to reduce costs of marketing of inputs and products and to recommend fair margins for different stages of the marketing chain for inputs and products;

d) recommend measures to make price policy effective through developing and strengthening an integrated structure of processing, transport, and storage of agricultural produce;

e) advise on policies for reducing post harvest losses especially in the wake of a high intensity agriculture;

f) advise on institutions that facilitate utilization of existing infrastructure and/or effective deployment of additional infrastructure; and/or extension of proven technology to backward areas; and

g) promote, carry out, and review (1) studies relating to price policy, and (2) efforts for collection and analysis of information (farm surveys) on agricultural activities.

1/ May not be feasible at this stage.

5. <u>Some Policy Issues</u>. Broad questions of policy that need immediate attention by the APC include:

- response of marketed surplus of foodgrains to output price changes;
- response of marketed surplus (by farm size and tenure) to changes in output and input prices;
- response of aggregate agricultural output to price changes;
- behavior of farm incomes (by farm size and tenure) to rising cost of production (fertilizer, fuel, machinery, etc);
- role of credit in promoting use of high cost inputs (like fertilizer and pesticide) in the context of slowly rising crop yields;
- role of price stability in promoting investment in the agricultural sector; and
- cost of production of various crops for different farm sizes, tenure and regions.

World Bank
November 12, 1980

AIDE MEMOIRE

AGRICULTURAL PRICES COMMISSION

Price Policy for Foodgrains - Some Issues

1. Introduction. Demand for higher support prices comes from the producers of foodgrains. In a substantive (non-political) sense, the case for (minimum) support prices for foodgrains has been made in terms of both (1) short-term and (2) medium-term needs for the economy. The nature of the arguments and the attendant issues are discussed below.

2. Short-term Argument. The short-term need for price intervention arises because, in a free market, the price of foodgrains is predominantly determined by the size of the harvest which may vary from year to year /1; given the low elasticity of consumer demand for foodgrains, the fluctuations in output cause disproportionately large variations in prices. From the producers' viewpoint, the output fluctuations are fortuitous (weather) and not entirely determined by acreages sown or inputs applied. This means that the cost of production per ton of output would be high for a bad harvest and low for a good one. In a free market, the prices of foodgrains would tend to move to off-set these production cost variations; that is, prices would be high in a bad year, and low in a good year. However, due to the low elasticity of consumer demand for foodgrains, the variation of prices is likely to be more pronounced than that warranted by the variations in output. The short-term case for price intervention is made in terms of the need to moderate these (possible) year to year price fluctuations -- which could hurt the producer and the consumer of foodgrains in unpredictable ways.

3. Medium-term Argument. The medium-term need for price intervention arises because the production costs that a farmer incurs each year are based on his price expectations. Since in the medium run output is strongly /2 related to the level of inputs, the price that the output fetches in any year influences the producers' subsequent decisions about input levels. The producer knows that production can be increased (in most cases) by additional inputs (and costs); and so the level of inputs applied (costs incurred) gets influenced by the price that the producer expects. So, the producer welcomes an "assured minimum price"

/1 Particularly in rainfed or partially irrigated agriculture.

/2 The contrast is with the relatively weaker relationship in the short-run production function which is beset with high variability introduced due to fortuitous circumstances.

to provide a basis for production decisions regarding output mix and input levels. This amounts to the statement that the supply schedule of foodgrains has a positive slope thus requiring a higher supply price for supplying additional output. The "assured minimum price" is seen by the producer as the supply price, and aggregate output can only be increased by gradually increasing the supply price. To the extent that additional output depends on technological innovation, an assured minimum price (provided it is high enough) also provides compensation for the costs and the risks associated with the adoption of an innovation. Since increases in agricultural output can either come through increased input usage (within a technology), and/or by adoption of efficient new technology, the provision of an "assured minimum price" (provided it is high enough) is seen to be a necessary condition for facilitating expanded use of inputs and/or adoption of new technology.

4. <u>What Should be the Minimum Price</u>? There seems to be a reasonable basis for minimum support prices to cater to both the short- and medium term needs of the economy. But the levels of minimum prices implied by the two sets of needs may not be the same. Partly, the difference is intrinsic. Partly, it arises due to the short-term needs of the consumer. In the absence of public intervention, the prices faced by the consumer would also fluctuate and it would not be feasible for the consumer to modify his year by year grain consumption accordingly. So, his interests would be served if prices during a bad harvest year were prevented from moving above some ceiling price; of course he would not mind the significant price decreases during good harvest years (though the producer would). That is, consumer interests would be served by keeping prices below some "maximum" price while producer interests would be served by keeping prices above some "minimum" price. That is, short-term needs of both producers and consumers require the fixation of reference prices - a "minimum" price for the producer, and a "maximum" price for the consumer. The public sector /1 may then provide an inter-year storage facility through transferring grain from surplus to deficit years while endeavouring to keep market prices within the range defined by the "minimum" and "maximum" prices. However, in order for this sort of public sector intervention to work in the long run, it would be necessary that the margin between the "selling" and "buying" prices of the public sector agency engaged in the inter-year price stabilization be adequate to cover its costs /2 of transport storage, losses, financing. This means that the agency should be able to get rid of its purchased grain during a short cycle; that is, the price range should be such as not to lead to a permanent and/or growing stock of foodgrain. Generally, this would require a balance between the minimum and maximum prices, and would dictate setting a low minimum price to avoid having to deal with substantial surpluses that would be induced by a high "minimum" price.

/1 In 1965, Mr. V. M. Dandekar had proposed that the public sector in India perform such a function (See Artha Vijnana, Dec. 1965). Of course, such market intervention for price stabilization is a standard instrument in the public sector tool kit.

/2 We are ignoring the alternative of financing (subsidizing) these costs from general revenue.

.../3

5. The medium-term needs of the economy, however, dictate high "minimum" prices in order to extract increasing outputs from the agricultural sector. Given that the market supply schedule has a positive slope, additional output would be forthcoming only at higher real prices. Simultaneously, the implied higher market prices would tend to reduce consumption. Over time, therefore, it is inevitable for grain stocks to accumulate. The disposal of these stocks would become a second generation problem of a successful foodgrain price policy. Exports and subsidized domestic distribution would be two of the main disposal channels available to the government.

6. The Related Issues. What then should be the "minimum" support price? Should there be a "maximum" price? If so, what should it be? Should short- or medium-term considerations dictate the choice of the "minimum" support price? Should cost of production have a role to play in setting the "minimum" price? Can cost of production be unambiguously defined, and should it have any economic role in the price setting?

7. Providing answers to the above sort of questions would be the core responsibility of the APC. The answers are not easy to give - both information and thoughtful deliberation are required.

PROSPECTIVE OPERATIONS

Proposed IDA Credit to IDBP (US$ 25 million)

The purpose of the credit is to provide critically needed foreign exchange resources to IDBP for the financing of small and medium-scale projects in the private sector. The first Bank project (Credit 177) was fully utilised by IDBP and closed in February 1978. Processing of this second project has been delayed pending government's agreement to certain measures affecting IDBP's arrears and its Ordinance. An appraisal mission recently completed its work and prospects are good that we will be able to process a project during this fiscal year. An amount of US$ 25 million is included in the lending matrix, although it is likely that IDBP would need at least US$ 35 million. The issues affecting IDBP are similar to those facing PICIC and solutions and prospects are likewise similar; however, IDBP carried a large public sector overdue portfolio, the satisfactory resolution of which has been a principal feature of the mission's recommendations.

Proposed SSI Credit (US$ 30 million)

The objectives of the project are to provide credit to promising SSI units through the commercial banks and selected technical assistance through the Small Industry Corporations (SIC's) and the Export Promotion Bureau. The project is national in scope. Special attention has been given to identify and prepare subprojects in Baluchistan, although the prospects for effective small-scale enterprise development in this province are slim due to a lack of resources and an entrepreneurial class. Small-scale enterprises are significant contributors to manufacturing value-added and employment in Punjab, Sind and NWFP (SSI accounts for 25% of industrial output and 85% of industrial employment for Pakistan as a whole). Refinance and monitoring/ex-post evaluation of the subprojects would be carried out by IDBP. The project has been designed with a subsector focus in those industries in which Pakistan SSI units dominate -- light engineering, garments, leather goods, sports goods and surgical instruments. Other subsectors would also be eligible for financing. The subsector studies (Phases I and II) were the result of collaborative efforts between the Bank, UNIDO and GOP. Negotiations on the credit are scheduled for January 19-23.

Kalabagh Dam Project. (Total Storage - 9.375 MAF)
(Generation Capacity - 1,760 MW)

1. The main conclusion and recommendations of the Bank Mission that visited Pakistan during May/June 1980 to assess the technical feasibility and priority of Kalabagh Dam were summarized in the Adie-Memoire of June 19, 1980, and the World Bank Mission Report of August 1980, updated and finalized in October 1980. This report included the re-drafted UNDP Project Document for carrying out the proposed studies for both Stage I (Detailed Investigations and Project Planning Report) and Stage II (Final Design, Detailed Cost Estimates and Tender Documents for Civil Works), estimated to cost US$ 22.54M including UNDP input of US$ 7.5M in foreign exchange. On the mode of consultancy services for undertaking the above studies, the Bank Mission recommended an association of foreign/local consulting firm(s), with the foreign firm having the primary responsibility and taking the lead in providing technical expertise and skills.

2. During the World Bank Annual Meeting in September/October 1980, Mr. Ghulam Ishaq Khan, GOP finance minister, had discussions with Regional Management, during which he expressed support for a joint venture of local/foreign firms, jointly and severally responsible for the contractual services for Kalabagh Dam Project, instead of a lead firm. The Bank indicated its willingness to review such a proposal, if documented by GOP.

3. Mr. Pranich's mission to Pakistan in November 1980 had further discussions with Dr. Bokhari and Mr. Hashmi emphasizing the necessity of a lead firm and the importance of the expatriate inputs to the proposed joint venture of consulting firm(s).

4. The GOP proposal for a joint venture of local/foreign firms, suggesting all firm(s) jointly and severally responsible for the contractual services, and appointment of the Chairman of the Board of Management by rotation of the members was received in November 1980, and has since been reviewed by ASPAA, Legal, and CPS. It is their working level consensus at this time that none of the proposed arrangements by GOP for the joint venture based on "jointly and severally responsible" technical arrangements is workable or acceptable, and the expatriate firm must take a lead in substance.

5. For successful implementation of the proposed project and the Bank to act as Executing Agency for Kalabagh study, it is considered essential to follow the main substance of Bank Mission's recommendations as summarized in the Aide-Memoire of June 19, 1980,* which are largely in line with the guidelines for joint ventures between the consulting firm(s) by International Federation of Consulting Engineers (FIDIC). Such a joint venture proposal, if acceptable to GOP with possibly greater involvement of WAPDA in the review of designs and consultancy assignments, the UNDP Project Document could be finalized and the consultancy proposal could be invited without any further delays.

* Agreed by GOP

FIELD VISIT BRIEFING MATERIAL

BEING PREPARED BY

RESIDENT MISSION

AND WILL BE MADE AVAILABLE

IN ISLAMABAD

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BIOGRAPHICAL DATA

Lt. Gen. Fazle Haq, Governor, NWFP.

He was born in 1928 in Mardan, NWFP. He was commissioned in the Armoured Corp in November 1948. He commanded an Armoured Brigade in 1969-72; an Infantry Brigade in 1973-74; an Armoured Division in 1974-76; and an Infantry Division in 1976-77. He was promoted to Corps Commander in January 1978. He attended the National Defence Course in 1972 and the Armoured Course in 1956, Fort Knox, U.S.A. He was appointed Governor, NWFP in October 1978.

ONGOING PROJECTS IN NORTH WEST FRONTIER PROVINCE

Several ongoing projects in Pakistan have components in NWFP, as described below:

Third Education Project (Credit No. 678-PAK)

The main objectives of the project are:

(a) the improvement and expansion of primary and middle-level education by increasing the supply of qualified teachers, particularly in rural areas and female teachers; and

(b) supply trained personnel for agricultural and rural development.

The Credit of $15 million is helping to finance: (a) construction/rehabilitation of 17 Teacher Training Institutes with a total enrollment of about 5,000; (b) improvement and expansion of five existing Agricultural Training Institutes which provide pre-service and in-service training to agricultural and livestock field assistants and training to farmer leaders (total entollment capacity about 1,600); and (c) improvement and expansion of the Sind Agricultural University at Tandojam (enrollment capacity about 1,300). The Credit also provides finance for a pilot adult literacy program and studies on training needs for irrigated agriculture and water management. Four of the Teacher Training Institutes under the project are in NWFP (two in D.I. Khan, one for females and one for males; Jamrud - for males; Peshawar - for females). There is also one Agricultural Training Institute in NWFP (Peshawar).

Third Highways Project (Credit No. 974-PAK)

The project is designed to prevent deterioration of vital sections of Pakistan's road system and consists of the following main components: (a) rehabilitation and improvement of about 280 km of national and provincial roads; (b) maintenance of national and provincial roads; and (c) assistance to domestic construction industry.

Within the first of these components, the road sections selected for rehabilitation include those which are in most serious danger of failure on or near the main truck road from Karachi to Peshawar. There are two road sections in the NWFP: (a) 28 kilometers of the Peshawar-Charsadda road; and (b) 29 kilometers of the Khairabad-Nowshera road. The rehabilitation work consists mainly of raising the existing roads in low areas, widening and pavement strengthening and resurfacing. Within the maintenance component, the project emphasis is concentrated on periodic maintenance at the provincial level. The project includes a maintenance unit in NWFP. Technical assistance is being provided to help operate the soils and materials laboratories and improve planning and design in NWFP.

Seed Project (Credit No. 620-PAK)

This project represents the first phase in the development of a modern seed industry in Pakistan, involving research, variety release, seed multiplication, processing, certification, storage and marketing. Project activities are decentralized on a provincial basis. Public-sector Seed Corporations are being equipped under the project in Punjab and Sind. These Corporations would select and register seed growers and would provide services to them as well as take full responsibility for processing, packaging and storage of seed. A National Seed Council, with representatives of each of the Provinces as well as for all public and private parties concerned with the seed industry was established to formulate national seed policy. In addition to initiating commercial-scale production of cereal and cotton seed in Punjab and Sind, the project is financing a pilot project for vegetable and potato seed production in NWFP, Baluchistan and Punjab.

Hazara Forestry Pre-Investment Project (Credit No. 755-PAK)

The main objective of the project is to assist the Government to formulate an integrated program for the development of forest resources of the Hazara region of the North West Frontier Province (NWFP). The Credit is helping to finance the development of improved technologies in reforestation, the reinforcement of the Forest Department of the NWFP and other agencies and the preparation of follow-up projects for large-scale reforestation and a possible integrated pulp and paper industry. Under the project, suitable areas for large-scale reforestation are being selected by systematic site assessment; the inventory of existing forests is being updated and pilot plantations with back-up research trials and a genetic improvement program are being developed. Moreover, the project includes a training program; a socio-economic study to embrace private small-scale forest owners in future development; pulping tests and a feasibility study to define the type, configuration and timing of pulp and paper industrial development.

Salinity Control and Reclamation (SCARP Mardan Project) (Credit No. 877-PAK)

The project was originally designed to increase agricultural production by providing additional irrigation water and irrigation improvements for the entire Lower Swat Canal and additional water for part of the Upper Swat Canal area in the NWFP. The project included remodeling of surface drains to carry out storm water and tile drainage flows; increase the Upper Swat Canal discharge capacity; remodeling of the Lower Swat Canal system to provide increased capacity and improve canal operational efficiencies; reclaiming abandoned or marginally productive saline-alkaline land; improving the rural market road network;

improving agricultural extension services; monitoring irrigation deliveries, drainage flows, water table depths and agricultural production; providing equipment and vehicles for construction, O&M, agricultural extension, seed production, project support and monitoring programs. The project design is being reviewed by IDA and the Government in order to reduce the project scope in view of local currency constraints.

Primary Education Project (Credit No. 892-PAK)

The project is an experimental project which will be the first phase of a long-term effort to address major problems in primary education. The main objectives are:

(a) to provide increased access to primary schools, especially for girls and for rural poverty groups, by providing school facilities and materials, more female teachers and enhanced supervision to improve school-public relations and overcome parental indifference to enrollment;

(b) to reduce wastage, principally by reducing drop-out and repetition, through improved facilities, materials and instruction and improved staff supervision;

(c) to obtain higher and more lasting pupil achievement through recurrent in-service teacher training; and

(d) to reduce costs by introducing lower cost teachers and larger class and school sizes.

The Credit of $10 million is helping to finance:

(i) strengthening of the teacher service by the introduction of about 340 assistant teachers (about half of which will be females), about 50 supervisors (about one-third females) and about 470 learning coordinators (about one-third females);

(ii) training (including technical assistance) of about 11,000 teachers and other staff related to the project;

(iii) provision of books, instruction materials and equipment for about 4,100 schools and 10 in-service training centers and vehicles for supervisors, learning coordinators and project unit staff;

(iv) construction of about 1,000 classrooms, residences for about 675 female teachers, and 10 in-service training centers, and provision of furniture for about 700 classrooms and the in-service training centers;

(v) experimentation and evaluation (including technical assistance) of various inputs in achieving the project objectives; and

(vi) future project preparation.

The project covers about 650 schools (480 boys' and 170 girls') in <u>NWFP</u>, with about 125,000 pupils and 3,000 teachers, or about 30% of the schools included in the project.

December 10, 1980

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This news item appeared on page 7 of the October 1980 issue of:

DAWN

DAWN

Saturday, October 4, 1980

Cable Dawn, Karachi: Tel 516761 65; 516751-55; Telex: 23623 PHPL

Mc Namara's plea

WHAT may well be Mr Robert McNamara's valedictory speech was no different from those he has been making since taking over as President of the World Bank. The gloom and near-despondency which has characterised his speeches was also very evident in this one to the joint annual meeting of the World Bank and the International Monetary Fund, and this may be his speech to the world's financial elite since he intends to retire from his post at the end of the present term. One can possibly say that Mr McNamara as World Bank President has almost spanned an era brief though it may have been: those years of the seventies when there was an awakening to the economic injustices of the world and hope was running high in the Third World that a 'new economic order' may be an attainable target after all. While these years were not entirely fruitless — there were residual benefits — the hope has been dampened and the World Bank President's speech in Washington is an indicator of how little can be expected by developing countries in this century.

Apart from the general ...ing that oil-importing developing countries are going to have a very difficult time in the years immediately ahead, several specific points were raised in the speech. Among these were the Western countries' failure to meet official development assistance targets set by the United Nations, restrictive and protectionist trade policies and the critical state in which the economies of most developing countries have been plunged. This deterioration has been very marked in the last year, partially due to another increase in oil prices. The net result of the economic patterns of the last few years for oil-importing developing countries will be a further drop in the average annual growth of per capita incomes: to 1.8 per cent during the next five years. A large number of people, particularly in Africa, will face negative growth, while over a billion of the world's poorest people will see only nominal growth. These are disturbing facts, and show that practically no dent has been made in Third World poverty despite the existence of so many international agencies meant for this purpose. One major reason has been the persistent failure of industrialised countries in meeting the aid target of 0.7 per cent of GNP. The actual performance of OECD countries came to about half of this, according to latest figures. Even more significant is the fact that the richer among these countries, like the United States, Japan and West Germany, for instance, have made a poor showing compared to others. Estimates are that the United States official development assistance during the current year will be 0.18 per cent of GNP, whereas that of Japan will be 0.27 per cent.

In this connection, it is also pertinent to mention the role that OPEC can and should play in helping out the less fortunate developing countries. OPEC as a whole has, of course, been fairly generous with economic assistance, but taking into account the surpluses that it generates, it can do much better. In fact, OPEC aid has fallen of considerably in recent years, both in the total amount and as a percentage of GNP. In 1979, for instance, OPEC aid was well over a billion dollars less than in 1977. As a percentage of GNP, aid in 1979 was less than half that in 1975—a fall from 2.71 per cent to 1.28 per cent. A number of OPEC members have given more than ten per cent of their GNP as official development assistance in the past: Kuwait, Qatar and the UAE have exceeded this at least in one year. The fall in the UAE assistance has really been dramatic — from 14.12 per cent of GNP in 1975 to 1.58 per cent in 1979, the actual amount being a fifth of the over a billion dollars it gave in 1975. OPEC must be aware of the difficulties which other developing countries face, part of which is due to increasing oil import bills, and it must be made to feel greater responsibility towards the rest of the Third World.

Apart from simple economic assistance, there is also the possibility of investing in ventures in Third World countries. Most of the surpluses generated by OPEC are invested in the Western countries, with banks, industry or in real estate. This is another field in which developing countries can be helped by OPEC, with the added attraction that, besides the profit, they will also have an assured source of supply of their essential needs. Pakistan, for instance, is setting up several projects in the agricultural and industrial sectors in cooperation with a number of OPEC nations. So far, however, the number of projects is very low, especially when one considers the potential in terms of a market and an industrial base which this country offers. In fact, several neighbouring countries together make up a large market for goods or agricultural products which might be produced. This is another aspect which should be considered by OPEC in investing surplus revenue: not only will it bring profit to investors, it will also be extremely helpful to the oil-importing developing countries.

This news item appeared on page of the 5 Oct. 1980 issue of:

MORNING NEWS (PAKISTAN)

MORNING NEWS
(Pakistan)

ZIQA'AD 24, 1400 SUNDAY, OCTOBER 5, 1980.

GLOOMY OUTLOOK

THE World Bank President, Mr Robert McNamara has once again highlighted the gloomy outlook of the world economy, making particular reference to the despondency that grips the economies of the non-oil producing developing countries. Addressing the joint annual meeting of the World Bank and the International Monetary Fund, he has reiterated his appeal for special efforts to relieve and end the stagnation of the poorest countries where about one billion people live. In his usual style, he has expressed his grave concern over the sad plight of the poorest countries, which are faced with extreme poverty and have a perceptibly low growth rate preventing them from making any headway on the road to economic progress.

Mr McNamara took over as the World Bank chief at a time when there was a growing awareness of the economic injustices leading to the launching of a struggle by the Third World countries for the establishment of an equitable international economic system. Although these efforts have not yet fully succeeded, some residual benefits have certainly accrued from them. Anyway, due to continued intransigence of the developed countries and lack of the necessary political will to concede the legitimate demands of the Third World countries, the stalemate in the North-South dialogue has not yet ended so much so that the ice could not be broken even at the special session of the UN General Assembly. Thus the prospects of the Third World economies remain as bleak at a time when Mr. McNamara is making his bow as it was when he joined the World Bank as its President. No wonder then that speech ends on a pessimistic note with regard to the outlook of the developing countries' economy in this century.

The difficulties of the oil-importing developing countries emanate from the Western countries' failure to meet the UN Development Decade assistance target, restrictive and protectionist trade policies, fallout of global inflation generated by the oil price hike and phenomenal increase in the prices of goods supplied by the West and international monetary crisis. And thus two-thirds of humanity is faced with a very grim situation. And there is little hope of any immediate relief in view of the complete deadlock in the North-South dialogue and the tied nature of bilateral aid.

There has been a marked deterioration in the situation obtaining in the non-oil producing developing countries in the last year owing to further increase in oil price. As a result, the average annual growth in their per capita incomes is likely to decline further to 1.8 per cent. in the next five years. A large number of people, particularly in Africa, will experience negative growth, while over a billion of the poorest nations will see only nominal growth. This clearly underscores the need for a development strategy that could both accelerate economic growth and channel more of the benefits of that growth towards meeting the needs of absolute poor. Happily, the World Bank, in pursuance of this policy, has already directed its focus towards rural development programmes, including agriculture, which received the largest share of its loans. Yet a dent has not been made by the developing countries because their need for capital far exceeds the aid available to them.

Obviously, the poor countries cannot make any headway because of the crushing burden of debt liabilities, the inequitous world trade system and gross inadequacy of capital and technical know-how. The situation can be retrieved only when there is policy shift towards much greater trade in goods manufactured in developing countries. In fact, this should be generally accepted as the mode of repayment of foreign loans, otherwise the developing countries will continue to sink deeper and deeper into the marsh of economic insolvency. The poorest countries cannot reach the take-off stage without increased amounts of concessional aid. But its prospects are very dim. If the developed nations really believe in inter-dependence of nations and indivisibility of the economic destiny of mankind, they must promote the World Bank's role and also help restructure the international economic order. Otherwise, the poor countries will only be drifting towards greater poverty and stagnations.

It is indeed a pity that the industrialised countries miserably failed to give 0.7 per cent. of their GNY in aid. In fact, the OECD's economic assistance came to only half of this. Worse still, the richer nations, like the United States, Japan and West Germany, contributed much less than the others. The figures for the US and Japan's official assistance this year are worked out at 0.18 per cent. and 0.27 per cent. respectively. Such a poor showing is hardly conducive to any distinct improvement in the living standards of the world's poorest people in the foreseeable future.

.../

The role of OPEC in pulling the developing countries out of the economic quagmire also needs no stress. It has a special part to play in this connection. Happily, the OPEC States are already making a major contribution towards helping the oil-importing developing countries and now a plan is on the anvil to increase this aid substantially. The matter is to come up for discussion at the Baghdad summit. The OPEC countries should not only extend official economic assistance to tide over the balance of payment difficulties arising from oil price hike but also promote joint ventures in the Third World countries. The risks their investments in the Western countries are exposed to can hardly be overemphasised. By diverting these funds to the developing countries, they will not only be making a solid contribution towards accelerated growth of the retarded economies but will also be ensuring safety of their capital. After all, it is through collective self-reliance that the Third World countries can free themselves from the stranglehold of the West.

This news item appeared on page 2 of the Oct 5, 1980 issue of:

Business Recorder

BUSINESS RECORDER

SUNDAY OCTOBER 5 1980 ZI-QA-AD 24 1400

A test case for Third World

Once again, it is established that the Western developed nations will not allow the developing nations their rightful place in any international decision making organisations. The question of granting the Palestine Liberation Organisation an observer status at the International Monetary Fund and the World Bank is the latest example [illegible]s series. The issue was [illegible] at the Belgrade [illegible]g last year but no positive decision was taken and the Muldoon committee which was entrusted with it dragged on without reaching an agreement till the Belgrade meeting came to an end.

Sensing the mood of the developing countries, Sam Cross, the U.S. Executive Director, backed by West Germany and Britain, proposed to the board that observers to this year's meeting be confined to those invited to Belgrade. The motion was endorsed by the Board which was sent to the Bank's Governors for ratification. The issue is highly volatile with both the parties being pulled in opposite directions. Both S[illegible] Arabia and Kuwait [illegible]nformed the World [illegible] and the IMF that th[illegible] cannot consider any new contributions until the PLO is invited. Kuwait has rebuffed World Bank approach to help underwrite a new 86 billion dollars bond issue and Saudi Arabia has stalled on its 402 million dollar loan offer.

On the other hand, Carter Administration fears antagonising Jewish voters and campaign contributors as well as Congressional opposition to replenishment of International Development Association as pledged by USA. The Congress has also stalled in approving doubling the World Bank's overall lending capital from $ 40 billion to $ 80 billion. Knowing that at the plenary session the developed nations would be outvoted this question was passed on to a newly created 9-man commission for study to avoid the obvious. Efforts were also being made to put this question as the last item on the agenda. It appears that this kind of manoeuvering by the rich countries could not succeed and hence the delaying tactics were adopted to save the situation.

The grant of observer status is only an honour because those given this status cannot vote or participate. This is the factual position, yet a mountain is being made out of a molehill. The reason is that today when the membership of the two organisations has increased manifold from what it was originally, the voting power is still in the hands of western industrialised nations and the demand is being pressed by the developing countries to change the pattern of voting by giving them greater representation. The developed nations fear that they would be outvoted in decision making instruments and they would not be able to maintain their hegemony both in economic and political fields. Moreover, they also feel that once they concede some ground, the developing countries would be emboldened to further consolidate their position.

The argument that in the past, observer status has been granted only to financial entities or groups representing financial entities does not hold water. Firstly, it is to be noted that the Arab League which is a political organisation has been admitted on the ground that it has a substantial development role and as such is entitled to be represented on these organisations. The PLO contends it would be representing its Palestinian National Fund which is based in Syria. But the plea is not acceptable to USA obviously on political grounds that is why it wants to keep PLO out of the World Bank and IMF fearing that if it agrees to the proposal the Zionist lobby in USA as well as on international plane would create troubles for Carter Administration and may result in his defeat at the forthcoming elections in November. Secondly, USA has been influencing World Bank and IMF to serve its political interests as it did in the case of Vietnam and Nicaragua or brought pressure on IMF to soften its attempts to discipline Jamaica's economy.

This is a challenge to the developing world. The creation of the commission is to get time to manoeuvre some of the Third World countries to side with USA. They must realise that if they stay together, they may well have the strength not only to bring in PLO but also to have a greater say in IMF and World Bank. Would they do it?

(PAK)

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This news item appeared on page 5 of the OCTOBER 29, 1980 issue of:

DAWN (PAKISTAN)

Power rates

A SENIOR WAPDA official has announced that yet another power tariff increase is in the offing. This will be the second instalment of the increase since last year when the power rates were raised by 25 per cent. According to the WAPDA sources, the World Bank had suggested a 40 per cent rise last year, but the WAPDA had contented itself with a 25 per cent hike. While the exact ground on which the World Bank based the case for a steep rise in electricity charges is not known, the suggestion is not surprising since the international financing institutions generally discourage direct or hidden subsidies for utilities as for other enterprises, which are expected to run on the basis of commercial viability, which includes a capacity for generating surpluses for expansion. But these objectives are supposed to be achieved by enforcing financial discipline and operational efficiency, the two departments in which WAPDA, like most other public sector organisations, is unfortunately very weak. However, it will be interesting to know the World Bank arguments in this connection and whether it is possible to avoid recourse to repeated increases in power rates. It should be remembered that power is an important cost element in production and the rise in power charges produces a general across-the-board increase in the cost of production of goods, commodities and even services. This was the effect of the last raise of 25 per cent. A second dose of even 10 per cent tariff increase may prove counter-productive in a way. Costlier goods and commodities not only cause hardships to domestic consumers but make them less competitive edge in the international market. It is, therefore, necessary to keep in view the negative effect of such a step at this moment on our exports which are showing a progressive trend.

The World Bank advice may have been conceived in the spirit of helping WAPDA increase its revenues in order to be in a position to meet expenditures on expansion. But, WAPDA will be well advised to find other avenues for raising its income. Public utilities and public sector industrial enterprises tend to hide their inefficiency, wastage and low productivity through various devices of hidden subsidies and frequent resort to price hikes to the detriment of the consumers and the economy. As such, instead of a tariff raise, WAPDA may attempt to increase its income through improvements in revenue collection, capacity utilisation, transmission and distribution. Pilferage, leakage and wastage are common in all these departments. By employing better collection procedures and vigilance, WAPDA claimed to have raised its revenues by a margin of 40 per cent last year (1979-80), according to its own claim. This indicates the scope that exists for improvement in other departments also.

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NEWS MEDIA IN PAKISTAN

The Press

The often embattled Pakistani press is going through a particularly difficult period. With official controls having become the norm under previous governments, the media in Pakistan now find themselves further constrained by a martial law regime. Although the government of General Zia ul-Haq endorsed the principle of a free press after it took over power in 1977, a number of journalists critical of martial-law conditions were subsequently jailed and the Karachi and Lahore editors of the Bhutto family-owned Musawat were banned. Government control of the news agencies and major newspapers under the National Press Trust continues. In February 1978, newspapers were forbidden to publish any news of a political nature, while formal censorship was imposed during the last quarter of that year and reimposed in October 1979. The information portfolio is with the President. The Secretary of the Ministry of Information is a Major-General from the Army.

Pakistani journalists writing in English have gained prominence outside the country. Among them is Altaf Gauhar, former editor of Dawn of Karachi and now editor in London of the Guardian's Third World Review, the Third World Quarterly and the new "South" magazine. Others have been involved in editing English newspapers in the Gulf.

Some 90 newspapers are published in Pakistan, 70 in Urdu and 22 in English. Several leading papers publish simultaneous editions in two or more cities and in two languages. Karachi, Lahore, Hyderabad, Lyallpur, Peshawar, Rawalpindi, Islamabad have at least five papers each. There are about 500 periodicals, the majority appearing monthly.

The newspapers are mainly urban-based and -oriented. The coverage of news is limited by legal government controls and a shortage of newsprint. Most newspapers rely heavily on official advertising for a major part of their revenues. Official figures estimate that there are 1.8 newspapers for every 100 persons in Pakistan.

The leading newspapers in the country include:

Newspaper	Circulation	Published in	Editor
(In English)			
Dawn	90,000	Karachi	Ahmad Ali Khan
Pakistan Times	50,000	Lahore & Rawalpindi	Z.A. Suleri
Business Recorder		Karachi	M.A. Zuberi
Pakistan Economist	12,000	Karachi (weekly)	Ibnul Hasan
Morning News	31,200	Karachi	S.R. Ghawri
Daily News	30,000	Karachi	W. Shamsul Hasan

Newspaper	Circulation	Published in	Editor
(In Urdu)			
Jang	307,600	Karachi, Quetta, Rawalpindi	Mir Khalil-Ur-Rahman
Mashriq	175,000	Karachi, Lahore, Peshawar, Quetta	M.A. Kaleem
Nawa-i-Waqt	150,000	Lahore, Multan, Rawalpindi	Majeed Nizami
Imroze	40,000	Lahore, Multan	Haroon Saad

News Agencies

There are three domestic news agencies: Associated Press of Pakistan, Pakistan Press International, and United Press of Pakistan. The Pakistan Press International has a correspondent stationed in Washington, D.C. A financial correspondent of the Associated Press of Pakistan, M. Aftab, attended the 1980 Annual Meeting. He is the leading financial correspondent in Pakistan. Asociated Press has a correspondent, Chaudbry AliKhan Ali, stationed at the United Nations in New York.

Radio

A government-owned organization, Pakistan Broadcasting Corporation, supplies news, commentaries, government announcements, and entertainment to the radio listener in Pakistan. The corporation was set-up in 1972 as a successor to Radio Pakistan - a government department. The broadcasts are transmitted on medium and short waves and covered 62 percent of the country (88 percent of the population) in 1979. The corporation operates three services: regional, national, and international in various local and foreign languages. In 1978-79, 58 percent of the original programs broadcast were in Urdu, while 42 percent were in regional languages. Additional service is provided by the Azad Kashmir Radio. Over 1.5 million radio licenses were issued in the fiscal year 1978-79. Official figures take into account unlicensed receivers as well to give an estimate of 2.8 receivers for every 100 persons in the country.

Television

Pakistan has had television service since 1964. Pakistan Television Corporation Limited, a government-owned company, with headquarters in Rawalpindi, operates the television service in Pakistan. Television stations serve all the provinces from studios at Lahore, Karachi, Peshawar, Quetta and Rawalpindi.

These stations are linked by microwave into a national network. The transmission is in color. Some 547,000 television sets were reported in 1979, that is almost 0.7 sets for every 100 persons in the country. Most sets are estimated to be in the major urban centers, although the television broadcast signal now covers about 50 percent of the area and 74 percent of the population of Pakistan, through a network of 14 transmitting stations throughout the country.

Most programs are produced locally and about 60 percent of them are in Urdu. Regional stations produce about 20 percent of their programs in local languages - Pushtu, Punjabi, Sindhi and Baluchi. Roughly 20 percent of the programming is in English, mainly in the form of imported entertainment shows from the U.S. and U.K.

KHtun/Fatoyinbo
January 14, 1981