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McNamara Papers

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Airport Arrival Statement

Pakistan

Thru '63	221
64-68	335
69-73	372
74-78	735
79-83	929
79	164
80	165
81	190
82	440

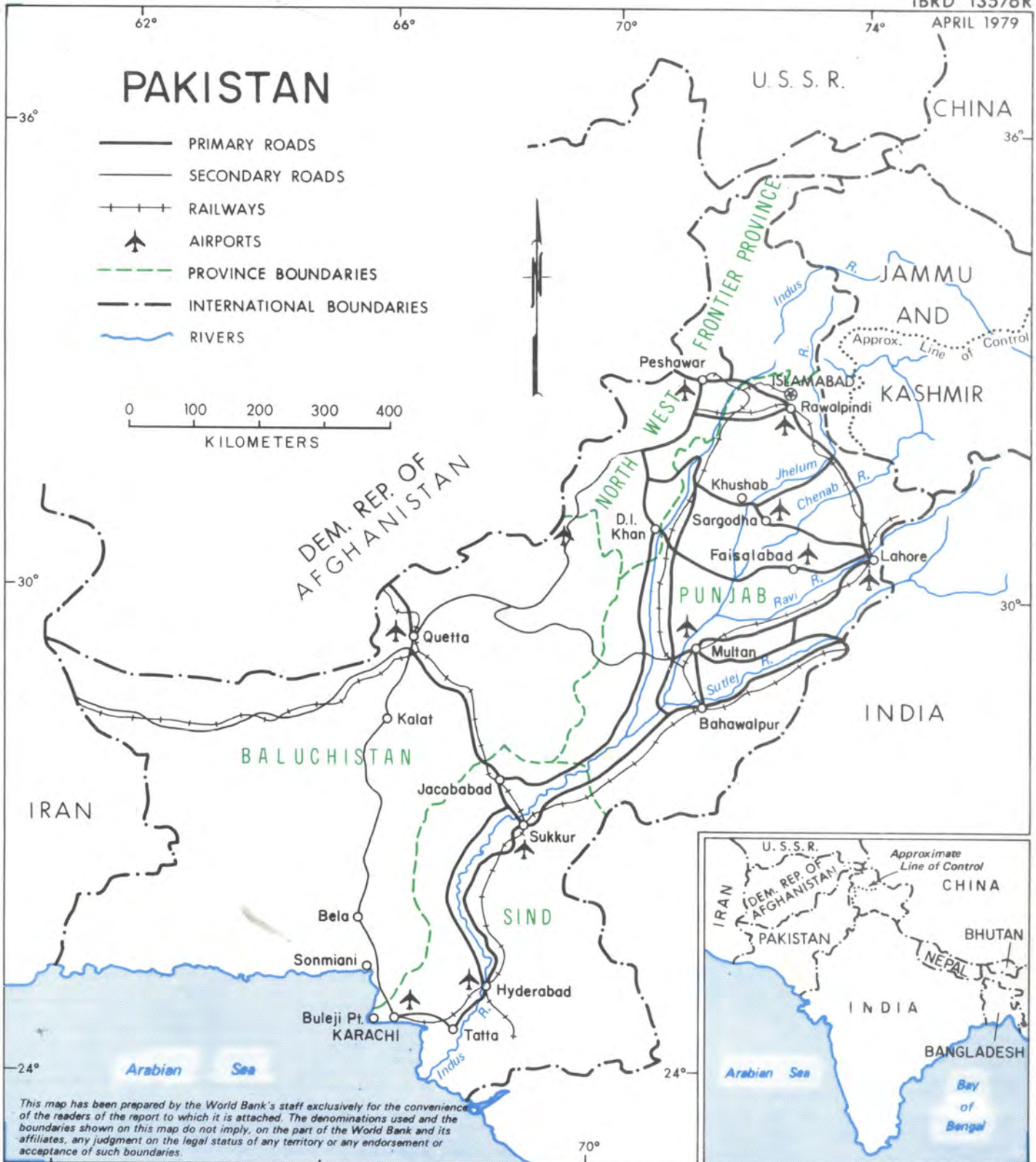
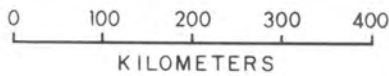
I am very pleased to be back in your lovely country again, and I want to express my warm gratitude to the Government and people of Pakistan for inviting me.

For nearly thirty years now, the World Bank has been associated with your impressive development efforts. Since our first loan to Pakistan in 1952, we have committed a total of nearly \$2,200 million for 84 projects here. Most of the funds have been in the form of credits from the International Development Association (IDA) on highly concessional terms.

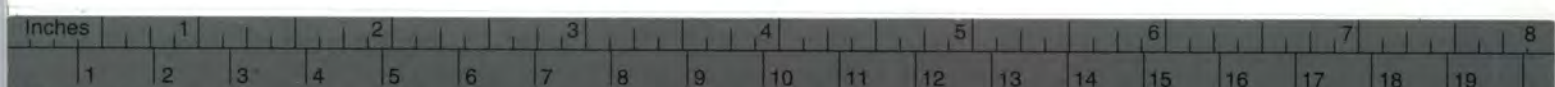
During my stay here, I plan to visit a number of your development projects, and hope to have an opportunity to review the special development problems of Baluchistan. I also intend to meet with President Zia and members of your government, and to hold discussions on our joint efforts to promote Pakistan's economic and social progress. We share your concern for the poor and disadvantaged segments of the population, and assure you of our continuing support of your goal to both advance the nation's economic growth, and to reduce--and ultimately to eliminate--the problems of absolute poverty. I look forward keenly to this visit, and am very happy to be here.

# PAKISTAN

-  PRIMARY ROADS
-  SECONDARY ROADS
-  RAILWAYS
-  AIRPORTS
-  PROVINCE BOUNDARIES
-  INTERNATIONAL BOUNDARIES
-  RIVERS



This map has been prepared by the World Bank's staff exclusively for the convenience of the readers of the report to which it is attached. The denominations used and the boundaries shown on this map do not imply, on the part of the World Bank and its affiliates, any judgment on the legal status of any territory or any endorsement or acceptance of such boundaries.



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*Pakistan*  
DEMOGRAPHIC PROFILE

Population	80.2 (million)
Crude birth rate	41/1000
Crude death rate	12/1000
Population growth rate	2.9%
Number of years to double	23
Infant mortality rate	105/1000
Maternal Mortality	6-8/1000
Population below 15 years of age	44%
Life expectancy at birth	52 years
Per Capita annual GNP	284 \$
Labour force in agriculture	53%
Population in rural areas	69%
Average number of children per couple	6
Literacy rate (5 years and above)	24% literate (Male 36%, Female 12%)
Children 5-9 years in school	56%
Labour force	52%
One doctor*	5655 population
One doctor*	1.00 lakh rural population
One hospital bed*	1692 population
One hospital bed*	2.00 lakh rural population
No. of women in the reproductive ages (15-44)	16.4
Eligible fertile married couples	13.0 million

\* Need verification

*3/19/89*



### DEMOGRAPHIC OBJECTIVES

1. To raise the level of effective knowledge from 33 per cent to 55 per cent of the eligible population by 1983.
2. To achieve a level of effective motivation of 33 per cent, through information and education (no benchmark is available).
3. To raise the level of trial -- i.e., ever use of methods -- from 10.5 per cent at the time of the Pakistan Fertility Survey 1975 and an estimated 12.5 per cent in 1979-80 to 25 per cent by 1983.
4. To raise the level of current practice from an estimated 9.2 per cent in 1979-80 to 19.4 per cent by the end of the short-term Plan period of 1980-83, and also to raise the level of continuous practice from an estimated 6.4 per cent in 1979-80 to 13.9 per cent by the end of Plan.
5. To reduce the CBR from 41 per thousand (July, 1980) to 37.5 per thousand population at the end of the Plan period 1980-83.
6. To prevent 1.2 million births during the Plan period 1980-83 so as to attain the above-mentioned decline in fertility.
7. Consequently, to reduce the rate of population growth from an estimated 2.9 per cent (July, 1980) to 2.7 per cent at the end of the Plan period.

To achieve these objectives, targets of method delivery, acceptors and effective/continuous users during the Plan period 1980-83 are in table (Attached).

TARGET OF CONTRACEPTIVE DELIVERY FOR FIVE PERIOD  
1980-81 TO 1982-83 ALONG WITH BENCH MARK ESTIMATES

S. No.	Contraceptives	1979-80 (Benchmark)	1980-81	1981-82	1982-83	1980-83
1.	IUDs (No. of insertions)	99535	150000	200000	250000	600000
2.	Oral Pill (No. of Monthly Cycles)	1485131*	1500000	1700000	2000000	5200000
3.	Condom (Million Units)	85.2	107.0	140.9	195.9	443.8
4.	Contraceptive surgery (No. of Cases)	24886	35000	50000	60000	145000
5.	Injectable (No. of Vials)	12000	80000	100000	125000	305000
6.	Other Conventionals (Million Applications)	-	-	3.6	4.8	8.4

\*Adjusted for sale only.

TARGET OF ACCEPTORS ( CURRENT USERS )

S. No.	Contraceptive	No. of Acceptors* at the end of each year							
		1979-80 (Benchmark)		1980-81		1981-82		1982-83	
		Number	%	Number	%	Number	%	Number	%
1.	IUD	99535	9.1	150000	10.8	200000	10.8	250000	10.0
2.	Oral Pill	114241	10.4	115385	8.3	130769	7.1	153846	6.1
3.	Condom	852000	77.9	1070000	77.0	1409000	76.1	1959000	78.3
4.	Contraceptive surgery	24886	2.3	35000	2.5	50000	2.7	60000	2.4
5.	Injectable	3000	0.3	20000	1.4	25000	1.4	31250	1.2
6.	Other Conventional	-	-	-	-	36000	1.9	48000	2.0
<b>TOTAL:</b>		<b>1093662</b>	<b>100.0</b>	<b>1390385</b>	<b>100.0</b>	<b>1850769</b>	<b>100.0</b>	<b>2502096</b>	<b>100.0</b>
Acceptors as percent of married couples (15-44 Years)		9.2		11.4		14.7		19.4	

\*One Acceptor = One insertion = one case of contraceptive surgery = 13 cycles of oral pills = 100 condoms = 4 injections = 100 applications of conventional method.

TARGET OF ACCEPTORS (EFFECTIVE/CONTINUOUS USERS)

S. No. Contraceptive	No. of Acceptors* (Effective/Continuous Users) at the end of each year							
	1979-80 (Benchmark)		1980-81		1981-82		1982-83	
	Number	%	Number	%	Number	%	Number	%
1. IUD**	131531	17.4	181920	18.3	250000	18.8	325000	18.1
2. Oral Pill	68545	9.1	69231	7.0	78461	5.9	92308	5.1
3. Condom	485640	64.2	642000	64.4	845400	63.7	1175400	65.3
4. Contraceptive Surgery***	69338	9.2	94977	9.5	129109	9.7	174589	9.7
5. Injectable	1200	0.1	8000	0.8	10000	0.8	12500	0.7
6. Other conventionals	-	-	-	-	14400	1.1	19200	1.1
<b>TOTAL:</b>	<b>756254</b>	<b>100.0</b>	<b>996128</b>	<b>100.0</b>	<b>1327370</b>	<b>100.0</b>	<b>1798997</b>	<b>100.0</b>
Continuous users/acceptors as percent of married couples (15-44)		6.4		8.1		10.6		13.9
No. of births to be averted are based on proportion of married women to the total No. of live births. Each birth is averted by giving protection averted by giving protection from pregnancy to 2.86 women (roughly 3 women)	216289		[ 284892 (0.285 million)		379628 (0.379 million)		514513 (0.515 million)	= 1.2 million
Estimated crude birth rate	41.0		40.0		39.0		37.5	
Estimated crude death rate	12.0		11.6		11.0		10.5	
Estimated rate of growth	29.0 (2.9%)		28.7 (2.87%)		28.0 (2.8%)		27.0 (2.7%)	

\*The use of effectiveness of various methods of contraceptives as indicated below is used as a conversion factor for estimation of effective/continuous use from acceptors/current users.

Contraceptive Surgery = 1 Fifth Plan 1977-83.  
 IUD = 0.8 Planning Commission  
 Oral Pill/Condom = 0.6 Govt. of Pakistan, May, 1977  
 Injectable = 0.45  
 Other conventionals = 0.40

\*\*This includes new + old insertions duly attrited.

\*\*\*This includes new + old cases duly attrited.

POPULATION PROJECTIONS FOR PAKISTAN FOR PERIOD 1980-1982  
(WITH DECLINING FERTILITY & MORTALITY)

YEAR (1ST JULY)	CBR ---	CDR ---	G-RATE (%)	GAINS -----	POPULATION (000)
1980	41.0	12.0	2.90	---	80200
1981	40.3	11.6	2.87	2302	82502
1982	39.0	11.0	2.80	2310	84812
1983	37.5	10.5	2.70	2290	87102
1984	36.3	10.3	2.60	2265	89367
1985	35.2	10.2	2.50	2234	91601
1986	34.7	10.1	2.46	2253	93854
1987	34.2	10.0	2.42	2271	96125
1988	33.7	9.9	2.38	2288	98413
1989	33.2	9.8	2.34	2303	100716
1990	32.7	9.7	2.30	2316	103032
1991	32.2	9.6	2.26	2329	105361
1992	31.7	9.5	2.22	2339	107700
1993	31.2	9.4	2.18	2348	110048
1994	30.7	9.3	2.14	2355	112403
1995	30.2	9.2	2.10	2360	114763
1996	29.7	9.1	2.06	2364	117127
1997	29.2	9.0	2.02	2366	119493
1998	28.7	8.9	1.98	2366	121859
1999	28.2	8.8	1.94	2364	124223
2000	27.7	8.7	1.90	2360	126583

POPULATION DIVISION

FINANCIAL PHASING OF THE POPULATION WELFARE  
PLANNING PROGRAMME, 1981 - 84 (3 YEARS)  
MEDIUM TERM PLAN

(Million Rupees)

Name of the Projects	Resource Position				Percent of total estimated expenditure
	GOP	UNFPA Expected	Non-Funded (gap)	Total	
1	2	3	4	5	6
<b>1. Organization/ Administration</b>					
<b>(a) Administrative overheads:--</b>					
(i) Population Division	35.168	-	-	35.168	3.76
(ii) Provincial Hqrs.	21.411	-	-	21.411	2.29
6.05%					
<b>(b) Programme Oriented</b>					
(i) Attached Offices (Providing common service e.g. Training* Research Logistics, etc)	42.455	-	-	42.455	4.54
(ii) Field Offices (District-operation)	103.240	-	-	103.240	11.04
15.58%					
<b>2. Core Programme</b>					
(a) Family Health Manpower	*	32.750	-	32.750	3.50
(b) Reproductive Health Services	9.942	39.000	-	48.942	5.24
(c) Family Welfare Centre	112.035	101.000	-	213.035	22.78
31.52%					
<b>3. Complementary Projects</b>					
(a) Provincial multi-sectoral	15.934	-	-	15.934	1.71
(b) Women & Population Development	2.398	-	50.361	52.759	5.64

\* Rupees 18.943 million from GOP resources included in Rs. 42.455 shown under 1(b)(i).

1	2	3	4	5	6	
(c) University Population/Demography	6.878	-	2.463	9.341	1.00	
(d) National Population Education	10.380	9.000	10.490	29.870	3.19	
(e) NGOs and Population Development	4.828	2.300	-	7.128	0.76	
(f) Infrastructure Institutions and Population Welfare	0.539	6.197	-	6.736	0.72	
(g) Communication Strategy Population Development	19.887	14.000	32.390	66.277	7.09	22.23%
(h) Social Marketing	-	-	15.078	15.078	1.61	
(i) Target Group Institutions & Population Welfare Development	1.692	0.600	-	2.292	0.25	
(j) Azad Jammu & Kashmir and Northern Areas Population Welfare Project	2.466	-	-	2.466	0.26	
<b>4. Support Activities</b>						
(a) Evaluation	3.000	9.000	15.486	27.486	2.94	
(b) Population Development Centre	6.000	-	9.000	15.000	1.61	
(c) Research	3.000	-	13.178	16.178	1.73	
(d) Training	2.132	-	-	2.132	0.23	24.62%
(e) Logistic & Supplies	12.698	10.070	146.588	169.356	18.11	
	<u>416.083</u>	<u>223.917</u>	<u>295.034</u>	<u>935.034</u>	<u>100.00</u>	100%

D

March 9, 1981

FEDERAL CABINET

Ministers

Foreign Affairs	Agha Shahi
Defense	Ali Ahmad Talpur
Culture, Sports and Tourism	Arbab Niaz Mohammad
Industries	Ellahi Bux Soomro
Local Government and Rural Development	Fakhar Imam
Labour, Manpower and Overseas Pakistanis	Ghulam Dastagir Khan
Finance and Economic Affairs	Ghulam Ishaq Khan
Housing and Works	Air Marshal Inamul Haque Khan
Kashmir Affairs and Northern Affairs	Major General (Retd.) Jamal Dar
Interior	Mahmoud A. Haroon
Minister without Portfolio	Alhaj Mohammad Abbas Khan Abbasi
Education	Mohammad Ali Khan of Hoti
Food, Agriculture and Cooperatives	Vice-Admiral Mohammad Fazil Janjua
Communications	Mohyuddin Baluch
Health and Social Welfare	Dr. Nasir Ud Din Jomezai
Water and Power	Raja Sikandar Zaman
Petroleum and Natural Resources	Major General (Retd.) Rao Farman Ali Khan
Production Division and National Logistic Cell	Lt. General Saeed Qadir
Law and Parliamentary Affairs	S. Sharifuddin Pirzada
Information and Broadcasting	Zafar-ul-Haq



Ministers of State

Social Welfare

Begum Afifa Mamdot

Chairman, National Council of Social Welfare

Mahmud Ali

Food, Agriculture and Cooperatives

Zafarullah Khan Jamali

Advisers with the Rank of Federal Minister

Minorities Affairs

Raja Tridiv Roy

Foreign Trade and Chairman, Export Promotion  
Bureau

Hamid D. Habib

Overseas Pakistanis

Muazzam Ali

Shipping

Mustafa K. Gokal

Business Coordination and Internal Trade

Sheikh Ishrat Ali

Advisers with the Rank of Minister of State

Population Planning

Dr. (Mrs.) Attiya Inayatullah

Health

Dr. Basharat Jazbi

Science and Technology

Dr. M.A. Kazi

Higher Education

Dr. Mohammad Afzal

Tibb

Hakim Mohammad Said

Chairman, Pakistan Tourism Development  
Corporation

Begum Viqarun Nisa Noon

BIOGRAPHICAL DATA

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General Mohammad Zia-ul-Haq, President of Pakistan.

He was born in 1924 in East Punjab to a middle class family. He had his higher education in St. Stephens College, Delhi and was commissioned in May 1945. He saw World War II action in Burma, Malaya and Java and also in 1965 and 1971 against India. In 1955, he graduated from the Army Staff College, Quetta where he became an instructor with the rank of Lieutenant Colonel in 1964. In 1959 and 1963, President Zia attended, respectively, the Officers Advanced Course in the U.S. and the U.S. Command and General Staff College at Fort Leavenworth. From 1966 to 1968 he commanded a Cavalry Regiment. In May 1968 he was promoted to Colonel and posted to an Armoured Division. In 1969-71, when he held the rank of Brigadier, General Zia was given the command of an Armoured Brigade and later served as an advisor to the Royal Jordanian Army. In 1977 he was promoted to Major General. Two years later he was promoted to Lieutenant General in command of an Army Corps. In 1976 he was promoted to General and appointed Chief of the Army staff.

When the Armed Forces took over the Government in July 1977, President Zia became Chief Martial Law Administrator and in September 1978 President of Pakistan.

A GOP Press Release on President Zia states that he firmly believes Pakistan was conceived in the name of Islam and can survive only as an Islamic Republic. Referring to the far-reaching measures initiated by him in this direction, he has laid stress on (a) reshaping of education policy to mold a new generation steeped in Islamic ideology; (b) the Islamization of the legal system; and (c) the introduction of Zakat and Ushr (taxes) consistent with an Islamic welfare system.

The Press Release referred to above states further that President Zia stands for cohesion of the Muslim world to face contemporary challenges and sees Pakistan as playing a role in cementing this unity. He also sees today's Muslim world as a third force in the global confrontation between Communism and Capitalism.

The Press Release describes President Zia as remarkably persistent, a good listener, hard-working and optimistic in outlook. He is the father of two sons and three daughters.

Mr. Ghulam Ishaq Khan, Minister of Finance, Economic Affairs, Planning, Commerce and Coordination.

He is 66 years old. He studied Chemistry and Botany at Punjab University and graduated about 1939 with a B.Sc. degree. In 1940, he entered the Civil Service and started work in NWFP. From 1947 through 1977, he was, successively, Secretary to the Chief Minister, NWFP; Development Secretary; Chairman of the Water and Power Development Authority (WAPDA); Secretary, Ministry of Finance; Secretary, Cabinet Division in the President's Secretariat; and the Governor of the State Bank of Pakistan and Secretary General, Ministry of Defense.

In July 1977, when the military took control of the country, Mr. Ghulam Ishaq Khan was appointed Secretary General in Chief responsible for coordination between the Federal Departments, later including coordination of all interprovincial matters and planning. On July 5, 1978, Mr. Ghulam Ishaq Khan was appointed Minister in charge of Finance, Planning and Provincial Coordination. In the present Cabinet he holds the portfolios of Finance, Commerce and Coordination and serves as Deputy Chairman, Planning Commission. He is known as a forthright, honest and efficient administrator, who enjoys the confidence and respect of the country's President. He is conservative in his economic policies and favors limiting government expenditures.

Vice Admiral Mohammad Fazil Janjua, Minister for Food, Agriculture and Cooperatives.

He has held this position since April 1979, in addition to his duties as Director-General, Logistics in the Joint Staff Headquarters. Born in 1928, Vice Admiral Janjua received his education in Punjab University, Lahore, and joined the Pakistan Navy in 1947. He was commissioned as a Sub-Lieutenant in 1950. He graduated from the Joint Services Staff College of the United Kingdom in 1963. He has held a number of appointments in the Pakistan Navy and the Ministry of Defense. His areas of interest is Management of Human and Material Resources. Vice Admiral Janjua is married and has four children.

Mr. A.G.N. Kazi, Governor, State Bank of Pakistan.

He is 61 years old, and has a M.Sc. degree in Applied Mathematics. Since Independence, Mr. Kazi has served in many capacities, including Finance Secretary, Sind, and Finance Secretary, former West Pakistan. He was Economic Minister at the Embassy of Pakistan to the United States from 1962 to 1965. Subsequently, he served the former West Pakistan Government as Additional Chief Secretary, Planning and Development, and was later appointed Chairman of WAPDA. He joined the Central Secretariat on June 6, 1969, as Secretary, Ministry of Industries and Natural Resources and became Secretary, Ministry of Finance in September 1970. From August 1973 to July 5, 1978, Mr. Kazi held the position of Secretary General, Finance and Economic Coordination.

Mr. Kazi is Alternate Governor of the Fund for Pakistan.

Mr. Abdul Majid Mufti, Secretary, Ministry of Production.

He was born in Peshawar, NWFP, in 1924. He received his B.A. from the Punjab University, his M.A. in Political Science at Lucknow and his LLB, also at Lucknow University. He has also attended courses in Public Administration in Australia and in Development Administration at the University of Southern California. During the last 10 years he has served as District Commissioner, Quetta (1970); Joint Secretary, President's Secretariat (1971); Joint Secretary, Commerce (1972); Chairman, Central Administered Areas Development (1972); Economic Minister, Embassy of Pakistan in Washington, D.C. (1972-77); Secretary, Water and Power (1977-78); Secretary, Ministry of Production (1978 to date).

Mr. Mufti participated in many negotiations for IDA Credits to Pakistan.

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Dr. Amir Muhammed, Chairman, Pakistan Agricultural Research Council and Secretary, Agricultural Research Division, Ministry of Agriculture.

Dr. Amir Muhammed was born in 1930. He attended the Government College in Lahore, where he obtained his B.Sc. and M.Sc. In 1959 he received his Ph.D. from the Department of Biochemistry, Oxford University. He has attended post-graduate courses in Microbiology (Oxford); Molecular Genetics (University of Tennessee at Oak Ridge); Genetic Toxicology (Galveston). He has been involved in research work during the last 20 years. He has attended many CIMMYT and FAO meetings and more than 20 scientific gatherings. He is a member of several learned and research societies. He has been invited to lecture in USA, F.R. of Germany, Australia and the Netherlands. He has published extensively in international journals. He is a Member of the International Committee on Science and Technology in Developing Countries and a Member of the Board of Trustees and Program Committee, International Centre for Agricultural Research in the Dry Areas and International Potato Centre.

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Mr. A. Sami Qureshi, Secretary, Ministry of Food and Agriculture.

Mr. Sami Qureshi was born in 1930 in Simla. He has an M.A. in Economics and studied in the Civil Service Academy in Lahore. He joined the Government service in 1954. In the last 10 years he has served as Joint Secretary, Ministry of Food and Agriculture (1971); Commissioner, Khairpur Division (1972); Revenue Commissioner for Sind (1973); Additional Chief Secretary, Food Department, Government of Sind (1973-76); Additional Chief Secretary, Housing and Local Government, Government of Sind (1976); Chairman and Managing Director, Karachi Electric Supply Corporation (1977); Member, Board of Revenue, Government of Sind (1977-78) and finally, Secretary, Ministry of Food and Agriculture, Government of Pakistan, since July 1978.

Mr. Ejaz Ahmad Naik, Secretary, Planning and Economic Affairs Division.

Mr. Naik was born in 1924. He received his M.A. from the Punjab University. He attended a course in Public Finance at the IDI in 1958.

Member of the Civil Service of Pakistan. He has served as Political Agent in Baluchistan (1952-55); Deputy Secretary to Cabinet (1955-59); Joint Secretary, Ministry of Finance (1959-62); Secretary to the President of Pakistan (1962-63); Joint Secretary Commerce (1963-65); Economic Minister, Embassy in U.K. (1965-69); Additional Secretary, Planning Commission (1969-70); Chief Secretary, Provincial Government of NWFP (1970-73); Secretary Commerce (1973-77); Cabinet Secretary (1977-78); Secretary, Ministry of States and Frontier Regions (1978-79); Secretary Planning since 1979 and Secretary Planning and Economic Affairs since September 1979. He has represented Pakistan at several international conferences (U.N., UNCTAD, GATT).

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Mr. H.U. Beg, Secretary, Ministry of Finance.

Mr. Beg was born in June 1921. He has a B.A. He attended the International Program in Taxation in the Harvard Law School (1956-57) and a Training Course financed by the World Bank from August 1966 to March 1967 (London and New York Stock Exchanges, Harvard Business School).

He has served in different positions in the Ministry of Finance and has been Secretary in the Ministries of Power and Railways. He was Chairman of the State Life Insurance Corporation from 1972 to 1974; Chairman of the Agricultural Development Bank of Pakistan during 1978; Member of the Planning Commission and Secretary, Planning and Development from October 1978 to August 1979. Since that date he has served as Secretary, Ministry of Finance.

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Mrs. Attiya Inayatullah, Adviser to the President on Population Planning.

Dr. Inayatullah graduated from Kinnaird College for Women, Lahore, in 1954. She obtained her M.A. in Sociology and Anthropology from Boston University in 1960, and her Ph.D. from Punjab University in 1968. She has had wide teaching experience and has been involved in population planning and social development for the last 15 years. Dr. Inayatullah has presented several papers on family planning to international organizations and in 1974 was awarded the World Population Year Ceres Gold Medal, given by the U.N. (FAO) to distinguished contemporary women in recognition of their service to mankind.

Mr. Mohammad Ali Khan of Hoti (Mardan) - Minister for Education,

Mr. Mohammad Ali Khan was educated at the Doon Public School Dera Doon (India) and graduated from Government College, Lahore. He joined the Muslim League Movement and became General Secretary of the Provincial Muslim League in 1945. He was the youngest member of the All India Muslim League Council. From 1950 to 1960 he devoted his time to social work. During that period, he organized the Anjuman Islamia at Mardan and improved the condition of the Islamia Middle School which was raised to the standard of a High School. He built a T.B. Clinic at Kalu Khan Tehsil Swabi and became Secretary of the then Red Cross Society, Mardan. He served in two Cabinets in the Former West Pakistan. In one Cabinet he was Minister for Health while in the second one he was Minister for Education. He has attended several UNESCO conferences as Leader of the Pakistan Delegation.

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Air Marshal Inamul Haque Khan, Minister for Housing and Works, Water and Power.

He was born in Patiala (India) in 1927. He studied at Aligarh (Muslim University) from 1941 to 1946 and graduated with a M.Sc. (Physics). He joined the Pakistan Air Force in 1947 and has attended many courses in the UK, USA and West Germany. He met Mr. McNamara at Peshawar in 1969.

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Major General (R) Fazli Raziq, Chairman of WAPDA (Water and Power Development Authority of Pakistan).

Gen. Raziq was born in Mardan, NWFP, in 1927. He was educated at the Prince of Wales Royal Indian Military College, Dehra Dunn. He graduated from the Command and Staff College, Quetta (where he taught for four years) and from the School of Military Engineering (Roorke). Although he was an Engineer he was Commander of an Infantry Brigade and of an Infantry Division. He was Director General, Frontier Works Organization, responsible for planning and designing the Karakoram Highway. He has been Chairman of WAPDA for the last four years, an organization that employs over 100,000 people, which is responsible for large power and irrigation projects, several of them Bank financed.

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Dr. M. Afzal, Adviser to the President on Higher Education (Chairman University Grants Commission).

Dr. Afzal was born in 1919. He has a Ph.D. in Business and Public Administration from Cornell University. He was professor and Head of the Department of Administrative Sciences, University of Punjab, from 1962 to 1972 and Director, Division of Techno-Economics, Institute of Scientific Research, Kuwait, from 1973 to 1979. His fields of specialization are Organizational Management and Educational Administration.

Lt. Gen. C. K. Hasan (Dr.), Secretary, Ministry of Health, Social Welfare.

He was born in 1919 in Multan. He is MBBS, DPH, FCPS. In the last ten years he has held the following positions: Director General, Health, Ministry of Health, Government of Pakistan (1967-70); D.D.M.S., G.H.Q. (1970-74); Commandant, Armed Forces Medical College (1974-75); Surgeon-General, Army/D.G.M.S., G.H.Q. (1975-78); and Secretary, Ministry of Health, Social Welfare (since January 1978).

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Mr. Abdul Jamil Nishtar, Chairman, Agricultural Development Bank of Pakistan (ADBP).

He was born in 1930 in Peshawar, NWFP. He has an M.A. in Economics from the University of Cambridge and attended the Harvard International Seminar in 1966. He has a wide banking experience with Lloyds Bank, First National City Bank of New York, State Bank of Pakistan and National Bank of Pakistan. He has served as Director of Pakistan Industrial Credit and Investment Corporation, Pakistan International Airlines, and National Investment Trust. He was Chairman of the National Development Finance Corporation and Member, Board of Governors of the International Development Research Centre of Canada.

E



## TOPICS FOR DISCUSSION

### Meetings with President Zia and Finance Minister

#### Efficiency of Resource Use

1. During the last several years the Bank has been critical of GOP's performance in the allocation and use of resources. The Government has recently been endeavoring to address this problem, inter alia by assigning a more active role to the private sector in key developmental sectors (e.g., agriculture, industry, energy); by reallocating resources between and within sectors; and by cutting back on capital-intensive, long-gestation projects, especially in transportation and the industrial and water sectors. Commitments to major ongoing projects (e.g., Karachi Steel Mill, Port Qasim, cement and fertilizer plants), however, have limited GOP's flexibility in restructuring the investment program and pre-empted much of available resources.
2. Under the EFF program agreed with the IMF, GOP is required to prepare by March 31, 1981, a three-year public investment program for FY82-84 which will include all development expenditures to be undertaken by the public sector. Bank staff are assisting and advising GOP in the preparation of this program, which should be consistent with the macro-economic framework of the EFF and reflect agreed priorities in the agricultural, water, energy and social sectors. This exercise presents GOP with an opportunity to restructure the pattern of inter-sectoral allocations; allocate adequate resources to projects and programs which are designed to remove fundamental constraints to productivity in key sectors and bring about quick increases in production; and improve the performance in the social sectors.
3. We believe that GOP should program development expenditure on a "rolling" three-year basis, rather than endeavor to prepare a new Five-Year Plan which, given resource uncertainties, would not be a meaningful operational tool (see pages 67-69, draft 1981 Bank Economic Report, Tab G).

#### Resource Mobilization

4. Over the past decade both public and private savings in Pakistan have been low. To improve the budget and the balance of payments, a fundamental improvement is required in the savings rate, which at around 12% of GNP compares unfavorably with levels achieved in some comparable countries. Recently GOP has announced several major pricing decisions aimed at reducing subsidies. It has also imposed more severe restraints on its own spending and has undertaken to improve standards of self-financing of public enterprises through timely adjustment of prices and tariffs. This increased financial discipline will need to be strictly enforced.

5. GOP has made little use of interest rates as an instrument to mobilize savings in recent years. The Government has placed more importance on the proposed Islamization of the financial system based on an interest-free, profit-sharing banking structure. Such interest-free banking operations have already been introduced at several financial institutions, and commercial banks have recently opened counters for interest-free banking in parallel with conventional banking operations. While GOP has emphasized its pragmatic approach to Islamization, there is a danger that these policies will have an undesirable impact on savings performance. Strong measures to improve both public and private savings will be required to raise savings to the IMF-agreed target of 14% of GNP by 1983. See inter alia Annex on Islamization, pages 106-109, draft 1981 Economic Report.

#### Agricultural Sector Issues

6. The main focus of GOP's past policies in the agricultural sector was on the provision of ample supplies of inputs necessary for the adoption of modern farming practices at prices which encourage their widespread use, even though this entailed a significant subsidy cost to the budget. More recently, GOP has adopted and begun to implement a revised strategy in line with the recommendations of the UNDP Indus Basin Study and placing emphasis on agricultural research; extension services; quality seed production; increased credit; rehabilitation of the irrigation system; improved water management, particularly at the farm level; and necessary drainage to complement the existing surface distribution and tubewell system. In addition, GOP intends to transfer increasing responsibility to the private sector for various operations now entrusted to the public sector. For example, groundwater exploration is to be left increasingly to the private sector, supported by appropriate supervised credit schemes and the expansion of rural electrification.

7. The implementation of the revised strategy - which was outlined in the Finance Minister's letter to the Bank in connection with the recent Fertilizer Imports Credit (Tab F.4(b)) - is in its early stages. A major effort is necessary to increase the pace of implementation. GOP should demonstrate its commitment to major improvements in maintenance of the irrigation system by increasing budgetary outlays and by a phased increase in water charges. These measures should be complemented by appropriate price adjustments designed to provide adequate incentives for increasing production. In order to ensure proper coordination in making pricing decisions, the proposed new Agricultural Prices Commission needs to be established as an effective institution as quickly as possible.

#### Industrial Sector Issues

8. Recent GOP policy in the industrial sector has been to provide more scope and incentives to private entrepreneurs, while improving the performance of the public sector. Private confidence, though restrained by regional political developments, has improved and there has been a perceptible improvement in private investment interest, especially in the small-scale sector and for balancing, modernization and replacement (BMR). An upturn in medium to large-scale private industrial investment is also now evident.

9. Several factors, however, inhibit a more rapid increase in medium to large-scale private manufacturing investment. First, many project sponsors are handicapped by difficulties in obtaining basic services and infrastructure (e.g., land, water, electricity, gas supplies). Second, investors in larger projects like cement, chemicals, fertilizers, etc., are often unable to secure sufficient financing. Commercial banks are constrained by prevailing credit ceilings and DFCs have insufficient foreign exchange to meet demands. Third, private investors remain cautious in the absence of a clear GOP policy towards labor. Fourth, there are a number of bottlenecks to maximizing production and capacity utilization, including shortages of skilled labor due to migration to the Middle East. A longer-term requirement is the introduction of an appropriate framework of incentives designed to rationalize the industrial structure consistent with Pakistan's comparative advantage. A study of industrial incentives is to be carried out by GOP with Bank assistance to provide the basis for making such adjustments. The Government's present cost-plus pricing policy also needs to be reviewed (see pages 56-62, draft 1981 Economic Report).

10. In the public industrial sector, GOP has begun to take steps to improve financial performance, management and capacity utilization; close chronically unprofitable units; and encourage greater private participation in selected industries. These efforts need to be sustained and intensified (pages 62-65, draft 1981 Economic Report).

#### Energy Sector Development


11. Although Pakistan has a number of options for reducing its dependence on imported oil, progress in exploiting this potential has so far been slow. Several issues require urgent attention:

12. First, GOP needs to establish an effective national energy planning capability. Bank staff have recently identified the nature and scope of a three-year program of technical assistance to strengthen the energy planning capability of the Directorate General of Energy Resources (DGER) in the Ministry of Petroleum and Natural Resources. A GOP request to the Bank to assist in energy planning is awaited.

13. Second, there remains a need to develop a long-term pricing policy which would provide adequate incentives for producers to develop existing hydrocarbon resources, reflects more precisely the economic costs of bringing energy products to the consumer and establishes inter-fuel price relationships more closely on the basis of the opportunity costs of competing fuels. Well-head prices for "old" oil and both "new" and "old" gas are set by reference to expected average production costs plus a return on capital, usually 15%. This evidently does not constitute an adequate incentive for either exploration or development. Drilling conditions in Pakistan are difficult and higher alternative returns are available to capital both elsewhere in Pakistan and in other countries. The more rapid development of existing oil and gas fields (e.g., Meyal and Mari) would bring substantial benefits to the balance of payments.

14. Third, sector management needs strengthening. GOP does not have a Minister and only an Acting Secretary for Petroleum and Natural Resources. The Ministry lacks qualified technical staff and depends heavily on the Oil and Gas Development Corporation (OGDC). This puts additional pressures on OGDC which itself is suffering from staff shortages, in large part because of inadequate salary levels.

15. Fourth, GOP is facing the problem of how to use its limited public funds most effectively in developing petroleum resources and how to attract additional external private resources for such investment. We have suggested that GOP might consider the option of widening the use of joint venture agreements between OGDC and private oil companies to cover the development of potentially large petroleum resources such as the Pirkoh and Dhodak fields which have so far been entrusted exclusively to the public sector.

16. These various issues have been drawn to the Government's attention on various occasions, most recently in a letter to the Finance Minister (see Tab F.4(e)). The Government, however, does not yet appear to be sufficiently conscious of the cost to the economy of neglecting these matters. 

#### Structural Adjustment Lending

17. A number of structural problems in the Pakistan economy have been identified and have been discussed with the Government on a number of recent occasions. The principal areas on which GOP appears to need to focus (and which are touched upon in the foregoing paragraphs) are as follows:

- (i) the formulation and adoption of a revised medium-term public investment program for FY82-84 (see paragraph 2 above);
- (ii) the effective implementation of the Government's revised strategy in the agricultural and water sectors (paragraph 6);
- (iii) the adoption of programs to improve efficiency in the public industrial sector and to reinforce the recovery in the private sector (paragraphs 8 - 10); and
- (iv) the major institutional, planning and pricing policy improvements in the energy sector, focusing on energy planning, pricing, sector management and investment strategy (paragraphs 11 - 15).

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See paragraphs 71 - 80 of CPP at Tab F.1; and Part II of draft 1981 Economic Report. The Government is aware that the resumption of Bank lending to Pakistan is dependent on agreement on an SAL operation.

Population Planning

18. Pakistan's population is growing at a rate of about 3% per annum. GOP, showing increased awareness of the seriousness of this situation, has recently adopted a new comprehensive Population Welfare Program for 1980-83 based on a multisectoral approach and community involvement. The program recognizes the key role of education and motivation activities and of special programs for women in modifying attitudes towards family size. The President has issued a directive to all GOP agencies according high priority to the program and directing them to provide all possible assistance and cooperation to it.

19. GOP has indicated its interest in having the Bank assist in coordinating external assistance to Pakistan for the new program and in financing a population project. We have already fielded two missions to review the program and initiate necessary preparatory activities. We shall be following up this matter closely (see Tab F.4(f) as well as Part III of draft 1981 Economic Report).

Topics for Discussion - Other Meetings <sup>1/</sup>

Islamabad

1. Meeting with Ministers for Agriculture and Water and Power Tab F.4(b) & (c)
  - (i) General Agriculture and Sector Policy
  - (ii) Agricultural Research and Extension
  - (iii) Agriculture Credit
  
2. Meeting on Energy with Ministers for Water and Power; Secretary, Petroleum and Natural Resources and Chairmen WAPDA, OGDC & PAEC Tab F.4(e)
  - (i) Energy Sector: Issues and Options Report  
Summary of Issues  
Energy pricing policy
  
  - (ii) Power Sub-Sector
  
3. Meeting on Industry with Minister for Industries, Secretaries of Production and Industries Tab F.4(a)
  - (i) DFCs and public/private sector
  - (ii) Fertilizer Sub-Sector
  - (iii) Other major industries
  
4. Meeting on Social Sectors (Education, Population and Health) with Minister of Education, Chairman UGC and Advisor on Population Tab F.4(e) & (f)
  - (i) Population Planning
  - (ii) Health
  - (iii) Education
  - (iv) Nutrition

Quetta

5. Meetings with Governor and Provincial Government Officials, and Field Visits Tab I (1)
  - (i) Baluchistan Development Plan
  - (ii) Bank Staff Observations on Plan
  - (iii) Field Visit Notes (to be furnished in Islamabad by Resident Mission)
  - (iv) Components of Bank projects in Baluchistan

Peshawar (contingency plan)

6. Tab I (2)
  - (i) NWFP Economy and GOP plans (to be furnished in Islamabad by Resident Mission)
  - (ii) Components of Bank projects in NWFP
  - (iii) Field Visit Notes (to be furnished in Islamabad by Resident Mission)

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<sup>1/</sup> See also Topics for Discussion with President Zia and Finance Minister for information on key sector and other issues.

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## Country Program Paper

PAKISTAN

October 29, 1980

South Asia Regional Office

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REVIEW DRAFT

October 29, 1980

COUNTRY PROGRAM PAPER

PAKISTAN

		IBRD/IDA Lending Program/ <sup>b</sup> (\$ Million)			
		<u>FY76-80</u>	<u>FY81-85</u>	<u>FY82-86</u>	
1979 Population:	79.8 million/ <sup>a</sup>				
1979 Per capita GNP:	\$270/ <sup>a</sup>				
		IBRD(TW)	120	220	370
		IDA	652.8	1,515	1,725
		Total	772.8	1,735	2,095
Current population growth rate:	3.1% p.a.				
		No. of Loans/Credits	25	37	40
		No. of Loans/Credits per million pop.	0.31	0.46	0.50
Current Exchange Rate:	Rs9.90 = US\$1.00				
<u>Average Lending Per Capita Per Annum: Current \$ (Const. FY80 Commitment \$)</u>					
		IBRD/IDA	1.94(2.31)	4.34(3.53)	5.25(4.04)
		IDA	1.64(1.91)	3.79(3.08)	4.32(3.33)

- <sup>a</sup> Population figure from Economic Analysis and Projections; GNP per capita from "Per Capita Income Guidelines for Operational Purposes," IDA/SecM80-250/1, July 31, 1980.
- <sup>b</sup> The FY81-85 IBRD/IDA lending program proposed in this CPP compares with the program for the same period (IDA only) approved at the last Bankwide lending program review of April 1980 as follows:

	FY81-85 Lending Program		Percentage Change Proposed/Approved
	Approved	Proposed	
No. of loans and credits	33	37	12.1
Current \$ million	1,150	1,735	50.9
Constant FY80 Commitment \$	943.5	1,409.5	49.4
Per capita per annum (Constant FY80 Commitment \$)	2.36	3.53	49.5

## I. BACKGROUND

### A. Introduction

1. The last CPP for Pakistan was dated May 3, 1979, and was reviewed on May 18, 1979. The most recent Economic Report (Pakistan: Economic Developments and Prospects) dated April 15, 1980, was distributed on April 21, 1980. The last CPP review meeting endorsed the Region's view at that time that, although Pakistan's economic performance had improved in some respects, it had overall remained unsatisfactory, that there continued to be considerable uncertainty about the future, and that the low lending levels then proposed by the Region were warranted.

2. This CPP seeks to highlight a number of recent policy changes and other developments which, in the Region's judgment, constitute a case for now taking a more favorable view of Pakistan's performance and for planning to expand the lending program significantly over the 1982-86 period. The paper has been finalized shortly after the successful conclusion of negotiations between the Government and the IMF on an EFF agreement. The successful conclusion of these negotiations represents a further important step in the economic reform process in Pakistan and, we believe, strengthens the justification for the enlarged lending program proposed in the paper.

### B. Recent Major Political Events

3. Since the last CPP on Pakistan, the political situation in the country has evolved around President Zia's decision, announced on October 16, 1979, to cancel the national elections scheduled for November 1979, and around the developments taking place in the neighboring countries of Iran and Afghanistan.

4. Despite a government propaganda campaign against it, the Pakistan People's Party (PPP) of former Prime Minister Bhutto, under the leadership of his widow Begum Nusrat and daughter Benazir, continued to receive considerable popular support, especially in the rural areas. At the local elections in September 1979, held by Zia against the opposition of most parties, candidates associated with the PPP seem to have been favored by a large majority of the voters, although the elections were officially on a non-party basis and the candidates did not formally represent political parties. The results of these local elections moved Zia to cancel indefinitely the national elections. In his October 16 speech, General Zia declared that national elections would take place after his Government had achieved an improvement in the law and order situation; an improvement in the national economy; and the elimination of corruption within the framework of Islamic principles. The cancellation of the elections was accompanied by the imposition of "real Martial Law," which included harsh punitive measures against political, criminal and "economic" offenders. Among the latter, those accused of hoarding and profiteering received corporal punishment. All political parties were banned, strikes and lockouts were declared illegal and a strict censorship was imposed upon the press.

5. The tensions between Iran and the US provoked an ambivalent reaction in Islamabad. Although Pakistan condemned the holding of hostages, it maintained a sympathetic attitude towards Iran's revolutionary, and more important, Islamic Government. On November 21, 1979, after rumors started implicating the US in the takeover of the Grand Mosque in Mecca, a crowd of thousands sacked and burned the US Embassy in Islamabad, killing two Americans and two Pakistani employees.

6. The US-Pakistan relations, already strained by Pakistan's refusal to curtail its nuclear program, reached its lowest point after this incident. However, geopolitical developments affecting Afghanistan unexpectedly brought upon Pakistan the new and dangerous role of "buffer state" and created new dimensions in the relations of Pakistan with the Western Powers, including the US. Following the Soviet invasion of Afghanistan in late December, Afghan refugees streamed into Pakistan, creating new demands on Pakistan's scarce resources and testing its neutrality. It is estimated that about 1 million refugees have entered Pakistan. The obvious sympathy of the Pakistan Government for the Afghan rebels, the support for them with arms from tribal groups through a very porous border and the long-standing threat of Baluchi and Pathan secessionist movements, which could be revived and supported by the USSR, has created a delicate situation for Pakistan, raising questions of its own viability in a region suffering from extreme instability. An American offer of \$400 million in military and economic aid for Pakistan over eighteen months was immediately attacked by India, always wary of a stronger Pakistan, and was rejected by President Zia, who thought that this relatively small amount of military aid did not represent a strong commitment by the US to Pakistan's security or compensate for obvious Russian antagonism and the possible loss of support from the Non-Aligned Group or from the rich Gulf States.

7. The decision to cancel the November 1979 elections had a positive effect on the Government's capacity and willingness to adopt and implement decisions, especially unpopular ones in the economic sector. Ministers and bureaucrats, both at Federal and Provincial levels, felt free of the uncertainty of electoral results and showed greater interest in adopting a more decisive and bold strategy. The theme of "Islamization," although kept so far largely on a theological level, has remained important and the Government from time to time revives it with announcements with regard to the application of the "Shariah" (rule of law) and the evils of "riba" (interest/usury) (see below paragraph 34). The Government's Islamic measures, however, have not been popular with all sections of the population, and in July 1980 the Government agreed to modify proposals for the imposition of Zakat (Islamic welfare) taxes in the face of strong protests from the Shiite sect, which constitutes about 20% of Pakistan's population.

8. Since its inception, Pakistan has had a difficult and unpredictable political environment, with unsolved tensions between the Provinces and the historical feeling of insecurity vis-a-vis its neighbors. However, Islam, the raison d'être for Pakistan's creation, has continued to be a strong unifying factor. Despite some isolated demonstrations against him, President Zia appears, at least outwardly, to be in control of the Army and the Government, as evidenced by his willingness and ability to adopt and carry out hard decisions. One of the justifications for the perpetuation of the present regime

is the absence of a strong and widely respected civilian leadership capable of challenging the military and of presenting a viable alternative. Some of the recent actions and statements of the President have been interpreted as moves towards a more civilian-controlled government, but basic issues, such as the role of the political parties, including the PPP, and the Armed Forces in that Government have yet to be defined. Meanwhile, Advisory Councils have been set up in the Provinces, including as members most Chairmen or Vice-Chairmen of the local bodies. These councils have, at this stage, a limited role but are expected to contribute eventually to economic planning and development of small communities.

### C. Recent Major Economic Events

9. Pakistan's economic performance has improved significantly during the last three years in several respects. GDP has grown by over 6% per annum accompanied by an annual increase of about 4-5% in total goods production, while exports increased in real terms by 11% in FY78 and by 20% in FY79; a further increase in exports of nearly 50% in current prices is indicated by preliminary figures for FY80. In agriculture, all major crops other than sugar have performed well. The last cotton crop was over 4.0 million bales, or over 50% higher than the previous year's low output, while record rice and wheat crops have been harvested during the last two crop years. In industry, most major sectors have recorded significant increases in production. This recent performance contrasts markedly with the economic stagnation of the early and mid-1970s, when the growth of GDP averaged only 3.4% and goods production 1.1% per annum, and export growth was negligible.

10. Several factors have contributed to the recent economic recovery, including favorable weather, improved foreign demand for Pakistan's exports, higher domestic demand associated with better crops and rising rural incomes, and increasing inflows of workers' remittances from the Middle East. However, credit must also be given to the various policy measures introduced by the Government during the past few years to encourage economic activity. Economic management in Pakistan has been gradually but significantly strengthened, particularly over the past 12-18 months. In agriculture, incentives and input supplies have been improved. In particular, efforts have been made to improve the fertilizer distribution system by expanding the marketing network and by ensuring adequate supplies and timely delivery of imports. Programs in pesticides, improved seeds, agricultural credit and farm power have been strengthened. Support prices for all major crops have been raised closer to world prices. In addition, the Government has begun to address the deep-seated problems affecting productivity at the farm level. A start has been made in improving extension services and important decisions have been taken in the areas of agricultural research and water management, although these measures are still at an early stage and as yet have had little impact on production.

11. Major changes have been made during the past two to three years in government policies in the industrial sector. The policies pursued in the early and mid-1970s of extensive nationalizations, tight restrictions on the private sector, and rapid expansion of the public sector to spearhead industrial investment and growth have been gradually reversed. Most agricultural processing and some industrial units have been denationalized; amendments to the Constitution providing safeguards to private industry against further

arbitrary government acquisitions have been announced; and the areas open to the private sector have been widened and a wide range of incentives introduced to encourage private activity. Tax holidays, excise and import duty concessions, easier access to imported raw materials, concessionary credit and income tax provisions, and direct cash rebates have been granted to encourage private investment and exports; and the investment sanctioning procedure has been streamlined. These measures have led to a gradual recovery of private sector confidence and an increased interest in relatively smaller-scale private investment projects. However, more specific reforms aimed at removing disincentives may be necessary to promote larger-scale investments in some key sectors such as fertilizer production.

12. The Government has also embarked on the difficult and inevitably long process of reforming public sector enterprises, many of which have been plagued by low efficiency and poor financial results. Studies have been completed of the management and organization of the public sector, and of the performance of individual units. In accordance with the recommendations of these studies, the Board of Industrial Management (BIM) has been abolished, the number of sector holding corporations reduced from 11 to 8, and boards of directors have been established at the enterprise level, though these are reported to be mainly comprised of bureaucrats and decision making appears to remain highly centralized. Some public sector units which have little prospect of improved financial performance have been closed down and further public disinvestment is being considered on a case-by-case basis. The overall result to date has been a moderate improvement in the public sector's financial performance.

13. The higher level of economic activity during recent years has helped to improve the budget by raising government revenues substantially. The Government has also increased existing tax rates, introduced new taxes, and taken measures to reduce tax evasion. Revenues in current prices, consequently, rose by 21% in FY78 and by 17% in FY79. At the same time, government expenditures have also risen rapidly. The Government's policies of encouraging production and exports through subsidized inputs and export rebates, and the political constraints to making price adjustments on a number of items of mass consumption, have inflated subsidies. Rising debt service, following the expiration of the four-year debt relief arrangement with Consortium countries at the end of FY78, and increased defense spending have contributed to the growth in non-development expenditures. In addition, although the Government has decided not to embark on any major new public sector projects except in key areas such as energy development, commitments under the ongoing public investment program and high subsidies for agriculture led to a 26% increase in development spending between FY77 and FY79. Thus, despite the increased revenues, budget deficits remained around 4% of GNP in those years.

14. An improvement, however, occurred in FY80 and seems likely to be sustained during the current fiscal year. The FY80 budget included major new revenue measures which yielded about Rs 4.6 billion. In addition, substantial increases in domestic prices of POL products (including a doubling of the price of kerosene) were announced last December and again in May this year, a 25-30% increase in railway fares in January and a nearly 50% increase in fertilizer prices in February. The Government has also been endeavoring to restrain both development and non-development expenditures. While post-budget

increases in import prices and other exogenous factors (including expenditure on Afghan refugees and defense spending) added to budget outlays, improved revenues and additional external assistance from the IMF's Trust Fund and from Saudi Arabia limited the domestically financed budget deficit to about Rs 6.3 billion in FY80, equal to about 3% of GNP.

15. In the FY81 Budget announced last June, gross federal revenues in the current fiscal year are expected to rise by 19%, while non-development expenditures are projected to grow at only 8.4%, which represents a decline in real terms. Expenditure of government departments has again been tightly restrained and consumer subsidies for wheat are substantially reduced owing to the lower import requirements and an increase in domestic issue prices. Development spending is projected to rise by 21%, or 11% in real terms, following two years of little real growth. The bank-financed budget deficit is projected at Rs 3.5 billion. This target may be difficult to attain and a bank-financed deficit of about Rs 6 billion or 2.2% of GNP is in prospect. This would be within the limits agreed with the IMF.

16. The last few years have witnessed a degree of relative price stability in Pakistan which compares well with other countries in the region; official indices indicate a domestic inflation rate of 7-8% per annum over the past two years, although the true rate of inflation in the economy may be somewhat higher, probably around 10% a year. There are several reasons for this relatively modest inflation rate. Monetary growth, which reached 23-25% annually in the mid-1970s, has moderated slightly in recent years and, with the recent improvement in the budgetary situation, to about 17% in FY80. The Government has agreed with the IMF to restrain monetary expansion further. Good harvests, the recovery in industrial production and the Government's policy of ensuring availability of essential commodities through imports have also helped to limit the inflation rate. In the past the Government has also tried to reduce the impact of international price increases on domestic prices through subsidies and price controls; however, the Government has recently stated its intention to align domestic prices gradually to world prices and to limit subsidies only to the most needy.

17. Other indicators of economic performance have been mixed. Although the Government has taken several measures to encourage private investment, and private sector confidence has recovered, the revival in private sector investment to date has been largely confined to relatively smaller-sized projects. Total private investment has not yet increased in real terms. Since new public sector commitments have been limited as a matter of policy, gross fixed investment in real terms declined and the fixed investment/GNP ratio fell from 17.2% in FY77 to 15.7% in FY79. At the same time, consumption has continued to grow rapidly; private consumption, partly reflecting high workers' remittances, rose in real terms at an annual rate of 8.2% between FY77 and FY79 and total consumption by 7.7%. Thus, although the national savings/GNP ratio remained well above the levels of the early 1970s, it declined from 13.3% in FY78 to 10.7% in FY79.

18. These imbalances between savings and investments and the underlying demand pressures which they reflect have led to sizable balance of payments deficits, notwithstanding the rapid growth in production and exports. Export earnings have more than doubled since FY77 to around \$2.4 billion in FY80. This rapid growth has been due to increased exports of manufactured and semi-manufactured goods as well as of primary commodities. Imports, however, have also risen sharply to about \$4.8 billion in FY80, or nearly double the level of imports. Like many other LDCs, Pakistan has been severely affected by recent increases in oil prices; the gross oil import bill, which has increased by \$790 million to about \$1.2 billion since FY77, now absorbs about 24% of total imports. The import bill has also been swollen by the sharp growth in the use and cost of fertilizers; by capital goods imports; and by larger imports of edible oils and other consumer goods. The rapid growth of workers' remittances from \$580 million in FY77 to \$1.75 billion in FY80, itself an indirect result of the international petroleum price increases, has helped to reduce the current account deficit in FY80 to around \$1.0 billion, or 4-5% of GNP, from nearly 7% of GNP in FY77.

19. The financing of these deficits has posed increased difficulties for the Government for several reasons. First, substantial balance of payments support from OPEC countries, principally Iran, which helped to finance the large external payments deficits in the mid-1970s, has not been forthcoming. Secondly, although gross disbursements from Consortium sources increased slightly through FY79, they did not compensate for the decline in OPEC assistance. Thus, the overall level of gross long-term economic assistance from official sources declined at the same time as Pakistan's debt servicing obligations rose rapidly following the expiration of the 1974-78 debt rescheduling arrangement. The resulting decline in net external inflows has been severe. The Government has resorted to short-term borrowing and running down of reserves to cover its external financing requirements. Short-term commercial borrowing now stands at about \$350 million; and at the end of FY80 gross reserves were around \$750 million (equivalent to seven weeks' imports), largely because of substantial short-term deposits from Saudi Arabia and Kuwait.

20. In summary, recent economic developments in Pakistan have been more encouraging, despite the persistent external payments difficulties which are associated with the continuing imbalances between savings and investments. In several respects recent government policies represent a significant turnaround from those pursued during the early and mid-1970s. However, as discussed below, government policies and strategies need to be improved further in several critical areas.

## II. GENERAL REVIEW OF COUNTRY OBJECTIVES

21. Pakistan's Fifth Five-Year Plan (FY79-83) was promulgated in June 1978. The Plan has been, and continues to be, modified by subsequent government actions and its implementation has been hampered by several difficulties, not least by severe resource constraints. Nevertheless, according to the Government, the broad development objectives and strategy embodied in the Plan



remain valid and provide the general framework within which economic policies are being devised and implemented.

22. The Government's declared development objectives include the provision of basic needs of the population and promoting equity; increasing employment and incomes through rapid economic growth; improving health, education, housing, water supply and transport facilities in both urban and rural areas; developing backward areas through the expansion of infrastructure and social and technical services; encouraging private investment; and laying the foundations of long-term economic growth by developing basic and engineering industries, technology, manpower skills, etc. Other key government objectives are the elimination of basic imbalances in the economy, particularly the budgetary and balance of payments difficulties, and a reduction in the presently heavy dependence on external assistance, through appropriate investment, savings, trade and growth policies. Agriculture and energy have been identified as the two highest-priority sectors.

23. Given the past emphasis on capital formation and the relative neglect of distributional considerations, the Government's general development objectives are in the right direction. However, the attainment of these objectives would require a sustained effort over a number of years to improve the efficiency of resource use, as well as the availability of substantial additional resources and a reallocation of resources in favor of agriculture and the social sectors. The Government's plans have not adequately recognized these constraints. Available domestic resources during the past few years have fallen far short of Plan estimates resulting in extensive resort to short-term external financing and excessive domestic bank-financed deficits. The total resources which have been available have been largely absorbed by ongoing large-scale projects, and the Government has had to cut back development expenditures on new programs, especially in the social sectors. At the same time, project planning and preparation procedures require strengthening; the role and capacity of the planning organization have declined substantially since the late 1960s.

### III. EVALUATION OF COUNTRY STRATEGY, PLANS AND PERFORMANCE

#### A. Appropriateness of GOP's Strategy

24. Since the early 1970s Pakistan has endeavored to attain its development objectives through a substantially expanded public investment program which it was intended would be financed in large measure by high marginal rates of domestic savings. The basis of this strategy has been the expectation that consistently high rates of growth in the economy could be achieved. The Fifth Plan envisaged annual growth rates of 7-1/2% in GDP, 6% in agriculture and 10% in industry in real terms, to enable per capita consumption to grow at 3.4% annually and total consumption at 6.4% while permitting national savings to increase by 12.4% and investment by 10% annually. The Government's

recent pronouncements have envisaged slightly less ambitious but similar expectations. GOP has pointed to the high growth rates achieved since 1977 as evidence that its strategy is soundly based; GDP growth has averaged 6% during the past three years, following growth of around 3-1/2% during much of the 1970s.

25. While the recovery which has occurred in recent years is a long-awaited and welcome departure from the earlier sluggish behavior of the economy, the important question for the future is whether it is a sustainable recovery based on secure foundations. The last three years have witnessed a number of special factors including favorable weather and increased demand for some of Pakistan's main exports which may prove temporary. The consistent achievement of such high growth rates over a prolonged period would be difficult without further far-reaching changes to raise yields in agriculture and productivity in industry to substantially higher levels. In addition, the generation of the savings required to sustain high growth rates will require further limitations on consumption and major resource mobilization efforts by the Government. The FY80 and FY81 Budgets have begun to address these issues, but considerable further improvements in domestic resource mobilization are required.

#### B. Efficiency of Resource Use

26. Over the past decade the Bank has been critical of government performance in the allocation and efficient use of resources on several counts. Firstly, public investment plans have not taken sufficient account of the resources likely to be available; this has been a major cause of growing budgetary and balance of payments difficulties. Secondly, the investments undertaken have been concentrated in large capital-intensive, long-gestation projects and in physical infrastructure, with the result that output and employment benefits have not been commensurate with these huge outlays. At the same time, the investments have pre-empted resources from much needed expenditures in the agricultural and social sectors, so that their social opportunity costs have been considerable. Finally, much of the investment was undertaken by the public sector within a set of policies which implicitly, if not explicitly, discriminated against the private sector by foreclosing major areas of the economy to private initiative.

27. The Government is now endeavoring to redress these problems in various ways. Firstly, a much more active role has been assigned to the private sector, particularly in industry but also in agriculture, oil and other sectors. In the industrial sector, all major industries except steel have been opened to the private sector, and public sector investment is being largely confined to modernization and balancing of capacity. A beginning has been made in reallocating resources within and between sectors. For instance, in the power sector, reallocations have been made from power generation to improving transmission and distribution facilities. In transportation, the costly Indus Highway Project has been postponed indefinitely. In the agricultural and water sectors, steps have been initiated to strengthen agricultural

extension services, research and water management; to improve coordination between institutions responsible for agriculture and irrigation; and to limit extensive subsidies on fertilizer and pesticides. The Government has generally endorsed the recommendations of the recently completed UNDP Indus Basin Study which proposes a revised investment strategy, within the context of continuing resource constraints, to release existing resources for higher priority purposes through adjustment in pricing, subsidy and management policies, and to facilitate quick returns by discrete investments which will complement major existing irrigation facilities (key policy issues and government changes in agriculture and water are discussed in more detail in paragraphs 81-83 below).

28. The Government has recently demonstrated greater willingness to adapt to resource constraints and has substantially cut back public investment in real terms (the overall fixed investment/GDP ratio was about 15% in FY80 compared to 17% in FY77). However, commitments to major ongoing projects (e.g., Karachi Steel Mill, Port Qasim, cement and fertilizer plants) have limited the Government's flexibility in restructuring the investment program and pre-empted much of available resources. Consequently, the overall pattern of inter-sectoral allocations now is not significantly different from that in the recent past, and the allocation of resources to projects and programs which are designed to remove fundamental constraints on productivity and bring about quick increases in production, as well as to improve basic social services, remains less than desirable.

#### C. Effectiveness of Resource Mobilization Policies

29. Over the past decade both public and private savings in Pakistan have been low. Despite some recent improvements, savings levels remain inadequate and compare unfavorably with the levels achieved in some comparable countries.

30. In the area of public savings, considerable progress has been made over the past few years in raising public revenues. Government revenues increased from 15% of GNP in FY78 to 17% in FY80, partly due to the growth of domestic output and incomes and partly to tax and tariff increases and other measures taken by the Government to improve tax collections and reduce tax evasion. These improvements, however, have been largely offset by increases in non-development expenditures due to higher debt service following the expiration in 1978 of the rescheduling agreement among member countries of the Pakistan Consortium, higher defense spending and subsidies.

31. Although the sustained output growth and the inflow of workers' remittances from the Middle East have added substantially to personal incomes, private savings have not improved significantly, principally because political considerations have constrained the Government from making timely and adequate adjustments to domestic prices of a number of items of mass consumption. As a result, private consumption has grown rapidly at about 7-8% per annum in real terms and the national savings/GNP ratio is low at around 11%.

32. The Government, however, has acted with heightened determination in recent months to deal with the unsatisfactory budgetary situation resulting from rapidly increasing subsidies. Several major pricing decisions have been announced. Among these have been substantial increases in domestic petroleum product prices, including a doubling of the price of kerosene; two major increases in railway fares; and a 50% increase in domestic fertilizer prices, accompanied by compensating adjustments in crop and consumer prices. These pricing decisions have demanded considerable courage and have gone beyond what might have been expected in the prevailing political environment. The Government has also imposed more severe restraints on its own spending and there are indications that increased financial discipline will be continued. In the FY81 Budget the Government has stated its intention to limit any further growth of subsidies and to improve the standards of self-financing of public enterprises through timely adjustment of prices and tariffs. The Government has undertaken under the EFF agreement to raise savings to 14% of GNP by 1984, mainly through higher public savings.

33. In addition to the general inadequacy of savings in Pakistan, there is a problem in mobilizing savings to finance investments. While the public sector continues to undertake the bulk of investment in the economy, the private sector continues to provide much of the savings, and no effective mechanisms have been developed to transfer private savings to the public sector. The Government has made little use of interest rate policy as an instrument of mobilizing savings and allocating resources in recent years. More effective use of the banking system to attract private savings and channel them into productive investments in the public sector is required.

34. A serious obstacle to pursuing an effective interest rate policy is the proposal now under consideration in Pakistan to modify the operation of the financial system in line with Islamic principles. Several committees have been set up by the Government to study the implementation, over a three-year period, of an "interest-free" financial system. The Council of Islamic Ideology stated last June that the banks, instead of paying or charging a fixed rate of interest, should treat their customers as business partners who would share proportionally with the banks the profit earned or loss suffered. The concept of "mudaraba" (partnership) would then be the pivot of the interest-free banking system in Pakistan. Announcing the FY81 Federal Budget, the Finance Minister outlined several Islamic lending modes that would start being implemented: (a) leasing, under which the banks would assume ownership of the assets and borrowers would pay rent; (b) hire-purchase arrangements, which would provide finance for the purchase of goods under joint ownership; (c) a "mark-up" which would be agreed in advance to be shared and to be paid to the seller for a credit sale; (d) "mudaraba" certificates (similar to share certificates) which would entitle the investor to a dividend; and (e) participation term certificates which (a kind of temporary share certificate). The Finance Minister also announced that interest-free operations, already introduced at the House Building Finance Corporation and the National Investment Trust, would be extended to mutual funds and the Small Business Finance Corporation, and that commercial banks would open counters for interest-free banking. A 2-1/2% Islamic (Zakat) wealth tax has also been introduced.

35. The Government has emphasized that the application of Islamic principles to the banking sector will be done pragmatically and that considerable care will be taken to ensure that this will not have an adverse impact on savings or in other ways disrupt the economy. <sup>1/</sup> There are, however, signs that the wealth tax has already affected savings deposits, and the trend of private savings will require careful monitoring. While it is clearly too early to make any definitive assessment of prospects, it is possible that the financial institutions may become more conservative and concentrate their activities on better established, old clients.

D. Effectiveness of Balance of Payments Policies

36. Many of the elements of the Government's strategy to resolve the balance of payments difficulties are in line with our own prescription for this problem. The Government's strategy calls for rapid export growth, particularly of agricultural commodities and products based on local materials. The Government has taken a number of measures in the past few years to encourage exports and, partly in response to these measures, the recent growth of exports has been rapid. These efforts need to be sustained and intensified, for instance, by encouraging the production not only of major crops, especially cotton and rice, but also of minor crops such as pulses, potatoes, fruits and vegetables for which markets exist in neighboring countries. Substantial scope also exists for further increasing Pakistan's exports of manufactured goods such as textiles and engineering products, as well as of a wide range of goods produced by the small-scale industry sector. Additional measures to stimulate exports have been agreed with the IMF.

37. On the imports side, the recent increases in international oil prices have exacerbated Pakistan's balance of payments problems and have necessitated steps to restrict imports. These restrictions, however, have resulted in a lower degree of utilization of domestic capacity and, in association with the EFF, the Government has agreed to liberalize the import regime on a phased basis.

38. Rather than continuing to rely heavily on direct control of imports, GOP has been encouraged by the IMF and ourselves to limit imports by bringing the prices of consumer goods closer into line with import parity prices and by strong encouragement of viable import substitution. The Government has recently taken steps to contain imports more directly through appropriate price changes, and several price adjustments requiring considerable political courage have been made. Further adjustments will be required on a number of products--e.g., wheat, fertilizer, edible oil and tea. These adjustments would not only reduce consumption growth and import demand, but would also help the budget and establish a more rational price structure to improve resource allocation.

39. Further import substitution in wheat, sugar and particularly edible oil (consumption of which is now growing at 15% annually and imports exceed \$300 million annually), and effective programs to resolve operational difficulties of existing domestic fertilizer factories and to expand capacity,

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<sup>1/</sup> The Government has also stated that borrowings from external agencies such as the Bank would not be affected by Islamization.

→ together with efforts to accelerate domestic exploration and development of mineral fuels, would considerably help to reduce import growth. Although the domestic production of oil, natural gas and fertilizers is profitable at current exchange rates and prevailing import prices, the setting of domestic producer prices well below import parity levels is a disincentive to further expansion of output. A number of these issues were addressed under our recent Fertilizer Imports Credit and others will continue to be pursued in our dialogue with the Government.

40. Estimates by Bank staff suggest that, despite incentives recently provided by the Government, real effective exchange rates for exports have not improved substantially. However, given the rapid growth of exports in recent years, there does not appear to be a need for any immediate adjustments in the exchange rate. During the recent EFF negotiations, the IMF accepted this position. Nevertheless, there is a general continuing need for a review of the structure of costs and prices of Pakistan's products vis-a-vis principal competitors and trading partners to ensure that appropriate policies are developed to support further export growth.

#### E. Effectiveness in Addressing Social Issues

→ 41. Pakistan faces substantial and rapidly growing problems in the social sectors which have so far been largely neglected. The population growth rate remains around 3%, one of the highest in the world. Bank projections indicate that, even assuming some decline in fertility, the population will increase between 1980 and 1990 by a further 26 million, or over 30%, to around 108 million. Of this total, about 50 million would be "dependents" (defined as children up to 14 years of age and people of 65 years and over). The number of children of school age (5-14 years) will increase during the present decade by another 7 million to 30 million, and school enrollment will need to increase from about 5% in the 1970s to about 7% per annum to provide even a modest improvement in the percentage of children receiving primary and secondary education (i.e., an increase in enrollment ratios from about 55% to 80% for ages 5-9, and from 20% to 30% for ages 10-14). On a conservative basis--and allowing for little increase in female participation in the formal labor market--an additional 8 million people will be seeking jobs by 1990.

42. Social services of all kinds, including programs to provide basic needs such as low-cost housing and water, are limited, especially in rural areas. While various forms of malnutrition are widespread, the most vulnerable groups are infants and pre-school children, and pregnant and lactating mothers. Pakistan's health problems are primarily due to poverty as it manifests itself in poor nutrition, inadequate housing, limited access to safe water, low standards of environmental sanitation and personal hygiene. In rural areas, only about 1% of the population is estimated to have access to proper sanitation and only 15% to safe water supply. The adult literacy rate is estimated at only about 25%; among women, it is only about 11%.

43. The above figures starkly illustrate the dimensions of the social problems facing Pakistan. The economic, political and social consequences of the continued neglect of these problems will become increasingly serious.

While the substantial migration from Pakistan to the Middle East over the past few years has to some extent alleviated the immediate difficulties, this clearly cannot be relied upon to provide an answer to such complex problems in the long run. Permanent solutions to these issues will require not only substantial employment creation and improvements to education and other social services, but also a process of social change supported by strong and sustained government commitment over an extended period of time. The migration to the Middle East has itself been a mixed blessing, since it has caused shortages in Pakistan of several types of skilled and semi-skilled labor which have substantially affected some parts of the economy. 1/

44. The Government has identified three key problem areas inhibiting the nation's social development: the continued rapid population growth, inadequate coverage of basic social services, and insufficient expansion of productive employment. Past measures adopted to ameliorate these problems have met with varying degrees of success. With respect to population growth, the two major programs adopted so far--the Continuous Motivation System (CMS) in 1969 and the Inundation System in 1975--were beset by numerous problems of administration, personnel, supervision, logistics, research and evaluation and were ultimately discontinued. With respect to social services, the Government has increased emphasis on primary school education and basic rural health care. Budgetary allocations for these programs have been increased but the progress in implementation has been modest. With respect to productive employment, the Government has relied primarily on higher growth in the productive sectors to create more job opportunities. In agriculture, more attention has been paid recently to the problems of small farmers; for example,

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1/ A Bank-financed study of labor migration from Pakistan is now at an advanced stage. Preliminary findings of the study indicate that, while the impact of remittances on the balance of payments is clearly beneficial, their impact on the domestic economy has been varied. Remittances are enabling migrant households to enjoy a substantial increase in income--for many, up to 30%. Though not the poorest in Pakistan, most migrant households are not affluent either; roughly 40% of migrants are unskilled, 40% are skilled workers and only 4% are professionals. The study also indicates that remittances are not generating significant savings and investment. Only about 12% of remittances are invested; the bulk (63%) is consumed, while a substantial portion has gone into real estate (25%). The impact of migration on domestic production has been difficult to determine, given the limited data on employment and wages. However, there is evidence that money wages have risen substantially in a number of occupations and that labor shortages have disrupted activity in certain subsectors, though the causality between migration and these developments has not been conclusively established. On balance it seems, according to preliminary cost/benefit calculations, that the benefits from migration outweigh the costs. If political instability does not undermine the growth of the oil-surplus economies of the Middle East, it is expected that the demand for migrant labor will remain substantial, at least in the next five years. The results of the ongoing study will hopefully enable the Government to plan for and deal with the results of migration more systematically.

through a reorientation of the activities of the Agricultural Development Bank. In industry, an array of incentives has been devised to encourage private investment and production but with no special focus on labor-intensive activities, though the small-scale industrial sector has exhibited a considerable dynamism of its own.

45. While the Government's programs to deal with Pakistan's difficult social issues continue to be generally deficient, the Government has recently shown more awareness of the seriousness of these problems. In particular, it has adopted a revised population planning policy which, inter alia, recognizes the key role of education and motivation programs and of special programs for women in modifying attitudes towards family size. We are planning to monitor events closely to assess whether these recent initiatives are followed up by necessary government action to strengthen programs at the field level and to determine the scope for possible Bank assistance in this area (see also paragraphs 92 to 95 below).

#### F. Effectiveness of Development Administration

46. Although it has suffered from a substantial brain drain, Pakistan still has a group of capable civil servants. During the Bhutto era the bureaucracy was undermined and demoralized by increased political intervention, but the situation has improved under the present regime and the bureaucracy has had some of its confidence and sense of purpose restored to it. Institutional improvements have also been evident recently at some of the major government agencies such as the Karachi Port Trust.

47. Under the Federal-Provincial set-up, the decision-making process in Pakistan is inherently long and cumbersome. In addition, administrative controls on the economy are tight, though some deregulation and streamlining have been introduced recently and further such changes are planned; for example, to the foreign trade regime and to investment sanctioning procedures (both required under the agreement with the IMF). As a general rule, greater decentralization would be desirable. This, however, will be difficult to achieve, particularly given the delicate political balance resulting from provincial relationships and rivalry; attempts to delegate more powers to government agencies are normally strongly resisted. In addition, there is an inherent conservatism in the administration, both at the central and provincial levels, which produces strong resistance to any major administrative innovation such as the establishment of new institutions. Our experience under some of our projects bears testimony to the strength of these various constraints.

48. Three major areas of concern exist in the field of development administration which we intend to highlight in our dialogue with the Government. First, since the early 1970s, the role and status of the Federal Planning Division have declined greatly and the Division is not well placed administratively or politically to be effective; its decline is illustrated by its loss of influence over major projects and policies, and by a general decline of morale and departure of some of its most able people. Federal planning in practice has become little more than an annual budgeting and programming exercise. Moreover, these exercises have become functionally independent of the project appraisal and approval process; "approved" projects may go without sufficient funding, while projects which are funded



may not be fully "approved." Lack of integration between consideration of resource availability and expenditure plans has been a critical failure.

49. Secondly, even with stronger national leadership, a number of technical problems would have to be dealt with before the planning system would work fully successfully. Deficiencies in project appraisal procedures are especially obvious. At present capital cost estimation is often poorly done, while the implication of new projects for recurrent costs is not adequately considered. In addition, projects are not ranked sufficiently according to priority, and project processing procedures (based on the "PC forms") are poorly implemented.

50. Thirdly, and parallel to these problems, there are shortages throughout the Government and government agencies of manpower skilled in project analysis and other appropriate disciplines, in part due to overseas migration. A lack of adequately trained and experienced management and operating personnel in public enterprises is another serious problem. The inability to attract and retain sufficient numbers of required higher-level staff has resulted, in some public sector agencies, in the serious under-utilization of costly investments. The provision of increased remuneration, as well as the engagement of foreign technical assistance, would be amply justified by the savings to the economy. While it would be unrealistic for the Government to attempt to compete with salaries offered in the Middle East, the present financial and other incentives in the public sector do not appear to be competitive even with those available in the private sector in Pakistan.

51. We are attempting to address these problems in various ways. Firstly, in conjunction with the EFF agreement, we are assisting the Government to review and reformulate its public investment program for FY82-84 and intend to encourage GOP to place investment programming on a rolling three-year basis. Secondly, as a general provision under the recently approved Fertilizer Imports Credit, the Government has agreed to restore the "PC forms" to their intended status in the project appraisal/processing cycle to strengthen the internal review of project proposals and to ensure that foreign-aided projects are in future fully reviewed and approved within the Government before financial agreements are finalized. The Planning Division would play a leading role in both these exercises. Bank staff will provide technical assistance to improve the quality of the PC process in connection with our project operations. In addition, UNDP is assisting the Government to establish agricultural project preparation and monitoring cells at the provincial level (the Bank is executing agency for this program in Sind Province), and EDI has been providing assistance for local training courses. The problem of project staff shortages has so far been addressed on a project-by-project basis but our approach has recently been broadened, in connection with discussions on the Fertilizer Imports Credit, to encompass a review of salary levels and related issues on a sector-wide basis in the fertilizer industry.

52. Implementation of Bank projects has reflected the general problems of development administration in Pakistan and has been mixed. Performance of our more traditional borrowers, such as in the power, transportation and telecommunications sectors, has been reasonably satisfactory, though improvements in operational and financial performance could have been better in some cases. In other areas like irrigation, which involve highly complex drainage

and other hydrological issues, implementation has been delayed, as it has also in the case of projects which involve major institutional changes (for example, agricultural extension and seeds). Other problems encountered include shortages of local funds due to budget constraints; the low levels of salaries of managerial and technical staff; and a general resistance (by no means unique to Pakistan) to employing expatriate consultants, both on grounds of cost and need. These problems will continue to be addressed in our operations and in our general discussions with the Government. The rate of disbursement of loans and credits, though often behind appraisal estimates, has generally been satisfactory; nonetheless, the need remains for strong efforts by the Government as well as the Bank to improve project performance.

53. 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 and to strengthen the formulation and selection of projects, we shall follow up closely and assist 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 (paragraph 51) 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 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;
- Supervision, particularly of agricultural projects, will be intensified at the field level by strengthening the staff of the Islamabad Office (paragraph 97);
- 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 (such as the resource problem) affecting project performance; and
- We shall continue to explore the scope for greater use of local consultants, either separately or in joint ventures with foreign firms, and may undertake a detailed review of the capability of the local consulting industry.

#### IV. ASSESSMENT OF PAKISTAN'S EXTERNAL ASSISTANCE REQUIREMENTS

##### A. Trends to FY80

54. Partly in reaction to the previously disappointing performance of the Pakistan economy and partly reflecting changed political relationships, commitments of new aid from members of the Pakistan Consortium declined in the latter part of the 1970s, while debt service obligations rose steadily. Net long-term official inflows from Consortium sources fell from \$450 million in FY77 to an estimated \$250 million in FY80. Some Consortium members, notably the US, have become net recipients of capital from Pakistan.

55. Disbursements of external assistance from OPEC countries reached about \$400 million in FY75 and FY76; in FY77 they were only about half that level, and in FY79 only \$20 million. The largest part of past OPEC assistance came from Iran on soft interest but fairly short repayment terms, and although the maturities have been recently extended, repayments are now beginning to fall due and the immediate prospect is one of substantial return flows to OPEC. Iran is unlikely to provide any new aid and, having already revised the original terms of its loans, is not likely to be amenable to further rescheduling. In the past fiscal year, Saudi Arabia made a foreign exchange loan of \$200 million to the Zakat (Islamic Social Welfare) Fund, and placed deposits of about \$200 million with the State Bank of Pakistan. It has also extended substantial assistance to Tarbela and other projects and, with the changed situation in Iran, has become Pakistan's major source of OPEC assistance.

56. Pakistan made extensive use of IMF facilities during the 1970s and currently holds currencies equivalent to 211% of quota. Some of these relate to purchases under the oil facility and the compensatory financing facility. Pakistan has also received Trust Fund loans totaling SDR 217.5 million.

##### B. Recent Developments

57. Indications of aid for FY81 by Consortium members at the June 1980 Consortium meeting were encouragingly higher than in the past and provided for substantial amounts of quick-disbursing program assistance. Moreover, there were indications that debt relief by bilateral members of the Consortium might be forthcoming. Following the expiration of the four-year debt rescheduling agreement in June 1978, Pakistan has made repeated requests for further relief. Until recently, most major creditors had rejected this request. Prospects for debt relief depended primarily on the attitude of the US, Pakistan's principal creditor, which until recently had been negative.

58. However, at the Pakistan Consortium meeting in June, the US announced that, as an exception to its policy of rescheduling only in cases of imminent default, it was prepared to participate in negotiations for a multilateral rescheduling of Pakistan's debt in FY81 provided Pakistan first concluded an agreement with the IMF which involved upper tranche drawings or an EFF. Following this US initiative, discussions between the IMF and GOP on an EFF were resumed and successfully concluded; the EFF agreement is expected to provide Pakistan with foreign resources of nearly \$1.7 billion over three years.

Meanwhile, exploratory talks have been initiated among the donors to determine the mechanism for a rescheduling, which is expected to take place under Paris Club auspices.

59. OPEC countries other than Saudi Arabia do not seem likely to be sources of substantial new aid. Debt service to OPEC in FY81 will be about \$120 million, and about \$150 million during the next several years. Under these circumstances, substantial assistance by Saudi Arabia will probably be necessary to avoid a net foreign exchange drain by OPEC on the Pakistan economy. There have recently been press reports of a substantial economic-cum-military agreement between Saudi Arabia and Pakistan, but these could not be substantiated.

C. Medium-Term Prospects

60. The projections set out in Attachment 3 are based on the judgment that Pakistan's efforts to revitalize the economy will continue and gain strength so that a steady, though modest, improvement in per-capita incomes can take place from \$290 in 1980 to about \$380 by 1990. The projections are based on the expectation of a continuing rapid growth in exports and in workers' remittances, combined with further progress towards increasing the proportion of petroleum and food requirements supplied from domestic resources. As a consequence, the current account deficit is shown to decline from 4.5% of GDP in FY80 to 2.5% of GDP by FY90. However, in nominal terms the current account deficit will remain large throughout the period, rising from just over \$1.0 billion in FY80 to over \$1.8 billion by FY90. Over the next three years, it now appears that the projected current account deficit can be covered by program-type lending from bilateral and multilateral donors, together with substantial assistance under the EFF arrangement and debt relief. These special balance of payments arrangements are expected to end by FY84. In the later years, the projections are based on a combination of increased net concessional aid flows, gradually increasing amounts of medium-term borrowing on commercial terms, together with an assumed resumption of Bank project lending rising to \$300 million per year by the end of the period. As exports and remittances are projected to rise throughout the period, these additional borrowings would be manageable, with the ratio of debt-service to exports of goods and services, including remittances, remaining around 10% throughout the period, and to exports and non-factor services alone declining from around 17-1/2% to 15%. However, unless there is a substantial increase in concessional aid commitments over the next few years in order to permit a steady increase in concessional aid disbursements over the latter part of the 1980s, there would need to be an unsustainable increase in commercial borrowings or a scaling down of growth prospects for those years.

61. In addition to a possible shortfall in net aid flows over the latter part of the projection period, there are a number of other downside risks which could prevent the realization of the modest growth which has been projected. Pakistan's balance of payments has become increasingly dependent on an increasing flow of workers' remittances, particularly from the Middle East. Any serious disruption to the demand for labor in those countries would have serious impact on Pakistan. A further long-term problem may be the inability to mobilize the domestic savings necessary to finance the investment requirements of the projected growth path. The projections assume that the ratio of Gross National Savings to GDP will increase from 12.4% to

17% over the period. There is some danger that such a mobilization of savings may be adversely affected by the intended reduction in the role of interest rates in the course of Islamization of the economy. Investment may also be retarded in the absence of further progress towards the rationalization of prices and the removal of existing tight controls; these problems may slow down vitally needed increases in investment in import replacement industries such as petroleum and fertilizers. While these risks remain, the recent record of policy improvements, followed by the successful negotiation of an EFF agreement, provide grounds for confidence that domestic policies will be adjusted if they are seen to be standing in the way of continuing economic improvement. The improved demand-management performance since FY79 indicates that the Government has been willing and able to adjust its fiscal strategy to the external resource constraints imposed by declining aid flows and higher oil prices. If aid flows were to improve over the next few years, there would be increased assurance that sound economic management could be maintained in the face of other possible adverse external circumstances.

## V. ASSISTANCE STRATEGY AND PLAN

### A. Strategy

62. As indicated above, and as reflected in earlier CPPs, the Bank has been severely critical over the past several years of Pakistan's economic performance. Our principal concerns have related to: (i) the size and composition of the public investment program, which has been concentrated on large-scale, long-gestation projects to the neglect of more urgent programs to improve productivity in agriculture and industry, and to promote exports; and (ii) inadequate domestic resource mobilization efforts, which have led to large budget deficits and acute balance of payments difficulties. At the same time, the private sector had been severely depressed by a series of nationalizations and restrictions on its activities and by political uncertainties. In these circumstances, IDA allocations for Pakistan have been kept at a low level, and all Bank lending was stopped in 1977.

63. Our recent strategy, as proposed and approved in the last CPP, has been oriented towards greater emphasis on addressing basic issues primarily at the sector and project levels, while maintaining the analysis of macro-economic issues necessary to enable the Bank to perform its role as Chairman of the Pakistan Consortium and to keep us abreast of developments in the economy. This strategy has proved to be effective. Important questions such as pricing, planning, capacity utilization, institutional reform and management upgrading have been taken up in the context of our project work. The improvements noted in the past two years in the Pakistan economy are partially the result of the adoption by the Government of measures that, though often ad hoc and piecemeal in nature, have taken account of our sector recommendations, especially in the agricultural sector. In addition, the frank comments that we and other members of the Pakistan Consortium have made on economic management have sensitized the Government to shortcomings in its policies as well as helped to provide the analytical basis for initiating necessary economic reforms.

64. While, as discussed in this paper, the process of economic reform in Pakistan is still at an early stage, a steady improvement in economic management has been evident, notably over the past year, and the Government has persisted in these efforts despite other pressing preoccupations. The revised strategy outlined below is, we believe, an appropriate modification of our previous severe posture towards Pakistan to reflect the recent improvements in policies and the greater receptivity to economic problems shown by the Government. We propose that the Bank should now step up its dialogue with the Government on macro-economic issues in order to continue assessing the progress of development policies and assisting those efforts, including the formulation of structural reform measures. At the same time, our work at the sector and project levels should be maintained. Our financial assistance should also be increased, considering the better economic performance and progress already shown and in support of further improvements in Pakistan's performance. In line with the recent improvements in economic performance, certain modest steps have already been adopted to increase our lending during the last few months. In January 1980, the FY80 lending program was increased by bringing forward the PICIC project originally scheduled for FY81. In addition, Management approval was given to the initiation of work on possible program lending; this resulted in the Fertilizer Imports Credit approved by the Board last September.

#### B. Assistance Plan

##### Amount of Lending

65. We recommend that, provided Pakistan's economic progress remains sound, the allocation of IDA resources to Pakistan should be increased steadily over FY82-86, with a relatively sharp increase in the allocation in the first year of the period to better reflect the recent improvement in Pakistan's performance and the needs of specific projects in the FY82 lending program. The proposed five-year lending program presented in attachment la provides for total lending of \$2,095 million. For FY81-85, this implies an increase in lending per capita per annum over the present approved program from about \$2.4 to \$3.5, which is still low in absolute terms. Because our lending to Pakistan has declined substantially in real terms since the mid-1970s, the increases proposed will initially simply restore our assistance to earlier real levels. In addition, because of inflation, the amounts allocated for individual projects are frequently proving to be inadequate and we are therefore proposing to increase the number of operations in FY81-85 by only about 12%. Thus, the staff implications of the proposed higher lending, other than for possible structural adjustment lending, would be relatively modest.

66. The lending program includes structural adjustment lending in FY82, FY84 and FY86. While we hope to be able to develop a suitable economic reform package for structural adjustment lending by FY82 (the possible components of such a package should be clearer after our forthcoming economic mission), the difficulties of doing so should not be underestimated and we may instead propose a program credit of \$50 million in FY82 to follow up the FY81 Fertilizer Imports Credit. However, the additional amount programmed for structural adjustment lending in FY82, and the amounts provided for such lending in FY84 and FY86, would be regarded as additional to the program and would not be reallocated for other purposes.

67. As noted earlier (paragraph 62), Bank lending to Pakistan was discontinued in 1977 on performance and creditworthiness grounds. The recent improvement in economic management raises the question of whether, and when, a resumption of Bank lending might be appropriate. In our judgment, Pakistan's creditworthiness for Bank lending will depend in large measure on the Government's ability and willingness to implement structural adjustment measures, in association with support from the Bank. An agreement with GOP on a structural adjustment program might itself provide an appropriate occasion for resuming Bank financing. We have accordingly included a proposed Bank loan of \$70 million towards the financing of the structural adjustment operation of \$120 million included in FY82 and Bank loans of \$150 million each for the proposed structural adjustment operations included in FY84 and FY86. Our projections indicate that Pakistan would be creditworthy for these modest amounts of Bank lending provided structural reforms are adopted. Over the next few months we plan to undertake a more detailed analysis of Pakistan's prospective creditworthiness for Bank assistance.

68. In moving forward with the proposed enlarged program, we would continue to monitor developments in Pakistan closely in order to assess the permanency and effectiveness of the reforms already introduced by the Government and its capacity and willingness to carry out other necessary policy changes in a difficult environment. A larger lending program should be considered by the Government as an incentive to continue its dialogue with the Bank and follow policies which should accelerate Pakistan's economic development. We shall also make it clear to GOP that project performance will be an important determinant of our ability to expand our assistance.

#### Lending Program

69. General. The objectives of the FY82-86 lending program will continue to be, as in the past, to support the directly productive sectors in the economy, notably agriculture; to assist the expansion and improvement of institutions which are responsible for the principal public services supporting economic growth; and to strengthen the provision of basic social services. To these objectives we now add the support of programs of structural adjustments. In addition, while the Region recommends that the Bank should continue to give chief emphasis in its project work to agriculture, we propose that our efforts to assist the development and utilization of Pakistan's domestic energy resources should be substantially stepped up. The sector breakdown of the proposed program is as follows:

	<u>\$ million</u>	<u>%</u>
agriculture and water	645	30.7
energy (including gas transportation and distribution)	400	19.3
industry	255	12.2
transport and communications	220	10.5
social sectors (including urban development)	155	7.4
Structural Adjustment	<u>420</u>	<u>20.0</u>
	<u>2,095</u>	<u>100.0</u>

70. Local Cost Financing. In the last CPP the Region sought and was granted authority to increase the limit on Bank financing from 60% to 75% of the total net cost of high-priority projects financed from provincial budgets in such areas as agriculture and the social sectors. This was felt necessary in view of the serious constraints affecting provincial budgets and in order to avoid limiting the Bank's intervention in key sectors for which the Provinces are responsible. The last CPP noted that, if Pakistan's development efforts improved, it might be desirable also to raise our financing limits on selected projects financed from the Federal budget. Given the significant improvement in Pakistan's budgetary and other policies which has recently occurred, we believe that such an increase would now be appropriate. Pakistan remains severely constrained in its ability to embark on urgently required projects in agriculture, social services, energy development and other areas by its heavy commitment to ongoing projects. In order to assist the Government to re-orient its investment program along desirable lines, we propose that the limit on Bank financing of federal projects be brought to the level already approved for Provincial projects, that is, increased from 60% to 75% of total net costs on a project-by-project basis. In practice, because of the size of many recent projects and the availability of co-financing, we expect our financing to remain on average substantially below this limit, possibly in the order of 40-50%. The Region will continue to explore all possibilities for co-financing, which will be especially important in the case of large-scale projects such as in energy, where foreign exchange costs are relatively high.

71. Structural Adjustment Lending. Despite the recent improvements in Pakistan's economic performance, there are a number of serious structural problems which will continue to hinder development efforts over the coming years. A key problem is the present combination of a critical loss of momentum in private sector investment, especially in large-scale enterprises, together with low standards of productivity and capacity utilization in the extensive public sector. A second set of structural problems is posed by the recent poor record of mobilizing both domestic and external resources. On the domestic front, the problems of resource mobilization are related to the low rate of private investment and the poor returns from public sector enterprises. In the case of external resource mobilization, the problems and solutions do not rest solely with GOP; however, an evident serious effort towards a careful ordering of priorities and solving other structural problems is likely to help raise the long-term trend of external support available to Pakistan.

72. The lack of effective medium-term planning in Pakistan (paragraph 48) can be regarded as a structural problem in its own right. The absence of such planning places serious limits on growth in key sectors which is required for sustained improvements in domestic resource mobilization; it also limits Pakistan's ability to attract improved flows of external assistance. To some extent, a circularity has developed: the disappointing record of resource mobilization has disrupted the implementation of Pakistan's Five-Year Plan; while, in the absence of a prospect of predictable and increasing resources, the Government feels little incentive to resume serious forward planning. For these reasons, all of the above problems need to be tackled simultaneously.

73. The problems of a relatively large and inefficient public sector and a stagnant private sector are a legacy of the policy of large-scale



nationalizations during the early 1970s. This has served to undermine the confidence of the private sector and has overtaxed the capacity of the public sector to manage its much expanded responsibilities. The present government has tried to shift the balance of ownership back towards the private sector by improving the range of incentives available to private investors; offering constitutional guarantees against any future expropriation; denationalizing some firms; and placing a firm limit on further public sector investment, while focusing its efforts on improving the efficiency of existing public plants. These steps will certainly assist in shifting the balance over time. However, at best, "privatization" will be a slow, hesitant process in the face of the continuing external and internal political problems of Pakistan. In the present situation, it is not realistic to expect private activity to fill all the gaps in the economy over the next few years. To achieve satisfactory economic growth, it will probably be necessary to form clear views on the sectors of the economy where additional production and investment are economically viable and seen as necessary over the next few years and make decisions on which of these is expected to come from the private sector, the public sector, or from joint ventures.

74. Within the sectors where substantial private investment is expected to take place, a thorough analysis of the structure and distributional impact of the existing structure of prices, subsidies and fiscal policies would be desirable in order to assess the incentives, disincentives and risks facing potential investors. Such analyses will be essential in order to guide policy-making. In some key sectors where the private sector could play a leading role, there is reason to believe that considerable potential for reducing imports is being foregone because of the present divergence of producer prices and the value of these products to the economy. In the case of oil, natural gas, fertilizer and possibly other products, increases in domestic production appear to be feasible and profitable if the prices to producers were set to reflect the cost of imported equivalents. At present the prices offered to producers are set to cover costs, plus a policy-determined rate of return; in effect the pricing system rather than the taxation system is being used to determine returns to producers. It would be desirable to adopt a policy whereby the prices paid to producers are set to reflect the economic value of the products, combined with taxation policies which would provide strong incentives for efficiency and expansion but avoid the emergence of excessive profits.

75. In the public sector enterprises, there is a need to remedy the presently low standards of profitability, stemming from a combination of staffing difficulties, low capacity utilization and non-commercial pricing practices. The Government has already commissioned a number of reviews of the public industrial sector and has requested the Bank for technical assistance. These studies should provide the basis for a review of the environment in which public sector enterprises operate. Over time, policies on pricing and any subsidies provided for distributional reasons should be reoriented so that they can provide incentives for management, and at the same time permit the monitoring of management performance using commercially-based criteria.

76. The ability to attract and retain competent staff is crucial to improved public sector performance and requires that public enterprises be

allowed to offer employment conditions to skilled personnel which are comparable to those offered by alternative employers. Although Pakistan is a poor country, it cannot escape the reality of upward pressure on wages stemming from well-paid opportunities for employment in neighboring countries.

77. Domestic resource mobilization would be considerably boosted by a revival of private sector investment and an improvement in public sector productivity. Additional improvements could be achieved by seeking ways to improve the tax system so as to increase the elasticity of domestic revenues to economic growth and by a gradual revision of present subsidy policies. The Government should also be encouraged to maximize the scope for non-inflationary domestic borrowing programs to effect increased transfer of any surplus private savings to support public investment.

78. As a result of decisions taken in the mid-1970s, Pakistan has become committed to an ambitious public investment program. Despite recent efforts at restricting the scope of investments, there is a continuing serious imbalance between the size of the public investment program and the sum of domestic public savings and present levels of net long-term foreign assistance. In these circumstances, the Government has resorted to emergency cuts in investments combined with ad hoc efforts to secure emergency aid and expensive short-term borrowings to fill each year's balance of payments gap.

79. A resumption of serious forward planning, and the formulation and implementation of a medium-term investment program which is in balance with expected resources, would be a central element of any structural adjustment effort. It would also be desirable to support moves towards a more flexible system of planning. Even if the external position is gradually improved over time, it is unlikely that the availability of resources will be sufficiently predictable to allow the successful implementation of rigid, comprehensive five-year plans. A more realistic, shorter time horizon should be adopted to permit the adaptation of macro-economic policies and project profiles on a rolling basis. A three-year time horizon would seem optimal. A useful starting point for such a departure is the planned review of the Government's public sector investment program for FY82-84 which has already commenced with Bank assistance and which, under the EFF agreement, GOP is scheduled to complete by end March 1981.

80. Bank staff have been working with GOP for some time to develop a detailed program of reform in the agricultural and water sectors involving changes in fertilizer policies and other input/output prices, leading to a revised sector investment strategy, and our knowledge of the agricultural sector is now extensive. However, as discussed below, considerable preparatory work needs to be undertaken to strengthen our knowledge of issues in other principal sectors such as energy and industry, which would permit the Bank to assist the Government to formulate investment programs and structural reforms aimed at the achievement of clearly defined targets within these sectors. As medium-term plans are evolved for key sectors, they could be backed effectively by structural adjustment loans.

81. Agriculture. A "Revised Action Program for Agriculture and Water Development," the outcome of a three-year study financed by UNDP, for which

the Bank was Executing Agency, was completed in mid-1979. The study has highlighted the past deficiencies in government agricultural policies and proposed a revised strategy designed, within the context of continuing resource constraints, to releasing existing resources for higher priority purposes and generating new resources through quick-yielding investments. The recommendations of the UNDP study can be grouped into three major categories:

- (a) Adjustment of Pricing and Subsidy policies so that they reflect real resource costs more accurately than those followed at present. Major attention is given in the study to the fertilizer subsidy, whose reduction and eventual elimination would be easily the most important way in which existing resources could be released for higher return purposes. The report also recommends the elimination of other subsidies, e.g., on tubewells, pest control, 1/ etc. Crucial to the success of such policies would be the continuing review and adjustment of output prices to ensure adequate producer incentives, and the development of appropriate credit facilities to reduce the financial constraints that may prevent the farmer from using higher-cost inputs.
- (b) Management policies to enable the transfer of responsibility to the private sector for appropriate operations and facilities now in the public sector's domain. This would not only generate private savings and release public sector resources for other purposes, but also lead to greater productive efficiency. The report gives greatest emphasis to groundwater exploitation, recommending not only that unexploited, fresh groundwater areas should be left to the private sector (supported by supervised credit schemes) but that those already developed under public programs should similarly be gradually transferred.
- (c) Revised Investment policies to facilitate quick returns and complement the major irrigation facilities already provided rather than create new infrastructural facilities or extend the irrigated area. In the water sector, major emphasis is placed on rehabilitation of the existing irrigation system (accumulated maintenance), promotion of watercourse improvements (investments below the "Mogha"), 2/ provision of essential drainage and improvements in the overall management of the system to maximize agricultural returns from existing water supplies. The report emphasizes agricultural and water management extension services, agricultural research, seed certification,

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1/ The subsidy on pesticides has been withdrawn by the Government in Punjab and Sind Provinces, while it will be phased out gradually in NWFP and Baluchistan.

2/ Mogha is the outlet feeding a watercourse with an average command of 400 acres.

animal husbandry and the provision of appropriate rural infrastructure. Institutional recommendations are made which complement these investment priorities, notably in ways which would improve coordination and cooperation among different government agencies.

82. The Government has accepted the principal conclusions of the UNDP study and initial steps have been taken to implement some of its major recommendations, including improved institutional coordination between irrigation and agriculture and increased emphasis on the importance of improving water management, extension, credit, research and seed supply. In the context of the Fertilizer Imports Credit approved by the Board last September, the Region has pursued with the Government a dialogue on agricultural subsidies and the investment priorities which would guide GOP in achieving the objectives underlying a revised agricultural strategy. The Government has agreed that the prospects of continuing domestic resource constraints in the next few years make it essential that the Government redefine and focus more sharply its priorities in the agricultural sector, while aiming to phase out the fertilizer subsidy and make necessary compensating adjustments in crop prices by mid-1985. In general, the Government has agreed that the revised strategy should aim at conserving available resources and yield maximum impact on production in the short to medium term. It has started a review of programs in the agricultural sector which points toward a need to shift the emphasis from subsidies and long-gestation projects to programs designed to bring about improvements in cropping practices, water conservation, and the proper maintenance and optimum utilization of existing infrastructure. As a matter of general policy, new commitments would be concentrated on projects addressing these needs so that the principal constraints on agricultural production would be released. The modification and/or rescheduling of ongoing capital-intensive and long-gestation projects (including Bank-financed projects) is also under consideration with a view to conserving funds and making room in the investment program for high-priority projects and programs which conform with the revised strategy.

83. The proposed lending program in the agricultural sector for 1982-86 reflects and complements the above-described investment program. It includes major projects in agricultural research, water management, irrigation system rehabilitation, grain storage, forestry, private tubewell development, credit, irrigation drainage and extension. Many of the projects - for example, those aimed at improving water management, extension and credit facilities - would have a small farmer focus and would directly contribute to the alleviation of poverty and improved income distribution. In the context of our project lending, as well as in the context of possible lending for structural adjustment, we will continue to focus on key policy issues such as input-output prices (under the EFF agreement an Agricultural Prices Commission is to be established, with Bank help, by end March 1981), the size and composition of the investment programs for agriculture and water, the adequacy of budget allocations for operations and maintenance, the sharing of implementation responsibilities between the public and private sectors, and institutional arrangements for carrying out the agricultural development program.

84. Industry. Most Bank Group lending to the industrial sector has been through DFCs, principally through eleven loans/credits to the Pakistan

Industrial Credit and Investment Corporation (PICIC); three large fertilizer plants have also been assisted. In addition, a first-phase project to support the important small industries sector, involving a reorientation of commercial bank lending, has been appraised and is included in the FY81 lending program.

85. In order to maintain the momentum of the recent upturn in industrial activity, a plentiful supply of foreign exchange resources, both for investment and current inputs, will be required and further assistance through DFCs is envisaged provided measures to improve the DFCs' collection record and to deal with other problems are taken. Further IFC operations are also anticipated in support of private sector activity, while a second small industries project, tentatively scheduled for FY86, would be brought forward if the first project goes well. The Region's proposed lending program for FY82-86 also includes further projects in the fertilizer industry sector. The first, which is currently being identified and prepared, concerns the rehabilitation of existing public sector fertilizer plants, including the correction of design deficiencies and the hiring of expatriate management assistance for the Multan plant. Other financing would be aimed at establishing additional domestic fertilizer production capacity, for which there is a growing need.

86. In addition to providing further support to DFCs and specific industrial projects, it is necessary to ensure that the Government's incentive system supports those industries in which Pakistan has a comparative advantage. More analysis is needed to determine levels of effective protection, and we propose to contribute to this analysis through our industrial sector work program, leading to a full-scale industrial sector review in FY82. The sector review would also focus on other major policy questions such as the role and performance of the public industrial sector; Government pricing policy; and issues related to the new steel mill at Karachi, the first stage of which is due to be commissioned in 1981. This extensive sector work program would prepare the ground for major structural reforms in the industrial sector and could provide a principal basis for structural adjustment lending from FY83/84 onwards.

87. Energy Development. Pakistan's domestic energy resources are characterized by sizable proven reserves of natural gas and substantial hydro potential, and by more limited known but potentially significant amounts of crude oil and coal. While estimates of potential oil reserves vary widely, partly due to the slow pace of past exploration activity, the discovery rate in exploration activity has been well above comparable rates elsewhere. The Government has responded to the energy crisis by encouraging the exploration of domestic oil resources and the development and substitution of other energy forms. Tentative projections indicate that, provided these efforts are sustained and intensified, the growth of Pakistan's energy requirements during the remainder of this century could be substantially met from domestic sources, with significant benefits to the balance of payments.

88. The bulk of Bank Group assistance to the energy sector has so far been for the development of the country's large hydroelectric power potential and for the concomitant improvement and expansion of the power transmission and distribution network. Through this involvement, the Bank has helped the Government to strengthen the institutional framework of the power sector and to move towards the rationalization of power tariffs. The proposed lending

program includes a further project for electric power development which will address such issues as improvements in operating efficiency, tariff policy, load forecasting techniques, investment strategy and general institutional strengthening in the power sector. The Bank has agreed in principle to be executing agency for a UNDP study of the Kalabagh Dam Project, which could be a major source of additional hydro-electric power as well as irrigation water in the 1990s.

89. In the oil and gas sector, the Bank Group has been actively involved since the early 1950s with the development of Pakistan's natural gas resources through a series of projects to expand the gas transportation and distribution network. Our involvement in petroleum development is more recent but has been expanding rapidly. Under the Toot Oil and Gas Development Project, approved in FY78, we are assisting in increasing domestic oil production from the Toot field; providing the means of evaluating the potential of the recently discovered Dhodak field and preparing for its exploitation; and assisting in strengthening the Oil and Gas Development Corporation's (OGDC) capabilities in the sector. The Bank's association with the joint venture between GOP/OGDC and Gulf Oil, established via an exchange of letters in November 1978, was instrumental in encouraging Gulf to invest in the petroleum sector in Pakistan; initial results from exploration under this joint venture have been encouraging. Other joint venture arrangements based on the Gulf model have been negotiated by GOP with Shell and British Petroleum. In addition, an IFC project approved in 1979 is assisting the expansion of domestic private oil production and petroleum refinery capacity.

90. In connection with our recent activities in the oil and gas sector, the Bank has begun to play an important institution-building role in the sector by identifying and endeavoring to rectify deficiencies in OGDC's management, technical capability and accounting practices. The Bank has also assisted in shaping OGDC's investment program for the next five years and, in the process, has encouraged OGDC to concentrate its efforts on the development of proven oilfields rather than spread its resources thinly over numerous exploration ventures. Other critical issues--for example, the need for a strong national energy planning capability and for adjustments to well-head pricing policies--have also been identified and discussed with the Government in the context of our ongoing and prospective operations. A recent sector paper (Report No. 2953-PAK, "Pakistan: Issues and Options in the Energy Sector," dated June 5, 1980) has provided the basis for a continuing dialogue with the Government on these issues.

91. The next three years could be decisive in determining whether Pakistan's dependence on oil imports will be significantly reduced, and the Bank should play an active role in assisting this endeavor. Increased Bank assistance will be required not only to help finance Pakistan's much expanded exploration and development program in the oil and gas sector, but also to follow up and reinforce our efforts to strengthen GOP's energy sector policies and programs. In addition, there is a possible need for Bank assistance in the formulation of an integrated development policy for coal, the determination of the extent and potential of indigenous coal reserves, and in the development of the Lakhra coal field. The proposed lending program provides a total of \$400 million for energy development, including three oil and gas projects; a coal engineering project and a coal mining project; and two

further gas pipeline projects. The oil and gas operations may include assistance to joint ventures with the private sector as well as for GOP/OGDC activities. The possibilities of co-financing continue to be explored.

92. The Social Sectors. The Bank's ability to assist improvements in Pakistan's social services, including programs to meet basic needs of low-income groups, has been limited by deficiencies in the Government's policies and programs in these areas. Our intervention to date has been largely confined to supporting two water and sewerage projects and four education projects aimed at improving education facilities at various levels. The most recent of these projects is assisting primary education, especially for girls and in rural areas.

93. There are now (see paragraphs 41-46 above) tentative signs of greater government awareness of the need to improve policies and programs in the social sectors which could open up the prospect of an expanded role for the Bank in these fields. A detailed review of health and population planning activities and of GOP's revised strategy for population planning will be made in connection with the annual economic mission, and an early operational mission will be mounted if the findings of this review are positive. As described earlier in this paper, the need for an efficient population planning program in Pakistan is becoming increasingly urgent. A population project is included in the lending program for FY84 but will be brought forward if feasible. A rural health/nutrition project is included as a reserve project in FY83.

94. In education, a vocational training project has been appraised and is included in the lending program for FY81; this project will endeavor to alleviate the severe difficulties resulting from the massive drain of skilled and semi-skilled Pakistan labor to the Middle East. The two education projects in the FY82-86 program would focus on primary education and on agricultural, rural and women's training. At the same time, work is envisaged to increase our knowledge of the sector. A review of educational planning will be undertaken by the upcoming economic mission, and a full education sector study is planned for FY83.

95. In the areas of water supply, sewerage and urban development, the Bank has focused its efforts on the two largest cities, Lahore and Karachi; the ADB has been active in smaller towns. Two Bank projects have assisted Lahore in creating and equipping a separate public utility-type organization and in developing water supply, sewerage and drainage works, and a further such project is visualized. Consultants financed under the second of these projects have been carrying out urban planning and transportation studies in preparation for an urban development project in Lahore for Bank financing in FY82. In Karachi, a bulk water supply project is still under preparation after several years of effort, due to financing and institutional problems; this urgently needed project continues to be carried in the reserve list pending progress on these issues. An urban development project in Karachi, included in the later years of the program, is also dependent on a resolution of Karachi's chronic financial problems.

96. Supporting Infrastructure. The focus of Bank Group lending for transport and communications has shifted increasingly towards assisting

Pakistan to better utilize existing capacity by improving the efficiency of operations and strengthening the institutions responsible for these services, especially the Karachi Port Trust, Pakistan Railways, the Telephone and Telegraph (T & T) Department, and Federal and Provincial highway agencies. A major reorganization of the T & T Department has recently been initiated in line with our recommendations and a fourth telecommunications project is included in the proposed lending program which will enable us to follow up on these important institutional changes. One project each to support the further development and efficient operation of the railways, highways and ports has also been included in the program.

C. Resident Mission

97. Since the last CPP review, the position of Resident Representative in Islamabad, which had been vacant for 20 months, has been filled. The position of Country Economist has also been filled and a new Senior Agriculturalist has been transferred to Islamabad from the New Delhi Office. The Mission has also recruited three additional local officers. As a result, the Mission is now expected to make an increasing contribution to (i) easing operational problems on projects under execution or preparation; (ii) economic analysis and reporting; and (iii) the dialogue with the Government on policy matters. In light of the Region's growing involvement with new areas of lending, the Resident Mission will need to increase its capacity further, especially to supply implementation assistance for agricultural projects. Consequently, it has been decided to add a further Headquarters Agriculturist to the Resident Mission by the beginning of FY82 and to recruit locally another three operations officers, bringing the total to six. We also expect the Mission to take increasing responsibility for the supervision of economic and sector work which we intend to conduct increasingly through local research institutions. A local general economist will be added to the local research assistant recruited recently.

D. Economic and Sector Work Program

98. We propose to adapt the economic and sector work program to meet the more promising situation now prevailing in Pakistan, to assist the Government to plan and undertake orderly economic reforms, and to support our proposed lending activities.

99. Work already completed and still ongoing in connection with the UNDP Indus Basin Study and the Fertilizer Imports Credit has substantially added to our knowledge of the agricultural and water sectors. Further analysis, related principally to issues of pricing, incentives to farmers and resource mobilization within the sector, is in progress. While continuing work on specific agricultural issues will be required, gaps in our knowledge are at present relatively small and further major work on agriculture is not envisaged.

100. Substantial additional work, however, is required on the industrial sector, on which relatively limited study has been conducted by the Bank in recent years. An Effective Exchange Rate Study, to be completed in FY81, and an Effective Protection Study to be initiated in FY81 for completion in FY82, are expected to lead to a comprehensive Industrial Sector Survey in FY82.



These studies will help provide a better understanding of the way present government policies and incentives affect the industrial sector and enable judgments and recommendations to be made regarding future industrial development strategy and reforms that are necessary to exploit Pakistan's comparative advantage in the industrial sector. A review of the operating environment and problems facing public industrial enterprises planned for FY81, possibly leading to subsequent more detailed studies of public enterprises, will also strengthen our understanding of issues in the industrial sector.

101. A review of the Government's total medium-term public investment program and its sector and project priorities (included in the December 1979 Indicative Statement ESWP for FY81) will be substantially expanded, and will provide the cornerstone of future dialogue on structural reforms. Staff input for the annual review of this program on a rolling three-year basis may also be required. A number of studies on pricing and resource mobilization issues which have either been carried out or are under preparation at a sector/project level (e.g., on fertilizer and energy pricing, irrigation water charges, and agricultural pricing and taxation) will be continued or updated.

102. Other tasks tentatively proposed for FY82 and FY83 are designed to strengthen our knowledge in a number of areas of concern to us. In connection with the Industrial Sector Survey, the impact of the Karachi Steel Mill on the economy and its implications for the planning and operation of downstream activities will be assessed. A sub-sector study on cement will also be undertaken. Studies on regional development problems; planning mechanisms and other aspects of development administration; urban development issues in Karachi/Sind and of financial markets; and a repeat Energy Sector Study to review recent developments and energy policy options are other envisaged tasks over the next 2-3 years. It is also planned to undertake an in-depth study of the education sector, of which our knowledge is patchy.

103. These new initiatives will result in a substantial increase in the ESWP over present levels. The increase is unavoidable if we are to adequately prepare for proposed structural adjustment lending and for a meaningful macro-economic dialogue with the Government. Given the limitations of staff time, we propose that a substantial proportion of the proposed work, especially on industry, be undertaken by local consultants, supervised by Bank staff. We have already begun to tap the substantial research capability which exists in Pakistan, especially at the Pakistan Institute of Development Economics, in connection with several ongoing studies. This approach, if continued and successfully developed, will support our institution-building efforts in the country as well as enable us to undertake necessary research work at relatively moderate cost.

## VI. CONCLUSIONS AND RECOMMENDATIONS

104. Pakistan's economic development suffered serious disruptions in the early and mid-1970s. The political initiatives of that period destroyed the

momentum of the private sector and created a large and inefficient public sector, without achieving much gain in terms of improved production or income distribution. Levels of long-term foreign assistance fell away sharply, especially towards the end of this period, at a time when Pakistan had committed itself to an ambitious public investment program which was inconsistent with its limited domestic resources.

105. This paper has argued that, although the process of economic reform in Pakistan is still at an early stage, an encouraging start has been made in dealing with the legacy of economic problems; that an expanded lending program is warranted; and that further increases in our activities should be planned to support a continuation of the Government's efforts to place the economy on a sounder basis for long-term development.

106. There are a number of difficulties which may prevent the realization of a further improvement in the economy. Pakistan faces an unexpected, open-ended commitment to provide relief to the influx of refugees from Afghanistan. There are severe pressures for increased expenditure on defense, given the security threat posed by the Soviet invasion of Afghanistan and the possible resurgence of secessionist pressures in the provinces on the western frontier. Even without these new problems, it is evident that the Pakistan economy could not sustain a more rapid rate of development through the early 1980s with the reduced trend of external support evidenced in the late 1970s.

107. The long-term strategy recommended by this CPP is designed to help avoid this possibility. It is based on the recognition that the economic mismanagement in Pakistan during much of the 1970s, together with the adverse developments in the world economy, has left the country with serious economic problems and that, whatever success is met in achieving further improvements in agricultural productivity, reviving the lost momentum of the industrial sector, reducing dependence on imported oil products and reducing the rate of growth of population, Pakistan will remain one of the world's most populous and poorest nations to the end of this century. Provided reasonable economic policies continue to be pursued, it would be appropriate to aim for real net flows of assistance from the Bank Group at a rate considerably in excess of the flows provided in recent years.

108. The recommendations of this paper for which we seek Management's approval are:

- (a) a five-year lending program along the lines of Attachment 1, substantially above presently approved lending levels but still low in per-capita terms, with primary emphasis on the key sectors of agriculture and energy and with provision for a possible resumption of Bank lending in support of structural adjustment measures;
- (b) an increase in the economic and sector work program, along the lines of Attachment 4, to support the expansion in the lending program and to facilitate our ability to conduct a dialogue with the Government on structural adjustment issues; and

- (c) an increase on a case-by-case basis in the share of the total net cost of high-priority projects which may be financed by the Bank Group from 60%, as presently authorized, to 75%.





## PAKISTAN - SOCIAL INDICATORS DATA SHEET

LAND AREA (THOUSAND SQ. KM.)	PAKISTAN			REFERENCE GROUPS (WEIGHTED AVERAGES - MOST RECENT ESTIMATE) <sup>1/2</sup>	
	1960	MOST RECENT		LOW INCOME ASIA & PACIFIC	MIDDLE INCOME ASIA & PACIFIC
		1970	ESTIMATE		
TOTAL	803.9				
AGRICULTURAL	253.0				
<u>GNP PER CAPITA (US\$)</u>	60.0	130.0	230.0	197.9	894.8
<u>ENERGY CONSUMPTION PER CAPITA</u> (KILOGRAMS OF COAL EQUIVALENT)	61.0/1	98.0/1	172.0	166.0	842.4
<u>POPULATION AND VITAL STATISTICS</u>					
POPULATION, MID-YEAR (MILLIONS)	45.9	60.4	77.3	.	.
URBAN POPULATION (PERCENT OF TOTAL)	22.1	24.9	27.4	20.8	39.1
<u>POPULATION PROJECTIONS</u>					
POPULATION IN YEAR 2000 (MILLIONS)			139.0	.	.
STATIONARY POPULATION (MILLIONS)			332.0	.	.
YEAR STATIONARY POPULATION IS REACHED			2150	.	.
<u>POPULATION DENSITY</u>					
PER SQ. KM.	57.0	75.0	96.0	193.2	376.1
PER SQ. KM. AGRICULTURAL LAND	201.0	249.0	305.0	409.6	2350.4
<u>POPULATION AGE STRUCTURE (PERCENT)</u>					
0-14 YRS.	43.8	46.3	46.5	42.0	40.4
15-64 YRS.	51.8	50.5	50.6	55.0	56.2
65 YRS. AND ABOVE	4.4	3.2	2.9	3.0	3.4
<u>POPULATION GROWTH RATE (PERCENT)</u>					
TOTAL	2.3	2.8	3.1	2.2	2.4
URBAN	5.0	4.0	4.4	3.9	4.1
<u>CRUDE BIRTH RATE (PER THOUSAND)</u>					
	48.0	47.0	45.0	37.4	28.7
<u>CRUDE DEATH RATE (PER THOUSAND)</u>					
	23.0	18.0	15.0	14.6	7.9
<u>GROSS REPRODUCTION RATE</u>					
	3.2	3.7	3.3	2.6	1.9
<u>FAMILY PLANNING</u>					
ACCEPTORS, ANNUAL (THOUSANDS)	..	1908.1	2085.0	.	.
USERS (PERCENT OF MARRIED WOMEN)	..	..	6.0	15.6	39.0
<u>FOOD AND NUTRITION</u>					
<u>INDEX OF FOOD PRODUCTION</u>					
PER CAPITA (1969=71=100)	89.0	102.0	99.0	101.4	116.9
<u>PER CAPITA SUPPLY OF CALORIES (PERCENT OF REQUIREMENTS)</u>					
	83.0	97.0	99.0	92.4	108.9
<u>PROTEINS (GRAMS PER DAY)</u>					
	55.0	60.0	63.0	49.8	60.3
<u>OF WHICH ANIMAL AND PULSE</u>					
	22.0	20.0	20.0	12.0	18.8
<u>CHILD (AGES 1-4) MORTALITY RATE</u>					
	27.0	21.0	17.0	17.9	5.3
<u>HEALTH</u>					
<u>LIFE EXPECTANCY AT BIRTH (YEARS)</u>					
	44.0	49.0	52.0	50.8	63.0
<u>INFANT MORTALITY RATE (PER THOUSAND)</u>					
	135.0/c	..	..	..	52.8
<u>ACCESS TO SAFE WATER (PERCENT OF POPULATION)</u>					
TOTAL	..	21.0	29.0	30.2	42.4
URBAN	..	..	60.0	66.0	62.1
RURAL	..	..	17.0	20.0	29.7
<u>ACCESS TO EXCRETA DISPOSAL (PERCENT OF POPULATION)</u>					
TOTAL	..	3.0	6.0	17.7	52.8
URBAN	..	12.0	21.0	71.3	71.1
RURAL	..	..	..	..	42.4
<u>POPULATION PER PHYSICIAN</u>					
	11000.0/d	4310.0/e	3780.0/e	6322.7	4120.1
<u>POPULATION PER NURSING PERSON</u>					
	..	8440.0/e	10040.0/e	9459.0	2213.6
<u>POPULATION PER HOSPITAL BED</u>					
TOTAL	2070.0	1870.0	2020.0	1758.4	819.4
URBAN	370.0	500.0	570.0	502.9	..
RURAL	22850.0	12390.0	12360.0	10524.1	..
<u>ADMISSIONS PER HOSPITAL BED</u>					
	..	..	..	..	28.8
<u>HOUSING</u>					
<u>AVERAGE SIZE OF HOUSEHOLD</u>					
TOTAL	5.4	5.3	..	..	..
URBAN	5.6	5.5	..	..	..
RURAL	5.4	5.2	..	..	..
<u>AVERAGE NUMBER OF PERSONS PER ROOM</u>					
TOTAL	3.1	2.8/g	..	..	..
URBAN	3.1	2.7	..	..	..
RURAL	3.1	2.8	..	..	..
<u>ACCESS TO ELECTRICITY (PERCENT OF DWELLINGS)</u>					
TOTAL	..	17.9/g	..	..	..
URBAN	..	54.4	..	..	..
RURAL	..	4.9	..	..	..

PAKISTAN - SOCIAL INDICATORS DATA SHEET

	PAKISTAN			REFERENCE GROUPS (WEIGHTED AVERAGES - MOST RECENT ESTIMATE) <sup>1/4</sup>	
	1960 <sup>1/2</sup>	1970 <sup>2/3</sup>	MOST RECENT ESTIMATE <sup>3/4</sup>	LOW INCOME ASIA & PACIFIC	MIDDLE INCOME ASIA & PACIFIC
<b>EDUCATION</b>					
ADJUSTED ENROLLMENT RATIOS					
PRIMARY: TOTAL	10.0	44.0	51.0	30.9	38.6
MALE	46.0	62.0	69.0	34.3	39.2
FEMALE	13.0	24.0	32.0	66.7	97.7
SECONDARY: TOTAL	11.0	14.0	17.0	25.6	55.5
MALE	18.0	22.0	25.0	34.8	60.7
FEMALE	3.0	6.0	8.0	18.2	49.9
VOCATIONAL ENROL. (% OF SECONDARY)	1.0	1.5	1.5	9.9	13.7
PUPIL-TEACHER RATIOS					
PRIMARY	39.0	41.0	42.0	41.1	34.6
SECONDARY	24.0	20.0	19.0	20.5	23.5
ADULT LITERACY RATE (PERCENT)	15.0/g	20.0	21.0	40.9	35.3
<b>CONSUMPTION</b>					
PASSENGER CARS PER THOUSAND POPULATION					
	1.0	3.0	2.8	1.8	3.0
RADIO RECEIVERS PER THOUSAND POPULATION					
	6.0	18.0	16.0	25.8	118.9
TV RECEIVERS PER THOUSAND POPULATION					
	..	1.6	4.8	2.4	39.4
NEWSPAPER ("DAILY GENERAL INTEREST") CIRCULATION PER THOUSAND POPULATION					
	7.0	..	5.0	13.4	..
CINEMA ANNUAL ATTENDANCE PER CAPITA					
	2.8	3.0/h	..	..	4.9
<b>LABOR FORCE</b>					
TOTAL LABOR FORCE (THOUSANDS)					
	14447.6	17364.1	21270.0	..	..
FEMALE (PERCENT)					
	3.7	9.3	10.0	29.4	36.8
AGRICULTURE (PERCENT)					
	50.8	58.9	58.0	70.5	51.9
INDUSTRY (PERCENT)					
	17.9	18.7	19.0	11.6	21.9
PARTICIPATION RATE (PERCENT)					
TOTAL	31.5	28.7	27.9	37.9	39.1
MALE	55.2	50.4	48.6	51.3	48.5
FEMALE	5.7	5.5	5.7	23.7	29.6
ECONOMIC DEPENDENCY RATIO	1.5	1.7	1.8	1.2	1.1
<b>INCOME DISTRIBUTION</b>					
PERCENT OF PRIVATE INCOME RECEIVED BY					
HIGHEST 5 PERCENT OF HOUSEHOLDS	20.3/1	17.8	17.3	..	..
HIGHEST 20 PERCENT OF HOUSEHOLDS	45.3/1	41.8	41.5	..	..
LOWEST 20 PERCENT OF HOUSEHOLDS	5.4/1	8.0	8.4	..	..
LOWEST 40 PERCENT OF HOUSEHOLDS	17.5/1	20.2	20.6	..	..
<b>POVERTY TARGET GROUPS</b>					
ESTIMATED ABSOLUTE POVERTY INCOME LEVEL (US\$ PER CAPITA)					
URBAN	..	68.0	176.0	107.8	..
RURAL	..	47.0	122.0	86.5	192.1
ESTIMATED RELATIVE POVERTY INCOME LEVEL (US\$ PER CAPITA)					
URBAN	..	34.0	88.0	..	..
RURAL	..	22.0	58.0	..	132.5
ESTIMATED POPULATION BELOW ABSOLUTE POVERTY INCOME LEVEL (PERCENT)					
URBAN	..	42.0	12.0	46.2	..
RURAL	..	43.0	29.0	31.7	33.2

.. Not available  
. Not applicable.

NOTES

<sup>1/3</sup> The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depends on availability of data and is not uniform.

<sup>1/2</sup> Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961; for 1970, between 1969 and 1971; and for Most Recent Estimate, between 1974 and 1978.

<sup>1/4</sup> 1962-63; <sup>1/4</sup> Includes Bangladesh; <sup>1/5</sup> Registered, not all practicing in the country; <sup>1/5</sup> 1973; <sup>1/5</sup> 1960-62; <sup>1/5</sup> 1972; <sup>1/5</sup> 1963-64; <sup>1/5</sup> Aggregated data for Pakistan and Bangladesh.

DEFINITIONS OF SOCIAL INDICATORS

Notes: Although the data are drawn from sources generally judged the most authoritative and reliable, it should also be noted that they may not be internationally comparable because of the lack of standardized definitions and concepts used by different countries in collecting the data. The data are, nonetheless, useful to describe orders of magnitude, indicate trends, and characterize certain major differences between countries.

The reference groups are (1) the same country group of the subject country and (2) a country group with somewhat higher average income than the country group of the subject country (except for "Capital Surplus Oil Exporters" group where "Middle Income North Africa and Middle East" is chosen because of stronger socio-cultural affinities). In the reference group data the averages are population weighted arithmetic means for each indicator and shown only when at least half of the countries in a group has data for that indicator. Since the coverage of countries using the indicators depends on the availability of data and is not uniform, caution must be exercised in relating averages of one indicator to another. These averages are only useful in comparing the value of one indicator at a time among the country and reference groups.

LAND AREA (thousand sq.km.)

Total - Total surface area comprising land area and inland waters.  
Agricultural - Estimate of agricultural area used temporarily or permanently for crops, pastures, market and kitchen gardens or to lie fallow; 1977 data.

GNP PER CAPITA (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1976-78 basis); 1960, 1970, and 1978 data.

ENERGY CONSUMPTION PER CAPITA - Annual consumption of commercial energy (coal and liquids, petroleum, natural gas and hydro-, nuclear and geothermal electricity) in kilograms of coal equivalent per capita; 1960, 1970, and 1978 data.

POPULATION AND VITAL STATISTICS

Total Population, Mid-Year (billions) - As of July 1; 1960, 1970, and 1978 data.

Urban Population (percent of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries; 1960, 1970, and 1978 data.

Population Projections

Population in year 2000 - Current population projections are based on 1980 total population by age and sex and their mortality and fertility rates. Projection parameters for mortality rates comprise of three levels assuming life expectancy at birth increasing with country's per capita income level, and female life expectancy stabilizing at 77.5 years. The parameters for fertility rates also have three levels assuming decline in fertility according to income level and past family planning performance. Each country is then assigned one of these nine combinations of mortality and fertility trends for projection purposes.

Stationary population - In a stationary population there is no growth since the birth rate is equal to the death rate, and also the age structure remains constant. This is achieved only after fertility rates decline to the replacement level of unit net reproduction rate, when each generation of women replaces itself exactly. The stationary population size was estimated on the basis of the projected characteristics of the population in the year 2000, and the rate of decline of fertility rate to replacement level.

Year stationary population is reached - The year when stationary population size has been reached.

Population Density

Per sq. km. - Mid-year population per square kilometer (100 hectares) of total area.

Per sq. km. agricultural land - Computed as above for agricultural land only.

Population Age Structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population; 1960, 1970, and 1978 data.

Population Growth Rate (percent) - total - Annual growth rates of total mid-year populations for 1950-60, 1960-70, and 1970-78.

Population Growth Rate (percent) - urban - Annual growth rates of urban populations for 1950-60, 1960-70, and 1970-78.

Crude Birth Rate (per thousand) - Annual live births per thousand of mid-year population; 1960, 1970, and 1978 data.

Crude Death Rate (per thousand) - Annual deaths per thousand of mid-year population; 1960, 1970, and 1978 data.

Gross Reproduction Rate - Average number of daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970, and 1977.

Family Planning - Acceptors, Annual (thousands) - Annual number of acceptors of birth-control devices under auspices of national family planning program.

Family Planning - Users (percent of married women) - Percentage of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

FOOD AND NUTRITION

Index of Food Production per Capita (1969=71=100) - Index of per capita annual production of all food commodities. Production excludes seed and feed and is on calendar year basis. Commodities cover primary goods (e.g. sucrose instead of sugar) which are edible and contain nutrients (e.g. coffee and tea are excluded). Aggregate production of each country is based on national average producer price weights; 1961-65, 1970, and 1978 data.

Per capita supply of calories (percent of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day. Available supplies comprise domestic production, imports less exports, and changes in stock. Net supplies exclude animal feed, seeds, quantities used in food processing, and losses in distribution. Requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distribution of population, and allowing 10 percent for waste at household level; 1961-65, 1970, and 1977 data.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day. Net supply of food is defined as above. Requirements for all countries established by USDA provide for minimum allowance of 40 grams of total protein per day and 10 grams of animal and pulse protein, of which 10 grams should be animal protein. These standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey; 1961-65, 1970 and 1977 data.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day; 1961-65, 1970 and 1977 data.

Child (ages 1-4) Mortality Rate (per thousand) - Annual deaths per thousand in age group 1-4 years, to children in this age group; for most developing countries data derived from life tables; 1960, 1970 and 1977 data.

HEALTH

Life Expectancy at Birth (years) - Average number of years of life remaining at birth; 1960, 1970 and 1978 data.

Infant Mortality Rate (per thousand) - Annual deaths of infants under one year of age per thousand live births.

Access to Safe Water (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) with reasonable access to safe water supply (includes treated surface waters or untreated but uncontaminated water such as that from protected boreholes, springs, and sanitary wells) as percentages of their respective populations. In an urban area a public fountain or standpost located not more than 200 meters from a house may be considered as being within reasonable access of that house. In rural areas reasonable access would imply that the households or members of the household do not have to spend a disproportionate part of the day in fetching the family's water needs.

Access to Sewage Disposal (percent of population) - total, urban, and rural - Number of people (total, urban, and rural) served by adequate disposal as percentages of their respective populations. Sewage disposal may include the collection and disposal, with or without treatment, of human excreta and waste-water by water-borne systems or the use of pit latrines and similar installations.

Population per Ph.D. holder - population divided by number of practicing physicians qualified from a medical school at university level.

Population per Nursing Person - Population divided by number of practicing male and female graduate nurses, practical nurses, and assistant nurses.

Population per Hospital Bed - total, urban, and rural - Population (total, urban, and rural) divided by their respective number of hospital beds available in public and private general and specialized hospital and rehabilitation centers. Hospitals are establishments permanently staffed by at least one physician. Establishments providing principally custodial care are not included. Rural hospitals, however, include health and medical centers not permanently staffed by a physician (but by a medical assistant, nurse, midwife, etc.) which offer in-patient accommodation and provide a limited range of medical facilities. For statistical purposes urban hospitals include WHO principal general and specialized hospitals, and rural hospitals local or rural hospitals and medical and maternity centers.

Admissions per Hospital Bed - Total number of admissions to or discharges from hospitals divided by the number of beds.

HOUSING

Average Size of Household (persons per household) - total, urban, and rural - A household consists of a group of individuals who share living quarters and their main meals. A boarder or lodger may or may not be included in the household for statistical purposes.

Average number of persons per room - total, urban, and rural - Average number of persons per room in all urban, and rural occupied conventional dwellings, respectively. Dwellings exclude non-permanent structures and unoccupied parts.

Access to Electricity (percent of dwellings) - total, urban, and rural - Conventional dwellings with electricity in living quarters as percentage of total, urban, and rural dwellings respectively.

EDUCATION

Adjusted Enrollment Ratios

Primary school - total, male and female - Gross total, male and female enrollment of all ages at the primary level as percentages of respective primary school-age populations; normally includes children aged 5-11 years but adjusted for different lengths of primary education; for countries with universal education enrollment may exceed 100 percent since some pupils are below or above the official school age.

Secondary school - total, male and female - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational, or teacher training instructions for pupils usually of 12 to 17 years of age; correspondence courses are generally excluded.

Vocational enrollment (percent of secondary) - Vocational institutions include technical, industrial, or other programs which operate independently or as departments of secondary institutions.

Popul-teacher ratio - primary, and secondary - Total students enrolled in primary and secondary levels divided by numbers of teachers in the corresponding levels.

Adult literacy rate (percent) - Literate adults (able to read and write) as a percentage of total adult population aged 15 years and over.

CONSUMPTION

Passenger Cars (per thousand population) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Radio Receivers (per thousand population) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

TV Receivers (per thousand population) - TV receivers for broadcast to general public per thousand population; excludes unlicensed TV receivers in countries and in years when registration of TV sets was in effect.

Newspaper Circulation (per thousand population) - Shows the average circulation of "daily general interest newspaper", defined as a periodical publication devoted primarily to recording general news. It is considered to be "daily" if it appears at least four times a week.

Cinema Annual Attendance per Capita per Year - Based on the number of tickets sold during the year, including admissions to drive-in cinemas and mobile units.

LABOR FORCE

Total Labor Force (thousands) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc. Definitions in various countries are not comparable; 1960, 1970 and 1978 data.

Female (percent) - Female labor force as percentage of total labor force.

Agriculture (percent) - Labor force in farming, forestry, hunting and fishing as percentage of total labor force; 1960, 1970 and 1978 data.

Industry (percent) - Labor force in mining, construction, manufacturing and electricity, water and gas as percentage of total labor force; 1960, 1970 and 1978 data.

Participation Rate (percent) - total, male, and female - Participation or activity rates are computed as total, male, and female labor force as percentages of total, male and female population of all ages respectively; 1960, 1970, and 1975 data. These are LQ's participation rates reflecting age-sex structure of the population, and long time trend. A few estimates are from national sources.

Economic Dependency Ratio - Ratio of population under 15 and 65 and over to the total labor force.

INCOME DISTRIBUTION

Percentage of Private Income (both in cash and kind) - Received by richest 5 percent, richest 10 percent, poorest 10 percent, and poorest 40 percent of households.

POVERTY TARGET GROUPS

Estimated Absolute Poverty Income Level (US\$ per capita) - urban and rural - Absolute poverty income level is that income level below which a minimal nutritionally adequate diet plus essential non-food requirements is not affordable.

Estimated Relative Poverty Income Level (US\$ per capita) - urban and rural - Rural relative poverty income level is one-third of average per capita personal income of the country. Urban level is derived from the rural level with adjustment for higher cost of living in urban areas.

Estimated Population Below Absolute Poverty Income Level (percent) - urban and rural - Percent of population (urban and rural) who are "absolute poor".



ECONOMIC DATA AND PROJECTIONS FOR PAKISTAN, 1980-1990

The attached 10-year projections take into account recent information which was gathered during an IMF mission to negotiate an EFF agreement for Pakistan. The major assumptions underlying the revised projections are:

- (a) National Accounts: GDP is assumed to grow at an average of 5.3% p.a. through the period as a result of the following sectoral growth assumptions:

agriculture - 4.0% p.a.  
industry - 6.0% p.a.  
other - 5.8% p.a.

The share of investment in GDP is assumed to rise from 16.8% to 18.0% through the period.

- (b) Imports: Estimates for FY80 to FY83 are taken from most recent IMF/GOP projections. It has been assumed that agreement on an EFF would be accompanied by import liberalization, leading to a sharp increase in imports in FY81 with small further increases in non-food imports to FY83. Imports are then assumed to grow at an average rate of 5.0% p.a. (for imports including non-factor services) from FY83. Food imports are assumed to fall in FY82 and FY83 as wheat and sugar imports are eliminated, then other food imports are assumed to grow with private consumption, with an elasticity of 0.4%. With an assumed continuing increase in domestic production, petroleum imports are assumed to grow at 3.2% p.a. through the latter years of the period.
- (c) Exports: Estimates for FY80 to FY83 are taken from IMF/GOP projections. From FY83, exports (including non-factor services) are assumed to grow at an average rate of 6.5%, with exports of manufacturing and other goods sectors showing the highest growth.
- (d) Terms of Trade: are assumed to decline gradually through the period, mainly due to increases in petroleum prices assumed to be higher than price increases for other exports and imports. For the later years, most other price indices are assumed to approximate IPI (the general international price index).
- (e) Workers' Remittances: are assumed to increase at 15% p.a. in current prices to 1985, falling to 10% p.a. for the remainder of the period.

(f) External Assistance: Commitments from various sources are assumed as follows:

- IDA/IBRD - As sought in the CPP, with quick disbursement simulated for structural adjustment lending. Bank lending for projects is assumed to resume from FY87, rising to \$300 million by 1990.
- OPEC - An average of \$100 million per year in current prices is assumed to be available as balance of payments assistance from OPEC countries.
- Other - Other bilateral and multilateral flows are set to reflect commitments made at the 1980 Consortium meeting. From FY81 to FY86 annual growth at 10% in current terms is assumed, with 6% p.a. growth in current terms for the remainder of the period.
- IMF - A three-year EFF agreement is assumed with gross disbursements amounting to SDR 1.26 billion over three years from FY81 to FY83. For the later years of the period, it is assumed that there will be further agreed programs with the IMF, leading to zero net flows over the remainder of the period.
- Debt Relief - It is assumed that agreement on an EFF program would be followed by a series of annual reschedulings of debt by bilateral members of the Pakistan Consortium, amounting to \$110 million in FY81 and \$220 million in FY82 and FY83, repayable at 2.5% over 12 years with three years' grace.

(g) Commercial Borrowing:

- Short-term - Some running down of presently accumulated short-term debt is assumed during FY82 and FY83.
- Medium-term - Steadily increasing amounts are assumed to be borrowed from FY83, consistent with a debt-service ratio remaining around 10% throughout the period.

PAKISTAN - ECONOMIC INDICATORS

Population : 79800 - (mid-1979, thousands)  
 GNP Per Capita: US\$ 270 - (1979)

Indicator	Amount (million US\$ at current prices) 1978	Annual growth rate (%) at constant prices									
		Actual					Projected				
		1974	1975	1976	1977	1978	1979(a)	1980	1981	1982	1983
<b>NATIONAL ACCOUNTS</b>											
Gross domestic product (b)	17334	5.2	3.4	4.9	3.6	6.9	5.3	6.0	5.3	5.3	5.3
Agriculture	4971	4.2	-2.1	4.3	2.5	2.5	4.2	6.0	5.0	4.0	4.0
Industry	3753	9.1	2.4	3.2	1.8	9.0	5.8	6.0	6.0	6.0	6.0
Services	7041	9.9	9.3	1.6	2.9	9.0	7.1	5.8	5.8	5.8	5.8
Consumption	15931	6.4	0.5	3.3	5.2	8.2	7.3	5.1	5.8	4.5	4.5
Gross investment	3044	18.5	20.5	15.7	6.6	-3.8	4.3	1.4	5.5	6.0	6.0
Exports of GNFS	1646	-17.3	11.5	14.2	-17.6	13.0	19.6	25.7	6.2	3.6	5.9
Imports of GNFS	3237	15.6	-6.4	7.0	10.7	6.8	36.5	4.1	11.0	-1.2	-1.4
Gross national savings	2445	-39.5	115.0	0.3	-15.3	21.8	-	-	-	-	-

PRICES

GDP deflator	283	159.2	199.0	223.1	243.7	262.6
Exchange rate	10	9.9	9.9	9.9	9.9	9.9

	Share of GDP at Market Prices (%) (at current prices) (c)						Average Annual Increase (%) (at constant prices)				
	1960	1970	1975	1980	1985	1990	1960-70	1970-75	1975-80	1980-85	1985-90
	Gross domestic product (b)	100.0	100.0	100.0	100.0	100.0	100.0	7.2	3.8	5.4	5.3
Agriculture	43.7	33.4	29.9	27.0	25.4	23.8	4.9	1.4	3.4	4.0	4.0
Industry	14.7	20.3	21.9	21.2	21.9	22.6	10.0	4.5	5.6	6.0	6.0
Services	36.1	37.1	41.5	43.0	44.1	45.1	7.0	6.9	5.6	3.8	5.8
Consumption	95.0	91.0	95.2	93.6	92.2	91.2	7.1	4.3	6.2	4.9	4.9
Gross investment	11.6	15.8	16.2	9.9	10.2	10.5	6.9	-7.7	3.2	6.0	6.0
Exports GNFS	8.4	7.8	11.0	6.6	6.9	7.3	8.1	-5.4	8.3	6.0	6.6
Imports GNFS	15.0	14.6	22.3	10.1	9.2	9.0	6.3	-10.4	13.5	2.5	4.9
Gross national savings	4.8	9.0	5.9	-	-	-	7.8	4.5	-	-	-

As % of GDP

	1970	1975	1979
<b>PUBLIC FINANCE (d)</b>			
Current revenues	14.1	15.0	16.6
Current expenditures	12.3	14.8	14.1
Surplus (+) or deficit (-)	1.7	0.2	2.5
Capital expenditure	4.9	10.2	9.4
Foreign financing	1.5	4.1	3.0

	1960-70	1970-75	1975-80	1980-85	1985-90
<b>OTHER INDICATORS</b>					
GNP growth rate (%)	7.2	4.0	6.1	5.4	5.2
GNP per capita growth rate (%)	-	-	-	2.5	2.4
Energy consumption growth rate (%)	-	-	-	-	-
ICOR	2.5	3.4	3.4	3.2	3.2
Marginal savings rate	0.1	0.1	-	-	-
Import elasticity	0.9	-2.8	2.5	0.5	0.9

- (a) Estimates.  
 (b) At market prices; components are expressed at factor cost and will not add due to exclusion of net indirect taxes and subsidies.  
 (c) Projected years at constant prices.  
 (d) Central government only. Data for Pakistan is available only from 1970/71. Data shown against 1970, 1975 and 1979 refer to financial years 1970/71, 1975/76, 1979/80.

## PAKISTAN - EXTERNAL TRADE

Population : 79800 - (mid-1979, thousands)  
 GNP Per Capita : US\$ 270 - (1979)

Indicator	Amount (million US\$ at current prices) 1978	Annual Growth Rates (%) (at constant 1970 prices)									
		Actual					Projected				
		1974	1975	1976	1977	1978	1979(e)	1980	1981	1982	1983
<b>EXTERNAL TRADE</b>											
Merchandise exports	620.4	-22.4	2.7	18.3	-17.9	9.1	18.0	30.1	7.9	6.2	6.1
Primary	328.1	-22.4	25.1	7.7	-23.2	-4.7	23.9	32.3	10.4	5.9	6.7
Manufactures	292.1	-22.5	-11.9	28.1	-13.9	12.7	12.1	27.7	6.7	6.3	5.8
Merchandise imports	1431.5	22.9	36.9	-5.1	-0.9	7.9	25.1	2.1	15.0	-2.4	-3.0
Food	344.4	14.1	67.7	-7.8	-30.1	36.3	50.9	-33.5	6.0	-22.2	-2.6
Petroleum	74.3	13.3	2.0	5.8	2.5	16.9	2.3	12.7	7.0	0.0	2.5
Machinery and equipment	541.1	34.7	34.8	19.0	11.9	-5.9	3.5	5.6	0.5	4.4	-2.5
Others	471.7	18.7	30.0	-30.0	0.6	16.6	47.0	22.5	34.1	-1.6	-4.3
<b>PRICES</b>											
Export price index		211.0	197.0	198.0	235.0	244.0	265.0	228.3	247.3	270.3	295.2
Import price index		200.0	206.0	219.0	250.0	266.0	290.3	354.2	367.0	410.4	460.4
Terms of trade index		106.0	96.0	90.0	94.0	92.0	91.3	64.5	67.4	65.9	64.1

	Composition of Merchandise Trade (%) (at current prices)						Average Annual Increase (%) (at constant 1970 prices)				
	1960	1970	1975	1980	1985	1990	1960-70	1970-75	1975-80	1980-85	1985-90
Exports	na.	100.0	100.0	100.0	100.0	100.0	na.	-2.0	8.0	7.4	9.2
Primary	na.	56.4	55.2	33.1	31.3	25.3	na.	-0.2	4.3	6.2	4.6
Manufactures	na.	43.6	39.3	66.9	68.7	74.7	na.	-4.4	13.1	8.0	11.0
Imports	na.	100.0	100.0	100.0	100.0	100.0	na.	1.3	6.6	2.3	5.4
Food	na.	6.3	20.4	15.7	11.0	9.3	na.	37.6	2.2	-4.8	2.0
Petroleum	na.	6.2	14.1	5.7	5.6	5.0	na.	0.9	7.9	2.8	3.2
Machinery and equipment	na.	50.4	37.2	39.1	37.3	38.5	na.	-7.3	5.2	2.4	6.1
Others	na.	37.1	28.3	39.5	46.1	47.2	na.	1.8	11.2	4.5	5.9

DIRECTION OF TRADE	Share of Trade with Industrial Countries (%)			Share of Trade with Developing Countries (%)			Share of Trade with Capital Surplus Oil Exporters (%)		
	1960	1970	1975	1960	1970	1975	1960	1970	1975
Exports	-	-	-	-	-	-	-	-	-
Primary	-	-	-	-	-	-	-	-	-
Manufactures	-	-	-	-	-	-	-	-	-
Imports	-	-	-	-	-	-	-	-	-

(e) Estimate.

PAKISTAN - BALANCE OF PAYMENTS, EXTERNAL CAPITAL AND DEBT  
(millions US\$ at current prices)

Population: 79800 - (mid-1979, thousands)  
GNP per Capita: US\$ 270 - (1979)

Indicator	Actual							Projected					
	1970	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1985	1990
<b>BALANCE OF PAYMENTS</b>													
Exports of goods and services	75	1447	1609	1884	2329	3146	4032	4907	5554	6394	7364	9520	17140
Of which: Merchandise f.o.b.	-	1019	974	1163	1131	1282	1646	2365	2766	3211	3722	4771	9254
Imports of goods and services	-	2427	2803	2797	3190	4077	5466	6025	7134	7833	8567	10834	19145
Of which: Merchandise f.o.b.	-	1489	2108	2138	2416	3139	3813	5177	6169	6733	7323	9342	16597
Current account balance	-	-764	-864	-440	-121	405	186	-1023	-1331	-1240	-1003	-1164	-1355
Private direct investment	-	-6	15	22	5	35	32	52	57	61	45	75	105
MLT loans (nec)	398	343	794	772	654	576	582	859	1027	1178	973	1035	1818
Official	378	329	767	770	622	509	578	858	1046	1216	1017	823	1352
Private	19	14	27	2	32	67	4	1	-19	-38	-45	212	466
Other capital	-504	271	-62	-293	-796	-711	-1014	292	306	224	175	0	0
Change in reserves	106	156	117	-61	258	-305	214	-180	-60	-223	-210	54	-67
International reserves	-	-	-	-	-	-	-	566	625	849	1059	1097	1644
of which Gold	-	-	-	-	-	-	-	1	1	1	1	1	1
Reserves as months imports	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>EXTERNAL CAPITAL AND DEBT</b>													
Gross Disbursements	-	-	-	-	-	-	-	-	-	-	-	-	-
Official grants	-	-	-	-	-	-	-	-	-	-	-	-	-
Concessional loans	336	292	780	731	597	543	632	95	249	200	200	150	150
DAC	272	182	282	271	281	248	351	1022	1145	1267	1236	1186	1652
OPEC	-	30	310	383	157	56	13	372	491	553	592	730	997
IDA	27	61	46	42	93	50	76	29	71	43	24	-	-
Other	37	18	141	55	67	190	192	53	146	176	144	219	399
Non-concessional loans	171	158	147	171	231	194	190	569	437	494	477	238	256
Official exports credits	40	84	9	28	94	28	5	173	225	238	210	496	124
IBRD	67	11	31	63	45	15	42	42	112	134	116	125	17
Other multilateral	2	7	46	36	18	38	66	21	25	42	50	72	273
Private	63	55	62	44	75	112	77	33	37	35	32	15	-
External Debt	-	-	-	-	-	-	-	78	51	27	12	254	800
Debt outstanding and disbursed	2917	4480	4897	5627	6316	7102	7639	8498	9526	10704	11676	13751	21547
Official	2663	4200	4641	5401	6070	6789	7312	8170	9216	10432	11449	13223	18726
Private	254	281	256	226	246	314	327	328	310	272	227	529	821
Undisbursed debt	1153	1776	1928	1797	1904	2043	2540	2372	2179	2144	2315	2761	4314
Debt service	-	-	-	-	-	-	-	-	-	-	-	-	-
Total service payments	178	189	226	260	315	318	437	552	573	627	725	919	1812
Interest	69	82	93	109	141	157	197	215	233	259	293	367	736
Payments as % exports	237.4	13.0	14.1	13.8	13.5	10.1	10.8	11.2	10.3	9.8	9.9	9.6	10.6
Average interest rate on new loans (%)	2.2	3.8	2.6	4.0	4.5	2.6	3.3	3.1	3.1	3.2	2.9	3.9	5.3
Official	2.1	3.4	2.3	3.6	3.8	2.1	2.6	-	-	-	-	-	-
Private	3.4	10.2	7.8	8.1	8.9	8.1	10.1	-	-	-	-	-	-
Average maturity of new loans (years)	22.5	19.7	29.7	32.6	25.1	34.6	28.9	28.4	29.9	29.2	30.6	30.0	25.9
Official	24.3	20.5	30.6	34.9	27.6	37.1	30.6	-	-	-	-	-	-
Private	6.0	8.4	9.6	9.2	8.8	10.0	11.2	-	-	-	-	-	-

As % of Debt Outstanding  
at End of Most Recent  
Year (1978)

Maturity structure of debt outstanding	
Principal due within 5 years	18.4
Principal due within 10 years	42.3
Interest structure of debt outstanding	
Interest due within first year	2.2

ECONOMIC AND SECTOR WORK PROGRAM

1. The proposed economic and sector work program is designed to meet the more promising situation now prevailing in Pakistan, to assist the Government to plan and undertake orderly economic reforms and to support our proposed lending activities.

2. The recent successful conclusion of GOP's negotiations with the IMF on an EFF agreement underlines the need, anticipated in the Region's last indicative statement, to substantially strengthen the economic work on Pakistan. In the context of the EFF agreement, GOP is now committed to undertaking significant economic reforms which will address our major concerns regarding the present situation and future direction of the Pakistan economy, which are highlighted in the current CPP. While these reforms (particularly those relating to the revision of the public sector investment program, its strategy and sector priorities; strengthening GOP's resource mobilization efforts; improving public enterprises' performance; and more generally bringing about appropriate changes in the industrial structure through phased import liberalization and other measures) will assist our own proposed structural adjustment lending to Pakistan, we need to undertake further work in a number of additional areas, both to assist and to build on this process of reform.

3. We have undertaken in the recent past, especially in connection with the UNDP Indus Basin Study and the Fertilizer Imports Credit, substantial economic and sector work which has strengthened our knowledge of the agricultural and water sectors. Further analysis, related principally to issues of pricing incentives to farmers and resource mobilization within the sector, is currently being undertaken by the Pakistan Institute of Development Economics, supervised by Bank staff. While continuing work on specific agricultural issues will be required, gaps in our knowledge are at present relatively small and further major work on agriculture over the next two years is not envisaged.

4. Substantial additional work, however, is required in the industrial sector, on which relatively limited study has been conducted by the Bank in recent years. An Effective Exchange Rate Study which will be completed in FY81 and an Effective Protection Study, initiated in FY81 for completion in FY82, will be followed up by a comprehensive Industrial Sector Survey in FY82. These studies will help provide a better understanding of the way present government policies and incentives as well as proposed import liberalization affect the industrial sector; and enable judgments and recommendations to be made regarding future industrial development strategy and options, and the adjustments necessary to exploit Pakistan's comparative advantage in the industrial sector.

5. A review of the Government's investment program and its sector and project priorities, to be undertaken jointly with GOP in FY81, will be continued in FY82 and FY83. This review will form the cornerstone of our future

dialogue on structural reforms. Substantial additional economic work to support structural adjustment lending is also planned for FY82 and FY83.

6. Other major economic work planned includes a macro-economic programming exercise which will integrate fiscal, monetary and balance of payments accounts for Pakistan as a necessary consistency check on the investment program review mentioned earlier. The macro programming exercise (manpower allocations for which are included under the investment program review in the attached table) will be initiated in FY81, completed in FY82, and updated during FY83.

7. Tentative new tasks proposed for FY82 and FY83 are designed to strengthen our knowledge in a number of areas of concern to us. A study of Regional Development Problems with special emphasis on Baluchistan will be initiated during FY82 and completed during FY83. A subsector study on Cement will be undertaken, primarily by CPS, in FY82. The Industry Sector Survey (FY82) referred to earlier will also assess the impact of the Karachi Steel Mill on the economy and its implications for the planning and operation of downstream activities. Further industrial sector work, yet to be identified, will be undertaken in FY83 to follow up any major issues surfacing from the Review of Public Enterprises and other industrial sector work which will be carried out in FY81 and FY82. A review of Water Supply and Sanitation Issues (FY82) and of Karachi/Sind Urban Problems (FY82/83) to support proposed lending activities; a repeat Energy Sector Study to review developments over the next 2-3 years and energy policy options (FY83); a study of financial markets which will review the role of financial intermediaries and the stock market in financing investment within the context of Islamization (FY83); and a review of Pakistan's Development Administration (FY83) are among other suggested tasks. An Education Sector Study is also planned for FY83.

8. These new initiatives will result in a substantial increase in the ESWP for FY81-83 over the levels of the recent past. This increase is unavoidable if we are to assist GOP in implementing planned economic reforms and to adequately prepare for proposed structural adjustment lending and for a meaningful macro-economic dialogue with the Government. Given the limitations of Bank staff time, a substantial proportion of planned work will be undertaken by local consultants, supervised by Bank staff. We have already begun to tap the substantial research capability which exists in Pakistan, especially at the Pakistan Institute of Development Economics, in connection with several ongoing studies; this approach, if continued, will also support our institution-building efforts in the country.

#### Outline of Proposed Studies

##### Economic Work

9. Country Economic Memorandum. This is the annual economic report, for servicing the Pakistan Consortium as well as for internal Bank use.

10. Balance of Payments Monitoring/Debt Relief. In view of Pakistan's difficult balance of payments situation and the proposed debt relief exercise,

continued monitoring of the external payments situation is planned. In addition, staff time will be required to service the debt rescheduling exercise. This matter is likely to continue to require staff time into FY82 and FY83.

11. Shadow Pricing. A review of a number of studies on shadow pricing in Pakistan was made by Programs staff in FY80. These studies need to be revised and updated, and a substantial further effort will be required to develop a set of parameters which can be used in project analysis, as well as in the proposed Effective Protection Study.

12. Review of Investment Program. This detailed review of GOP's three-year investment program in key sectors and projects will support the EFF agreement as well as hopefully provide a principal component of a structural adjustment package. It is hoped that the review will broaden our understanding of GOP's plans and strengthen our capability to conduct a dialogue with GOP on restructuring development expenditures. The review has already been initiated and the bulk of the work is programmed for FY81 but is likely to continue into FY82 and FY83. A macro-economic programming exercise to integrate fiscal, monetary and balance of payments accounts will be undertaken to check the consistency of the investment program review.

13. Labor Migration Study. This study, being funded under the Bank's research program, is expected to be completed toward the end of calendar 1980. The time allocated is for the supervision of the study and review of the draft report.

14. Regional Development Study. This study will focus on the development problems of Baluchistan and other less developed areas of Pakistan. It will build upon the ongoing review by Bank staff of GOP's Special Development Plan for Baluchistan and endeavor to identify rural and other projects aimed at assisting the most needy in these regions.

15. Development Administration Study. This study will endeavor to identify and propose solutions to alleviate key problems undermining the effective administration of Pakistan's development efforts. The study will include a review of the planning process; arrangements for project formulation, execution and monitoring; coordination between government departments and agencies; administrative arrangements between the Provinces and the Center; and recruitment and training of staff.

16. Financial Markets Study. A principal purpose of this study will be to provide recommendations on measures to strengthen the role of financial markets in supporting private investment in Pakistan. The study would include an assessment of the impact of Islamization on savings and investment.

#### Sector Work

17. Indus Basin Follow-Up. Much of the follow-up activities for the UNDP Indus Basin Planning Study will be non-sector work, e.g., identification, project preparation and appraisals of specific recommended projects. However, there are several components that will require assistance. These include:



- (a) SCARP Transition Study - this study will review the complex issues involved and make recommendations for the effective implementation of Pakistan's new policy of entrusting the development of fresh groundwater areas, including areas presently under public tubewells, to the private sector;
- (b) Investment Program for Agriculture and Water - this study will assist the Government to review and modify its investment program in the agricultural and water sectors, in accordance with GOP's revised strategy of de-emphasizing capital-intensive, long-gestation projects and of providing additional resources for quick-yielding projects and essential supporting services; and
- (c) Agricultural Pricing and Taxation Study - this study, which would be undertaken by the proposed Agricultural Prices Commission with Bank assistance, will review the effects of higher production costs and taxes on farm incomes.

In addition, there is a proposed program of cooperation between WAPDA Prospective Planning Division and the Development Research Center on the transfer to Pakistan of certain components of DFC's Indus Investment Model.

18. Effective Exchange Rate Study. This study is expected to provide an assessment of the relative magnitudes of present export incentives in various sectors of the economy and how they have changed over the last decade. The study will help identify sectors and specific products for the subsequent Effective Protection Study.

19. Effective Protection Study. This is an in-depth study of effective rates of protection and domestic resource costs as a part of an analysis of Pakistan's comparative advantage in selected manufacturing sub-sectors and activities. The study will help provide a better understanding of the present incentive system on different industrial activities, its effects on resource allocation within the industrial sector and in industry in relation to other sectors, and policy implications and options for reforming the incentive system to sustain industrial and export growth. The study will be a useful preparatory input for the industry sector survey planned for FY82.

20. Review of Public Enterprises. The study will review the present status of public enterprises in Pakistan and suggest policy recommendations for improving the environmental conditions which are necessary for the efficient operation of public enterprises; it will also help identify issues and problem areas for later study.

21. Industrial Sector Survey. This major study will draw upon the results of various items of sub-sector work undertaken in FY81 and FY82 (such as the effective protection study and the public enterprises review) to provide a comprehensive analysis of the industrial sector. A principal purpose of the study will be to assist GOP in formulating its industrial development strategy for the 1980s as well as to help determine the necessary

elements of a structural reform package for industry. It is envisaged that the survey will be followed up by a more detailed study of the Karachi Steel Mill and of sub-sector issues arising out of the survey.

22. Inter-Modal Container Study. Container traffic is beginning to develop in Pakistan, and Karachi Port Trust has signed agreements with several shipping companies which are now providing regular container service. However, the containers are presently stuffed and unstuffed at the port. Under this arrangement the full advantage of moving the containers out of the port area towards final destination is not being obtained. It is therefore proposed that an inter-modal study be undertaken which would encompass the transport, handling, and storage of containers through the port to inland destinations, with a view to identifying priorities and phased development program.

23. Karachi/Sind Urban Sector Study. A review of the urban sector in Sind will be undertaken with particular reference to the development needs of Karachi in terms of physical investment in infrastructure and provision of social and economic services. The institutional and fiscal framework at state and metropolitan level will be reviewed.

ECONOMIC AND SECTOR WORK PROGRAM  
(man-weeks)

	<u>Responsible Division</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83/a</u>
<u>Economic Work</u>					
CEM	ASADA	44	56	60	60
CPP	"	3	12	12	12
BOP Monitoring/Debt Relief	"	23	12	4	4
Shadow Pricing	"	-	10	-	-
GOP Investment Program	"	-	40	20	20
Provincial Urban Finances	"	22	-	10	-
Labor Migration	"	-	10	-	-
Structural Adjustment (Unidentified)	"	-	-	15	20
Public Administration	"	-	-	-	35
Regional Development	"	-	-	10	30
Study of Financial Markets	"	-	-	-	20
Miscellaneous	"	64	57	49	60
<u>Sector Work</u>					
Indus Basin Review	ASPAA	24	18	-	-
Agricultural Research	ASPAA	27	-	-	-
Kalabagh Study	ASPAA	-	40	-	-
Dairy Industry Review	ASPAB	-	20	-	-
Fisheries Desk Study	ASPAD	3	-	-	-
SCARP Transition Study	ASPAA	-	-	12	-
Agriculture/Water Investment Program	ASPAA	-	-	16	-
Agricultural Pricing and Taxation	ASPAA	-	-	10	-
Agriculture (Unidentified)	ASPAA	-	-	-	35
Fisheries Sector Survey	ASPAD	3	-	20	-
Private Sector Incentives	ASPID	32	-	-	-
Effective Exchange Rates	ASPID	-	12	-	-
Effective Rates of Protection	ASPID	-	64	26	-
Public Enterprises	ASPID	-	10	-	24
Industrial Sector Survey	ASPID	-	-	78	-
Industrial Survey Follow-up	ASPID	-	-	-	20
Karachi Steel Mill	ASPID	-	-	-	32
Transport Sector Memo	ASPTR	6	8	-	8
Intermodal Container Study	ASPTR	-	12	-	-
Education Sector Review	ASPAA	-	-	-	30
Power Sector Memo	ASPEW	-	-	4	6
Water Supply/Sewerage Memo	ASPEW	-	-	10	-
Karachi/Sind Urban Study	-	-	-	10	20
Energy Sector Studies	CPS	-	(10)	(10)	(25)
Cement Sub-Sector Study	CPS	-	-	(8)	-
Miscellaneous		22	19	44	43
<u>Grand Total</u>		<u>270</u>	<u>400</u>	<u>410</u>	<u>425</u>

/a Some of studies in FY83 program may be completed in FY84 and aggregate of individual items exceeds grand total.

PAKISTAN - ECONOMIC AND SECTOR WORK PROGRAM  
Main Proposed Subjects

Subject	Type of Work	Remarks	Responsible Department	Total Man Weeks Required			
				FY80	FY81	FY82	FY83
<b>I. Economic - Macro</b>							
1. CEN	Annual review of economy.	Wide audience in Consortium, Bank and Government.	ASADA	44	56	60	60
2. BOP Monitoring/ Debt Relief	Short small mission. Two reports in FY80; servicing debt relief exercise in FY81. Further input likely in FY82 and FY83.	Main audience Consortium and Bank management.	ASADA	23	12	4	4
3. COP Investment Program	Formulation of medium-term public investment program on a rolling basis.	Essential element of EFF agreement and structural adjustment.	ASADA	-	40	20	20
4. Structural Adjustment	Preparatory economic work for planned structural adjustment lending.		ASADA	-	-	15	20
<b>II. Economic - Other</b>							
5. Provincial/Urban Finances	Small mission to review provincial government finances.	Main audience Government; coordinate with project financing.	ASADA	22	-	10	-
6. Labor Migration	Analysis of effects of emigration of labor to Middle East on Pakistan's economy.	Wide audience; Bank-supervised study done by local research institution.	ASADA	-	10	-	-
7. Study of Financial Markets	Role of financial intermediaries and stock market in financing investment; their adaptation to Islamization.	Main audience Bank and Government.	ASADA	-	-	-	20
8. Shadow Pricing	Estimates of key shadow prices.	Mainly for Bank staff use.	ASADA	-	10	-	-
9. Regional Development	Small mission, with probably two Bank staff plus two consultants.	Mainly for Bank and Government use; coordinate with possible projects.	ASADA	-	-	10	30
10. Review of Public Administration in Pakistan	Small mission with one Bank staff and two consultants.	Mainly for Bank use.	ASADA	-	-	-	35
<b>III. Sector Work</b>							
11. Indus Basin Review	Follow-up work on Indus Basin Planning project - i.e., preparation of policy and technical papers; transfer of DRC model.	Assist Government in water and agriculture planning priorities; coordinate with possible projects.	ASPAA	24	18	38	-
12. Agricultural Research	Overall review of agricultural research scene to develop program appropriate to Pakistan's needs.	Joint venture with USAID, FAO and some bilateral agencies. Coordinate with possible projects.	ASPAA	27	-	-	-
13. Fisheries Studies	Evaluate subsector issues.	Mainly for Bank staff use.	ASPAD	3	-	20	-

PAKISTAN - ECONOMIC AND SECTOR WORK PROGRAM  
Main Proposed Subjects

Subject	Type of Work	Remarks	Responsible Department	Total Man Weeks Required			
				FY80	FY81	FY82	FY83
14. Private Sector Investment Incentives	Review incentives for private investment, identify major issues.	Main audience Government and Bank staff.	ASPID	12	-	-	-
15. Effective Exchange Rates	Assess relative magnitudes of present export incentives.	First stage of major industry sector work program; mainly for Bank staff use.	ASPID	-	12	-	-
16. Effective Rates of Protection	In-depth study of effective rates of protection and domestic resource costs.	Main audience Government and Bank staff/management.	ASPID	-	64	26	-
17. Industry Sector Survey	Full scale industry sector review. Will cover new steel mill, which will be reviewed in-depth in FY83.	Wide circulation including Government and Consortium.	ASPID	-	-	78	32
18. Industry Subsector Unidentified	Follow-up study on selected issue identified by industry sector survey.	Main audience Government and Bank staff; coordinate with possible projects.	ASPID	-	-	-	20
19. Transport Sector Memorandum	Sector review focusing on issues in operational efficiency, tariffs and transport planning.	Mainly for Bank staff use; coordinate with possible projects.	ASPTA	8	8	-	8
20. Intermodal Container Study	Review transport, handling, storage aspects of containerization.	Coordinate with possible projects.	ASPTA	-	12	-	-
21. Education Sector Review		Mainly for Bank staff use.	ASPAE	-	-	-	30
22. Cement Subsector Study	Review of subsector demand aspects, planning issues.	Coordinate with possible projects.	CPS	-	-	8	-
23. Energy Subsector Survey	Review of Pakistan's energy options, pricing and planning issues, etc.	Wide audience, including Government, Consortium and Bank management.	CPS	-	10	10	25
24. Water Supply and Sanitation	Subsector review of water supply and sanitation issues.	Mainly for Bank staff use; coordinate with possible projects.	ASPEW	-	-	10	-
25. Review of Public Enterprises	Improving operating environment for public enterprises and developing performance criteria.	Undertaken at GOP's request; also for Bank use.	ASPID	-	10	-	24
26. Karachi/Sind Urban Study	Review of urban sector in Sind with particular reference to Karachi.	Mainly for Bank staff use.	-	-	-	10	20

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PAKISTAN - Country Program Paper

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Postscript

109. The Pakistan CPP was reviewed at a meeting chaired by Mr. McNamara on December 4, 1980. The Region's recommendations contained in paragraph 108 of the CPP were approved by the meeting with the qualifications noted below. The Chairman stated that Pakistan's improved economic performance warranted a substantial increase in its IDA allocations and that, although IDA resources were tight, the higher IDA lending as proposed in the CPP was approved. This would require reallocation at the next Bank-wide allocation review which would take overall requirements and availabilities into account. The resumption of Bank lending was also approved under the conditions proposed by the Region.

110. On local currency financing, the Region had proposed that the authority granted at the last CPP review meeting in May 1979 to finance up to 75% of the cost of high-priority Provincial projects in such areas as agriculture and the social sectors should be extended, on a case-by-case basis, to Federal projects. The meeting decided that, in view of Pakistan's continued low savings rate, as a general rule the limit on Federal projects should remain at 60%.

111. The Chairman underlined the importance of structural adjustment lending (SAL) and indicated that a major effort should be made by the Region to formulate and agree on a suitable reform package with the Government. The meeting noted that, while some key policy issues might appropriately be addressed in the context of sector lending (such as for fertilizer imports), a general program loan would not be an acceptable substitute for an SAL operation.

South Asia Region  
January 22, 1981

3. A period of uncertainty marked the beginning of the new military government's tenure. At his coming into power, General Zia appeared to favor elections. His government had inherited an exhausted economy, a high rate of inflation, depleted public and foreign reserves and a demoralized administration. Hardly enjoying popular support, it was rapidly blamed for these ills and yet its precarious situation limited its freedom of action, particularly in the economic field, and undermined the effectiveness of policy implementation. In addition, General Zia showed reluctance to decide upon fundamental options in a period during which he considered his government as a caretaker one.

4. Meanwhile, the Pakistan People's Party (PPP) under the leadership of Bhutto's widow Begum Nusrat, and his daughter Benazir, continued to muster some popular support. At the local elections held in September 1979, by President Zia against the opposition of most political parties, candidates associated with the PPP were favored by a majority of voters, although the elections were held on a non-party basis and candidates did not formally represent the political parties. The results of these local elections induced President Zia to cancel national elections indefinitely, which he stated would now take place only after his Government, --within the framework of Islamic principles--, has ameliorated the law and order situation, strengthened the national economy and eliminated corruption. The cancellation of elections was accompanied by a tightening of the martial law: political parties were banned, strikes and lockouts declared illegal and censorship imposed on the press.

5. The tension between Iran and the U.S. after the fall of the Shah provoked an ambivalent reaction in Pakistan. After all, Pakistan had maintained very cordial relations with Iran during the Shah's reign. Pakistan condemned the holding of hostages, yet maintained a sympathetic attitude towards Iran's Islamic Government. On November 21, after rumors started implicating the U.S. in the takeover of the Grand Mosque in Mecca, a crowd of mostly PPP supporters and students sacked and burned the U.S. Embassy in Islamabad killing two American and two Pakistani employees.

6. After this incident, the US-Pakistan relations, already strained by Pakistan's refusal to curtail its nuclear program, reached their lowest point. However, geopolitical developments in Afghanistan brought a new dimension to the relations of Pakistan with the Western Powers, including the U.S. Following the Soviet invasion of Afghanistan in late December 1979, Afghan refugees streamed into Pakistan, creating new demands on Pakistan's scarce resources and testing its neutrality in the face of some border violations by the Soviet army. More than 1,300,000 refugees had been registered in Pakistan upto the end of December 1980, while the total number of Afghans fled to Pakistan is likely to be much higher. The Government's open sympathy for the Afghan

rebels, the "mujahideen", tolerated supply of arms from Pakistan's tribal areas through a porous border and the ever present threat of Baluchi and Pathan secessionist movements, which could be exploited by the USSR, have created a delicate situation for Pakistan. An American offer of \$400 million in military and economic aid was rejected by President Zia on the grounds that this relatively small amount did not represent a sufficiently strong American commitment to Pakistan's security, and did not compensate for obvious Russian antagonism nor for the possible loss of support from the Non-Aligned Group or from the rich Gulf States. With the latter Pakistan has carefully fostered its political, economic, social and religious ties. It also maintains its long standing close military alliance with the People's Republic of China.

7. Since under Martial Law political activities are banned, it is difficult to assess the strength of the political opposition to the Military Government. President Zia appears to be in control of the Army and the Government, as evidenced by his willingness and ability to adopt and carry out hard decisions. He has successfully enhanced his international stature as Head of the Conference of Islamic States. The survival of his regime hinges partly on the absence of a strong and widely respected civilian leadership capable of challenging the military by presenting a viable alternative. Some of his actions and statements can be interpreted as an attempt to move towards a more civilian type of government but basic issues such as the role of the political parties including the PPP, the role of the Armed Forces in the Government and the depth and scope of islamization have yet to be resolved. President Zia repeatedly stressed that the unsettled domestic environment does not yet permit national elections. But he promised a broadening of his Cabinet to include civilians and representatives from local institutions. Meanwhile, the local bodies that emerged from the September 1979 election are taking roots in urban and rural areas. They have, at this stage a limited role but are expected to contribute eventually at the grass-root level to economic planning and development. Together with Federal grants, some provincial and municipal resources are now diverted towards their budgets. Their chairmen and vice chairmen participate in the newly established Provincial Advisory Councils.

8. The decision to cancel the November 1979 national election has enhanced the government's capability to take decisions, including unpopular ones in the economic field. Bureaucrats now freed from the uncertainty of the electoral process show greater decisiveness in implementing economic policy measures.



9. The Government's main objectives are to stabilize the economy and accelerate growth. Being without a strong political base, the government hopes to gain wider acceptance through improving economic and social conditions. The imperatives of a growth strategy are thus mitigated by a concern for the living condition of the urban and rural masses, which is reflected in a public subsidy bill representing about 11 percent of total budgetary revenue mostly on food, and agricultural inputs. More than his advisers, General Zia appears concerned by social issues related to basic needs, that he proclaims could best be alleviated within the framework of an Islamic society. A staunch Muslim himself, he sees Islam as a national rallying point and a preferred alternative to a secular political system. Addressing the nation on radio and television on November 10 to mark the beginning of the 15th Muslim Century, President Zia espoused four priorities for his government: acceleration of Islamization in general, Islamization of the judicial process to provide the common man rapid and inexpensive access to the judicial system, extension of education in particular for adults and women, and eradication of poverty.

10. First steps have been taken towards some of these aims: an Islamic Ideology Council appointed by the government and recently enlarged is reviewing the laws of the country to assess their compatibility with Islamic principles. Early last year, Islamic courts, called Shariat benches, were introduced in parallel with the traditional British inspired legal system. These courts can challenge existing laws as non-Islamic and can use speedier procedures for civil cases. Urdu, the vernacular language, is given greater emphasis in schools, and textbooks are rewritten with a stronger Islamic commitment. As of January 1, Pakistan has introduced interest-free banking. According to official interpretation, interest falls within the definition of usury and is forbidden by Islam. Instead of earning fixed interest, deposits and savings will be risk-capital invested by banks in industry and trade. Through loans, banks will take an equity holding and share profits or losses with depositors. The system is still to be tested, and the government is moving with caution towards its implementation.

11. In June 1980, Zakat, a 2½ percent Islamic wealth tax was levied compulsorily on savings for the first time. Zakat proceeds were redistributed throughout the country to needy persons and so far 600,000 have reportedly benefitted from it. But the compulsory introduction of Zakat caused the first serious crisis in Islamization. While this was compatible with the teachings of the Sunni sect which represents about 70 percent of the Muslim population it contradicted traditions of the minority Shia sect for which Zakat is a voluntary alm. Furious, the Shia demonstrated in force in Islamabad on July 5, the third anniversary of Bhutto's ousting. President Zia had to give ground by conceding, that Shia traditions should in future be respected in the enactment of Zakat and other measures. He called a convention of ulema

(Islamic scholars) to define a common basis between Sunnis and Shias for the promotion of Islamic order. By giving the ulema a role, Zia has made them bear some of the burden of Islamization and face some of the criticisms too. The incident clearly challenged Zia's assumption that there is unity of belief among Muslims and instead suggested that religion may turn out to be a more divisive than unifying factor.

12. Pakistan calls itself an Islamic Republic. The proclamation of the martial law on July 5, 1977 formally suspended the 1973 Constitution and dissolved the National Assembly, the Senate, the Provincial Assemblies and the elected Government. General Zia was sworn in as the sixth President of Pakistan on September 16, 1978 when the previous President, Fazle Elahi Chaudhry resigned, who had remained in office after Bhutto's ousting. Under the martial law regime the President is assisted by a four-member Military Council comprising the Chairman of the Joint Chiefs of Staff Committee and the Chiefs of Staff of the Army, Navy and Air Force. As Chief Martial Law Administrator he heads the Federal Executive Branch, while the four Provincial Governors as Provincial Martial Law Administrators head the provincial administration. The Chief Justice of the High Court in every province is Acting Provincial Governor while Provincial Secretaries remain in charge of the Provincial Departments.

13. The scope of Federal and Provincial legislative authorities determined by the 1972 Constitution is still in force. While the Federal Government has sole power to legislate in matters of national interest like foreign policy, defense, domestic and external finance and national planning, the Provinces are responsible for social sectors like education, health and welfare, in which the Federal Government limits itself to funding and coordination. A third tier of government, the locally elected bodies, was resuscitated in September 1979, and are to permit grassroot participation in decision making. As stated earlier, their effectiveness remains yet to be demonstrated.

## Sector Strategy Brief: Industry

1. Objectives. The major objectives of GOP's current Five-Year Plan (1978-83) are to:

- (i) achieve a substantial increase in the rate of industrial growth;
- (ii) achieve an increased degree of import substitution in basic industrial inputs;
- (iii) increase manufactured exports;
- (iv) emphasize development of small-scale industry;
- (v) increase emphasis on agro-industries;
- (vi) increase the role of the private sector and to restrict public sector investment to completion of ongoing projects.

2. A problem with the Plan, like many Plans, is that it is overly ambitious in relation to available resources. Not all components can be delivered. Moreover, Pakistan appears to lack a basic strategy for industrialization. Industrial structure, policy, performance and investment plans are largely the result of decisions taken during three contrasting periods of economic management: (i) the selective protection approach of the sixties; (ii) the focus on public enterprises and restrictions on private industrial development during most of the seventies; and (iii) the recent ad hoc measures applied in an attempt to revive manufacturing production, exports, and investments by the private sector.

3. President Zia-ul-Haq's Government has repeatedly emphasized the need for the private sector to regain its earlier prominent role. In the early seventies, the private sector had accounted for 80%-90% of industrial investment, which declined to less than 30% in the mid-seventies as the public sector's share rose to 70% under the Bhutto administration. The current Five-Year Plan seeks to have the private sector regain about a 50% share of total industrial investments during this period. The completion of a few large public sector projects, such as the Karachi Steel Mill, would account for most of the public sector industrial investment of Rs 21 billion.

### Developments and Issues

4. Investment Climate. Recent data collected by the Economic Mission supports the view that private sector confidence in the economy continues to return, although large investors are still somewhat wary as evidenced by the slowness of commitments and implementation of projects after they have been

approved by the sanctioning authorities (the Investment Promotion Bureau, IPB, and the Economic Cabinet Committee, ECC). Investment project proposals through PICIC and IDBP remain at high levels and PICIC in particular has a replenished supply of foreign exchange. However, IDBP has exhausted its foreign exchange lines of credit (see other sections). The small-scale sector appears to be more buoyant. The recent Back-to-Office report of the Economic Mission highlights the constraints that many investors face -- lack of finance (foreign exchange and rupee funds), inadequate infrastructure in many areas, and a growing shortage of skilled labor. Commercial banks are facing some difficulty in making working capital loans due to credit ceilings. The constraint of slowness in sanctioning of projects has been relieved somewhat through simplified IPB procedures.

5. A further factor causing uncertainty in the investment climate is the gradual Islamization of the economy, especially of the financial system, now being pursued by GOP. Commercial banks have been directed to establish interest-free deposit windows in return for which clients hope to receive interest-free loans or equity investments by the "lending agency". How such a program would work and whether it will attract any deposits is unclear. In addition, the mutual funds (ICF, NIT) have been instructed to hold equities and not debenture assets. It thus appears that Pakistan is attempting more than just cosmetic changes but is proceeding cautiously recognising the many conceptual problems (theoretical and accounting) involved in setting up such a system. The allocational and administrative problems in having part of a financial system on an interest system and another on an interest-free basis, which would likely result in loans being made only to the safest clients, have still to be recognised by GOP policy-makers.

#### Sector Work

6. The industrial sector work program formulated in the South Asia region attempts, within the budgetary limits, to address major problems in the industrial sector with a view to assisting GOP to formulate an appropriate industrial strategy. Over the years, Pakistan developed a system of special incentives and protection levels, which through repeated adjustments, has become extremely complicated. Our sector work program is designed to culminate in an industrial sector review in the middle of FY82 which would be the vehicle for exploring the strategic alternatives open to GOP. In preparation for the Review, several pieces of sector work are being undertaken. The program commenced in 1979 with a preliminary look at manufacturing policies, exports and a survey of the textile industry. Since the initial survey, we have carried out a pilot study of effective exchange rates and followed this up with a more comprehensive study carried out by the Pakistan Institute of Development Economics under IDA financing and guidance. We will next undertake further studies on effective protection which will assist GOP in meeting the IMF's EFF conditions regarding import liberalization and tariff reductions. The objective of these component studies is to provide the forthcoming sector mission with adequate analytical material, including a reasonable indicator of comparative advantage in key subsectors, and the areas of the economy that would be most suitable for further liberalization of trade. In addition, we have financed a consultant's report on Public Enterprise organization, management and pricing.

### Bank Operations Strategy

7. Against this background, our operations program in the industrial sector is to assist in:

- (i) promoting and financing priority subprojects in the manufacturing sector;
- (ii) strengthening the financial position of Pakistan's development banks, particularly PICIC and IDBP;
- (iii) providing assistance to promising SSI units, principally through long-term lending by the commercial banks;
- (iv) reforming trade and industry policies, developing export promotion measures and reorganizing the public sector;
- (v) facilitating the adjustment process through pricing measures as in the Fertilizer Program Credit and other work related to Structural Adjustment Lending possibilities.

### Prospects

8. The last 3 years have shown a strong resurgence in the growth and performance of the industrial sector, particularly in the small and medium-scale sectors. Large investors still remain somewhat cautious, however. Exports of manufactured goods have grown by 20% p.a. during the last two years and prospects are good that Pakistan can sustain and possibly improve upon its performance in this area. Much will depend upon Government's policies and the productivity of labor which suffered a major decline in the mid-seventies. The prospects for the public sector are more uncertain; GOP has completed reports which lay the basis for a reorganization of many public sector corporations and which argue for government disinvestment, where possible. Unfortunately, private sector interests have shown little interest in purchasing and rehabilitating malfunctioning firms and plants, and their position is quite understandable. On balance, prospects for the industrial sector are fairly good and a continuation of the last two years 8% growth in value-added can be expected for the coming few years.

PAKISTAN: BRIEFING NOTE ON COAL AND COPPER

1. The coal industry in Pakistan dates back to the late 19th century. The recent discovery and exploitation of oil and natural gas have, however, drastically cut down the demand for coal and, therefore, also any incentives, public or private, to develop coal. In fact the industry has grown stagnant, and this is posing a major socio-economic problem for Baluchistan, in particular, which produces about 75% of the country's coal. Current government policy of controlling oil and gas prices below international levels has further weakened any remaining demand for coal, which is priced at what the internal market will bear.

2. There is a reasonably optimistic prognosis for total energy supply in Pakistan for the next decade or so. But, eventually the country will have to turn to coal especially for thermal power generation needs, which natural gas is now mostly meeting. The opportunity costs of not doing so are bound to become excessive. The long-run supply of natural gas is uncertain, and natural gas can be used for other industrial needs that Pakistan coal cannot. But so far the Government has shown little interest in preventing the contraction of the coal markets and establishing a long-run role for coal.

3. As a result of recent coal and energy sector missions, the Bank has suggested that the Government formulate a long-term coal development policy and strategy as part of an integrated national energy strategy. The momentum for such a move is provided by two ongoing activities:

- (a) a proposed Bank-financed energy planning project that would include a coal sector planning component; and
- (b) a proposed project by the Government to develop a section of the Lakhra coal field in Sind to provide fuel for a planned 250 MW power plant (the project to be financed with Japanese bilateral funds).

4. If and when such a coal use and development strategy is formulated by the Government, serious consideration should be given to a possible Bank loan for a systematic coal exploration program to prove known reserves and further delineate as yet untested deposits. Such a major exploration program requires a long lead time before specific development plans can be made, so the development of a coal policy is a matter of priority. Any future developments in coal exploitation should include the private as well as the public sectors. Given the proper market, incentives and technical assistance, Pakistan's private coal mining industry could remain viable, and become a significant source of employment.

SAINDAK COPPER DEPOSIT IN BALUCHISTAN

5. Two pre-investment studies have been made recently for developing a low grade ore body in an extremely remote location. The studies indicate that there are some major technical risks associated with the proposed project and that unit capital costs and operating costs are extremely high relative to the expected benefits and revenues. Thus, a financially and economically viable project does not appear to exist at present. Nevertheless, the Government has been approached by a consortium of French, Canadian and Yugoslavian consulting and engineering interests with a view to undertaking a further \$10 million feasibility study for a project which would include the production of blister copper, precious metal bi-products, sulfuric acid and steel billets. Further, the Resources Development Corporation (a corporation set up by the Government to investigate the possible development of Saindak) has contacted IFC and asked assistance regarding the project. Separately, the foreign consortium has approached the Bank regarding possible financing for the additional feasibility work and for a subsequent project. But such work does not seem justified based on present information and it is unlikely that the poor prospects for the project will change in the foreseeable future.

## Fertilizer Industry Background

Following are the principal fertilizer sector issues under discussion with GOP:

### A. Production

1. The Bank/IDA has participated in the financing of three of the five modern gas-based fertilizer plants in operation or under construction in Pakistan, i.e., Dawood Hercules, Pakarab (Multan) and Fauji. By the time the last of these plants is fully operational in 1984, Pakistan's total production will be equivalent to 963,000 nutrient tons of N and P<sub>2</sub>O<sub>5</sub>. As shown in the table below, fertilizer demand has grown strongly in the past (11% and 21% respectively, for nitrogenous and phosphatic fertilizer from 1970 to 1980), with domestic production significantly lagging behind, and is expected to continue growing in the future, albeit at somewhat lower rates. Unless additional fertilizer plants are built, imports will continue to cause a significant burden on the country's balance of payments. Therefore, construction of new production facilities is desirable.

Pakistan: Past and Projected Fertilizer Consumption and Production  
( '000 tons of nutrient)

	1970	1975	1980	1985	1990	Average Annual Growth	
						1970-80	1980-90
<u>Nitrogenous</u>							
Consumption	273	363	787	1,243	1,694	11%	8%
Production	125	310	425	896	896	13%	8%
Deficit	148	53	362	347	798		
<u>Phosphatic</u>							
Consumption	34	61	235	456	689	21%	11%
Production	4	4	48	85	85	-	6%
Deficit	30	57	187	371	604		



2. Two new projects are presently under consideration, as follows:

a) Dawood Hercules Expansion. The Government is currently negotiating for a doubling of the capacity of the private sector Dawood Hercules plant (owned by the Dawood Group of Pakistan and Hercules Inc. of the U.S.), which would add 170,000 nutrient tons per year of urea production. The project which has been delayed for several years, mainly due to disagreement between government and the local and foreign shareholders over output pricing and other conditions would cost about US\$ 200 million; Bank and IFC financing might be requested. It is hoped that negotiations will be concluded during 1981.

b) Pak-Ajman. This project is being sponsored by Scandinavian interests from which financing on favorable terms may be available. It involves an ammonia/urea plant with an annual capacity of 236,000 tons of nutrient in the form of urea, with a later expansion to produce phosphatic fertilizer with 300,000 tons of nutrient per year. The plant would be assembled largely in Sweden on platforms to be floated to and beached near Karachi. However, due to high equipment costs, there are serious reservations about the project's economic viability, as well as the sufficient availability of gas to satisfy the plant's requirements. In the Bank's view, prospects for this project to go forward are limited.

3. Even if one of these projects were implemented, the need for fertilizer imports would not be eliminated. It is important, therefore, that other projects be promoted as soon as possible. Bank staff is seeking an early decision by GOP about developing additional fertilizer production projects.

#### B. Capacity Utilization

4. Another issue concerns capacity utilization in public sector plants, such as at Multan, severely affected by inadequate staffing and management. In the past, such inadequacies have resulted from low levels of remuneration which are tied to Government pay scales, much below the levels customary in the private sector in Pakistan and significantly below levels in the Middle East, which has been actively recruiting Pakistani manpower. The Bank has maintained since project appraisal in 1974 that pay limitations, particularly with regard to the Multan plant, needed to be fully removed as the only way to allow such public sector industries to attract and maintain staff qualified to operate plants involving highly sophisticated technology. The Government has recently improved pay conditions in the two major public sector fertilizer plants, but it remains to be seen whether the action taken will have the desired beneficial effect in terms of bringing competent technical staff back into the public sector plants.

5. Bank staff are working with public sector fertilizer industry to develop a project to rehabilitate and de-bottleneck some of the existing plants which would help increasing capacity utilization, creating new manpower training facilities and constructing fertilizer storages. According to preliminary estimates, such a project would cost about US\$ 75 million.

C. Transportation

6. A relatively minor issue concerns the lack of planning for transportation and storage of the fertilizer which is or will be produced by three large complexes in the center region of Pakistan. Their output (1.1 million tons/year by 1983) needs to be shipped to market areas mainly in the North. Under a condition of the 1978 Fauji Credit, the Government prepared in 1979 a study recommending a system using railroad block train facilities and railhead storages. Adequate action by the government is urgently needed to implement these recommendations, allowing the development of economical modes of transportation and storage facilities for the rapidly increasing fertilizer output.

D. Fertilizer Pricing

7. Distinction is made in Pakistan between the prices at which fertilizers are sold to farmers and the prices which fertilizer producers receive for their output in line with their respective pricing agreements with GOP. The difference between the two is either made up by a Government subsidy to those producers whose production cost plus agreed profit margin is above farmer prices, or is collected by the Government in the form of a Development Surcharge from producers whose cost plus profits are below farmer prices. In addition, the Government reimburses producers, who usually act as their own distributors, fixed amounts per ton sold of marketing incidentals to cover the cost of transportation of fertilizer to dealers, warehousing in consumption areas, and dealers' sales commissions.

8. Fertilizers are sold to farmers at prices which have traditionally been set by the Government, principally on the basis of other than market criteria, aiming at acceptable benefit/cost ratios for fertilizer usage by farmers whose crop prices are similarly controlled. Since farmer prices are set at levels lower than world market, and since most fertilizer consumed in the country has come from imports, GOP has had to expend increasing amounts on the resulting subsidies. GOP has recently decided to arrest and reverse the growth in subsidies by substantially increasing farmers' fertilizer prices, to make further increases in the future, and to adjust crop prices in order to maintain farmer incentives.

9. In late 1980, Bank staff informally submitted a paper to the Government recommending fertilizer pricing policy changes to improve incentives to producers, marketing organizations and consumers. A response to this recommendation is being awaited.

LETTER FROM

MINISTER OF FINANCE, PAKISTAN

August 23, 1980

Dear Mr. Hopper:

1. In accordance with the strategy set out in the Fifth Five-Year Plan, the Government has been making intensive efforts to revitalize the the agriculture sector and to achieve a more rapid growth in agricultural production essential for meeting the basic needs of the population and improving the balance of payments. The following main measures were taken by the Government to reverse the decline in per-capita output experienced in the preceding years:

- (a) Sufficient imports of fertilizers and improvements in its delivery system were made in order to maintain adequate supplies at all times in different parts of the country;
- (b) Pure and high-yielding varieties of wheat seed were provided through large imports in 1978 as well as through subsidized domestic purchases and sales;
- (c) Cotton and rice maximization projects were introduced which included components of extension and provision of quality seed;
- (d) The prices paid for major crops were raised closer to international levels.

Other programmes such as a seed industry project, a substantially remodelled extension project and on-farm water management projects were initiated during this period with assistance from the World Bank and others, but these would have impact in the coming years.

2. The efforts of the Government have already borne fruit. Value-added in agriculture has increased at an average rate of more than 5% in 1978-79 and 1979-80, the first two years of the Fifth Plan. Although the performance fell short of the 6% Plan growth rate target, mainly due to a steep increase in fertilizer costs rather than output failure, it was well above the realized growth rate of 2.2% in the previous years. The improvement has been shared by more major crops. Increases in output of wheat, rice and cotton are in keeping with or are ahead of the Fifth Plan growth targets. In addition, rapid increases are taking place in certain minor crops especially in the output of potatoes. Sugarcane output has declined in this period and even though this mainly reflected a cyclical downturn, the Government has recently announced major price increases which should induce a sharp increase in output.

3. Unfortunately, the Fifth Plan programmes in the sectors of water and agriculture have run into a severe constraint on financial resources. As in the case of other developing countries, the external economic environment facing Pakistan has become increasingly difficult; perhaps, more so than in the case of other developing countries, for Pakistan has also experienced a sharp decline in net aid inflows in addition to the worsening of its terms of trade. We are hopeful that the level of net aid inflows would recover somewhat but it is unlikely that they would rise to the real volumes of previous years. Besides, the deterioration in the terms of trade appear to be of a permanent nature.

4. As a consequence, despite preferential treatment to agriculture and water the Government has not been able to provide sufficient funds in the first three years of the Fifth Plan to meet the full requirements of programmes in these sectors and it is unlikely that this shortfall can be made good in the remaining years of the Fifth Plan. The impact of insufficient allocations on many programmes has been further worsened because the claims of Tarbela repairs and of fertilizer subsidy have considerably exceeded the Plan provisions. The prospects of a continuing resource constraint in the next few years make it essential that the Government redefine and tighten its priorities within the agriculture and water sectors. The efforts of the Government in this regard will have the benefit of the draft report of the UNDP Indus Basin Study which has provided helpful analysis and new data on the development of irrigated agriculture.

5. The need for revision in the agriculture strategy has been receiving the attention and consideration of the Government. In this connection, a comprehensive statement on agriculture policy was issued by the Government in February 1980 which set out the approaches to be pursued in coming years to realize the agriculture potential of the country and secure widespread, balanced, sustained and rapid improvements in agricultural productivity and incomes.

6. In general, the Government has decided that the new programmes should be such as to conserve available resources and yield maximum impact on production in the short to medium terms. The amount of resources that can be earmarked for such programmes would largely depend upon the aggregate size of the ADP, the share of agriculture and water sectors in the ADP and the amounts provided for ongoing projects and programmes within the sector's allocation.

7. The Government mounted a huge resource mobilization effort during 1979-80 fiscal year which consisted of enhanced rates of taxation, improvements in tax collection and reductions in subsidies. The measures taken by the Government enabled a sharp decline in recourse to bank financing of government expenditure. The Budget for fiscal year 1980-81 also provides for measures which, while containing inflationary financing to a low level, provides a substantial increase in development expenditures. The Government intends to give first priority to the requirements of programmes and projects in the agriculture and water sectors.

8. Simultaneously the Government desires to change the mix of programmes in these sectors away from the emphasis hitherto provided to subsidies and long-gestation projects. A notable feature of the Budget for 1980-81, as well as of the agricultural policy referred to earlier, is the definition of the role of subsidies. The aim of gradually aligning the pattern of prices inside the country to international ratios has been explicitly stated. Once the transition is complete, subsidies on consumer goods would be focussed on and confined to meeting the needs of the very poor while subsidies on inputs would be restricted to initial promotional functions. At the same time, the amount of the subsidy bill is to be restricted to a reasonable level and budgetary provisions for subsidies will, in the aggregate, be binding rather than notional. In this connection, the Government recently increased fertilizer prices by approximately 50% and slashed subsidies on pesticides operations.

9. These measures of the Government will release resources for other programmes in the agriculture and water sectors; and it is proposed to augment them by gradually increasing the proportion of quick yielding projects in the portfolio of water and agriculture sectors projects.

10. To fulfil these objectives and bring about the proposed adjustment, the efforts of the Government will have to be supported by external assistance in the form of flexible and quickly disbursing loans. The proposed Fertilizer Imports Credit provides this type of assistance and supports major policy initiatives in the agricultural sector.

#### Investment Priorities

11. The sustained development of agricultural production requires a blend of projects, programmes and policies, which cover a wide range from building new systems of irrigation to conserving water on the farms, from providing price incentives to farmers to giving them technical assistance. The choices have to take account of both economic and social necessities, of both short and long term needs. In this context, however, it is necessary for Government to appraise periodically whether the programmes and projects being implemented reflect the proper blend. As I have mentioned, we have started a review of programmes in the agriculture and water sectors which points towards a pressing need to shift the emphasis from subsidies and long-gestation projects to programmes and projects designed to bring about improvements in cropping practices, conservation of water and maintenance of existing infrastructure. As a matter of general policy, new commitments will focus on projects addressing these aspects. Indeed, the Government has initiated a review, which it hopes to complete soon, for such modification or rescheduling of on-going programmes as do not entail much of an economic cost to make room for the following types of projects:

- (i) rehabilitation of the existing irrigation and drainage system, accompanied by improved current maintenance;

- (ii) minor works, primarily below the mogha (canal outlet), such as water-course and on-farm improvements, which together with improved water scheduling will permit available irrigation water supplies to be used more efficiently;
- (iii) necessary drainage in water-logged and saline areas to complement the existing surface distribution and tubewell system where adequate drainage is the key constraint;
- (iv) promotion of private tubewell development in sweet ground-water areas (including areas now under public tubewells), where this is consistent with drainage requirements;
- (v) expansion of the role of the private sector in areas such as milk marketing, pesticides, fertilizer, and seed distribution;
- (vi) agricultural research, extension services (through the training and visit system), quality seed production credit arrangements and other essential complementary activities; and
- (vii) promotion of regional balance and social equity in access to irrigation facilities.

12. Initial steps to implement the above priorities, including increases in water rates and provisions for canal maintenance, are reflected in the agriculture and water sectors budgets for 1980-81; further adjustments will be made in subsequent years. We intend to protect to the maximum extent possible the ADPs for agriculture and water from any necessary budget cuts and to increase the level and the relative amounts allocated to quick-yielding projects and essential support services, as our overall resource position improves, and as additional funds can be effectively utilized on such programmes.

#### Fertilizer Policies

13. Through its marketing and subsidized pricing policies, the Government has succeeded in increasing fertilizer availability and offtake considerably, with favourable impact on crop production. As a result of the rise in world fertilizer prices and the higher fertilizer usage, however, the cost of these policies to the Government became unsustainable and adjustments to domestic fertilizer prices have been initiated.

14. An increase in fertilizer prices of about 50% was announced in late February 1980. This reduced the fertilizer subsidy in FY81 by almost Rs 1.5 billion, about 35% of the level it would otherwise have reached during the year. The Government intends to continue these price adjustments in a phased manner, in conjunction with adjustments to output and consumer prices, to

strengthen the overall budget situation and release funds for other high priority development expenditures.

15. In addition to the problems of predicting the impact of higher domestic fertilizer prices on offtake, farm income and crop production, the formulation of a new pricing policy for fertilizer is unusually difficult at this time because of the acute uncertainty about world fertilizer prices. Nonetheless, I recognize that despite this uncertainty and the complex relationships involved, the establishment of a policy framework is essential for physical and financial planning, management and control.

16. The Government has accordingly adopted the following policy framework:

- (i) The Government has eliminated the net subsidy on domestically produced fertilizer and intends to make such price changes in future as are required to maintain this position;
- (ii) The Government intends to continue with price adjustments aimed at lowering subsidies on imported fertilizer so long as this does not render Pakistan's exports uncompetitive in world markets, seriously disrupt cropping patterns or impose socially unacceptable cost increases;
- (iii) The Government also intends to prevent fertilizer subsidies from pre-empting a large proportion of development resources in general and of funds earmarked for water and agriculture sector programmes in particular. With this in view, the Government intends to:
  - set fertilizer prices consistent with a demand growth rate of between 10 and 15% per annum;
  - limit the fertilizer subsidy to around 39% of total cost of fertilizer in 1980-81; and, provided world fertilizer prices do not rise abnormally, to reduce it progressively in each of the subsequent years with the objective of eliminating it by June 30, 1985;
  - de-link the fertilizer subsidy from allocations to agriculture in general.

17. The Government intends to make a continuing assessment of the effects of the above policy framework, and consequent fertilizer price adjustments, on fertilizer use and productivity, farm incomes, farmer incentives and crop production. The National Fertilizer Development Centre will be assigned responsibility for collection and analysis of data and for recommendations of pricing changes. The fertilizer policy framework may be modified if the analysis and other pertinent considerations, including the impact on the general levels of prices and incomes, demonstrate that this is



necessary. Output prices will be set at a level designed to provide adequate production incentives to farmers.

18. With effect from July 1, 1980, the fertilizer subsidy will be removed from the agricultural development budget and maintained as a separate account. Any increase in the actual amount of the subsidy over the amount budgeted for this purpose would not reduce the funds allocated for the agricultural development budget. It will, therefore, be possible to plan other agricultural programmes on a firmer basis than at present.

19. Pakistan's exposure to adverse external developments in fertilizer could be significantly reduced by the expansion and effective operation of domestic fertilizer production capacity. The Government will take necessary measures to attain high capacity utilization of the existing fertilizer plants and new plants being set up in the public sector. We are also formulating plans for further investment in the fertilizer sector over the next decade and, in this context, will assess the adequacy of pricing policies and other incentives for the fertilizer industry.

#### Project Review Procedures

20. The severe financial constraints which Pakistan confronts have underlined the need to strengthen the procedures for the review and approval of new project proposals, in order to ensure that these proposals conform with government priorities and resource availability. Instructions have been issued to all concerned federal and provincial agencies that the necessary PC-1 forms must be formulated and processed in accordance with standing instructions, and that, in the case of foreign-aided schemes, full approval of the CDWP must be obtained before project negotiations and of ECNEC before finalization of project agreements.

#### Conclusion

21. Over the past two years the Government has embarked on the necessarily difficult and protracted task of structural adjustments to the Pakistan economy. This letter outlines our recent and proposed action on selected major issues in agriculture, which remains the mainstay of our economic well-being. The reform process will obviously need to be continuous and broadened to adjust the economy to changing world circumstances.

22. The Bank's financial support will be essential for the success of our structural adjustment efforts and we look forward to it. We will be pleased to keep the Bank fully informed, and welcome your advice on our development programmes and pricing policies in the agriculture and water sectors discussed above, as well as on other key issues related to the adjustment process as these unfold.

(signed)

GHULAM ISHAQ KHAN

## Agricultural Sector and General Agricultural Policy Issues

### Structure of Agricultural Sector

1. Agriculture is the mainstay of Pakistan's economy; it accounts for one third of GDP, employs about 60% of the labor force and, directly or indirectly, provides nearly two thirds of Pakistan's exports, principally cotton, rice, textile and leather products and carpets.
2. A unique feature of Pakistani agriculture and the chief factor for its substantial (still unrealized) potential is that about 80% of its cultivated area is irrigated. The complex irrigation system comprises canal irrigation and public (12,000 tubewells) cum private (170,000 tubewells) groundwater pumage capacities. The gross commanded area of the irrigation system is 40 million acres; of this about 16 million acres (40%) have the groundwater table to within 10 feet of this surface (or is technically waterlogged). Recent (1977) estimates of salinity indicate that about 23% of the canal commanded area is affected; in 1960, the proportion of salt affected area was 52%. Pakistan's extensive reclamation efforts since 1960 under its Salinity Control and Reclamation Program (SCARP) have been partially successful in winning the battle against salinity, but have done badly with respect to waterlogging. Massive investments for both drainage and reclamation are, therefore, needed to capture the full potential of this vast irrigated area. The grain production potential of the Indus Basin is conservatively estimated to be 75 million tons (present output is about 15 million tons) which represents a substantial exportable food surplus. ←

### Recent Developments

3. During the first seven years of the 1970s, agriculture's growth rate at about 1.5% per annum failed to keep pace with the growth of population; but during the last three years growth performance has been accelerating: value added in agriculture increased by 2.5%, 4.2% and 6% in FY78, FY79 and FY80, respectively. This growth mainly reflects the improved performance of major crops, which account for nearly 60% of value added in agriculture.
4. Supportive government policies have contributed to the recovery in agriculture. An important instrument of GOP policy has been the provision of key inputs, especially chemical fertilizer. Steps to improve the efficiency of fertilizer distribution by denationalizing the sales system and expanding the dealer network were taken by the Government during the mid-1970s. In addition, the National Logistics Cell, created in 1978, has been successful in expediting the unloading and transfer up-country of imported fertilizer. Marketing incidentals allowed to provincial agencies and dealers distributing fertilizer have been substantially increased. These various measures, together with the subsidy on fertilizer, have led to both a substantial increase in fertilizer offtake and a better balance between nitrogen and phosphate usage.

5. A program of procuring and supplying improved seeds for the principal crops through government agencies has been in operation for several years. Following the serious outbreak of rust in 1978, heavy emphasis has been placed on the provision of rust-resistant wheat seed varieties. In FY79, 15,000 tons of seed of rust-resistant wheats were imported; the use of these seeds was concentrated in locations particularly susceptible to the disease. In the case of cotton, the coverage by the Government seed program has been substantial, though the quality of this seed is mixed. A major project to improve the supply of quality seeds for the principal crops is under implementation with support from IDA (Credit No. 620-PAK).
6. Although the area sprayed against pests and diseases has increased over the years, the effectiveness of plant protection activities has been limited by inappropriate application techniques and the poor quality of pesticides employed. Starting in 1978, the Government has reduced aerial spraying and placed more emphasis on ground application by farmers themselves. To complement this, the Government now allows the private sector to import and sell pesticides and is phasing out its own involvement in plant protection. Subsidies on pesticides are being substantially eliminated. As part of the Government's Cotton Maximization Scheme, a pest scouting campaign was launched last kharif season. Under this scheme, mobile teams of extension workers and staff drawn from agricultural institutes have been organized for the early detection of pest attacks.
7. The supply of institutional credit to agriculture has increased significantly in recent years. Credit is provided by the Agricultural Development Bank of Pakistan (ADBP) and commercial and cooperative banks. New initiatives were taken by GOP recently to increase the volume of credit to small farmers. A program to provide interest-free credit to small farmers through agricultural cooperatives was implemented in Punjab; disbursements in FY80 amounted to Rs 400 million. GOP plans to increase these to Rs 1,900 million in FY81.
8. The Government's strategy of increasing input supplies has been complemented by improved irrigation water availability. Farmgate water availability in FY80 was 30% higher than the level of the mid-1970s, reflecting the commissioning of the Tarbela Dam and the completion of tubewell and other irrigation programs.
9. Action has recently been taken in some long-neglected areas which are critical to improving productivity in agriculture. The training and visit system of agricultural extension has been adopted in Punjab and Sind, although the new programs are experiencing teething troubles; and a number of reforms have been made in the organization and execution of agricultural research. In addition, emphasis has been given to coordinating the activities of the irrigation and agriculture departments, both to improve the efficiency of water use and to schedule water releases to match crop requirements. These initiatives, though still in their early stages, would provide substantial returns in the long run.

10. Price incentives to farmers were inadequate through the mid-1970s due to low procurement prices and export taxation. The situation has changed since. Fertilizer prices were reduced by 5-6% in October 1978, and between then and the beginning of 1980 support prices were raised for wheat, sugarcane and rice by about 22% and for cotton by 10-12%. Although fertilizer prices were increased in February 1980 by about 50%, in order to reduce the subsidy burden on the budget, this was compensated by an increase in the support price for sugarcane by 29% and subsequently by increases in support prices for Basmati rice, IRRI rice and cotton of 17%, 20% and 8%, respectively. The support price for wheat was increased nominally by 3.3% in April and by 18% in October 1980. Export taxes, except those on rice, have been eliminated. As a result of these various changes, output prices in Pakistan are now closer to world levels, and farmer incentives remain satisfactory.

#### Constraints and Potential

11. As indicated above, a number of measures have been taken to address the fundamental problems limiting productivity in agriculture. To fully realize Pakistan's agricultural potential and to ensure agricultural growth on a more sustained basis, however, it will be necessary to build on the progress that has been achieved.

12. In May 1979, a UNDP-financed study entitled "A Revised Action Programme for Irrigated Agriculture," for which the Bank was Executing Agency, was completed. This study has generated considerable discussion within the Government on development strategies and investment priorities in the agricultural sector and many of the recent adjustments that have been made by the Government are consistent with the report's principal recommendations.

The recommendations of the UNDP study can be grouped into three major categories:

- (a) Adjustment of pricing and subsidy policies so that they reflect real resource costs more accurately than those followed at present. Major attention is given in the study to the fertilizer subsidy, whose reduction and eventual elimination would be easily the most important way in which existing resources could be released for higher return purposes. The report also recommends the elimination of other subsidies, e.g., on tubewells, pest control,<sup>/1</sup> etc.

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/1 The subsidy on pesticides has been withdrawn by the Government in Punjab and Sind Provinces, while it will be phased out gradually in NWFP and Baluchistan.

Crucial to the success of such policies would be the continuing review and adjustment of output prices to ensure adequate producer incentives, and the development of appropriate credit facilities to reduce the financial constraints that may prevent the farmer from using higher-cost inputs.

- (b) Management policies to enable the transfer of responsibility to the private sector for appropriate operations and facilities now in the public sector's domain. This would not only generate private savings and release public sector resources for other purposes, but also lead to greater productive efficiency. The report gives greatest emphasis to groundwater exploitation, recommending not only that unexploited, fresh groundwater areas should be left to the private sector (supported by supervised credit schemes) but that those already developed under public programs should similarly be gradually transferred.
- (c) Revised investment policies to facilitate quick returns and complement the major irrigation facilities already provided rather than create new infrastructural facilities or extend the irrigated area. In the water sector, major emphasis is placed on rehabilitation of the existing irrigation system (accumulated maintenance), promotion of watercourse improvements (investments below the "Mogha"),<sup>/1</sup> provision of essential drainage and improvements in the overall management of the system to maximize agricultural returns from existing water supplies. The report emphasizes agricultural and water management extension services, agricultural research, seed certification, animal husbandry and the provision of appropriate rural infrastructure. Institutional recommendations are made which complement these investment priorities, notably in ways which would improve coordination and cooperation among different government agencies.

13. The Government has partially accepted the principal conclusions of the UNDP study and initial steps have been taken to implement some of its major recommendations, including improved institutional coordination between irrigation and agriculture and increased emphasis on the importance of improving water management, extension, credit, research and seed supply. In the context of the Fertilizer Imports Credit approved by the Board last September, the Region has pursued with the Government a dialogue on agricultural subsidies and the investment priorities which would guide GOP in achieving the objectives underlying a revised agricultural strategy.

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<sup>/1</sup> Mogha is the outlet feeding a watercourse with an average command of 400 acres.

The Government has agreed that the prospects of continuing domestic resource constraints in the next few years make it essential that the Government redefine and focus more sharply its priorities in the agricultural sector, while aiming to phase out the fertilizer subsidy and make necessary compensating adjustments in crop prices by mid-1985. In general, the Government has agreed that the revised strategy should aim at conserving available resources and yield maximum impact on production in the short to medium term. It has started a review of programs in the agricultural sector which points towards a need to shift the emphasis from subsidies and long-gestation projects to programs designed to bring about improvements in cropping practices, water conservation, and the proper maintenance and optimum utilization of existing infrastructure. As a matter of general policy, new commitments would be concentrated on projects addressing these needs so that the principal constraints on agricultural production would be released. The modification and/or rescheduling of ongoing capital-intensive and long-gestation projects (including Bank-financed projects) is also under consideration with a view to conserving funds and making room in the investment program for high-priority projects and programs which conform with the revised strategy.

THusain/rs1  
December 23, 1980

## OFFICE MEMORANDUM

TO: Mr. Richard Clements, ASA  
THRU: Mr. T. H. Yoon, ASPAA *TH*  
FROM: Tariq Husain, ASPAA *Tariq Husain*

DATE: January 13, 1981

SUBJECT: PAKISTAN - Mr. McNamara's Visit.  
Note on Water Management (Allocation of Water Rights)

1. The relevant facts on the "Water Allocation" issue are attached as Annex I.
2. Since 1977, this issue is under the review of a Judiciary Commission comprising the Chief Justice of the Supreme Court and the four provincial Chief Justices. In 1971, a Committee headed by Justice Fazal-e-Akbar had made certain recommendations (confidential) to the Government of Pakistan.
3. The issue is highly political and has so far not been amenable to a technical solution. The Annex reports the development history of water rights in Pakistan and Northwest India (prepartition). With that background you may like to reconsider whether or not the issue could be productively discussed at such a high level.

THusain/lt

## PAKISTAN

### Water Allocation Issue

1. Introduction. The Indus Basin's Irrigation System comprises the Indus and its major tributaries, three storage reservoirs, 19 barrages, 43 canal commands and some 90 thousand watercourses. It is the largest integrated irrigation system of the world commanding, as it does, about 40 million acres of contiguous canal commands. The length of canals is about 35,000 miles, and watercourse and farm channels span over 1 million miles.

#### Development History of the System.

2. Pre-Partition. The first controlled year round irrigation began in 1859 with the completion of the Upper Bari Doab Canal (UBDC) from Madhopur Headworks (now in India) on the Ravi river. Until that time, irrigation was by inundation canals that functioned only during periods of high river flow, providing water for summer (kharif) crops and some soil moisture for winter (rabi) crops. The UBDC was followed by the Sirhind Canal from Rupar Headworks on the Sutlej in 1872; Sidhnai Canal from Sidhnai Barrage on the Ravi in 1886; the Lower Chenab from Khanki on the Chenab in 1892; and the Lower Jhelum from Rasul on the Jhelum in 1901. The Lower and Upper Swat, Kabul River and Paharpur Canals in NWFP were completed from 1885 to 1914. The last inundation canals were connected to weir controlled supplies in 1962 with the completion of Gudu Barrage. The physical layout and design of these canal systems was evolved to fit the pattern of water supplies "estimated" (there were no hydrological measurements) to be available in the unregulated rivers and to "bring to maturity the largest area of crop...." Consequently, irrigation intensities (defined as the total irrigated area in the two crop seasons divided by the total canal commanded area) were designed to be quite low, averaging about 75 percent (generally 25 percent kharif and 50 percent rabi), in order to provide water to as much land as possible.

3. By the turn of the century, it also became apparent that the water resources of individual rivers were not in proportion to the irrigable lands that they could serve. The Ravi River serving the large area of Bari Doab was deficient in supply while the Jhelum river had a surplus. An innovative solution was developed in the Triple Canal Project, constructed during 1907 to 1915, that linked the Jhelum, Chenab, and Ravi Rivers, allowing transfer of surplus Jhelum and Chenab water to the Ravi, and ultimately to the Sutlej via Balloki-Suleimanki (BS) Link. The Triple Canal Project was a land mark in integrated interbasin water resources management and provided the key concept for resolution of the Indus Waters Dispute in 1960 (under the auspices of the World Bank). The Sutlej Valley Project, comprising four barrages and eleven canals, was completed in 1933; during the same period, Sukkur Barrage and its system of seven canals serving 7.3 million acres from the Lower Indus were also completed. The Haveli and Rangpur canals from Trimmu Headworks on the Chenab in 1939, and the Thal Canal from Jinnah Barrage on the Indus completed the system at the time of Partition.



4. Post-Partition. In 1947, the irrigation system conceived originally as a whole, was divided between India and Pakistan without regard to irrigation boundaries. The resulting water dispute was resolved by the Indus Waters Treaty in 1960 which assigned to India the three eastern rivers (Ravi, Beas, Sutlej), with a total mean annual flow of 33 million acre feet (maf), and to Pakistan the three western rivers (Indus, Jhelum, Chenab), with a total mean annual flow of 140 maf. Under the Treaty, the Indus Basin Project provided for transfer of irrigation supplies from the western rivers to areas in Pakistan formerly served by the eastern rivers and provided additional development potential to compensate for water resources development opportunities lost. The Indus Basin Project including Mangla Dam, 5 barrages, 1 syphon and 8 link canals, was completed by 1971. Tarbela Dam started partial operation in 1975-76.

5. After Partition, Kotri, Taunsa, and Gudu Barrages were completed on the Indus River to provide controlled irrigation to areas previously served by inundation canals. Also, three additional link canals were built prior to initiation of the Indus Basin Project. The present irrigation system is shown schematically in Figure 1. The aggregate diversion capacity of the canal system is about 250,000 cusecs.

6. The Water Allocation Issue. As the various canal systems developed, limited availability of river supplies during low flow periods in rabi, and in early and late kharif, led to competing demands among provinces in pre-partition India. A growing controversy over distribution of waters of the Indus rivers became acute in 1919 when the Sutlej Valley and Sukkur Projects were proposed. Both Projects were sanctioned by the Government of India but doubts about the adequacy of river supplies motivated the establishment in 1920 of a river discharge measurement programme at key locations in the river system. In 1934, the Government of Sind (Pre-partition) claimed that Projects proposed in Punjab (Thal, Trimmu, Bhakra) would be detrimental to functioning of inundation canals in Sind and to rabi supplies at Sukkur. Sind's concern was heightened by indications from the discharge measurement programme that river supplies were less than formerly believed, and by already experienced serious shortages in supplies to the Sutlej Valley Project. The Anderson Committee, which was appointed in 1935 to resolve the dispute, established allocations between various users (provinces and states) of the existing as well as proposed projects. The Anderson Committee established the concept of water allocations for "planned uses," which then acquired the same legal status as rights based on historical use. Adoption of this concept led to a (still) continuing series of interprovincial disputes as parties attempted to establish claims on presumed future water supplies, and pre-empt claims of others, by obtaining official sanctions for new projects and extensions of existing projects. In 1939, Sind complained regarding apprehended effects of Punjab projects on the inundation canals of Sind. This was considered by Indus (Rau) Commission, which resulted in the Sind Punjab Draft Agreement of 1945 on priorities for sharing of the waters of the Indus and its tributaries for the existing and projected canals. Its formal approval by the provinces was never finalized; however it continues to serve as the basis of water allocations between the two provinces.

7. In 1948, India stopped water supplies to the Pakistan canals and advanced the concept of "proprietary rights" according to which an upper riparian was entitled to the use of all waters passing through its territory. This was ultimately resolved through Indus Waters Treaty 1960, resulting in division of the Indus Basin rivers. The loss of the entire flow of the three eastern rivers changed the situation drastically in relation to pre-independence water rights and allocations in Pakistan. Thus, with the impending break up of the one Unit in 1970, the need arose for re-examining water allocations and distribution among provinces. A Committee headed by Justice Fazal-e-Akbar, a Judge of the Supreme Court of Pakistan, was appointed to review the issue. Though historic allocations had been made that exceeded available river supplies, these allocations were claimed by provinces as "rights" against "new" water made available by reservoirs and link canals of the Indus Basin Project. Not surprisingly, total claimed rights exceeded the new water supplies, with Sind claiming all of Tarbela storage plus part of Mangla, Punjab claiming all of Mangla plus part of Tarbela, and NWFP and Baluchistan each claiming part of Tarbela for new projects. A report by Fazal-e-Akbar Committee was presented to the Government of Pakistan in 1971. While the report remained under examination, ad hoc decisions were made for seasonal distribution of Chashma and Tarbela storage waters among the Provinces. In 1977, the Government of Pakistan established another Commission comprising the Chief Justices of the various High Courts headed by the Chief Justice of Supreme Court of Pakistan to further examine this issue. The matter is still subjudice with this Commission.

THusain/lt

## AGRICULTURAL EXTENSION IN PAKISTAN

1. The Agricultural Extension services in Pakistan are generally weak. Little has been done to alleviate the status and efficiency of the extension services to meet the needs of farmers. Despite advances in HYV technology, increased supplies of irrigation water and other physical inputs, mainly fertilizer and certain pest control operations, concurrent investments in agricultural extension have been lacking. Extension advice mostly revolves around generalized input-based packages, which fail to realize production increases upto the expected level.
2. Inherently, problem solving research aimed at providing solutions to farmers' problems in the short and medium-term has lagged behind. The problem is compounded by the fact that channels of communications between research and extension services are weak. In addition, both pre and in-service training to middle and lower level staff is of low quality. There is a reported lack of qualified and experienced trainers to upgrade the training standards.
3. In summary: (1) technical packages are limited or non-existent, (2) agricultural research is not problem-oriented and (3) institutional training is weak. Combined with these constraints are the relatively unsatisfactory staff to farmers ratios, limited housing facilities and lack of mobility, which mitigate against the development of an effective extension system.
4. Amongst the four provinces of Pakistan, Punjab has relatively an expanded extension service (particularly in the cotton zone), followed by Sind. The extension services in N.W.F.P and Baluchistan are considerably weak. Subject-matter specialization in provinces other than Punjab does not reach out beyond the research centers. There is an expressed concern in Pakistan to develop a national policy of agricultural extension with a purpose to (i) upgrade the quality of extension program and, (ii) adopt an extension system suited to the country's agro-ecological situation.

### World Bank Involvement in Agricultural Extension

5. Following a Special Agricultural Sector Review in January 1976, the Bank identified a number of deficient areas contributing to slow growth in agriculture; this included 'agricultural extension'. As a result, two agricultural extension projects were identified for IDA assistance, one in Punjab province and the other in Sind. Major components of these projects are:
  - (a) improving extension worker-farmers ratios,
  - (b) establishing adaptive research farms for each agro-ecological zone,
  - (c) developing training facilities for extension staff,
  - (d) providing additional staff, buildings and transport, and
  - (e) furnishing consultant assistance in specific fields

and also provide other facilities such as pest scouting etc. to aid extension program. The extension methodology used is essentially based on the 'T&V'

system, with an objective of involving marginal and small farmers.

6. Although the Punjab Extension Project is theoretically operative from December 1978, but the project has not yet been approved by the Executive Committee of the National Economic Council (ECNEC) of Pakistan for want of formulation of a national policy of agricultural extension. The Sind Extension Project is not yet effective for the same reason. Some components of the projects need review, in view of certain policy changes and concerns for design of the projects.

7. A joint Pakistan Government/IDA mission will review both Punjab and Sind Extension Projects from January 12 - February 3, 1981 and assist the Government in its preparation of a national policy for agricultural extension. Following the review there may be some adjustments in project concept or content which should facilitate speedy implementation of the projects.

## Agricultural Research

1. The agricultural research system in Pakistan is complex. Research, high level manpower training, planning and coordination, are responsibilities of the Federal Government; but under the Constitution, responsibility for agriculture has been delegated to the Provinces. The result has been that most agricultural research which is applied or adaptive in nature is controlled by the Provinces while longer term research has remained with the Federal Government. The position is further complicated by the fact that responsibility for agricultural research on a national basis is distributed among several ministries and semi-autonomous institutions such as the Ministry of Food, Agriculture and Cooperatives, Ministry of Water and Power, Ministry of Education, Ministry of Commerce and Atomic Energy Commission.

## World Bank Involvement in Agricultural Research

2. The World Bank Agriculture Sector Review of January 1976 identified increased investment in agricultural research in Pakistan as a key requirement of improving agricultural productivity. Several agricultural research projects have been supported by various aid agencies, notably USAID, whose current project, due to terminate in June 1981, was implemented by Pakistan Agricultural Research Council (PARC), the premier federal agricultural research organization.

3. In early 1979, recognizing the need to maintain the momentum of agricultural research development, Government of Pakistan requested IBRD and USAID to organize an international team to review the agricultural research subsector. The subsequent report identified continuing problems in organization, management and execution of agricultural research in Pakistan and provided a list of recommendations for further improvements and additions to the research programs. Based on these recommendations, an Agricultural Research Project was prepared and submitted to IDA. This project was appraised in October 1980 and is expected to be presented to the Board on March 31, 1981. Total project costs, net of duties and taxes, would be US\$ 50.0 million and the IDA credit would be US\$ 30.0 million.

The project has three basic aims:

- a) to 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) to 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) to provide staff training and technical assistance.

The project would be managed by PARC, which with the associated National Agricultural Research Center, would be the principal beneficiary, receiving about 65% of project investments. Project funds for investments in research to be carried out by provincial institutions (15% of project investments) would be channeled through PARC, as would the investments for training and technical assistance; the remaining 20% of project investments.

4. At the present stage in the evolution of a national system of agricultural research, the project would concentrate on developing the capabilities of PARC and NARC. The objective would be to create a strong leadership and create a situation under which the provinces would be prepared to cooperate in future development. A second stage project would then be justified to increase directly, the research capabilities of provincial institutions.

5. The project would be the first IDA-intervention in the long-term development of agricultural research in Pakistan. It would complement, over a five year period, the achievements already made under the ongoing USAID project and seek to complement the IDA-supported extension projects in Punjab and Sind, through:

- a) supporting PARC as a national apex coordinating agency by providing: (i) a headquarters secretariat building; and (ii) incremental staff and facilities for PARC's units dealing with financial planning, procurement, audit, accounts, training, technical assistance, personnel and management, project implementation and supervision of construction of civil works;
- b) establishing at PARC/NARC, service units for: (i) collection, publication and dissemination of research information; and (ii) maintenance and repair of laboratory equipment;
- c) developing the research station at NARC and assisting research program development in: (i) plant sciences; (ii) animal sciences; (iii) cereal diseases; (iv) oilseeds; (v) agricultural engineering; and (vi) agricultural economics;
- d) supporting agricultural research sub-projects at institutes and other research organizations;
- e) funding overseas and local training to M.Sc. and Ph.D. levels for research workers as well as short career development courses; and
- f) funding long and short-term technical assistance in management techniques and technical research program development, and for a mid-term review of project progress.

6. Institutional reforms would be implemented under the project as conditions of IDA support. GOP has already taken steps to implement some of the reforms recommended by the International Review Team by establishing an Agricultural Research Division (ARD) in the Ministry of Food, Agriculture and Cooperatives. A proposed revision of the PARC legal ordinance would be the mechanism for effecting additional improvements. This revision would increase PARC's autonomy, allow increased excess funds levied on certain crops to flow to PARC and allow PARC to develop a personnel management system under which staff on secondment could be offered permanent positions, increased salaries and attractive career possibilities within PARC.

7. Because of the allocation of responsibilities under the Constitution, several aspects of PARC's powers and responsibilities remain de facto unclear. This is particularly so in the area of supervision of provincial research that is federally funded, and in the definition of PARC's role vis-a-vis, the Federal Government. Recommendation of the International Review Team was that PARC should be given full responsibility for federal action in the generation of improved technology in agriculture; that it should also be required to act as technical adviser to the Agricultural Research Division and appraise any proposal for new research initiatives requiring federal funding; and that the national testing service PARC provides for new technology should be recognized as the basis for action by Provincial Governments. Prior to negotiations, GOP agreement would therefore be sought that:

- a) PARC appraisal and approval would be necessary for all new agricultural research programs in Pakistan requiring financial support directly from the Federal Government;
- b) PARC would be appointed technical adviser to the University Grants Commission to provide guidance on the award of grants for agricultural research; and
- c) GOP would ensure that the recommendations on the release of crop varieties emanating from the national yield trials system would be accepted by the provinces as the basis for provincial varietal release.

## Agricultural Credit

The Agricultural Development Bank of Pakistan (ADBP) is the main source of medium and long-term loans for agricultural development. ADBP's main lending so far has been for loans for tractors, but its other on-farm development loans under the IDA-financed ADBP IV project envisages (i) a shift in its main operation from traditional tractor loans to minor irrigation and on-farm development loans, (ii) an emphasis on loans for small farmers, and (iii) a strong campaign for improvement of loan recoveries. Progress is being made in all these, but its pace needs to accelerate. Production credit in Pakistan is largely the responsibility of commercial banks and cooperative societies, and marginally of ADBP. Production credit provided by organizations other than ADBP is interest free. The demand for production credit is rapidly increasing because of the increasing use of HYV and its associated inputs (fertilizer and pesticides) and the reduction of government subsidies for agricultural inputs.

The main tasks for the agricultural credit sector in Pakistan are:

- (i) to promote medium and long-term agricultural investments, particularly for minor irrigation and other on-farm developments, which appear to have great potential;
- (ii) to induce credit institutions to increase lending to small farmers; and
- (iii) to improve the repayment collection performance which leaves much scope for improvement.



## PRINCIPAL ISSUES IN EDUCATIONAL DEVELOPMENT IN PAKISTAN

External Productivity. A significant measure of the success of educational programs is the rate of literacy achieved: in Pakistan, this rate is 24%. The Government is committed to literacy as a basic human right, but importance is also placed on this objective because of proven economic benefits from a basic education, for instance in furthering the introduction of better cultivation practices and making rural families more receptive to family planning and health programs. The low literacy rate in Pakistan stems from two factors: the first is the inadequate opportunity for a basic education and the second is inadequate demand. Generally, the latter is a result of social attitudes, since many rural families are not convinced of the relevance of education for them, and in particular, for their female members; more specific objections include irrelevant curricula, various costs, and instruction which is not given in the vernacular. The latter is a handicap for nonformal adult courses which the Government, in line with its intent to create a sense of national identity, feels should be taught in Urdu.

A measure of the relevance of education is the employability of graduates. A census in 1972 indicated unemployment of 2.5 million (13% of the labor force), of which 319,000 had a matriculation certificate or higher qualification (17% of graduates at this level). To some extent this level of "educated unemployment" was voluntary, as graduates preferred to be unemployed while waiting for a suitable employment opportunity. However, the Government has continued to increase financing of education at higher levels (particularly in nontechnical training), expanding enrollments by 4% p.a. at the secondary level from 1972/73-1977/78, by 3% p.a. in arts and science colleges, and by 12% p.a. in general universities. These growth rates result from the demand by influential groups that their children have opportunities to obtain the degrees that bring status and the better jobs.

Some manpower requirements are not being met. For instance, although Pakistan has 30,000-50,000 unemployed teachers, many rural schools lack female teachers because the available teachers find rural posts unattractive. Another need is for skilled workers and middle level technicians for agriculture and industry. Until recently, the education system was producing more manpower in these categories than the economy could absorb, but demand from OPEC countries since 1973 has drained skilled and semiskilled workers from the domestic labor market at a rate of 29,000 in 1976 and 55,000 in 1977 (out of a total of 80,000 emigrant workers). Demand in OPEC countries is expected to total 300,000 workers (mostly technicians and skilled workers) over the next five years, and beyond that to change into demand for maintenance skills. It is important on two counts that the education system be able to supply skilled manpower: first, the emigration of these workers represents an important source of foreign exchange (\$595 million in FY77, increasing to \$920 million in FY79); and second, expansion of Pakistan's domestic economy will increasingly depend on trained manpower. The Vocational Training Plan, 1978-83, estimates that domestic employment of skilled and semiskilled workers will increase by 300,000 p.a., including 44,000 for manufacturing and construction industries and 111,500 for agriculture (assuming that the

economy grows by 7.2% p.a.). Current training capacity can produce less than 30,000 graduates a year; however, efforts to expand enrollments will be hampered first by the lack of qualified teachers, and second by the general low regard for blue-collar work.

Educational investment in Pakistan should be shifted from general secondary and higher education to basic (primary and nonformal) education in order to increase literacy, and to skill training at middle and low levels in order to expand the supply of skilled and semiskilled workers qualified and willing to work at blue-collar jobs.

Internal Efficiency and Quality. Problems of low internal efficiency and quality are most apparent - and need most urgent attention - at the primary level. Less than half the students who enroll complete five years' schooling. Each grade contains a high number of late entrants and repeaters, and thus there are many overage students in each class. Also, this level of education in particular suffers from a general lack of adequate facilities and materials. Schools are often housed in deteriorated buildings or even hold classes in the open. The lack of such facilities as latrines and boundary walls, and lack of accommodation for female teachers, makes it impossible to use some rural schools for female students. Many schools have little equipment and furniture, and books and writing materials are lacking. Teaching content is also irrelevant, but this should be corrected by wider use of the more practical curriculum. The rigid examination system, which tests ability to remember facts rather than the student's grasp of a subject, is being replaced by continuous assessment.

The main factor contributing to the low quality of education at this level is the poor teaching, reinforced by inadequate supervision. Primary teaching is often taken up as a last resort (since its attractions are minimal, with low salaries and most vacancies in rural areas) so that staff are not motivated. With the introduction of the new curriculum, preservice and in-service training are needed to enable teachers to perform effectively in practical subjects. Better supervision could do much to improve the quality of teaching. At present, supervisors are picked from high school teaching staff and often have no experience of primary education and few attend in-service training programs. They are expected to supervise a large number of schools (in theory 50, but in practice as many as 250), which is particularly hard for female supervisors who must visit widely scattered rural schools. These visits have traditionally been for inspection rather than helpful supervision, but they are in any case infrequent. The lack of effective supervision eliminates a possible means of discouraging absenteeism, a frequent occurrence in rural schools.

Equity. A pervasive issue in Pakistani education is the inequality in educational opportunity as between the sexes, between urban and rural areas, and between rich and poor. Education reaches many more males than females at all levels and this is reflected in the literacy rates achieved: 36% for males but only 11% for females. This is partly because there are fewer girls' schools and a shortage of female teachers, but also because fewer girls enroll at each level and more drop out: at the primary level, 73% of males in the relevant age group

enroll but only 33% of females, with completion rates of 40% and 15%, respectively. Female enrollment continues low at higher levels: 26% of enrollment at intermediate institutions, 30% at degree level. The 1972 Education Policy states equalization of educational opportunity for women as one of its aims, but progress is hampered by the lack of facilities and trained staff as well as by traditional views of the role of women.

Regional disparities are also apparent, both between rural and urban areas and between provinces. While rural areas have about 73% of the population, they account for only 63% of enrollment in primary schools, 48% in middle schools, and 35% in high schools. Enrollment ratios by age group show similar disparity between urban and rural areas and also between provinces: for instance, rural schools in the NWFP enroll 50% of the primary age group, but in Baluchistan only 30%. In rural areas of Baluchistan, only 10% of the girls enroll in primary schools. The rural areas have less money to provide schooling and the rural population is generally less modern and attaches little importance to education.

Finally, the education system heightens socioeconomic differences through unequal access of high and low income groups. From the primary level upwards, poverty is the most powerful factor preventing enrollment and causing dropout; although basic education is free, certain costs are still involved, for the purchase of books, etc., and indirectly, through the value of labor lost when a child attends school. At higher levels, minimal fees are charged, which is a reflection of extensive subsidization by the Government of the type of education most benefiting children from better-off, more educated backgrounds. Since graduates with a high level of education then command better jobs and salaries, the disparity is self-perpetuating and opportunities for social mobility are poor.

Administration and Organization. Effective administration of education in Pakistan is hampered principally by the division of authority and financial responsibility between the central and provincial governments. Responsibility for education financing is divided, since development funds are derived from the central government's budget while recurrent costs are supplied by provincial governments. This may result in policies formulated by federal authorities not being implemented by provincial agencies, either because they are not convinced of the value of the policy or because they have insufficient funds to meet the recurrent costs the policy may imply.

Poor organization and outmoded procedures also lessen the effectiveness of administration. School supervision is inadequate, partly because funds cannot provide sufficient adequately trained supervisors, and partly because staff have many other demands on their time. Inefficient practices, such as separate supervision of boys' and girls' schools, strict demarcation of the spheres of influence of education agencies and rigid vertical lines of communication, further impede efficient functioning. Some of these problems could be alleviated by closer cooperation between educational authorities and agencies, and by the involvement of local people in education through elected local councils.

Financing. A particular problem is the tight budgets of the provincial governments, which derive their own revenue from taxes and fees. Since 1971 they have been able to finance less than 60% of recurrent expenditures, with the balance coming from federal tax transfers, grants or loans. Because funds of both central and provincial authorities are limited, ways must be found to improve and expand production at low cost, emphasizing expanded utilization of existing facilities rather than new construction.

## THE POWER SECTOR IN PAKISTAN

1. Pakistan's domestic energy resources are characterized by sizeable reserves of natural gas, substantial hydro potential but only limited known reserves of crude oil and exploitable coal, and no uranium. Thus, while hydro and natural gas have been developed extensively and now account for one-half of total energy requirements, indigenous coal and crude oil supply a much smaller proportion of requirements. As in most countries in South Asia, a large part of internal energy requirements is still met by non-commercial energy sources such as firewood, animal dung, bagasse and maize stalks, which constitute the bulk of energy supplies in rural areas.
2. Total hydro potential in Pakistan is estimated at about 40,000 MW, of which about 10,000 MW could be developed economically. With the full development of the Tarbela, Mangla and Warsak dams by 1985, there will be in operation about 3,300 MW of hydro power. The geographical configuration of Pakistan is such that hydro stations are located in the mountainous north, while thermal power stations are in the flatter center and south. Thermal stations play an important role in meeting power needs of the country throughout the year and in supplementing supplies in the northern grid during low water months (March-May). During the high water months (July-September) when hydro energy capability is at its maximum, power is transmitted south enabling thermal stations to economize on fuel and carry out phased overhauling and maintenance.
3. Two main Acts pertaining to the power sector are the Electricity Act of 1910 and the Water and Power Development Authority (WAPDA) Act of 1958. The Electricity Act is a statutory instrument governing the sector and inter alia enables the Government to issue licenses for the generation and distribution of electric power in various areas of the country.
4. The WAPDA Act inter alia confers on WAPDA the power and obligation of a licensee under the Electricity Act. WAPDA and the Karachi Electric Supply Corporation, Ltd. (KESC), which generates and distributes power in the Karachi area to about 310,000 customers, are the two main entities in the power sector, with WAPDA accounting for about 80% of the public power supply in Pakistan and KESC and a few small licensees accounting for the remaining 20%. There have been suggestions in Pakistan from time to time that part of WAPDA's transmission system and all of its distribution systems should be transferred to either the Provinces or to federal distribution companies, but no specific proposals to that effect have yet been put forward. Under Loan No. 1208T-PAK (Second WAPDA Power Project), it was agreed that the Bank would be consulted in sufficient time for an exchange of views prior to any legislation or action which would alter the structure of the power sector in Pakistan. This arrangement will continue.
5. The Water and Power Development Authority, created in 1958 and entirely owned by the Government, operates, except in the Karachi area, throughout the remainder of the country. WAPDA has a dual function: development of water resources for irrigation and the development and operation of power systems. In its role in the development of water resources for irrigation, it constructs

storage dams, barrages, canals and tubewells. The dams, including Tarbela and Mangla, two of the largest earth-rock fill dams in the world, remain under its control but other irrigation works are turned over to the Provincial Governments for operation and maintenance after commissioning. In its role in the power sector, WAPDA constructs and operates power plants, transmission and distribution systems and serves about 2.5 million customers.

6. Excluding about 230 MW of private generation, the installed power generating capacity in Pakistan on June 30, 1979, was 3,430 MW, of which 2,685 MW was installed in the WAPDA system and 745 MW in the KESC system. The WAPDA system depends mainly on hydro sources with consequent variability of output, while the KESC system is 80% thermal with the balance nuclear power. Although the two systems have been recently linked with a network of 220 kV and 132 kV transmission lines, power transfers from one area to another have been limited by the capacity of the lines. Moreover, long lengths of secondary transmission lines and inadequate distribution facilities have led to high power losses. The Government intends to place greater emphasis in future on the development of transmission and distribution facilities in order to redress this imbalance. To overcome existing limitations on transmission capacity, 500 kV transmission lines are now being constructed from Tarbela to the Hyderabad/Karachi area, with intermediate substations at Faisalabad, Multan and Cuddu; this will integrate fully the hydro resources of the North with the thermal stations of the Center and South. In addition, secondary transmission lines, grid substations and distribution systems will be extended and reinforced to connect about one million new customers during the Fifth Five-Year Plan (FY79-83).

7. About 47% of the financial allocations for the power sector in the Fifth Plan is earmarked for power generation, 34% for transmission and the balance for distribution and minor projects. Although earlier Government proposals for expenditures on new generating facilities were reduced in the final version of the Fifth Plan, the Plan nonetheless provides for expenditures on major new projects during the latter part of the Plan period which could lead to excess generation capacity beyond 1983 if economic growth and power demand turn out to be lower than the Government's present expectations. A careful review of the prospective longer-term growth of power demand is necessary before the Government commits itself to these major new generation projects. The Government will, together with WAPDA and KESC, carry out a long-term demand forecast, and on the basis of the results of this forecast will consult with the Association on the size and composition of the investment program in the power sector.

#### WAPDA

8. WAPDA is organized in two "Wings", a Water Wing, responsible for all matters concerning irrigation, water supply and flood control, and a Power Wing. It is one of the largest employers in Pakistan with permanent staff of about 66,000, about 57,000 of which are attached to the Power Wing. WAPDA's power operations have grown rapidly in recent years and, as discussed below, changes in its organization have become necessary to cope with this expansion.

9. Under an ongoing loan to WAPDA for power development, funds were provided for management and accounting consultants to help strengthen the financial function and introduce an effective management information system for WAPDA's power operations. In line with the consultants' recommendations WAPDA has created four senior financial posts. Three of these posts, one in each of the three operating groups (generation, transmission and distribution), have been filled. While WAPDA has had difficulty in recruiting a General Manager, Finance, it has recently identified a suitable candidate and negotiations are in progress. WAPDA has entered into a contract with accounting consultants to implement the recommendations already made for improving WAPDA's accounting system. WAPDA will implement these recommendations in accordance with a timetable acceptable to the Association.

10. As indicated above (paragraph 6), WAPDA's power system is suffering from excessively high losses which rose from 30.9% of generation in FY71 to 37.6% in FY77. The high losses are due principally to the excessive length and loading of WAPDA's transmission lines, theft and bad metering. In consultation with the Association, WAPDA has developed an action program to deal with these problems, and losses were reduced in FY79 to 34.2%, reversing the historical trend. In order to improve further on these results, WAPDA has established a unit to implement programs satisfactory to the Association for the reduction of losses due to theft and inaccurate metering to not more than 5% by June 30, 1982, and for their ultimate elimination, and for the reduction of transmission and distribution losses to not more than 16% by June 30, 1984. The ongoing WAPDA Power III project will itself play a significant role in helping to reduce losses.

#### Bank Group Involvement

11. A \$45 million Credit of January 1980 was the Bank Group's third lending operation for the development of WAPDA's power system. There has also been previous participation in the Indus Basin projects, including Mangla and Tarbela dams, and a series of four loans to KESC between 1955 and 1967 for generation, transmission and distribution facilities. The first lending operation for WAPDA was a credit of US\$23 million in 1970 for a project to augment transmission substation capacity. Although late by about three years, principally due to delays in procurement, the project has now been completed. The second lending operation was a Third Window loan of US\$50 million (Loan 1208T-PAK) in 1975 to finance part of the 500 kV transmission system. This project was delayed by about nine months, due to the late appointment of consultants and slowness in awarding contracts, but is now proceeding satisfactorily. Lower-than-expected contract prices have led to cancellation of savings of \$15 million of the loan. The implementation arrangements of the Third WAPDA project incorporate the experience gained in the previous two projects.

January 31, 1981

His Excellency  
Ghulam Ishaq Khan  
Minister of Finance, Commerce,  
Planning and Coordination  
Government of Pakistan  
Islamabad

Your Excellency:

A Bank mission visited Pakistan from January 21 to 31, 1980, to review current and future development plans in the oil and gas sector, assess the need for investment and the areas where the Bank Group could be of assistance to the Government of Pakistan and identify issues which are or could become obstacles to the development of the sector. The mission held discussions with the Ministry of Petroleum and Natural Resources, with the main companies, public and private involved in exploration for and development of hydrocarbons and with SNGPL, which has requested Bank Group financing for the expansion of their transmission system.

I would like to express my gratitude for the co-operation extended to the mission by the staff of these agencies during these meetings and would also like to summarize the main conclusions of the mission, which are expressed in more details in an Aide Memoire which was submitted to the Additional Secretary Petroleum.

#### Natural Gas

The natural gas industry has reached a turning point. Until recently Pakistan depended mainly on the sui field for its gas supplies, the known reserves of Sui are almost fully committed and new supplies would have to be developed to meet the expected future demand. This problem is urgent since, as you know shortages have been developing over the past few years particularly during the winter. Potential sources (Dhodak, Pirkoh) have been identified but there is at present no co-ordinated plan to assess nationwide the gas resources available and to optimize their utilization in the long term. We believe that the formulation of such a plan is urgent and as a first step are proposing, within the framework of the preparation of the SNGP V project that a study of the short term options to increase gas supplies be carried out. Terms of Reference for the study have been discussed and its foreign exchange cost of about \$700,000 could be covered by drawing on the Bank's Project Preparation Facility (PPF).



The increase in the production of existing fields, particularly Mari, and the development of potential resources will require large investments. At the present price level, the producers are unlikely to be able to mobilize the necessary resources for their financing, even if institutions like the World Bank and/or the Asian Development Bank are willing to participate. We therefore believe that gas prices will have to be increased to a level which would ensure that producers will be able to cover their operating costs, service their debt and earn a return on their investments which would enable them to finance a reasonable share of their investments.

We have identified two projects, which the Bank would consider financing, SNGPL V which would provide for an increase in the capacity of their transmission system and Dhodak development. Detailed plans for their preparation have been agreed and recorded in the attached Aide-Memoire. While we recognize the priority of these projects, we would expect that action on gas pricing will be taken before we could present these projects to our Board of Executive Directors. The study of short term options should provide the technical background that would permit designing an adequate pricing policy, and the Bank would be ready to assist in evaluating alternative policies. In this regard, we believe that the concept of cost-plus pricing which requires periodic re-negotiations and does not account for future investments should be discontinued.

#### Oil

As you know the slow pace of development of known oil reserves, primarily Toot and Meyal has been of concern to the Bank for some time. Regarding Toot we believe that progress is now being made and that most of the technical problems are under control. Close monitoring of the project will however continue to be required to ensure that no further slippage will occur.

The rapid development of Meyal appears to be more problematic. While POL and the Ministry disagree on the reasons which have delayed the projected increase in production (POL claiming low prices and the Ministry bad management), it is now urgent that a solution be found, since the foreign exchange savings generated by incremental domestic production are substantial. (an increase of 10,000 bpd would mean gross savings of about \$150 million per year). In the Aide-Memoire we have outlined a plan (para 29) which should enable the GOP and POL to come to an agreement and would ensure that this field is developed in the optimum way.

As it is the case for natural gas, current crude prices paid to OGDC and POL, are likely to be too low to ensure that they can mobilize the resources required to maintain an efficient operation and accelerate the development of

these two fields. Once OGDC has completed the updating of their past accounts, we will have a better estimate of the price level required to enable them to comply with the Credit and Project agreements signed in 1978. In the case of POL, the plan outlined in para 29 should provide the technical background for the setting of a price for crude oil. As for gas we would strongly recommend that the concept of cost plus pricing be abandoned.

Although exploration by foreign companies has increased considerably over the past four years, the companies operating in Pakistan have indicated that their operation was slower here, and more expensive than in most other countries, primarily because of a slow bureaucratic decision making process. While we recognize that the Ministry of Petroleum is doing its best to assist them we feel that the relationship with the oil companies could still be improved if a few steps were taken to streamline procedures. Recommendations to that effect are in para 30 to 32 of the Aide-Memoire.

#### Conclusions

We believe that Pakistan's potential for the production of hydrocarbons is attractive, and this has been confirmed by all companies we contacted. We also believe that during this decade Pakistan could significantly reduce its oil import dependence and possibly become self-sufficient if steps are taken to (i) accelerate and optimize the development of natural gas, (ii) accelerate the development of known oil reserves and (iii) promote exploration more actively.

While the Ministry of Petroleum is doing its best to deal with these problems, we do not believe that it has the capability to deal adequately with the issues outlined above. Day to day problems, some of them minor, fully occupy its staff and prevent them to exercise a useful policy function which is urgently required.

We would therefore recommend that serious consideration should be given to the creation of a high powered "Energy Commission" which would perform this policy function and co-ordinate programs among various ministries. Such a commission which would have a small but highly qualified staff and would draw on external expertise could be given the initial assignment of (i) preparing an energy development plan for the next 5 years, giving priority to the oil and gas sector initially (ii) identifying the areas, where reforms are required to ensure that this plan is implemented within time and budget and (iii) identifying the financial and manpower needs and formulating recommendations for their mobilization. This plan could be formulated within the first year of operation of the commission.

As indicated previously, the Bank considers that this sector should be given highest priority and is ready to provide its assistance in the form of project financing or otherwise. However, the extent to which this assistance can be mobilized rapidly will depend largely on actions taken on the issues outlined in this paper.


I would like to thank you again for the excellent cooperation extended to the mission.

Sincerely yours,

P. Bourcier  
Assistant Director  
Energy Department

## SUMMARY OF ISSUES IN THE ENERGY SECTOR

### Background

1. Despite the extensive development of the domestic gas reserves and hydroelectric resources, Pakistan remains an energy deficient developing country with steadily increasing requirements for commercial energy. Almost 40% of its commercial energy needs (which amounted to 12 million tons of oil equivalent in FY79/<sup>1</sup>) is still met by petroleum, the bulk of which is imported; domestic crude oil production, which amounted to 3.7 million Bbls (0.5 million mt) in FY79, met less than 12% of petroleum consumption. In FY79 Pakistan had to import 3.57 million mt of crude oil and 1.40 million mt of petroleum products, equivalent to 45% of the FY79 current account deficit and a third of all merchandise exports in that year; the oil import bill is estimated at around \$1 billion for 1980.
2. Analysis of the situation, however, shows that this dependency on oil imports could be alleviated and self-sufficiency could even be achieved within the next decade if the necessary policy and investment steps are taken and the overall management of the sector strengthened considerably to hasten the development of existing proven oil and gas reserves, as well as to optimize the demand for energy in the country. 

### Natural Gas

3. Recent review of the future trends for gas supply and demand indicate that a considerable supply gap may develop within the next decade. According to consultants financed by the Bank (Chem Systems, UK) the supply gap could grow from about 50 MMcfd in 1980/81 to about 600 MMcfd in 1990/91, and would imply importing about 5 million tons of oil and/or oil products by 1990 at an incremental cost of US\$1 billion at 1980 prices. This situation can be avoided if immediate action is taken to: (i) encourage maximum use of existing gas reserves under private sector control, particularly Mari and Sui, as well as other dormant fields (Khankhot and Mazrani); (ii) if a program to assess and develop the potential reserves of Dhodak and Pirkoh is implemented within the next two years; and (iii) if bottlenecks in the treatment, transmission and distribution facilities are removed.
4. Remaining recoverable gas reserves (excluding Dhodak and Pirkoh) are currently estimated at 12 trillion cubic feet and could sustain a production of about 1.2 billion cubic feet per day for 20 years.<sup>/2</sup> According to current forecast such a production would be

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<sup>/1</sup> Conversion based on fuel oil; there are 6.6 barrels (Bbls) in a metric ton of fuel oil and 159 barrels in a million cubic feet (MMcf) of gas of the same heat content.

<sup>/2</sup> Sui quality gas of 933 Btu/cf calorific value.

sufficient to meet the need of demand estimated for 1985/86 without curtailing existing supplies and without switching future thermal power generation to oil. Enhancing present production from known developed fields could be achieved by increasing the output of Mari field (projected at 130 MMcfd in 1981/82 as compared to a possible 400 MMcfd). Similarly, a study should be made of what would be the maximum production of Sui, compatible with efficient management of the reservoir.

5. Increasing production of existing gas fields is a priority. It will not happen, however, unless substantial upward increase in the well-head price for gas from existing fields is brought about; current price levels deter at present further development of Sui or Mari. Exxon, which owns the Mari concession, would be willing to develop the field beyond their existing commitments provided a mutually agreeable price could be negotiated, which would ensure that they earn a reasonable return (the current price is less than 5% of the "international price" of natural gas). The technical capability to develop the field exists and a program to develop an incremental 170 MMcfd of Sui gas equivalent could probably be implemented within the next two years, thus avoiding the need to convert gas-fired power plants to enable them to burn fuel oil as currently considered.

6. Pirkoh and Dhodak fields, which were discovered by the national oil company, OGDC, can also contribute to match the gas demand in the next two years. Appraisal drilling is proceeding at Dhodak, though at a very slow pace, and is being contemplated for Pirkoh. The main constraining factor for a speedy development of these fields is the institutional weakness of OGDC which has deteriorated even further in recent months with the exodus of large numbers of operating staff to the Persian Gulf.

7. Another constraining factor to further use of gas in Pakistan is the transmission and distribution system. It is now urgent to review the system design and to optimize the processing and transmission facilities for the following reasons:

- (i) the medium to long-term sources of gas are unlikely to be limited to Sui and Mari as is presently the case;
- (ii) seasonal and daily variations of demand are likely to become more significant particularly if more gas is to be used for thermal power generation and for residential purposes; and
- (iii) the use of different gas has to be optimized, taking into account future growth of demand.

In this regard it is crucial that GOP sponsor an optimization study to be carried out by outside consultants with the contribution of all gas producing and distributing companies in Pakistan.

Oil

8. The most pressing sectoral priority is for Pakistan to discover and develop increased crude oil reserves. Over the past few years GOP/OGDC have entered into a number of exploration agreements with international oil companies aimed at discoveries of oil and/or gas within the next three to five years. While these should contribute to reducing Pakistan import dependence in the longer term, like for gas, existing oil fields (Toot, Meyal and Adhi) could yield a higher production if their development was accelerated. In order to turn around the disappointing performance of the last three years which have seen virtually no increase in domestic oil production despite the known potential, GOP will have to tackle the key issues, which are technical, financial, managerial and institutional.

(i) Technical. Overcoming the difficult drilling conditions of Northern Pakistan, which have been experienced by Pakistan and foreign oil companies alike, requires the best outside technical expertise available to the industry as well as local knowledge of the conditions which can only be acquired with increased drilling. It is essential that an overall assessment of the problems experienced by all companies involved in drilling be sponsored by GOP. A better knowledge of the specific difficulties involved in drilling and development in the different geological areas of Pakistan would benefit both private and public sector and enhance efficiency in field development.

(ii) Financial. Since 1976, we have emphasized that adequate pricing for "old oil" was a prerequisite to efficient development, and several possible schemes have been suggested to GOP to ensure that the operating companies had the proper incentives to increase production as fast as compatible with proper reservoir management. Appropriate return to oil companies, as well as easy access to necessary foreign exchange are prerequisites to full development of existing oil fields.

(iii) Managerial. Serious sector management problems have affected adversely the development of oil resources. At the administrative level, considerable delays have been experienced in securing import licences, obtaining authorization from public services, etc. At the field level, local managers have not been delegated the authority required to efficiently manage the operations (particularly in OGDC). The Directorate of oil operations should be concerned about these problems and should obtain from the operating companies that steps are taken to improve the situation.

(iv) Institutional. A major concern remains the weakness of the public sector institution, OGDC, and especially the ongoing outflow of technical staff from OGDC. Unless the compensation issue in the public sector is immediately tackled, the current pace of exodus of trained drillers and geologists towards the Middle East will seriously

reduce the capabilities of the public-sector institutions to carry out further development. GOP should re-assess the capabilities of OGDC, and possibly change the balance of its investment strategy by involving the private sector more in development efforts.

#### Conclusions

9. It is now urgent that the Government of Pakistan strengthen considerably its sector management. It is essential that a high level commission with authority to commission studies and recommend policy measures to higher government authorities be set up. A stronger policy making body on the oil and gas sector would lead to: (i) enhanced production from existing fields through appropriate action, both in the public and private sector; (ii) development for the longer term of a strategy to ensure least-cost supply; and (iii) optimization of energy demand. The Bank could make a major contribution towards a rational development of oil and gas resources in Pakistan through direct involvement in the work of the policy making body, and by contributing to the design and financing of priority projects identified by this commission. In the short run, funds should be secured immediately to: (a) conduct appraisal drilling in Dhodak and/or Pirkoh; (ii) evaluate the potential of Sui and Mari; (iii) evaluate the modification and capacity increases required by the transmission system; and (iv) evaluate the production potential of Meyal, Adhi and Toot.

MWormser/pea  
January 14, 1981

Pricing and Taxation Issues In Energy  
Development in Pakistan

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1. The present pace of exploration and development of already known oil and gas fields in Pakistan is quite unsatisfactory. The production potential which is being foregone is presently placing an extremely high burden on the economy through the resulting need for higher petroleum imports.
2. The magnitude of this problem has been sharply increased by the recent increases in world oil prices. However, under the present system of energy pricing, domestic producer prices are set on a cost-plus basis. Therefore, the increased importance of expanding production from domestic energy sources cannot be reflected in increased incentives to develop known oil and gas fields.
3. The practice of cost-plus pricing for energy in a situation of general inflation has, on the contrary, led to a situation of constant negotiations between oil companies and the Government for compensating price increases as production margins are squeezed. In practice, price increases are awarded only when domestic producers face serious cash flow problems. As a result, the companies do not have the incentive or the cash flow to mount adequate programs of exploration in development. The resulting disappointingly low rate of development activity on known fields contrasts sharply with the rapid expansion of exploration activity to discover new fields where the price offered to producers is linked to international prices.
4. The practice of cost-plus pricing has been adopted for two major reasons:
  - (a) Cost-plus prices prevent the emergence of excessive rates of return to existing producers which could follow from a system of import parity pricing. This is not a valid argument since excessive profits could be avoided with an appropriate system of taxation.
  - (b) The setting of cost-plus prices to producers at well below import parity levels permits the subsidization of consumers or industrial users (especially in the case of natural gas) without imposing a high, visible burden on the budget because the burden of these subsidies is passed back to the producers. However, even if Pakistan can afford such subsidies, there is no logic in passing the burden of these back to the producers if these lead to an inadequate rate of development of domestic resources.
5. Bank staff have recommended to the Government of Pakistan that the cost-plus system of setting producer prices in the energy sector be replaced by the following:
  - (a) The price paid to producers should reflect the value of the product to the economy i.e., import parity prices for petroleum and energy equivalent prices in the case of natural gas.
  - (b) A special taxation system should be applied which would tax away a progressively higher share of any cash flow which is:



- in excess of a specified minimum rate of return to capital; and
- is not reinvested in approved forms of development expenditure.

6. Such a combination of pricing and taxation reform would remove the need for constant negotiations between the Government and the producers for the revision of prices to reflect changing costs: the revised system would automatically adjust the after-tax returns per unit (as against price) received by producers to reflect changing circumstances while providing an incentive to minimize costs. More importantly, the high before-tax returns per unit would automatically provide producers with adequate cash flows and a strong fiscal incentive to undertake appropriate programs of investment to develop new wells and to optimize recovery from already existing wells. None of these incentives are provided under the existing system.

7. Under such a revised fiscal system, the Government would be assured of a progressively higher share of returns from highly profitable fields irrespective of the ownership of the firm which undertakes the development of these fields. This would make it more acceptable and feasible to set up joint public-private ventures to accelerate the development of known fields.

#### Recommendation

8. That GOP accept, in principle, the setting of producer prices for oil and gas at import parity and investigate in detail over the next 6-9 months the implementation of a progressive profits tax designed to maintain incentives for marginal investments while appropriating a high share of above normal profits for GOP. The Bank would be happy to assist in such a study.

January 7, 1981

## OFFICE MEMORANDUM

TO: Mr. P. Bourcier, Assistant Director, EGY

DATE: December 17, 1980

FROM: K. Palmer, EGYES *KP*SUBJECT: PAKISTAN: Petroleum Contracts between GOP and Private Oil CompaniesSummary:

1. Until 1975 oil and gas exploration was largely the preserve of OGDC and producer prices for oil and gas from Potwar and Sui were fixed at the pre-1974 level. In 1975, in order to stimulate renewed private petroleum exploration, concession agreement terms were revised to provide substantial new incentives. Inter alia, new oil discoveries would be valued using the world oil price and the government take was limited to 55% of taxable income. The new terms were successful in generating new exploration activity and 10 new agreements have been signed over substantial acreage involving about 15-20 well commitments. The main concern with the new contracts is that the financial terms are so generous to the companies that there may be some doubt as to contract stability following discovery.

2. In contrast, existing discoveries did not receive similar benefits. 'Old' oil from the Potwar fields is priced at \$4.40/Bbl. There is much evidence that the low price combined with high field costs (related to difficult technical problems) is a major factor in the slow development of the Meyal field. The low price has also precluded active consideration of enhanced recovery from the near depleted Dhulian, Joya Mair and Balkassar fields. The reluctance of Amoco to participate in development of the Adhi field is also related in part to dissatisfaction with the wellhead price. Despite assurances by the Government that they are flexible on pricing and the Bank objective of accelerating production from existing discoveries, 'old' oil pricing remains an important unresolved policy issue. Resolution of the problem in the case of POL will require a combination of financial and technical strengthening of the company (perhaps through a joint venture), an increase in the wellhead price of oil to provide adequate incentives for increased production and a revised fiscal mechanism to ensure that the Government shares adequately in producer profits without deterring marginal developments.

1. New Oila) Contract Terms

3. Private oil companies are licenced by the Government to undertake exploration, development and production of petroleum subject to the terms and conditions of a petroleum concession agreement. The specific terms of the concession agreements as they relate to work commitments and financial terms are negotiated on a case by case basis but are broadly similar. The main terms are:

- (i) The Government has an initial participating interest during exploration which varies from 0-20%. It (usually) has the option to increase its participating interest following commercial discovery to 50% without any obligation to reimburse sunk exploration costs.

- (ii) Initial firm work commitments are for a 4 year period with penalties for under-expenditure equal to 90% of the under-expended amount.
- (iii) The wellhead value of crude oil is determined by reference to the international price. The price of natural gas is to be negotiated (some agreements make reference to the international price).
- (iv) Companies have the right to export crude produced in excess of domestic market obligations. Crude sold to Government to meet domestic demand is subject to a price discount of 12 to 15%.
- (v) Companies are free to retain export proceeds overseas and to freely convert and remit surplus rupee funds overseas.
- (vi) A concessionary 5-1/4% import levy applies to all dutiable imports (with drawback provisions for re-exports).
- (vii) The sum of royalties and income tax shall equal between 50% and 55% (depending on the agreement) of taxable income after deducting (generous) amortisation allowances.<sup>1/</sup> The definition of taxable income is frozen as of the effective date of the concession agreement.
- (viii) A Management Committee makes all major decisions with voting rights in accordance (generally) with participating interests (i.e. 50% Government, 50% private). Decisions require greater than 50% support with provision for arbitration in the event of a tie.
- (ix) Arbitration is to be by independent arbitrators appointed in accordance with the procedures of ICSID or ICC.
- (x) There are small production bonuses.

b) Current Status

4. The response to the new contract terms was encouraging. About 180,000 km<sup>2</sup> is currently under concession. Gulf (5 well commitment), Shell (3 wells), BP (3 wells), Union Texas (3 wells) and Occidental (2 wells) are particularly active (see attached map). A total of six exploratory wells are planned by foreign oil companies in the next year. A brief summary of exploration activity by company follows:

Gulf. Gulf hold 8 licences covering 24,000 km<sup>2</sup>, mostly in the Potwar area (shaded blue on attached map). Its first well, Qazian 1, in the Potwar area was a dry hole despite strong oil shows. The cost was US\$13 million due to the depth and difficult drilling conditions. Gulf now intends to drill Finkassar-1, a good prospect 15 km west of Adhi-6, and may return to drill Qazian-2, in the first half of 1981. Seismic in the Darya Khan area looks promising, making it a likely prospect for a well later in 1981. Gulf

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<sup>1/</sup> Nominally a 12-1/2% royalty and 48% income tax apply separately. In fact the 50-55% profit split applies regardless of these levies.

is committed to drill five wells by November 1982, and has already farmed out part of its interest to British Petroleum.

Shell hold a single licence of 31,000 km<sup>2</sup> along the SE border of Pakistan. It has completed its initial seismic work and will spud its first well this month. Although committed to three wells over the next four years, Shell expects to drill 1-2 wells per year. It recently completed negotiations for an extension of its concession which brings its commitment up to four wells. Shell has indicated that it is interested in doing more in Pakistan. It has a particular interest in large gas fields.

BP recently took up a 15,000 km<sup>2</sup> licence to the west of Sui. In the first year it will complete a program of seismic and spud one well. It is committed to complete 3 wells within 4 years.

Union Texas is planning to drill three more wells in southern Pakistan northeast of Karachi in FY81; the first is to be spudded in November/December. This is a particularly important program because it is aimed at potentially thick pay horizons which could result in large oil accumulations in what is generally regarded as a gas prone region.

Occidental has an 8,000 km<sup>2</sup> licence at Sukkur south of Sui. Oxy completed seismic in 1980 and reportedly will spud Kandawani 1 in the near future. It is seeking a partner to share the risk. In the meantime, Occidental has recently completed negotiations with POL (Attock) to take an 80% interest in the deeper levels within the Balkassar structure. This is a particularly interesting prospect as the target of their deep well drilling would be the Cambrian, potentially a newly productive horizon for the Potwar area. Under the terms of the concession, Occidental would be committed to one well and some seismic work in each of the first two years, although it could relinquish the concession if the first well is dry. It is expected to spud a Balkassar well in 1981. Under the terms of a special agreement with GOP Balkassar crude will be valued at two-thirds of the current international price compared to a fixed \$4.40 for the rest of POL crude.

Amoco. The Amoco/OGDC exploratory well, Mianwalla-1, has been abandoned due to mechanical problems. OGDC's joint operations with Amoco have since been at a standstill. Adhi-5, an Amoco/PPL well, was put on test production in March 1980 producing at a rate of 1,000 BD; this has since declined to 350 BD due to the increasing intrusion of water. Adhi-6 encountered problems in drilling and has been abandoned. Drilling of another successful appraisal well (Adhi-7) is necessary for the field to be declared commercial. Amoco, however, is unhappy with its relationship with PPL concerning the operatorship of the field and with the Government concerning the price of its crude. Amoco has proposed to sell back its interest in Adhi to the Government, and withdraw from Pakistan. It has already removed its rig, and refused to participate in drilling another exploratory well with PPL northwest of Adhi, one reason being its concern that it would only produce gas (whose price is non-remunerative).

As for other foreign oil companies, Murphy is generally inactive in the Baluchistan area. Husky is working offshore; it drilled one dry well and is now looking for a partner. Phillips had been doing seismic work in the deep sea, but is currently inactive.

2. 'Old' Oil

5. The main private sector oil producer in Pakistan is Pakistan Oilfields Ltd. (POL) in the Potwar area. It is a small private company with paid up capital of US\$12 million.<sup>1/</sup> It produces from five small fields of which by far the largest is the Meyal field with recoverable reserves variously estimated at 50 to 150 MMBbl (Fig. 1).

Fig. 1: Oil Reserves as of June 30, 1979 (1,000 US Bbls)

<u>Field</u>	<u>Agency</u>	<u>Oil in Place</u>	<u>Recoverable Reserves</u>		<u>Production</u>
			<u>Total</u>	<u>Remaining</u>	<u>FY79</u>
Khaur	POL	n.a.	n.a.	n.a.	2.3
Dhulian	POL	91,500	43,500	3,491	141.9
Joya Mair	POL	10,590	4,950	275	89.3
Balkassar	POL	101,500	33,000	3,169	321.5
Toot	OGDC	75,000	35,000	31,222	638.4
Meyal	POL	265,000	160,000	146,250	2,517.6

Source: Oil Producing Companies

6. Meyal, the largest known oil field in the Potwar Basin, has been the focal point of discussions on pricing old oil. Discovered in 1968 by POL, it is presently being developed at a slow rate. Meyal is currently producing about 7,000 BD from five wells. POL's present plans call for completing five more wells, and an overall production rate of 18,000 BD. The magnitude of the recoverable reserves, if confirmed, suggest that a peak production rate of about 20,000 BD could be justified. The slow development of Meyal can be attributed in part to technical difficulties. The wells are deep (12-15,000 feet), there are over-pressured shales, pressure reversals, very hard sandstones and corrosive acids which exacerbate equipment failure. Drilling is necessarily difficult, time consuming and expensive. These problems are magnified by financial limitations confronting a small company with \$4.40/Bbl wellhead price. Shortage of cash flow, for example, precluded adequate appraisal work and so reserve estimates are subject to wide margins of error and hence development wells are risky.

7. POL designed a \$50 million program for 1979-82 to increase Meyal production to 18,000 BD by 1983. The program involved drilling 5 wells with a new diesel-driven rig (average drilling time per well 8-9 months). IFC agreed to contribute \$30 million. Under the agreement reached with GOP in 1978 the price for Meyal crude was increased 33% to \$4.40 per Bbl and fixed for ten years as a quid pro quo for the new investment.<sup>2/</sup> The POL program has been set back by persistent problems. Wells are taking closer to 18-20 months and costs are 60% above estimate. According to IFC, casing policy and reservoir treatment are being adversely affected by economising due to cash shortage. The new rig planned for use in the program is instead being leased to Oxy to

<sup>1/</sup> Attock 54%, GOP 34%, IFC 6%, Pakistan public 6%. Attock is a U.K. based company with primarily Kuwaiti and Saudi private shareholders.

<sup>2/</sup> The price rises or falls 50¢/Bbl for production above or below specified target levels.

drill Balkassar (in which POL has a 20% interest) presumably because the higher wellhead price (\$23/Bbl) makes that a more profitable use of the asset. According to IFC estimates, using realistic costs and forecasts of well performance, the Meyal drilling program is not profitable at a wellhead price of \$4.40 per Bbl.

8. It seems clear that the Meyal wellhead price is too low for optimal field development although in addition to a higher price POL appears to need financial strengthening. One solution would be a joint venture between POL and a financially strong oil company experienced in comparable drilling conditions but this would require revised pricing and fiscal arrangements. The approach proposed by Bharier to the Pakistani authorities in September (Annex 1) would involve a sharp increase in the wellhead price, a progressive profit tax to limit windfall profit gains but with cost recovery provisions such that a high rate of tax would only be paid after capital had been recovered with a reasonable return on investment. This approach has major practical advantages in encouraging investment over the present wellhead pricing approach.

9. The same comments are even more relevant in the case of enhanced recovery projects. A preliminary study by POL suggests that enhanced recovery could be economic in the Balkassar field, where previously only a 30% recovery was expected. However, this is not viable at the present wellhead price.

#### Natural Gas

10. Pricing of natural gas is a difficult subject. The new agreements signed with oil companies provide simply for negotiating the price at a future date (although some add that negotiations should 'take into account' international prices). The COP maintains that it is very flexible in its approach to pricing of new gas.

11. 'Old' gas is a different matter. Sui, operated by PPL in which the Government has a 30 percent equity, is the largest known gas field in Pakistan, and has been the focal point of discussions on pricing. The field has been on production since 1954, and has 25 completed wells of which 24 are gas producers. Daily average gas production as of 1980 was 660 MMCFD. PPL estimates 40 - 50 wells are required for the full development of Sui. Present plans call for drilling four wells a year, and increasing production to a maximum level of 880 MMCFD by 1984. PPL has repeatedly stressed the seriousness of its financial situation both in terms of a limited capital base and cash flow problems. In addition to drilling four wells per year at a cost per well exceeding US\$1 million, PPL expects to purchase a rig in 1981 and additional gas compression facilities in 1983. PPL also expressed interest in developing the Upper Limestone reservoir in Sui, potentially a new productive horizon in this field which could ultimately increase overall production from the field by an estimated 70 MMCFD. Since 1976, PPL has been receiving US\$0.06/MCF of purified gas delivered to the pipeline. Based on PPL data, insufficiency of revenues, due mainly to this price level, would slow down the implementation of the program outlined above. In order to sustain its development and exploration efforts to date, PPL has had to borrow substantial

funds. PPL has requested that the treatment of past prospecting expenditure be reconsidered in determining the wellhead price of Sui gas, and has submitted a case for an increased wellhead price. In addition to Sui, PPL has discovered gas at various other structures. The development of two of these, Mazarani and Khankhot, appears to be economically viable. PPL claims that this development hinges on the price it will receive for gas from these fields.

12. The situation at Mari, the second largest gas field in Pakistan (recoverable reserves 4.9 TCF), appears to be different from that of Sui. To date, 15 wells have been drilled, and all but one are producers; Esso will be drilling another 7 - 8 wells in FY81. Production has increased from some 30 - 50 MMCFD for 10 - 12 years, to 100 MMCFD in mid-FY80, to an expected 170 - 200 MMCFD in early FY82; this has been coordinated with the construction of three fertilizer plants in the vicinity. Esso has successfully negotiated increases in the price of its gas. The price was gradually increased from US\$0.04/MCF in 1976 (it had been at this level since 1969) to US\$0.10/MCF at the time of new developments for the second fertilizer plant (Park-Saudi), which came into production in December 1979; the inflation clause has since raised it to US\$0.105/MCF. Negotiations for development in connection with the third fertilizer plant (Fauji), expected to come into production in August/September 1981, led to yet another increase to US\$0.115/MCF. However, it appears that there remain unresolved problems in connection with further increases in production.

### 3. OGDC

13. In addition to its field delineation and development work in the Toot oil, Dhodak condensate, and Pirkoh gas fields, OGDC is conducting a modest exploration program of 1-2 wells per year. OGDC is also involved in joint ventures with Gulf (15%), Amoco (50%), Occidental (20%), Shell (10%) and BP (20%) as non-operator. OGDC's present exploration plans for FY81 include drilling Nayal-1, with a possible second well (Dakni-1) to be spudded depending upon the success of the first. OGDC also expects to drill three appraisal wells (Pirkoh-2 and 3 and Dhodak-4), and continue developing Toot including three development wells, two completions, and some workovers. Some 700 km of geological surveys and 1500-1600 km of seismic surveys are also planned. Nearly one-third of OGDC's FY81 budget of US\$100 million has been set aside for exploration and development of oil and gas reserves including Pirkoh and Dhodak but not Toot. OGDC holds licences over 40,000 km<sup>2</sup> (shaded red on attached map). Consideration needs to be given to whether inactive acreage should not be relinquished or farmed out to private companies.

cc: Messrs. Fitzgerald, McCarthy, McPherson

KPalmer:rm

Attachment

PAKISTAN - OIL AND GAS PRICING

1. General

A clear distinction should be made between:

- the value of an additional unit of domestic production
- the resource cost per unit of production
- the net return per unit to the producer.

Since Pakistan is a net importer of oil, it is clear that the economic value of an additional unit of domestic production is the cost of a unit of imported oil. In the case of natural gas the economic value is the cost of the alternative energy source displaced by the gas. There is a clear economic gain from production whenever the incremental real resource cost (i.e. before taxes, royalties, etc.) is less than the import parity price. Producers should receive a net return on their investment sufficient to recover their costs and a return on capital sufficient to ensure that marginal investments are not deterred. The difference between import parity price and unit production costs (including a return on capital) can be appropriated by the government through taxes, royalties, etc.

2. Present Policy

- (a) Existing Fields. 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 costs, there are a number of problems with this approach:

- price is based on estimated field 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 (which is not the case at present).
- 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 disincentive to enhanced recovery operations. This could mean that oil will be left in the ground even though its resource cost is less than import parity.
- price setting requires detailed cost information. The administrative costs and negotiating delays increase costs and uncertainty and deter investment.

- (b) New Fields. For new discoveries, the concession agreements accept the principle of import parity pricing for oil and (less clearly) for gas. A tax mechanism has been adopted to ensure that the government obtains a share of the mineral rent. Although this approach is desirable, the particular structure of the tax system causes some problems:

- Government/company shares of the (undiscounted) after-cost margin in recent contracts range from 45:55 depending on the share of output sold to the domestic market. This compares



unfavourably with other countries of comparable prospectivity where government company shares range up to 75:25 and as high as 90:10 on the margin (not the average) for very profitable fields. GOP may wish to consider reviewing future contract terms such that the government take remains about the same for average discoveries but increases when very profitable fields are encountered. This implies a more progressive tax structure than presently exists.

- The financial terms impose the highest government 'take' on small fields because of the combination of the ad valorem royalty and the price discount on sales to the domestic market. Thus the tax structure is actually regressive with respect to profitability.

### 3. Proposed Policy

A revised policy approach could be implemented which would substantially reduce existing disincentives to increased investment while the government could appropriate 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. The tax structure could be designed to impose a minimal burden on marginal fields while taxing at marginal rates of up to, say, 85-90% from very profitable fields. By imposing the tax on cash flow (net profit plus amortization less capital investment) marginal investment (e.g. in enhanced recovery methods) would not be deterred since expenditures could be deducted against a high marginal tax rate.

The advantages of this approach compared to present policy are:

- the government 'take' is based on actual production costs rather than expected costs so marginal investment will not be deterred so long as costs are less than the import parity price.
- levying the tax on net cash flow will eliminate existing disincentives to new investments.
- the administration and information requirements are considerably less. Although monitoring production costs presents some difficulties they are nowhere near as difficult as estimating expected costs. Standard rules for determining deductibles have been adopted in a number of important oil producing developing and developed countries.
- changes in costs are automatically taken into account, both over time and across fields.
- there would be incentives to minimize costs of production and maximise efficiency since the marginal tax rate would remain below 100%.
- the idea of a progressive income tax on personal incomes is widely accepted and would be considered fair and equitable by the public if adopted for producers.

4. Recommendation

That the GOP accept in principle the setting of producer prices for oil and gas at import parity and investigate in detail over the next 6-9 months the implementation of a progressive profits tax designed to maintain incentives for marginal investments while appropriating a high share of above normal profits for the GOP. The Bank would be happy to assist in such a study.

## OFFICE MEMORANDUM

TO: Mr. Harold W. Messenger, PHN

DATE: December 19, 1980

FROM: M. N. Maraviglia, PHN *MM*

SUBJECT: PAKISTAN - Operational Implications for PHN Sectors  
Resulting from Discussions during Economic Mission -  
Back-to-Office Report

1. This report concerns itself with operational possibilities in the PHN sectors in Pakistan, which evolved during the recent Bank economic mission to that country. It supplements other sectoral reporting included in the main BTO.

2. I participated in the economic mission to update information concerning the PHN sectors for the forthcoming economic report for Pakistan and to explore operational possibilities in those sectors. At the Government's request, the mission emphasized the analysis of the population sector, which in the recent past has received increased official attention and has experienced favorable top managerial changes.

### Population

3. At the first meeting of the mission with the Population Advisor, Mrs. Attia Inayatullah, she outlined the recently prepared population plan and requested the mission to examine it critically and subsequently provide its comments to the Government. Both at the initial and the final wrap-up meetings, she expressed the Government's strong interest in Bank's technical assistance for developing further some specific areas of the program, particularly:

- (a) detailed programming and prioritizing of the plan for its implementation;
- (b) development of a "master trainers" program;
- (c) technical supervision scheme for maternal and child health (MCH) and family planning (FP) service by paramedical personnel under the Population Division; and
- (d) review of legislation and policies concerning "beyond family planning" measures.

4. Mrs. Inayatullah also indicated that the Government would welcome IDA in the role of coordinator of external financial assistance to Pakistan for population and in presenting an assessment of the plan and of the Government's renewed commitment and efforts in this sector to the donor community, preferably during the next Consortium meeting on Pakistan in June 1981. Both the Population Advisor and the Secretary of Planning and Development (who also acts as Secretary of Population) formally requested the Bank to consider financial assistance to the population sector in the form of a project.

5. The mission gave a positive preliminary response to all these requests, subject to confirmation and further elaboration after discussions in Washington. The mission considered that the population plan, although ambitious, is a well-conceived document that could serve as a basis for reinitiating population activities after a disruption of almost 3 years and a long and controversial history. There have been recent indications of heightened Government commitment to address the population problem, i.e., the appointment of a Population Advisor with rank of Secretary who can provide strong leadership to the program, the Presidential approval of the population plan on November 3, 1980, and a Presidential Directive (No. 632 of 1980) instructing all Government Departments and public agencies "to provide all possible support and cooperation to the Population Division and to its counterparts in the Provinces." An important reaffirmation of that commitment would be the allocation of additional funds to the population budget to allow the initiation of plan activities in 1981 (the Population Advisor informed the mission that the Government would allocate Rs 20 million in January 1981 for this purpose).
6. The multisectoral approach adopted is well advised although it will demand considerable managerial ability on the part of the population staff, both at the central and provincial levels.
7. Another good feature of the plan is its advocacy for integration of population and family planning concepts and services with other programs and joint implementation when feasible. For example, the program of population education in the school system, started several years ago, will be strengthened with additional training for teachers in conjunction with other in-service training programs. Likewise, the Ministry of Health's facilities (covering 15-17% of the total population) will now be required to offer family planning services along with other medical care and preventive programs. Other health networks will be required to do the same (e.g., the Armed Forces, large Government and autonomous organizations with their own health networks, such as post office, water supply agencies, social security, etc.). In addition, the Population Division will continue to operate some 1,000 MCH/FP clinics, emphasizing integration of health/family planning services with community development activities.
8. These good features of the current Population Plan do not, however, assure implementation success. Past experiences in Pakistan's population program of essentially good planning followed by particularly serious implementation failures should serve as a warning against undue optimism. However, recent Government actions mentioned above deserve consideration and cautious support.
9. The mission expressed its concern over the magnitude of the proposed three-year program and suggested that careful programming and prioritizing of activities would enable the Population Division to arrive at a more realistic work program. The Population Advisor was receptive to the suggestion of phasing the program by undertaking detailed scheduling and programming prior to implementation.

Technical Assistance for Population

10. In response to the Government's request, a technical assistance plan has been prepared and will be proposed to the Government (draft letter attached). The technical assistance outlined in attachment 2 could be financed through the project preparation facility.

11. After the Bank economic mission left Pakistan, we learned that Mr. van Arandonk, Chief for Asia operations in UNFPA, visited Pakistan and met with the Population Advisor. He received a request for financing "core program" components which include MCH/FP services and staff training. In order to present this request to the UNFPA Governing Council in June 1981, his agency is planning to send a 4- or 5-member mission to Pakistan in January 1981 to make a field review. Mr. van Arandonk reportedly discussed also with the Advisor possibilities of financing technical assistance to develop further some aspects of the "core program." Since there might be overlaps between Bank and UNFPA inputs, the letter to the Government indicates that the source of financing of any technical assistance required by the program is less important than its relevance and quality. During the process of project preparation, the Bank would, at a later stage, assess any technical assistance given and ascertain its effectiveness or the need for further inputs.

12. Coinciding with the timing of the Bank mission to Pakistan in February-March 1981 to discuss the green cover version of the economic report, the PHN Department is planning a Population reconnaissance mission which would include consultants with expertise in clinical and field worker training and MCH/FP service delivery and supervision. That mission would be prepared to review those areas of the program, discuss the main issues with the national population staff and develop, jointly with them, specific TOR for technical assistance assignments.

Next Steps in Population

13. The following actions are required: (i) a letter will be sent to the Government proposing a technical assistance plan and announcing the intention of sending a population reconnaissance mission in February-March 1981; (ii) meet with UNFPA/N.Y. prior to this mission; (iii) pursue tentative technical assistance arrangements; and (iv) prepare by December 24, 1980, a white cover draft report on population (as well as sections on health and nutrition) for the economic report and for other reporting purposes (i.e., detailed discussions with GOP in March 1981, presentation to Pakistan Consortium).

Health

14. The mission met with Ministry of Health officials, as well as with staff responsible with health planning in the Planning and Development Division, and obtained information on the development of basic health services (BHS). This area of health services has been assisted by USAID for the last two decades. During that period, a sizable amount of infrastructure was built, but utilization has been low; the system confronts problems of inadequate

manpower, weak administration and supervision and scarcity of drugs, transportation and materials. In recent years, WHO and UNICEF joined USAID in a large project for BHS addressing the mentioned constraints.

15. Progress in expansion of BHS has been uneven and the overall impact very small (the MOH only covers 17% of the population with health services). In the last three years USAID's financial assistance came almost to a halt, for political reasons. This resulted in a considerably slower project implementation pace. Recently, 300 medical assistants completed training and, in early 1981, six BHS complexes will be put into operation. This represents one-sixth of the target of 36 BHS complexes foreseen in 1974. All parties concerned indicated that they foresee resumptions of assistance during 1981 and are preparing to move ahead with an expanded program. The level of external financing would be US\$15 million for three years to cover roughly 60% of the project cost. If this first phase is successful, USAID would be prepared to go ahead with a second phase, at a level of US\$50 million over a five-year period.

12. The MOH official responsible for BHS indicated to the mission that no further external assistance could be absorbed if this project goes through. Financial assistance for other health programs is also underway from the Asian Development Bank for upgrading hospitals and training paramedical technicians (US\$15 million).

13. There are several issues concerning the delivery of health services (both on health and family planning grounds) in Pakistan which will be discussed in the staff report under preparation. Forthcoming PHN missions will continue to follow closely the development of the BHS project.

#### Nutrition

14. I met with the head of the Nutrition Unit (previously Nutrition Cell) in the Planning and Development Division. He indicated that studies in recent years had pointed to persistent nutrition problems in the country. There was a workshop in December 1979 on an action plan for nutrition (document in PHN file); but little action had followed these activities. He expressed his interest for a Bank mission to review the nutrition sector during 1981. In his opinion, such a mission could serve as a catalyst for the Government to focus on nutrition issues and undertake necessary action. We plan to explore this matter further in the next mission.

#### Attachment

#### Distribution

Mr. Berg (PHN), Mr. Caden (ASA), Dr. Clarkson (PHN), Mr. Clements (ASA), Mr. da Silva (ASA), Mr. Elek (ASA), Dr. Evans (PHN), Mr. Geli (ASP), Mr. Greene (PHN), Mr. Holsen (ASNVP), Mr. Hopper (ASNVP), Dr. Kanagaratnam (PHN), Mr. Noor (EDC), Mr. North (PHN), Ms. Osinski (PHN), Mr. Pilvin (ASA), Mr. Schebeck (PHN), Mr. Siebeck (Pakistan), Mr. Suryaachchi (ASA), Mr. Thalwitz (ASP), Ms. Tsakok (ASA), Mr. Wiehen (ASNVP), South Asia Central Files.

MNMaraviglia:ap

# FIFTH FIVE YEAR PLAN POPULATION PLANNING PLAN 1980-83



a department of the  
Population Division  
Ministry of Planning & Development  
Government of India

**"PAKISTAN'S PRESENT GROWTH RATE IS A MATTER OF CONCERN AND THEREFORE NEED FOR BETTER POPULATION PLANNING TO KEEP A BALANCE BETWEEN THE NATIONAL RESOURCES AND HUMAN REQUIREMENTS IS A MUST."**

**"GOD IS THE PROVIDER, BUT IT IS OUR DUTY AS RATIONAL BEINGS TO CONSIDER THE ADVERSE EFFECT ON OUR FOOD RESOURCES IN THE YEAR 2000 WHEN OUR POPULATION WILL HAVE DOUBLED ITSELF."**

**GENERAL MOHAMMAD ZIA-UL-HAQ  
PRESIDENT OF PAKISTAN.**



## 1. SUMMARY OF THE PLAN

### The Problem (a) Global

The environmental limits to the exploitation of world resources and the increasing risks attending the use of high technology, have raised a global responsibility where the requirement for restraint in production and consumption habits in the developed countries needs to be matched by restraint in reproduction within developing ones. Recognising this, the UN World Population Conference adopted a Plan of Action to which Pakistan is a signatory. Since "population trends affect development goals and prospects, while the level, distribution and structure of development are themselves major determinants of population trends", the Plan recommends the integration of population policies within a comprehensive development strategy.

### (b) National

2. Despite the impressive gains in overall economic growth and progress, Pakistan's per capita income and living standards remain amongst the lowest in the world. A decisive factor is the continuing increase in population which serves to neutralise the development efforts. It is generally recognised that the population of Pakistan will more than double by the year 2000. Based on present trends, the economy would barely sustain the growing population and no improvement in the quality of life would seem feasible even under the most favourable assumptions. The high dependency ratio arising from the age composition and the negligible participation of women in productive employment, is already placing a heavy burden on the economically active population and would increasingly swell the reproductive age group.

3. The present population trends are, therefore, a matter of deep national concern. The need for formulating an effective population plan can neither be ignored nor exaggerated. The requisite measures are directly related to the success of the development plan both in terms of national prosperity and individual well-being.

### Demographic Situation

4. With an estimated population of 81.5 million, Pakistan is the ninth most populous country in the world. During the last 30 years, the demographic trends have followed a typical transitional pattern associated with sustained high fertility (CBR above 40 per thousand) and steadily decreasing mortality

(CDR under 15 per thousand). The later would continue to decline with improvement and expansion in health facilities especially since the present infant mortality rate (above 100 per thousand) is still very high. The rate of population growth (currently around 3 percent) is not only one of the highest in the world, the emerging age structure (over 40% below age 15) would result in continuing high rates of growth even if family norms were to be substantially altered in the next two decades.

5. Although Fertility Survey data indicates some decline in fertility (from an average 7.1 for 1960-70 to 6.3 for 1970-75), this can largely be traced to a raising of the average age of marriage. The other accepted determinants of fertility have had little influence in Pakistan indicating incomplete motivation of potential users as the principal failure in the past efforts. To be effective, population planning must aim at a behavioural change involving a shift in attitudes and social norms before it can lead to any permanent improvement in the use and continuation of contraception.

#### Past Efforts

6. Pakistan was one of the first developing countries to recognize the problem of rapid population growth and to attempt to tackle it. A fair assessment of the last twenty years would be that some strides have been made in the right direction, despite many shortcomings. A major difficulty in the past arose from the frequent, ill-considered and abrupt changes in direction itself. The proposed Population Plan for 1980-83 avoids such "cut-off" planning and is devised as a continuation of previous efforts albeit on an improved and refined basis gained from the past experience.

#### Plan Orientation

7. Survey data for Pakistan indicate clear differences in fertility among different groups depending on the levels of literacy, income, infant and child mortality, female participation in productive employment and their status in the group. There is evidence that these factors also interact so that lack of attention to one sharply reduces the effectiveness of any improvement in others for lowering fertility.

8. The line of action is clear: a programme to reduce fertility must be complemented by action to improve the general standards of living and nutrition, the income distribution and the provision of health services, education and employment for women. Population Planning should be an integral part of social mobilization and national development effort and should not be confined to a single purpose birth control programme with a clinical orientation. It should more appropriately be termed population welfare.

9. The Fifth Plan has made a commitment to some aspects of the proposed strategy: important socio-economic benefits affecting family size expected from rapid economic growth, improvement in living conditions for low income groups, modernization of rural areas, expanded health and education facilities and positive measures to increase female employment. But economic growth by itself, is not necessarily social development. The population development programme will provide the required balance and coordination of the economic and social content with an eye to the demographic situation.

10. Within this integrated approach, the specific aim would be firstly, to change the attitudes and behaviour of the individual and his peers and secondly, to provide information, supplies and clinical facilities based on the individual's understanding of his or her needs.

11. The programme will rely heavily on community participation and the involvement of local leadership, to make it more responsive to local needs and to enhance its acceptability. It will be decentralised, will utilise community organizations, professional associations and other social units to the fullest extent and will be completely localized in the long run to secure maximum advantage from the differential target group approach.

12. Decentralization on the basis of community participation would also suit its assimilation in the other inter-disciplinary integrated programme for rural development within the country. It is generally acknowledged that such comprehensive integrated programmes have better client response and community penetration.

13. Integration may indicate joint planning of programmes, advocacy of family planning within other programmes, joint implementation including training of multi-purpose workers and insertion of family planning activities in other governmental activities wherever possible. In particular, the health and education sectors would play a critical role in the success of the population programme.

14. The Plan is built around a permanent "core" programme of primary activities to be supplemented by specific projects spreading out into other sectors/areas and tailored to the needs and capability of the target groups therein. This is the first effort in Pakistan to deploy, through a supportive and collaborative programme, the existing institutions and related infrastructure for greater coverage and diversification and to reach the target groups with the minimum administrative intervention.

(IV)

### Organization

15. The organizational structure is thus, designed to ensure economy and adequate financial discipline without loss of efficiency. It provides the basic administrative infrastructure to undertake the core programme/primary activities but all else will be operated through projects to be undertaken by specified executing agencies. The staff employed under projects will be to each project and their services will stand terminated on its completion unless re-employed on other projects.

16. The basic organization would have a three tier structure:

Federal: Policy formulation and evaluation under the National Council for Population Planning headed by the President/Prime Minister. The Population Division will act as Secretariat. The Federal Government would be responsible for funding the programme.

Provincial: Implementation and coordination of its programme. Provincial Council headed by the Governor/Chief Minister has been suggested. Programme would be administered by a separate Department with Director General as its ex-officio Secretary.

District: A Population Committee headed by Chairman, District Council to assist in actual implementation and monitor progress. The District Population Welfare Officer would be the Member/Secretary. The focal point of the programme effort will be the Family Welfare Centres with trained staff.

17. The transitional arrangements are envisaged as follows :

- i) existing organization to be abolished from specified date;
- ii) simultaneous announcement of the approved programme and its staff requirement;
- iii) present personnel to continue in existing jobs on existing salaries till posts for new programme are filled up through recruitment by Competent Authority;
- iv) Services of surplus staff to be placed at disposal of Ministry of Health in accordance with past decisions of Cabinet & IPC.

### Plan Objectives

18. The Population Plan is designed to serve the twin objectives of (i) creating awareness and behavioural change and (ii) overcoming the limitations on the service side. The "human factor" is vital since lasting development happens in the minds of the people and is created by them. Improving the technical side would require adequate service delivery points, extension into rural areas and even cities, adequately trained staff to provide a compassionate service/follow up and reliance on local people to lend support to this service.

19. A clear distinction must be made between the programme's primary objective (behavioral change and contraceptive usage) and its demographic objectives. Given the current demographic situation, the proposed targets are :

Primary: To raise the levels of :

- i) Effective knowledge from its present level of 33% to 55% by 1983;
- ii) Effective motivation to 33% (no benchmark is available);
- iii) Trial from an estimated 12.5% at present to 25% by 1983; and
- iv) Adopters/users of contraception from an estimated 9.2% to 19.4% by 1983.

Demographic: To reduce :

- i) the CBR from its present level of 41 to 37.5 per thousand by 1983.
- ii) the rate of population growth from its currently estimated 2.9 percent to 2.7 percent by 1983.

### Core Programme

20. The "core" programme provides the Plan base and defines areas of principal concern in Pakistan to which limited resources for population, both manpower and financial, must be applied. It would undertake delivery of integrated family planning services with health and other social activities, through the following projects :

- i) Family Welfare Project;
- ii) Reproductive Health Project; and
- iii) Family Health Manpower Development Project

21. Family Welfare Project: This will utilise the Family Welfare Centres in the rural and peri-urban areas to educate clients and provide a range of family planning, maternal and child health services. These Centres would also provide a focal point where healthy active women with their children can gather to learn home-making skills and have access to literacy and other vocational training. The clinical/diagnostic facilities will cover pre and post-natal check ups and child care services to combat infant mortality, a pre-requisite to lower fertility. The Centres will also impart training to traditional birth attendants (dai) in safer delivery. Each Centre will be staffed by a female Welfare Worker, a male and a female Welfare Assistant besides an Attendant.

22. During the Plan period 1980-83, it is proposed to sponsor/organize 1250 such Centres (each covering a population of 25,000 - 30,000) to be located on the request from local community leaders who will constitute the Advisory Management Committee. This will establish a mechanism for authentic local participation. Each Centre will enroll 20 - 40 volunteers from amongst the indigenous natural leaders and satisfied clients as non-salaried Outreach Workers. The Centres will be linked with district hospitals through the Reproductive Health Project for gynae/obstetric cases that need attention and for providing surgical contraception.

23. Reproductive Health Services:

This project will provide gynaecologic and obstetric facilities, child spacing and infertility services and upon completion of desired family size, will offer contraceptive surgery. The project will operate in association with non-governmental organizations to improve the services at existing gynae/obst. and clinical contraception delivery points in Government/Private Hospitals, Medical Schools and Clinics. Such delivery points have been categorised to constitute separate components of the project which would provide the equipment, supplies and the necessary staff support in keeping with the envisaged facilities/extension services sought from each component/institution.

24. Family Health Manpower Development Project: The desired expansion in MCH and family planning services will require training/retraining a number of categories of staff in the population and health programmes. The integral linkage between these two programmes will require the concerned administrative Divisions to collaborate closely as partners in this task. The immediate priority is the retraining of existing cadres at various levels viz community, mid-level and professional. The necessary institutional development will be provided under this project. The 12 Regional Training Institutes will not only remain the venue for training Family Health Visitors, but will also be expanded in physical facilities, personnel and training content for frontline and mid-level workers. At the professional and higher levels, emphasis is on introduction of family planning as a subject in the

medical and nursing curricula.

Projects

25. The core programme will be supplemented by other related projects. The criteria in Project selection was: (i) to identify useful new elements in our complex cultural milieu (ii) to provide unmet needs, (iii) to secure greater programme coverage and diversification through existing institutions/infrastructure, (iv) to use non-governmental organizations, professional/public leaders and informal groups as catalysts and (v) to utilise interpersonal and other informal communication channels to project the small family norm. The elements common to all the selected projects are : (i) specific objective (ii) realistic timeframe, (iii) minimum staff, equipment and supplies, (iv) in-built monitoring and flexibility permitting improvement and (v) post-Project evaluation.

26. The following Projects are incorporated in the Plan:

27. (i) Provincial Population Welfare Plans

The Provincial programmes provide the main thrust of multi-sectoral integrated approach in consonance with the Governments' decision on 17th February, 1980 that -

"This programme which has so far been administered by the federal government directly should be provincialised and all operational functions alongwith the personnel should be transferred to the provinces immediately. At the federal level, the Population Division should retain functions regarding planning, information, training, supplies, statistics, monitoring and evaluation, coordination, research and foreign assistance".

28. Each Province has formulated its programme in the light of its own demographic situation and socio-economic requirements. Most of the provincial development departments would incorporate specific components of population planning in their sectoral programmes. These would be supplemented, guided and coordinated by a provincial population planning department. This would provide the necessary visibility to the problem and re-inforce the identified multi-sectoral approach.

29. (ii) Women and Population Development

The constituent projects emphasise education and vocational training of women as the first link in the commonly observed sequence leading to employment/income generation to late marriage and thus to lower fertility. The Projects are directed at the disadvantaged women living mainly in rural areas and urban slums. Removing their ignorance and actively involving them as productive individuals, would help to bring them into the main stream of development.

(VIII)

30. (iii) Youth and Population Development

Since population planning has so far been viewed as an adult problem, no conscious effort was made to create any awareness of the demographic realities amongst the youth to instil civic consciousness and social responsibility for the future. The project is directed at the university/college students and will impart formal and non-formal instructions in population dynamics and related topics.

31. (iv) National Population Education

The constituent projects emphasise training of teachers in population education who after assimilating the message, could share their understanding with the pupils according to their maturity level. The formal education component has for its scope the entire academic system whereas the non-formal component, relating to out of school youth and the vast number of illiterate adults who can tip the demographic scale in either direction, will be filtered through the on-going educational programmes of other organizations.

32. (v) NGOs and Population Development

The constituent projects are intended to make full use of the NGOs acknowledged capability for working in difficult/sensitive areas, in handling innovative pilot schemes and in winning public acceptance for family planning. The mechanism of involvement would primarily be through financial assistance but wherever necessary, provision is kept to remove their management weaknesses.

33. (vi) Infrastructure Institutions and Population Welfare

These projects identify the informal leadership emerging from local occupational groups, both organized and semi-organized, and propose to use the daily and direct contact with their clientele for providing (i) the needed male-oriented inter-personal communication and (ii) effective outlets for family planning supplies.

34. (vii) Communication Strategy and Population Development

All available communication channels would be fully utilised to project selected themes viz. mother and child health, their nutritional requirements, breast feeding, late marriage, status of women and responsibility of the male. The emphasis would be on using (i) the radio since it is the most popular mass media with around 5 million sets in the country and (ii) print media, wall posters and other audio readership material in



consonance with the village custom of a literate person reading out aloud to his illiterate companions and passersby. The project provides for the development of effective motivational material and the prototypes for media productions. It is also proposed to step up the mass distribution of "Sukhi Ghar" a home journal produced by the Family Planning Association and aimed at the neo-literate readership.

35. (viii) Commercial Distribution of Contraceptives

This approach, known as CBD (Commercially based distribution) has been tried successfully in other countries placed in a similar situation. Sale of conventional contraceptives as a consumer item through the normal commercial channels will facilitate their ready availability and will complement the delivery system of the Government and NGOs.

36. (ix) Target Group Institutions and Population Welfare

Each of the constituent project will involve a large public sector organization such as the Pakistan Railways, the WAPDA, the Armed Forces Organizations, the Pakistan Steel Mills, the PIA and the Fauji Foundation who are not only massive employers covering a large number of fertile couples but also possess impressive facilities, institutions and staff support. Another similar project, the Workers Education Programme will comprise of in-plant activities, both motivational and service, to be operated by and through the workers themselves. It is intended to reach 50 percent of the organized labour in large industrial units within the private sector.

37. (x) Azad Kashmir and Northern Areas Population Welfare Projects

They have been drawn up in keeping with the socio-economic and demographic parameters obtaining within these areas. The population programme will be extended for the first time to the Federally administered Northern Areas. This step was long due considering their impoverishment.

Support Activities

38. The Plan also identifies the essential support activities and includes the projects required to strengthen them, wherever necessary :

39. (i) Evaluation: This would be carried out on a continuing basis. The Population Development Centre will undertake a three faceted macro-level evaluation covering (i) programme performance, (ii) behavioural change and (iii) impact. The micro-level evaluation to be undertaken at the project level, will consist primarily of self-assessment by the local

staff and the target group participants. The Recording, Reporting and Feedback System will form the basis of data from the field both for evaluating project performance and for establishing accountability. The counter checks provided in the system and the commercially priced sale of conventional contraceptives will eradicate the bogus reporting which was prevalent and easy in the past when distribution was either free or at throw away prices. This over-due correction may effect an initial decline in the demand.

40. (ii) Research: The development of research programme and particularly, building up of research manpower, is vital for an effective programme and must find answers to emerging problems encountered by workers in the field. Such research is intended to be undertaken in two different areas viz. (i) in contraceptive technology and related clinical, bio-and socio-medical fields to be assigned to the National Reproductive and Technical Institute; and (ii) in socio-cultural studies addressed to selected topics relevant to the programme. The impact of the socio-economic measures included in the Plan will be closely watched. An inter-disciplinary Task Force is also proposed to be set up to examine and evolve other such measures and reward systems for achieving social goals. The feasibility criteria to be adopted are broadly (i) political viability (ii) moral acceptability (iii) medical effectiveness (iv) administrative capacity and (v) economic feasibility.
41. (iii) Training: A multi-faceted programme has been drawn up to (i) keep the programme functionaries abreast of recent developments in knowledge, (ii) to expose them to the new multi-sectoral strategy, and (iii) to orient the personnel from other departments and community groups. It is proposed to develop four Population Welfare Training Institutes, one in each province, to provide such training through refresher courses and orientation sessions. The emphasis will be a practical learning through demonstration in field situations to be followed by discussions.
42. (iv) Supplies and Logistics: This occupies a pivotal position since the success of the programme would depend in a large measure on timely, continuous and un-interrupted flow of clinical and conventional contraceptives to all distribution points throughout the country. The project caters for advance planning/procurement of supplies, their proper storage and appropriate transport/distribution arrangements. The broad dimensions/linkages are indicated in the Service Delivery Plan 1980-83.

#### Concluding Observations

43. The proposed Plan for 1980-83 fully reflects a broad based multi-disciplinary approach to achieve both population and development objectives through the involvement of the community on a collective basis. Contraception

cannot be imposed on an unreceptive social system characterised by ignorance, doubt and rejection. The thrust is, therefore, on bringing a behavioural change which in effect, is an educational effort to make family planning an accepted way of life in our social milieu. There are visible programme efforts to improve the status of women, provide an alternative role to motherhood and actively involve them as individuals, as homemakers and as economically active agents for development. In this, the Plan has not only introduced approaches directed at modifying the social system but has even proposed measures "beyond family planning" on an experimental basis.

44. Finally, the success of the Plan would hinge on the commitment and support given to it by the leadership. The most direct impact of a strong stand would be on the government itself and on the Population Planning Council/Division from where the repercussions would then quickly reach the field level.



SERVICE DELIVERY PLAN  
FOR  
1980-81 TO 1982-83

ACTION STRATEGY  
TARGET POPULATION  
No. of Couples of Child  
Bearing Age 15-44 Years

1980-81	1981-82	1982-83
12241000	12570000	12893000

FERTILITY TERMINATION COUPLES  
FEMALE 25 YEARS & OLDER

1980-81	1981-82	1982-83
328000 Couples 67.6%	3553000 Couples 68.1%	8756000 Couples 67.9%

FERTILITY CONTROL COUPLES  
(FEMALES: 25 YEARS AND YOUNGER)

1980-81	1981-82	1982-83
3961000 Couples 32.4%	4012000 Couples 31.9%	4137000 Couples 32.1%

DEMAND PROMOTION  
STRATEGY PROGRAMS

CLINICAL SERVICES NETWORK  
STERILIZATION, INJECTABLE, IUD

COMMERCIAL DISTRIBUTION NETWORK  
Social Marketing Plan which through Distributors will reach general retailers and Chemists who will distribute Oral Pills & Condoms. Details in Commercial Distribution of Contraceptive Project

OBJECTIVE  
NO. OF BIRTHS TO PREVENT DURING THE YEAR

1980-81	1981-82	1982-83
284892	379628	514513

## WATER AND SEWERAGE/SANITATION SECTOR AND KARACHI PROJECT PREPARATION

### Sector Issues

The main sector issues in Pakistan are the following:

- 1) Institution building including management procedures and manpower development;
- 2) Tariff Policies; and
- 3) Availability of Funds.

The two first issues have been noticeable in the Lahore Project. The project entity, WASA, faced serious staffing problems for some years and was therefore unable to make full use of technical assistance through ODA and UNDP resulting in the slowing down of improvements to management and implementation of the training program. WASA has in the past been unable to obtain Government's approval for required tariff proposals and so its financial status has been impaired. We have learned from ADB that their projects, two ongoing and one under preparation, also suffer from similar difficulties.

### Karachi Project Preparation

Preparation of a project in Karachi was initiated in 1977. However, this preparation was hampered by lack of satisfactory progress on the above sector issues.

- 1) Institution Building. The Government of Sind has delayed taking the decisions which would establish the necessary organization structure to effectively operate the sector for Karachi. They have now agreed to establish, effective July 1, 1981, a new entity which will be responsible for the sector and should fill this requirement and be consistent with the policy of GOP for major cities.
- 2) Tariff Policies. The retail water tariff for Karachi is extremely low and does not cover the costs of providing the services. A tariff proposal is being drafted which will establish rates sufficient to cover all operating costs. It is expected that this proposal will be reviewed and approved during the first quarter of 1981. It is expected that a complete tariff review and development of long-term policy will follow, in conjunction with the proposed project appraisal. This policy should make the Water Supply and Sewerage entity for Karachi financially viable and capable of making a substantial contribution to its future development program.

- 3) Financial Plan. GOP insisted earlier that the project financing should be included under the Sind's Annual Development Plan but the Sind Government has been unable to make any official commitment to this effect. Recently GOP has taken a more decisive role on this issue and advised Sind on the preparation of a Project Concept Paper (including a preliminary financing plan) which will assure the inclusion of necessary funds in the Central Development Budget.

The Bank is awaiting detailed information on the above actions and will then establish a firm time schedule for further processing of the project. In the meantime the Bank has communicated to Karachi its requirements on updating of project base data and on the final design of project components.

#### Recent Developments and Prospects

Based on our experience of the sector in Pakistan we have initiated discussion to carry out a sector survey in FY82. The latest sector study was carried out by WHO in 1975 and our belief is that sector knowledge should be improved in order to enable the Government to streamline the handling of the project issues, countrywide, and to assume a firmer coordinating role in the sector development. GOP/EAD has responded very positively to the above request and its Housing and Physical Planning Division is scheduled to start this activity in the Spring of 1981. The Bank agreed to prepare draft TOR for the survey and will advise on the execution of the survey but will be prepared to take up more involvement if required.

January 1981.

### The Urban Sector

1. More than one quarter of Pakistan's population of 75 million live in urban areas. This urban population grew at an average rate of 5% per annum during 1961-1972 compared to the general rate of population increase, which was almost 3.8%. Urban population growth is expected to remain about 5% per annum through the 1980s even with a decreasing national population growth rate and given optimistic assumptions on agricultural development.
2. Over the last three decades, the urban-rural income differentials appear to have remained low and rural-urban migration moderate. Over the last ten years, poverty has remained widespread but the distribution of urban incomes does not appear to have deteriorated. Pakistan's major urban centers seem to have made a substantial contribution to labor absorption and improving incomes. The growth of these centers, however, has resulted in a clear deterioration of urban living conditions; due to a rapid population growth and relatively low levels of investment in housing and urban infrastructure, a large and increasing backlog of unmet demands for basic services has been created, particularly in water supply, sanitation, residential land, housing and social services.
3. No more than half the urban dwellers have access to piped water, while this service is intermittent and the water of poor quality; the rest use untreated river or canal water. Water-borne sewerage systems exist in parts of the larger cities but serve only 15% of the urban population. In most other urban areas, human and solid wastes are collected by sweepers. Only parts of some cities have surface drainage systems, and floods are common during the monsoon season. The level of public services in most cities is very low. Present and prospective demands for housing and municipal services cannot be met at costs affordable to lower income groups unless new approaches are devised for upgrading existing squatter settlements and for low cost residential developments.
4. Current and programmed expenditure on urban development is low and well below that in most other developing countries. Existing financial institutions do not have the capacity to provide adequate funds for housing loans. Municipal finances of all cities is particularly serious. Critical shortages of technical and administrative manpower exist at all levels. Major operational responsibility in the planning and management of urban development lies at the provincial and local levels, but effective coordination of development efforts is hampered, inter alia, by the separation of maintenance and development responsibilities, lack of clear objectives and priorities, resource constraints, and an attitude of resignation in the face of mounting problems.

5. The three major reasons for the above described situation prevailing in the urban sector are: (i) ineffectiveness of institutions responsible for revenue collection and operation and maintenance; (ii) improper pricing of services; and (iii) shortage of trained manpower. Given these constraints, the Urban Sector Survey carried out in 1976 concluded that emphasis should be placed on devising approaches to urban development which would provide a basic level of shelter and services and allow for subsequent improvements; this strategy was to imply: (a) substantial reductions of costs and standards, concentration on very low cost plots, and greater reliance on communal facilities; (b) more upgrading and improvement; and (c) greater use of traditional building methods and materials.
6. With increasing industrial investment in the major metropolitan centers, some agricultural growth supporting the small rural centers, and with institutional and manpower constraints inhibiting any major expansion of intermediate urban centers, the cities of Karachi, Lahore and Rawalpindi/Islamabad would continue to play major roles in the commercial and industrial life of the country; through 1985, these three centers would continue to absorb about 40% of urban growth, with intermediate urban centers taking about 20% of this growth and the smaller centers accounting for the balance.
7. As is common in other urban areas in the country, Pakistan's larger cities have only partial water supplies and little or no sewerage; standards are low and interruptions of service are frequent. More than one-third of urban families in the province live in mudhouses or huts; 94% of housing structures are unauthorized.
8. The 1976 urban sector review recognized that major cities of Sind, Baluchistan and North West Frontier Province (NWFP) did not have adequate hinterland areas, which left Punjab the only province which could really support more urban expansion.
9. Karachi Metropolitan Area. The Karachi metropolitan area has a unique role in the economy of Pakistan. It contains the major port facilities in the nation and is the center of commerce and industry. In 1974 while containing only 6% of the country's total population (22% of the urban population) it accounted for 15% of GDP, 42% of value added in large-scale manufacturing and 25% of federal revenues.
10. The population of Karachi has grown at a remarkable rate from the walled township of 14,000 people living in 35 acres in 1850, it has grown into a sprawling metropolis of over 5 million people living in an urban area covering 135 square miles even though as recently as 1941 the population was less than half a million (the growth rate is currently about 5% per annum).
11. Regionally, the city is set in the province of Sind. The nearest town is Hyderabad, the third largest city in the nation, with a population of approximately 1 million, about 100 miles away.
12. Urban Services. The Karachi Development Plan published in 1974 stated that "the city is the diary of a drama and one in crisis." It is likely that the population will reach somewhere between 11 million and 15 million people by the turn of the century. Already over 2 million are living in unserved settlements and in 1974 the majority of population could not afford adequate food consumption of 2,050 calories per day.



13. Other statistics from the 1974 report indicate that water supply, which has a low published tariff, was intermittent, polluted and not available to many of the poor, except from private vendors at high prices frequently exceeding Rs 25/1,000 gallons. Sanitation: only 20% of households have a sewerage connection, 2,000 tons of refuse is generated every day, but only 50% is collected. Education and health facilities were inadequate with 38% of the population illiterate and only 70% of the demand for primary school places satisfied. Housing in the low income areas: room occupancy was 4.7 persons per room. Public transport facilities were grossly inadequate with only 800 operative buses serving a population of 4.2 million. The list is long and points to a national economic dynamo functioning at a very low level of efficiency.

14. Lyari. Karachi has the doubtful distinction of harboring one of the largest single slum concentrations in the world. 600,000 people live in an area known as Lyari, at the back of the port and near the Sind Industrial Trading Estate, at a gross density approaching 400 persons per acre (1,000 per hectare). The site is low-lying and despite the dry climate, swampy near the Lyari river. Various efforts have been made to redevelop the area without success and more recently to carry out upgrading programs. Considerable success has been achieved by KMC in the provision of water supply, but KMC has not been able to satisfactorily tackle the sanitation problem which is appalling.

15. Bank role. While much of the Bank Group's lending in Pakistan has contributed to urban growth, efforts to prepare an acceptable urban development project in Pakistan have not yet been rewarded. During 1974-75, Bank staff worked closely with the Karachi Municipal Corporation (KMC) and the Bank was Executing Agency for a UNDP-financed urban planning exercise which was to prepare a project to improve the Lyari district in Karachi for IDA financing. The project was appraised, but the Government chose not to negotiate it. The reasons were said to pertain to cost recovery (which became a political issue in the 1977 elections) and the size of the proposed slum improvement program relative to the KMC budget. Efforts to suitably modify the project were not successful, and the project was abandoned. Subsequently, GOP went ahead with its own slum improvement program (Katchi Abadi upgrading program) on a limited scale and without, we understand, cost recovery in Sind Province (although a start has been made with costs being recovered under this program in Punjab Province). Local budget constraints continue to be a problem, and despite severe health and sanitation problems in the extensive low-income neighborhoods of the city, prospects for future urban projects in Karachi (and the Province of Sind) remain uncertain. Nevertheless, sector work focussing on Karachi and Sind, related to a possible project, will continue. Recent Bank economic work on Sind Government finances has indicated that there is scope for raising additional revenues in Karachi, particularly through more appropriate pricing of public services and increased property taxation of high-income groups. However, political considerations have so far dissuaded the authorities from taking necessary action. The situation in Lahore is more promising as seen below.

16. Lahore Metropolitan Area (LMA). The city of Lahore and its hinterland are characterized by relatively well developed agricultural and manufacturing activities. The urban system around Lahore, which includes such centers as Gujranwala, Sheikhpura, Gujrat and Sialkot, is relatively well-integrated, but the region as a whole could benefit from the adoption of explicit regional

policies and the introduction of measures to improve transportation and communication between its urban centers. Lahore, with a population of about 3 million, has a substantial pool of skilled manpower and entrepreneurial talent, and could take advantage of the economies of agglomeration needed for the growth of export-oriented manufacturing. The proportion of employment in the manufacturing sector in the Lahore region is the highest in the country. Lahore is the country's major center for textile, engineering and machinery industries, much of which is relatively small-scale; this has encouraged the emergence of sub-contractor and local technical services.

17. Industrial estates have been established along two of the four main roads leading out of Lahore and industries have also spontaneously developed elsewhere in Lahore, in addition to numerous concentrations of small and medium-scale manufacturing and assembly workshops. In 1977, the Lahore Metropolitan Area provided employment to about 770,000, 24% in community/personal/social services and 17% in manufacturing, showing the predominance of the service sector over industries.

18. Overall, Lahore is a sprawling city, with a crowded historical center (the Walled City) and low density settlements on the outskirts. The city is structured by a network of major streets and its growth is physically constrained. Furthermore, the whole region is low-lying and rather flat which causes many areas to be flooded in the rainy season and remaining so for days, it not weeks. The network of streets that could carry vehicular traffic does not extend into the poor and some lower middle income areas. Water is essentially supplied from wells, which can be hazardous in densely populated areas where sewerage disposal is left to the residents.

19. Land is expensive around Lahore; prices of \$10-\$20 per sq. m. for undeveloped land are common. Developed land is scarce and its market price can be up to three times that of undeveloped land. As a result, squatter settlements (locally referred to as Katchi Abadis) are common around Lahore; 97 of them have been identified and their population might represent 30% of the LMA population. Construction costs also are high, due to a shortage of skilled labor resulting from the many construction workers having left the region to work in the Middle East. A large fraction of the Lahore population cannot afford conventional housing, even if financing is made available. Studies indicate that in Lahore, the cost of constructing a conventional two-room dwelling unit - a size acceptable to the average family of 6.5 - is about US\$2,000 which, together with the cost of land, could be afforded by households with a monthly income of at least US\$125 equivalent. On this basis, given current incomes, conventional housing could not be afforded by 75-80% of the population. In addition, less than 5% have access to credit.

20. Some measures have already been taken to address the housing needs of the poor. First, a "Katchi Abadi Upgrading" program has been launched by the Lahore Development Authority (LDA), which should benefit 85 such areas. Second, an "exemption policy" has been adopted which would permit LDA to buy undeveloped land for \$2,000 per acre (about \$0.45 per sq. m. or about one-twentieth the market price) as long as LDA returns 30% of the land to the original owner after the land is developed, with the owner paying his share of the development cost. However, the LDA upgrading program - although

it presumably includes such features - has not yet provided beneficiaries with title to the land they occupy and has been carried out so far with no cost recovery.

21. Virtually, all land development in Lahore is done by the public sector, and most of it by the LDA, which acquires land and subdivides it after development in collaboration with various agencies. Roads, streets and drainage are provided by LDA itself; water supply by WASA; electricity and street lighting by WAPDA; and gas distribution by SUI. The private sector is almost exclusively responsible for building houses.

22. LDA is simultaneously a planning and development agency. Its main functions are to develop the LMA through metropolitan planning, administration of building regulations, development of land for housing and other urban needs, and to coordinate the development and operation of essential urban services by other agencies.

23. Bank Role. Following the impasse in Karachi, Bank involvement in the urban sector switched to Lahore where a project (\$35 million: total cost) is now at an advanced stage of preparation and scheduled for appraisal in March 1981. This project would include sites and services (10,000 plots), upgrading of the low income walled city area, city-wide improvements in solid waste collection and disposal, low-cost schemes to ease traffic congestion in the central area and technical assistance and training in urban planning and provision of urban services. An important aspect of the project will be strengthening the implementation capacity of the principal executing agencies, the Lahore Development Authority and the Lahore Municipal Corporation, through organization, management and finance studies followed by improvement programs. The primary thrust of the project is to improve living conditions of the urban poor in Lahore, an objective which has widespread support at the local, provincial and federal levels. The main issues, which are now being addressed, relate to: (a) strengthening the implementing capacity and financial management of local agencies; (b) working out the details of cost recovery schemes in the upgrading areas (cost recovery in the sites and services schemes is reasonably assured); and (c) provision of counterpart funds for financing certain project components. With resolution of these issues, which are not now expected to present major obstacles, the project should be presented to the Board in FY82.

24. Conclusion. Satisfactory progress in implementing the first urban project in Lahore should enable a fresh approach to be made in Karachi, where the major issues are still cost recovery and budgeting constraints at provincial and municipal levels. The prospects of resolving these issues may become clearer if progress is made in the related issues of pricing and financing of the proposed Karachi water supply project. There may also be virtue in taking a broader look at urban development in Sind and urban sector work to that effect is planned for FY82.