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ASSISTANCE TO THE REGIONAL DEVELOPMENT FINANCE CORPORATION (RDFC)

DP/PAK/85/024 / 11-01

PAKISTAN

Terminal report *

Prepared for the Government of Pakistan
by the United Nations Industrial Development Organization,
acting as executing agency for the United Nations Development Programme

Based on the work of Torbjörn Berg, Chief Technical Adviser

Backstopping offer: U. Loeser, Feasibility Studies Branch

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Explanatory Notes

The monetary unit in Pakistan is the rupee. 17.40 Pakistan rupees equal one US\$.

Besides the common abbreviations, symbols and terms, the following have been used in this report.

ADBP	Agricultural Development Bank of Pakistan
AVP	Assistant Vice President
BEL	Bankers Equity Ltd.
COMFAR	Computer Model for Feasibility Analysis & Reporting
CTA	Chief Technical Adviser
DFI	Development Finance Institution
ICP	Industrial Corporation of Pakistan
IDBP	Industrial Development Bank of Pakistan
MIS	Management Information Service
NDFC	National Development Finance Corporation
NIT	National Investment Trust
NWFP	North West Frontier Province
PD	Projects Division
PICIC	Pakistan Industrial Credit and Investment Corporation
PIDD	Project Identification and Development Division
PKIC	Pak Kuwait Investment Co. Ltd.
PLHC	Pak Libya Holding Co. Ltd.
RDPC	Regional Development Finance Corporation
SIDFA	Senior Industrial Development Field Adviser
SPICO	Saudi Pak Industrial and Agricultural Investment Co. Ltd.
SVP	Senior Vice President

A B S T R A C T

In the context of the project "Assistance to the Regional Development Finance Corporation (RDFC)" DP/PAK/85/024, for which the United Nations Industrial Development Organization (UNIDO) is the executing agency on behalf of the United Nations Development Programme (UNDP), a chief technical advisor (team leader) was assigned to the project in 1987. His field mission was carried out in two phases, January 8, 1987 - April 23, 1987 and June 14, 1987 - December 9, 1987.

According to his job description the chief technical advisor was expected to co-ordinate a UNIDO team, consisting of one expert on agro and forest based industry, one expert on chemical and engineering industry, one expert on mining and mineral based industry and one consultant on UNIDO Computer Model for Feasibility Analysis and Reporting. Apart from work as co-ordinator the CTA was expected to assist RDFC in financial analysis. His work plan had to be revised once, mainly because of late arrival of two experts and one consultant. In accordance with the revised work-plan, prepared in co-operation with RDFC and UNDP/UNIDO, his activities covered: co-ordination of UNIDO technical assistance, assessment of RDFC's organizational requirements, preparation of guide-lines for an appraisal manual, preparation of an operations manual for project monitoring and survey of industrial development in one less developed province, NWFP, including recommendations on regional development efforts. Certain proposals on organizational issues (establishment of a library and a monitoring cell) have been implemented in the course of the mission. On basis of his experience of UNIDO technical assistance to RDFC, he made the following main recommendations on operational issues, policy issues and technical assistance:

- (i) RDFC to computerize the accounting system and assess possibilities to computerize MIS and a data base.

- (ii) RDFC to strengthen technical capability and branch offices.
- (iii) RDFC to establish a separate monitoring division and make PIDD and Minerals Division a nucleus for industrial development in less developed areas.
- (iv) RDFC to utilize COMFAR continuously and promote projects, initiated by UNIDO sector experts.
- (v) The Government of Pakistan to adopt a regional development policy for areas concerned and provide RDFC with adequate funds for promotion and finance of projects in less developed areas.
- (vi) UNDP/UNIDO to provide technical assistance in computerization of accounting systems, finance four fellowships and provide technical assistance in design, evaluation and monitoring of small scale credit schemes.

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I INTRODUCTION

Regional Development Finance Corporation (RDFC) was inaugurated in May, 1985. The objectives and regulations for the Corporation were set out in ordinance No. XXXII of 1985. According to this ordinance RDFC is to promote and finance development projects, in particular industrial projects, in the less developed areas of Pakistan.

The government of Pakistan, on behalf of RDFC, and United Nations Development Programme (UNDP) early 1986 reached an agreement on technical assistance to RDFC. Executing agency is United Nations Industrial Development Organization (UNIDO). Terms of the agreement were specified in Project Document DP/PAK 85/024/A/01/37. According to the Project Document the development objective of technical assistance is to promote the national economy and development of industries in the less developed areas and to develop a sound industrial entrepreneurship by providing financial resources and advise on project investment and implementation. The immediate objectives are specified as follows:-

- (i) To upgrade RDFC's national capability in project identification, preparation of project profiles (opportunity studies) and feasibility studies, making project appraisals, promoting projects in the less developed areas of Pakistan and in the financing and implementation of projects.
- (ii) To develop RDFC's capability in monitoring and evaluating its support programme.
- (iii) To strengthen RDFC's professional staff capability and organization.

II RECOMMENDATIONS

Recommendations on operational, policy and technical assistance issues are summarized as follows:

Operational Issues

RDFC is recommended to implement the following in order to improve the organization and its operations.

- (i) Computerize the accounting system and if possible also MIS and a data base. In this context establishment of a separate Finance Division should be considered.
- (ii) Strengthen the institution's technical capability and establish a technical cell which provides consultancy to appraisal teams and PIDD.
- (iii) Strengthen the branch offices in such a way that preparation of feasibility studies for small projects, appraisal and monitoring of such projects are possible. On a long term basis decision-making should be delegated to the offices.
- (iv) Establish a separate Monitoring Division and organize project monitoring in accordance with the proposal on an operations manual.
- (v) Prepare an appraisal manual, on basis of the UNIDO-mission's guide-lines.
- (vi) Make PIDD and Minerals Division a nucleus for promotion of and research on industrial development in less developed areas, when adequate funds for this purpose are made available. Important issues to be considered in this context are: development of industrial estates and joint ventures between Pakistani and foreign companies.
- (vii) Utilize COMPAR continuously, when preparing feasibility studies and carrying out appraisals of medium size and large scale projects.

- (viii) Utilize sector studies, prepared by UNIDO sector experts, when promoting and financing projects in sectors concerned.
- (ix) Finalize opportunity studies and pre-feasibility studies, prepared by UNIDO experts, and promote these projects.
- (x) Promote projects on basis of feasibility studies, prepared by UNIDO sector experts.

Policy Issues

The government of Pakistan is recommended to provide RDFC with adequate financial resources and develop a regional development policy for areas concerned. Recommendations are specified as follows:

- (i) To provide RDFC with a promotion fund of Rs.50 million, in accordance with previous recommendations, for promotion of projects in less developed areas.
- (ii) To provide RDFC with a fund for equity contribution to projects outside NWFP.
- (iii) To provide RDFC with a foreign currency credit line, if such a credit line cannot be secured from Asian Development Bank.
- (iv) To provide RDFC with concessionary finance, to be utilized for compensation of additional costs when industries start/establish activity in less developed areas.

- (v) To adopt a regional development policy, including identification of growth poles, introduction of transport subsidies and concessionary finance and organization of adequate vocational training in areas concerned.

Technical Assistance

UNDP/UNIDO is recommended to provide technical assistance as follows:

- (i) In accordance with RDFC's request August, 1987 one consultant on computerization of accounting systems for a period of 2.5 months. Apart from computerizing RDFC's accounting system the consultant is to make a preliminary analysis of possibilities to computerize MIS and a data base.
- (ii) Two fellowships for professional staff working in RDFC's Project Identification and Development Division. The fellowships should be utilized for studies, during 3 months, of project promotion in less developed areas and related subjects.
- (iii) Two fellowships for professional staff, working in RDFC's Project Division. The fellowships should be utilized for studies, during 3 months, of evaluation of projects in less developed areas and related subjects.
- (iv) Consultancy on design, evaluation and monitoring of small scale credit schemes.

Tripartite Review Meeting

CTA's recommendations on technical assistance were discussed at a tripartite review meeting on December 3, 1987, in which representatives of the Government of Pakistan, UNDP/UNIDO, RDFC and CTA were participating. At this meeting the following was preliminarily agreed upon.

- (i) Recommendations (i)-(iii) should be regarded as an extension of the on-going project.
- (ii) RDFC is to prepare an outline on the requirement of consultancy for the small scale credit scheme. This outline is to be evaluated by UNDP/UNIDO, who may as a new project provide consultancy in accordance with CTA's recommendation (iv).

III THE MISSION

A. Fielding of the Mission

The Government of Pakistan realized that the following industrial sectors were of strategic importance, when considering industrial development in the less developed areas.

- Agro and Forest based Industry
- Chemical and Engineering Industry
- Mining and Mineral based Industry

In addition it was felt that introduction of UNIDO model for Computerized Feasibility Analysis and Reporting (COMFAR) would provide great benefits to RDFC.

On basis of Government priorities above the UNIDO mission was to be fielded as follows:

- One Team-Leader/Financial Analyst (6m/m)
- One Expert on Agro and Forest based Industries (5 m/m)
- One Expert on Chemical and Engineering Industries (5 m/m)
- One Expert on Mining and Mineral based Industries (5 m/m)
- Two Consultants on COMFAR (5 m/m)

One Consultant on COMFAR finalized his mission in August, 1987. Since RDFC's professional staff had acquired satisfactory knowledge of COMFAR during his mission, it was felt that additional consultancy on COMFAR was not required. Hence, fielding of the mission was revised. Instead of the originally planned consultancy, RDFC forwarded a request to UNIDO for a consultant on computerization of accounting systems (2.5 m/m). In addition expertise on forest based industry was not available. As such the expert concerned concentrated on agrobased industry.

The mission could not be fielded as originally planned. Hence, the expert on agro based industry arrived in Islamabad on November 7, 1986 to start his mission of 5 m/m. He was followed by the team leader, who arrived in Islamabad on January 8, 1987. In view of the expert's on agro based industry early arrival he was not able to co-ordinate the expert's activities fully.

The expert on agro based industry finalized his mission on April 13, 1987. The arrival of the other experts was at that time not known. However, co-ordination of UNIDO - technical assistance was considered most essential. As such RDFC requested UNIDO to have a co-ordinated team start working mid June, 1987.

The team leader temporarily interrupted his mission on April 23, 1987. In accordance with RDFC's request he returned to Islamabad on June 17 to start the second phase of his mission. The experts on chemical/engineering industry and mining/mineral based industry and the consultant on COMFAR arrived a few days later. At RDFC's request the Government of Pakistan and UNDP approved an extension of the team leader's stay in Islamabad of 3.5 months.

To summarize: the field-mission was carried out as follows:

- Team Leader/Financial Analyst: January 8, 1987 - April 23, 1987 and June 14, 1987 - December 9, 1987 (9.5 m/m)
- Expert on Agro based Industry: November 7, 1987 - April 13, 1987 (5 m/m)
- Expert on Chemical and Engineering Industry: June 24, 1987 - November 20, 1987 (5 m/m)
- Expert on Mining and Mineral based industry: June 14, 1987 - November 20, 1987 (5 m/m)
- Consultant on COMFAR: June 14, 1987 - August 25, 1987 (2.5 m/m)

According to the project budget 29.5 m/m were allocated for implementation of the project. Since 27 m/m have been utilized, another 2.5 m/m are available for RDFC. In accordance with RDFC's request to UNIDO 2.5 m/m are to be utilized for computerization of the institutions' accounting system and a preliminary analysis of possibilities to computerize MIS and a data base. Recruitment of the consultant concerned has temporarily been cancelled, due to lack of funds. However, at the tripartite review meeting, it was preliminarily agreed that recruitment procedures are to continue.

B. Procurement of Equipment

US\$ 20,200 were allocated in the project budget for procurement of expendible equipment (US\$ 2,200) and non-expendible equipment (US\$ 18,000). So far US\$ 7,700 have been utilized for purchase and installation of hardware in RDFC. In addition provision of COMFAR software is valued at US\$ 2,000. Hence, US\$ 9,700 have so far been utilized.

RDFC requested UNIDO in August, 1987 to purchase additional computer hardware at an estimated value of US\$ 10,200. This equipment has recently been ordered by UNDP/UNIDO. As such funds allocated for this purpose have been fully utilized.

IV ASSESSMENT OF THE PRESENT SITUATION

A. Regional distribution of Manufacturing Industry in Pakistan

The economy of Pakistan is primarily based on agriculture and outputs from the agricultural sector. The share of the manufacturing sector of GDP equals some 17-18%, whereas employment in this sector is estimated at 15% of total employment. Within industrial manufacturing the textile sector holds a predominant position, providing work for some 40% of the industrial labour force. Another sector of importance is food products, accounting for some 12% of total employment.

Both population and economic activity are very unevenly distributed in regional terms. The North to North-Western mountain belt and the arid Western part of the country are dominated by sma'l scale farming, cattle grazing and to some extent small scale industrial activities.

The main urban agglomerations and industrial centres are concentrated in the fertile plain of the Indus River Basin, spreading from the Northeast into the Arabian Sea. At the province level this implies that the vast majority of manufacturing enterprises are located to Punjab and Sind accounting for some 80% of Pakistan's population. Regional disparities are further emphasized, when considering agricultural production. Hence, most rice and cotton are produced in the provinces of Sind and Punjab.

Regional disparities have led to massive internal migration from the countryside to fast growing urban agglomerations (Karachi, Lahore and Islamabad/Rawalpindi). In addition many Pakistani workers have chosen to emigrate, in particular to the Gulf States.

A break down of manufacturing industries by provinces is shown in table 1. The table is based on the census of Manufacturing Industries 1980/81. This census primarily includes large and medium size industry. It should, therefore, be borne in mind that the small scale sector is quite important, constituting some 75% of total industrial employment.

Table 1

Distribution of population, area and manufacturing industries by provinces, 1980/81 (percentage shares)

Province	Population (1981)	Area	Manufacturing Establishments (1980/81)	Manufacturing Value Added (1980/81)
Punjab	56.5	25.9	54.3	42.8
Sind	22.6	17.7	40.8	48.1
(of which Karachi) (26.8)		(80.0)	(67.2)
Sub-total	79.1	43.6	95.1	90.9
N.W.F.P.	15.7	12.8	4.3	8.5
(of which Peshawar) (5.0)		(44.5)	(56.6)
Baluchistan	5.1	43.6	0.6	0.6
Total	100	100	100	100

Sources: Calculated from Government of Pakistan, Federal Bureau of Statistics, Pakistan statistical yearbook 1984; Government of Pakistan, Federal Bureau of Statistics, Census of Manufacturing Industries 1980-81.

A break down of manufacturing industries by provinces reveals that 95% of all manufacturing units, generating 91% of value added, are located to the most developed provinces, Sind and Punjab. At another extreme is the province of Baluchistan, accounting for less than 1% of total industrial activity, whereas the area share equals 44%. In three areas, which are targets for RDFC's operations, industrial activity is almost negligible. These areas are the Azad State of Jammu and Kashmir, the Northern Areas and the Tribal Areas.

The regional disparities become even more pronounced at district level. In North West Frontier Province (NWFP) some 45% of the industrial units are located to the provincial capital of Peshawar. In Sind Karachi is the origin of 80% of the industrial establishments. Moreover it may be calculated that some 70% of all manufacturing industries in 1980/81 were concentrated to 8 districts of Pakistan.

When considering RDPC's target areas, the less developed areas of Pakistan, North West Frontier Province (NWFP) has got the most well developed industry, accounting for 4,3% of the total number of units and 8,5% of value added. A sectoral break down reveals that the industry is to a large extent based on locally available raw materials. Hence, argo-food processing/tobacco and textile industry are the most important industrial sectors. Industrial development problems in NWFP have been surveyed by CIA, while working in RDPC. For information about this survey compare section III A.5. The industrial sector in other target areas (Baluchistan, Azad State of Jamu and Kashmir, Northern Areas and Tribal Areas) is almost negligible, dominated by small and medium size establishments, generally located to growth poles like e.g. Quetta and Hub Chowki (Baluchistan), Mirpur and Bhimber (Azad State of Jamu and Kashmir) and Gilgit (Northern Areas). However, it should be mentioned that mining/mineral exploration is an important economic sector in these areas, in particular in Baluchistan where coal-mines have been established.

B The Development Finance Institutions

The development objectives are expressed in the current five year plan and assigned for implementation to the Development Finance Institutions and other economic agents.

The main institutions for providing long term industrial finance in the country are as follows.

- Pakistan Industrial Credit and Investment Corporation (PICIC)
- Industrial Development Bank of Pakistan (IDBP)
- Investment Corporation of Pakistan (ICP)
- National Investment Trust (NIT)
- National Development Finance Corporation (NDFC)
- Bankers Equity Ltd. (BEL)
- Pak Libya Holding Co. Ltd. (PLHC)
- Pak Kuwait Investment Co. Ltd. (PKIC)
- Saudi Pak Industrial and Agricultural Investment Co. Ltd. (SPICO)
- Agricultural Development Bank of Pakistan (ADBP)
- Regional Development Finance Corporation (RDFC)

PICIC, IDBP, ICP and NIT have for many years been the premier industrial financing institutions, established during the fifties and sixties. These institutions have played a significant role in financing industrial growth in Pakistan, PICIC and IDBP by providing scarce foreign exchange and ICP and NIT with the consortium of banks the local currency. NDFC initially set up to provide finance for public sector undertakings, is now financing private sector ventures as well.

BEL, PLHC, PKIC and SPICO all provide equity participation both to the private and public sector. The five nationalized commercial banks have recently started providing loans for fixed industrial investments, in addition to short term loans for working capital.

The nationalized commercial banks have been the main source of short term industrial finance in the country. However, the DFIs have also entered the field of short term financing. In addition they are operating deposit saving schemes in order to secure the requirement of financial resources.

Most DFIs have got their headquarters in Karachi. Significant exceptions are ADBP and RDFC, whose headquarters are located to Islamabad.

Most DFIs have to some extent concentrated their operations to the most developed provinces of Pakistan. Exceptions are ADBP, financing development of agriculture/rural development and to some extent PICIC and IDBP, having provided significant amounts of loans (some 10% of the loan-portfolio) for finance of industrial ventures in one less developed province (NWFP).

Decision-making, appraisal of loan-applications etc are generally to a large extent centralized to the DFI headquarters. Such procedures are creating great disadvantages, when considering industries in the less developed provinces. Decision-making is delayed, frequent (costly) travelling to and from Karachi etc is required.

In view of DFIs' general concentration of their activities to the most developed provinces, the Government of Pakistan has in 1983 initiated the establishment of Regional Development Finance Corporation (RDFC). RDFC, inaugurated in 1985, is only operating in the less developed areas of Pakistan. In view of the requirement of nearness to all less developed areas the headquarter is located to Islamabad.

V. ACTIVITIES OF THE MISSION

The field mission was carried out during a period of one year and one month (November 7, 1986 - December 9, 1987). At the end of the mission each expert prepared a terminal report on his findings. Their findings are summarized in sections V. B - E. In section V. A there is a more detailed report on CTA's activities.

A. The Chief Technical Advisor

CTA arrived in Islamabad on January 8, 1987. During the first month of his assignment a work-plan was prepared (compare appendix I). According to the work-plan, which was approved early February, 1987, the following duties were to be carried out.

- (i) Co-ordination of UNIDO technical assistance to RDFC.
- (ii) Analysis of the requirements of RDFC (organizational aspects, appraisal techniques and procedures in project monitoring, identification, preparation and promotion).
- (iii) Visits to branch offices and regional authorities (Provincial Governments) in areas concerned.
- (iv) Advise to the management of RDFC and on the job training of professional staff.
- (v) Analysis of development policies adopted by other organizations (Ministries and Development Finance Institutions).

On basis of an analysis of RDFC's organizational requirements and discussions with RDFC's management on this issue, CTA was later on requested to revise the work-plan and provide priority to the following duties:-

- (i) Preparation of guide lines for an appraisal manual to be utilized by RDPC's projects division.
- (ii) Preparation of an operations manual for project monitoring, a duty considered important by both CTA and RDPC in view of an increasing number of clients.
- (iii) Survey of industrial development problems in North West Frontier Province (NWFP), including recommendations on regional development issues.

In addition to specified duties mentioned above, co-ordination of UNIDO technical assistance was considered a most important duty. The revision of the work-plan was approved at a joint meeting in RDPC on March 17, 1987. Participants were CTA and representatives of UNDP/UNIDO and RDPC.

A.1 Co-ordination of UNIDO Technical Assistance

According to the original plans a complete UNIDO team, including CTA and 5 experts/consultants, was to start working in RDPC end 1986/early 1987. However, it was not possible to recruit experts/consultants in accordance with these plans. Since co-ordination of UNIDO technical assistance caused some problems to CTA during the first phase of the mission (compare section III A), implementation was delayed.

Two experts (chemical/engineering industry and mining/mineral based industry) and one consultant on COMFAR arrived in Islamabad mid/end June, 1987. In addition CTA arrived to start the second phase of his mission. Work carried out is summarized below:-

- (i) Introduction of experts/consultant - the UNIDO personnel was introduced to RDFC management mid/end June. Work priorities and selection of counterparts were discussed.
- (ii) Work-plans. The experts/consultant were requested to prepare work-plans within the first month of their assignment. The work-plans were approved at a meeting in RDFC end July. Participants in the meeting were RDFC management, representatives of UNDP/UNIDO, CTA and experts/consultant concerned.
- (iii) Progress Reports. At CTA's request each expert/consultant once a month prepared a progress report, including comments on work carried out and work being planned. The reports were discussed individually and at informal meetings.
- (iv) Procurement of Equipment. At CTA's request UNIDO-SIDFA initiated purchase of hardware (IBM Computer including accessories) in April, 1987. On basis of comments from the consultant on COMFAR and at RDFC's request CTA end August requested UNIDO - SIDFA to purchase additional computer hardware. This hardware has recently been ordered.
- (v) Revision of Mission. On basis of comments from the consultant on COMFAR and at RDFC's request CTA requested SIDFA and UNIDO Hq to revise the consultancy component of the project. The revision: UNIDO Hq to recruit a consultant on computerization of accounting systems instead of one additional consultant on COMFAR. In addition to computerization of RDFC accounts the consultant is to assess possibilities to computerize MIS and a data base. A job description (compare appendix II) was prepared, and a formal request was submitted by SIDFA to UNIDO Hq early September. At a tripartite review meeting it was recommended that recruitment procedures continue.
- (vi) Co-operation with RDFC management. CTA was in day to day activities co-operating with the Senior Vice President and the Assistant Vice President, in charge of RDFC's Planning, Identification and Development Division (PIDD). Whenever issues of major importance were to be discussed, the Chief Executive was consulted.

A.2 RDFC - The Organization/Assessment of Financial and Organizational Requirements

A.2.1 Ownership, Top Management and Objectives

According to ordinance No. XXXII, RDFC is to operate exclusively in the less developed areas of Pakistan viz:

- The North West Frontier Province
- Baluchistan
- The Azad State of Jammu & Kashmir
- The Northern Areas
- The Tribal Areas
- 4 Districts in the Provinces of Sind and Punjab, identified by the Government as less developed areas.

The major objectives of RDFC are as follows:

- Promotional work in less developed areas such as identification and preparation of projects for investment.
- To finance commercially viable projects in less developed areas, paying special attention to mining sector or to such other sector as may be directed by the Federal Government.

According to the ordinance finance of plantation style activities and hydro-electric plants is exempted from RDFC operations. However, the institution may promote and finance agro-based industry.

RDFC's authorized share capital equals Rs. 100,000,000. So far 77,500,000 has been paid up. Share holders are National Development Finance Corporation (50%), Pakistan Banking Council (40%) and Industrial Development Bank of Pakistan (10%).

The Board of Directors comprises 10 representatives of the following organizations.

- (i) NDFC (Chairman)
- (ii) RDPC (Managing Director/Chief Executive)
- (iii) Ministry of Finance
- (iv) The Nationalized Banks
- (v) Provincial Government of NWFP
- (vi) Provincial Government of Baluchistan
- (vii) Provincial Government of Sind
- (viii) Provincial Government of Punjab
- (ix) Other Less Developed Areas
- (x) Industrial Development Bank of Pakistan

The Board of Directors is responsible for all major policy decisions and approves loans in the range of Rs. 5,000,000 - Rs. 20,000,000 (upper limit). In this context it should be mentioned that a loan to one single project must not exceed 25% of the institution's paid up share capital.

The Board of Directors has appointed an Executive Committee, which approves loans in the range of Rs. 2,500,000 - 5,000,000. Approval of loans, less than Rs. 2,500,000, has been delegated to the Chief Executive.

A.2.2 **Financial Situation/Financial Requirements**

According to annual accounts for the year ending June, 1987 there is a profit of Rs. 4,000,000 to be compared with a loss of Rs. 3,200,000 in year 1985/86 (the first year of RDFC - operations). Solvency is quite satisfactory in 1986/87, since equity amounts to 27% of total assets. When analyzing solvency the revolving fund and the promotional fund, earmarked for specific purposes, have been excluded.

The annual accounts 1986/87 are a general indicator of efficiency, as regards RDFC's management and personnel. Hence, the institution has already in the second year of operations managed to reach profitability. This should be regarded as most remarkable, when considering that RDFC's organization is still passing formative stages of development.

When considering RDFC's role as a development finance institution, two funds are of particular interest (the revolving fund of Rs. 80,000,000 and the promotional fund of Rs. 1,500,000). These funds are discussed below.

The Government of Pakistan has in 1985/86 made a revolving fund of Rs. 73,600,000 available to RDFC and IDBP. The fund is earmarked for equity participation in projects in NWFP. Separate accounts are kept in accordance with rules, stipulated in 1986. So far the money has not been utilized. However, RDFC and IDBP have recently reached a policy decision on this issue. Of particular interest: equity participation in one single project must not exceed Rs. 5,000,000 and the total project cost should not be more than Rs. 50,000,000. In view of these limits the fund will most likely be utilized, when promoting medium size industry.

A Committee set up by the Secretary General, Planning Division, has in a report of July, 1985 suggested that the Government of Pakistan, Provincial Governments, Commercial Banks and DFIs make a promotional fund available to RDFC. So far NDFC and Pakistan Banking Council have made contributions of Rs. 1,5 million to such a fund, on the understanding that the Federal Government would shortly provide regular long term finance.

Though RDFC's financial performance is satisfactory, the institution is facing severe financial constraints when considering its role as promotor of economic life in the less developed areas of Pakistan. The constraints are summarized below:

- (i) According to the ordinance RDFC may contribute equity for projects in the less developed areas. However, in view of the institution's financial situation reserves should be accumulated before approval of such finance. Hence, equity participation is currently only possible in NWFP (compare comments above on the revolving fund). When considering the situation in other less developed provinces, similar funds should be made available for these areas.
- (ii) RDFC is lacking a foreign currency line of credit. This poses a great disadvantage, since the clients cannot be offered a comprehensive package of financial assistance. As such Asian Development Bank has been approached for a foreign currency credit line, and negotiations are currently in progress.
- (iii) The promotional fund of Rs. 1,500,000 is insufficient, when considering that identification, preparation and promotion of projects in the less developed areas is one of RDFC's most important duties. RDFC is therefore, apart from utilizing the available fund of Rs. 1,500,000, financing this work from own sources. Such work does not pay off on a short term basis, though long term benefits are most likely great. The problem has been identified by RDFC, who, in view of the requirement of commercial viability, can currently not carry out project promotion satisfactorily. The institution has in accordance with recommendations from the share holders and the committee mentioned above applied for additional funds of Rs. 50,000,000 for this purpose from the Government. However, the application has so far not been approved.

- (iv) RDFC is to finance projects in the less developed areas of Pakistan, projects which, at a comparison with major growthpoles like Karachi and Lahore, are more risky due to location cost disadvantages. In such a situation RDFC should be able to offer concessionary finance in order to compensate the sponsors for cost disadvantages and reduce the institution's lending risks. RDFC, identifying the need of such concessionary finance, has in 1987 requested the Government to provide an interest free loan of Rs. 100,000,000, a loan which is to be utilized for soft loans to projects in remote areas.

To summarize: RDFC's financial performance is satisfactory, which is an indicator of managerial and personnel efficiency. However, the institution is facing severe financial constraints, when promoting and financing projects in the less developed areas. The constraints: lack of funds for equity participation outside NWFP, lack of foreign currency credit lines, insufficient funds for project promotion and lack of concessionary loans for finance of projects in less developed areas.

A.2.3 **Financial Operations**

The limit of RDFC's financial assistance to one single project equals Rs. 20,000,000. Assuming an equity share of 40% the project cost should not exceed Rs. 50 million. As such RDFC is primarily financing small and medium size projects. According to the ordinance the institution may provide financial assistance in one or more of the following forms.

- (i) Medium and long term finance in local and foreign currency for fixed assets.
- (ii) Medium and short term finance for working capital.
- (iii) Equity participation.
- (iv) Bridge financing and underwriting.
- (v) Leasing and hire purchase.
- (vi) Guarantees and counter guarantees.
- (vii) Export re-financing.
- (viii) Buying bonds, debentures, participation term certificates and other similar instruments.

- (ix) Profit and loss sharing schemes.
- (x) Any other modes of financing not in-consistent with Government Policy.

Foreign currency credit lines are not available to RDFC, and equity participation is currently not considered possible due to lack of accumulated reserves. RDFC is in this situation primarily providing the following assistance:

- (i) Long term loans in local currency for fixed assets, to be repaid in 5-8 years with a grace period of 1-2 years.
- (ii) Medium term loans in local currency for fixed assets and working capital, to be repaid in 3 years with a grace period during the implementation phase.
- (iii) Short term finance in local currency for working capital, to be repaid in 6 months to one year.
- (iv) Temporary bridge financing while a company is waiting for its share capital to be paid up.
- (v) Leasing finance for acquisition of transport equipment.
- (vi) Supervised credits of maximum Rs. 50,000 for small business, to be repaid in 37 months with a grace period of one month.

RDFC is in accordance with Islamic banking rules not charging any interests on loans approved. Instead mark-ups are paid, when the projects are starting commercial operations. Currently these fees equal an interest of 15%. Fees equaling an interest of 3% are paid, when a client buys locally produced machinery. A concessionary Government line of credit is then utilized. However, it should be noted that such concessionary lines of credit are available to other DFIs as well.

RDFC is charging fees when undertaking appraisals (0,5% of the loan amount) and preparing feasibility studies (Rs.5,000-25,000). Northern Areas are favoured in comparison with other provinces. Thus no appraisal fees are charged and feasibility studies are heavily subsidized. When considering RDFC's role as promotor of economic life in remote areas, the justification of the fees as such may be questioned.

RDFC's loan-portfolio as of June 30, 1987 includes 139 projects (compare appendices III and IV). Total costs of investments are estimated at Rs. 1,021,959 million, whereas loans approved amount to Rs. 371,372 million.

Small scale projects (investment costs less than Rs. 10 million) are in majority (85% of the total number of projects), whereas medium size and large scale projects account for 10 and 5% respectively.

Industry is the dominating economic sector, accounting for 85% of loans approved. Agro-food processing, mining/quarrying, mechanical industry and chemical industry are the most important industrial subsectors, accounting for 18%, 17%, 14% and 13% respectively.

Service projects (hotels, hospitals, transport companies) etc account for 15% of loans approved and 25% of the total number of projects. Of particular interest: RDFC has financed a large number of small hotels in the Northern Areas, in an attempt to develop the tourist sector.

According to the regional break-down NWFP is the most important province, accounting for 62% of loans approved. Baluchistan, the Azad State of Jamu and Kashmir, Northern Areas and Sind/Punjab account for 19%, 13%, 6% and 1% respectively. In the Tribal Areas there is only one project, which has recently been approved.

The dominance of NWFP, the most industrialized province of RDFC's target areas, is significant. However, at a comparison with previous years, the dominance of NWFP has decreased. Hence, this province accounts for 50% of loans approved in 1986/87, and a corresponding increase in the shares of other provinces has taken place.

RDFC has in 1986 initiated a supervised credit scheme for small scale artisans and craftsmen. The scheme is regarded as an experiment, limited to small scale entrepreneurs in Peshawar. The loan limit is Rs. 50,000 to be repaid in 37 months with a grace period of one month. In 1986/87 19 projects have received financial assistance of Rs. 554,000. Experience of the supervised credit scheme is so far insufficient. As such conclusions on the experiment are not possible. However, RDFC has experienced a need of qualified know-how in this field, since experience of design, evaluation and monitoring of small scale credit schemes is not available in the institution.

RDFC has during the first two years of operation prepared 49 feasibility studies. Regional and sectoral break-downs are enclosed as appendices V and VI. When comparing with approval of loans the general pattern is similar. As such studies of small scale projects are dominating (75% of the total), and NWFP accounts for 67% of the total number of projects. The most important sector is mining/quarrying (30% of the total number of projects). Most feasibility studies prepared by RDFC are initiated by clients who are paying fees of Rs. 5,000 - Rs. 25,000. In addition to feasibility studies RDFC has so far identified 249 projects, prepared 164 market/project profiles and prepared 37 pre-feasibility studies. However, the technical contents of these studies have been questioned by UNIDO sector experts, working in RDFC.

In order to secure finance for economic development in the less developed areas, RDFC has in 1987 started operating deposit saving schemes. The clients are originating from RDFC's target areas. At the start-up some problems have been experienced. As such the deposit saving schemes are so far considered an insecure source of finance.

On basis of an analysis of RDFC's financial operations conclusions are summarized as follows:

- (i) In view of the diversified financial assistance provided and the operation of deposit saving schemes RDFC reminds of a commercial bank. However, most DFIs in Pakistan are providing similar finance and operate deposit schemes. Reason: commercial banks are sometimes reluctant to finance working capital. As such criticism of RDFC is not justified. Nevertheless DFIs should in CTA's opinion concentrate on long term finance of fixed assets, whereas short term finance for working capital should be provided by commercial banks.
- (ii) Demand for credits and services is a parameter, having a decisive influence on RDFC's financial operations (loan approvals and preparation of feasibility studies). Since the most industrialized areas are having the greatest demand for credits and services, there is a heavy concentration of RDFC activities to e.g. NWFP. However, criticism of the institution is not justified, since the Government has not provided funds for project identification, preparation and promotion. The lack of regional balance further emphasizes the need of such funds.
- (iii) There is a need of consultancy on design, evaluation and monitoring of supervised credit schemes for small scale business. Duties of such an expert: on the job training of RDFC's staff and preparation of a policy/manual for operation of the supervised credit scheme.

A.2.4 **The Organization**

An organizational chart is enclosed as appendix VII to this report. The Board of Directors/Chief Executive are responsible for policy decisions and other decisions of major importance. Day to day activities are co-ordinated by the Senior Vice President (SVP). The corporation is structured into four divisions reflecting its major objectives:

- (i) **Projects Division, headed by the Vice President and comprising 14 professional staff is responsible for appraisal and monitoring of projects. Project appraisal is carried out by three teams, comprising one technician and two to three financial analysts. A certain sector specialization has been implemented. One team is responsible for the construction industry, another team for chemical industry and the third team for engineering industry. At CTA's arrival the teams were also responsible for monitoring of projects, previously appraised. However, at CTA's recommendations, project monitoring was separated from appraisal in 1987. Currently a monitoring cell (team 4), headed by an Assistant Vice President is responsible for the former duty. Assistance in appraisal and monitoring is provided by an engineering wing, comprising one person who is compiling data on construction costs, machinery suppliers etc. In addition one person, responsible for the credit wing co-ordinates credits, available to RDFC.**

- (ii) **RDFC is, in accordance with the ordinance, to pay special attention to development of the mining sector in less developed areas. A separate mining division has therefore been set up. The division, comprising an Assistant Vice President, one geologist, one engineer and one financial analyst, is responsible for identification, preparation, promotion, appraisal and monitoring of projects within the mineral sector. So far appraisal/ follow-up of loan applications and preparation of feasibility studies at clients' request have been considered the most important duties.**

- (iii) **The Planning, Identification and Development Division (PIDD) is responsible for identification, preparation and promotion of projects, within all all sectors except for the mineral sector. In addition the responsibility for supervised credit scheme for small business has been entrusted in PIDD. The division comprises 5 professional staff - Assistant Vice President (MBA), one technician and 3 financial analysts of whom one is specialized in location and development of industries. Apart from the supervised credit scheme for small business, preparation of feasibility studies at request of clients has been a major duty. The clients are charged fees of RS. 5,000 - 25,000. In addition to these duties PIDD is at own initiative identifying projects, preparing market/project profiles and pre-feasibility studies.**
- (iv) **The Administration and Accounts Division, headed by the Vice President (Secretary to RDPC) is responsible for quite diversified duties: internal administration, recruitment and training of personnel, accounts, disbursement of loans, legal issues and internal audit. In addition responsibility for three branch offices, located to Mirpur, Quetta and Peshawar has been entrusted in this division. The branch office in Peshawar comprises two persons (one Assistant Manager/MBA and one person responsible for deposit accounts). In Quetta and Mirpur there is one person in each place, responsible for all routine work in the Province of Baluchistan and the Azad State of Jammu and Kashmir respectively.**
- (v) **Management Information Service. The MIS - Cell comprises one person, who is responsible for management information.**
- (vi) **Consultant/Marketing. A consultant on marketing, assisted by two professional staff, is responsible for market research. As such the consultant assists other divisions, when research on market issues is required.**

A.2.5 Organizational Development during the UNIDO-Mission

CTA was during the first two months assessing RDFC's organizational requirements. His findings were presented in a report, a report which now is obsolete, due to recent development. The UNIDO-team has during the mission initiated the following organizational changes which have been and are being implemented:

- (i) **Data base.** At the expert's on agro based industry and CTA's arrival, they experienced difficulties when trying to obtain data and other information on the less developed areas of Pakistan. As such a proposal was made to the management. The proposal: to organize a data base/library to be attached to PIDO. Such a library is currently being organized. Possibilities of computerizing data have been discussed. The expert on computerization of accounting systems, to be recruited by UNIDO, is to make a preliminary analysis of these possibilities.
- (ii) **Project Monitoring.** At CTA's arrival in Islamabad the appraisal teams, working in PD, were responsible for both appraisal and monitoring of projects. Such an organization was not in line with normal banking procedures, since the teams were actually following up their own appraisals. A separation of these duties was therefore recommended, a separation which was implemented in May, 1987 when a monitoring cell was established in PD.
- (iii) **Start-up of a library and establishment of a monitoring cell** are essential organizational changes initiated by the UNIDO-team and implemented during the mission. In addition RDFC has initiated supervised credits for small scale business and deposit saving accounts.

A.2.6 Organizational Requirements

In CTA's opinion the following are currently identified as RDFC's most essential organizational requirements, proposed to be implemented on a short term or a long term basis.

- (i) **Management.** RDFC is a well managed and an efficient organization (compare previous comments on financial performance). Decision-making has so far been centralized to the top management. Since the organization is passing formative stages of development, no revision is suggested on a short term basis. However, delegation of power minimizes internal bureaucracy, creates efficiency and enables the clients to have quick service and quick decisions. As such RDFC is recommended to discuss these issues continuously and whenever considered possible, delegate decision-making. In this context it should be noted that nearness to decision-making bodies is an essential infrastructure facility, as essential as supply of electricity, gas etc. On a long term basis RDFC is therefore recommended to delegate decision-making to its branch offices (compare below).
- (ii) **Projects Division.** A monitoring cell has recently been established in Projects Division. As such appraisal and follow-up have, in accordance with CTA's proposal, been separated. However, in CTA's opinion a separate monitoring division should be established, whose head is directly responsible to the top-management (Chief Executive and Senior Vice President). Reason: concerned monitoring staff, who will most likely become a nucleus of know-how of appraisal techniques and financial policy impact on clients, should feel free to criticize and be free to make proposals directly to the top-management. Note: a feed-back from monitoring staff to appraisal teams and PIDD is most important.
- (iii) **Minerals Division.** RDFC is currently lacking adequate funds for finance of project promotion. The Minerals Division is in this situation primarily carrying out appraisals of loan applications, monitoring projects and preparing feasibility studies at request of clients. However, when funds are made available, RDFC is recommended to transfer project appraisal and monitoring to Projects Division, thus enabling the Minerals Division to concentrate on promotion of the mineral sector in less developed areas.

- (iv) Project Identification and Development Division (PIDD). Preparation of feasibility studies at request of clients, who are charged fees, and supervised credit scheme for small business are currently major duties. RDFC is recommended to transfer the supervised credit scheme, being a normal banking activity, to Projects Division, when work routines have been established and as such the period of time for experimentation is finalized. Due to lack of funds and adequate staffing, project identification and project promotion in less developed areas, though carried out, have so far not had as high priority as anticipated in the ordinance. When funds for project promotion are made available PIDD should be made a nucleus for development of the industry in less developed areas. Organizing adequate data base, research on less developed areas and recruitment of additional staff will in such a situation become a necessity. When lacking proper funds, it is not possible to design a strategy for project promotion. However, important issues to be considered in this context are development of industrial estates and promotion of joint ventures between Pakistani and foreign companies.
- (v) The Administration and Accounts Division. Computerization of RDFC's accounts, including an analysis of possibilities to computerize MIS and a data base have been identified as one of RDFC's most urgent organizational requirements. UNIDO consultancy has therefore been requested. When reorganizing the accounting system, the institution should consider a separation of the Administration and Accounts Division into two units: one Finance and Accounts Division, including the legal personnel and the credit wing in PD, and one Administration Division, responsible for personnel and administrative duties. Such a separation would be in line with the organizational set up, usually to be found in DFIs. In addition RDFC is recommended to transfer the internal auditor to a staff position, where he is directly responsible to the top management. Reason: there should be a clear separation between accounts and internal audit. Apart from organizational issues, RDFC is recommended to initiate short term courses in word-processing for clerical staff. Reason: the UNIDO team has identified that there is a great need of such courses.

- (vi) **Branch Offices.** The branch offices should be staffed in such a way that preparation of feasibility studies of small projects, appraisal and monitoring of such projects are possible. In addition decision-making should, on a long term basis, be delegated to the management of these units. RDFC is therefore recommended to staff the branch offices accordingly. If this is done, staff at RDFC Hq will be able to concentrate on medium and large scale projects of major importance.

- (vii) **Establishment of a Technical Cell.** UNIDO sector experts have identified that technical capability is a constraint, when RDFC is carrying out appraisals and preparing feasibility studies. Additional qualified technicians should therefore be employed. On a long term basis an organizational improvement will most likely be achieved, if such staff and technical staff working in PD and PIDD is organized in one unit, a technical cell. Scarce competence could then be utilized for both project appraisal and feasibility studies. It should be possible to avoid situations, where technicians are carrying out appraisals of their own studies, if the appraisal officers, whenever required, are approaching outside consultancy. The proposal on a technical cell only concerns PD and PIDD. Project monitoring should be clearly separated from project appraisal, and accordingly have its own technical staff.

A.3 Assistance in Project Appraisal

A.3.1 Summary of CTA's Comments on Appraisal Reports

CTA was during his mission associated to the Credit Committee, comprising the heads of RDFC's divisions. The Committee provides advise on appraisal reports prepared by the appraisal teams, working in RDFC's Projects Division. In the following CTA's comments are summarized.

- (i) **Management.** The analysis of different management skills is generally too brief. Hence, an analysis of management skill in e.g. accounting and plant operation is sometimes missing.

- (ii) **Costs of transportation.** The analysis of the impact of costs of transportation of raw materials and finished products is generally too brief. This may result in too optimistic estimates of e.g. the markets.

- (iii) Project implementation/start-up. CTA has come across some projects at the implementation stage. Since these projects are often delayed, the implementation period appears to be underestimated. In addition the estimates of start-up costs appear to be too optimistic.
- (iv) Capacity utilization. When considering disadvantages, facing projects in less developed areas, the estimates of capacity utilization appear too optimistic e.g. when utilizing estimates of 90%.
- (v) Operating costs. Projects in less developed areas are generally facing high costs for e.g. repair and maintenance, since technicians/skilled labour have to be recruited from e.g. Karachi and Lahore. Estimates of the impact of such increased costs are generally too optimistic.
- (vi) Working capital. CTA has come across projects, where estimates of working capital are based on e.g. 15 days stocks of finished products. Such assumptions indicate that working capital may be under-estimated.

A.3.2 **Appraisal Guidelines**

RDFC is lacking a manual for project appraisal. At RDFC's request CTA, in co-operation with members of the UNIDO team, prepared general guidelines for such a manual, which were handed over to RDFC in the course of the mission. When carrying out this duty interviews were undertaken with the following DFIs.

- Agricultural Development Bank of Pakistan.
- Bankers Equity Ltd.
- Industrial Development Bank of Pakistan.
- National Development Finance Corporation.
- Pakistan Industrial Credit and Investment Corporation.
- Saudi Pak Agricultural and Industrial Company.
- Small Business Finance Corporation.

The guidelines were adapted to COMFAR and UNIDO's publication: Evaluation of Industrial Projects. In addition CTA's experience of industrial projects in less developed areas was utilized. As such issues discussed in section A.3.1 above were particularly emphasized.

When developing an appraisal manual, know-how of local practice, legislation etc. is a must. It was therefore agreed that RDFC was to finalize the manual, on basis of the guidelines. If this is done, an element of standardization will be introduced, which will facilitate understanding and decision-making.

A.4 Assistance in Project Monitoring

A monitoring cell was established in Projects Division in 1987. CTA was assisting the cell by developing a manual for project monitoring, in co-operation with concerned RDFC staff. The manual was handed over to RDFC in the course of the mission. In addition to discussion with RDFC staff, interviews were carried out with the following DFIs.

- Agricultural Development Bank of Pakistan.
- Bankers Equity Ltd.
- Industrial Development Bank of Pakistan.
- Investment Corporation of Pakistan.
- National Development Finance Corporation.
- Pakistan Industrial Credit and Investment Corporation.
- Saudi Pak Agricultural and Industrial Company.
- Small Business Finance Corporation.

on basis of CTA's own experience, discussions with RDFC - staff and interviews with DFIs the following were considered the monitoring cell's most essential duties/responsibilities:

- (i) Establishment of good relationship with clients at an early stage of project implementation.
- (ii) Assistance to clients in compliance with disbursement conditions.
- (iii) Ensure effective utilization of RDFC - finance for purposes for which they have been sanctioned.
- (iv) Technical assistance (guidance and advise) to clients at implementation and operation stages.
- (v) Monitor recovery of loans/mark-ups.
- (vi) Prepare re-appraisal reports, as and when necessary/ feed-back to appraisal teams on methodology.
- (vii) Review and evaluate RDFC's financing policy.
- (viii) Maintain permanent liaison with co-financiers and Government agencies.
- (ix) Prepare project rehabilitation plans.
- (x) Monitor progress of all outstanding loans.

When agreement had been reached on the monitoring cell's major duties CTA developed a set of monitoring techniques, including a reporting system. The reporting system was partly based on formats, previously utilized by the monitoring cell.

A.5 Survey of Industrial Development Problems in North West Frontier Province/Recommendations on Regional Development Efforts

According to the work-plan CTA was to make proposals on regional development issues. At request of RDFC a survey of industrial development in NWFP was carried out, a survey, which was concentrated on sick industrial units and proposals on regional development efforts. In the following objectives of the survey, findings and recommendations are summarized.

Objectives of the Survey

The survey was discussed with RDFC management, and an agreement was reached on the following general objectives.

- (i) Identification and review of causes of sickness in industrial sectors and units. Causes may be managerial, technical, marketing and financial problems.
- (ii) Review of the financial policy of Pakistan, with special reference to NWFP.
- (iii) Review of the industrial incentives available to NWFP and their impact on industrialization of the province.
- (iv) Recommendations on Government incentives for promotion and finance of industrial development in NWFP.
- (v) Recommendations on RDFC e.g. improvement of the organization in order to make the institution a nucleus for promotion and finance of industrial development in less developed areas.

Summary of Findings and Recommendations

The survey indicates that some 70% of the industrial units are most likely sick, due to severe financial problems. A break-down indicates that 96 units (10%) have closed down, whereas 60% are operating though facing financial problems. Sickness is not a sectoral phenomenon. Hence, units facing problems are found in almost all sectors.

In both developed and developing countries there are less developed areas, where Governments are making efforts to promote economic development, primarily industrial development. Interviews with key-persons in NWFP indicate that most problems in this area are not unique. They are summarized as follows:-

- (i) **Lack of Industrial Tradition.** Due to lack of such tradition industries are facing problems, when trying to recruit skilled management and skilled labour.
- (ii) **Comparatively Poor Infrastructure.** Essential facilities like electricity and gas are not always readily available at the industrial estates.
- (iii) **Location Cost Disadvantages.** At a comparison with industries, located to major centres like e.g. Karachi and Lahore, units in less developed areas (e.g. NWFP) are operating at higher costs. The most important additional costs to be considered are costs of transportation of raw materials and finished products, costs of comparatively large stocks of imported raw materials and spares, costs of repair/maintenance and non-utilized capacity at machinery break-down and costs of sales promotion, that is to say frequent travelling to major markets.
- (iv) **Smuggling.** In one aspect the situation in NWFP is unique. Industries have had to close down, due to the impact of smuggling. Major reasons: industries concerned have to pay high import duties on imported raw materials. As such the duties are preventing, not protecting, development of domestic industry in NWFP.

Current industrial incentives (tax concessions and exemption of import duty on imported machinery) available for NWFP, and their impact on industrialization have been discussed with Provincial Government Bodies, DFIs and Industrialists. There is a general concensus that these incentives do not provide adequate inducement to over-come the specific constraints, which are having negative effects on industrial development.

When discussing industrial development in NWFP, it must be remembered that industry is one of many economic sectors. As such efforts to promote industrial development should be integrated in a comprehensive regional development policy, including identification of various growth-poles. Lacking information on such issues it is not possible to design a precise package of regional development incentives. However, the following preliminary recommendations are made:

- (i) Management training. Organization of management training in Peshawar is recommended. The idea: to provide practical training in business management and organization of industrial production, in co-operation with successful entrepreneurs and consultants, who should be approached for teaching. At the start-up of such training consultancy from experienced international organizations, e.g. UNIDO and ILO, may be required.
- (ii) Training of skilled labour. An analysis of the requirement of skilled labour and the need of training facilities is recommended. Such an analysis should be initiated by the Industrial Facilities Board of NWFP.
- (iii) Industrial estates. Cost advantages may be achieved if standard factory buildings are constructed at the estates. Investigation of this issue is recommended.
- (iv) Costs of transportation. Introduction of a system for subsidies of transportation of raw materials and finished products, preferably in accordance with a proposal from the Provincial Government and Sarhad Chamber of Commerce and Industry, is recommended. The proposal: subsidies on costs of transportation on the Government owned railway (freight charges on the first 100 miles, the remaining distance free of charge).
- (v) Other location cost disadvantages. The Central Government has recently introduced the following financial incentives in an industrial estate, located to Gadoon Amazai, a poppy-growing area.
 - Exemption from import duties when importing machinery and raw materials.
 - Tax holiday for 10 years.
 - Provision of loans for establishment and operation of units from the financial institutions at a rate, not exceeding a mark-up of 3%.
 - A reduction of 50% in electricity tariffs, which are normally applicable.

Companies in Sind and Punjab have forwarded requests for plots in this estate. As such the package of incentives appears to have favourable effects on industrialization. When considering the most remote areas in NWFP (Divisions of Dera Ismail Khan and Malakand and Districts of Manshera and Kohistan) introduction of a similar package is recommended. Concessionary finance, being discussed in the package, should primarily be channeled through RDFC.

- (vi) Smuggling. Action to prevent smuggling is recommended. Reduced import duties will benefit the industry in NWFP. Another alternative is increased surveillance of illegal smuggling.
- (vii) DFI's. DIFs are recommended to decentralize decision-making further, in order to speed up processing of loan applications and implementation of industrial investments. Such decentralisation, that is to say nearness to decision-makers, should be considered an essential infrastructural facility.
- (viii) RDFC. The institution has been established in order to promote and finance industrial development in the less developed provinces. In such a situation know-how of problems, impeding industrial development, is accumulating in the institution. Proposal: RDFC to be allocated resources for promotion of and research on industrial development in provinces concerned, that is to say the institution to become a nucleus for know-how of such issues. Note: identification, preparation and promotion of projects should be considered a necessity, since private investors are currently reluctant to undertake such activity in a remote area like NWFP. In addition RDFC to obtain concessionary finance for finance of industrial development in areas concerned (compare above).
- (ix) The survey is concentrated on NWFP. However, conclusions and recommendations are most likely applicable to other less developed provinces. As such a survey of these areas is recommended.

A.6

**Summary of Conclusions on CTA's Project Activities/
Recommendations**

Conclusions on CTA's project activities and recommendations are summarized as follows:

- (i) Due to delays beyond the control of UNIDO, in recruiting experts, some problems during phase I of CTA's mission had to be overcome.
- (ii) RDFC is a well managed institution, commercially viable already in the second year of operation though the institution is passing formative stages of development.
- (iii) RDFC is facing severe financial constraints, when considering the institution's role as promotor of industrial development in the less developed areas of Pakistan. Such constraints are: lack of funds for equity participation outside NWFP, lack of foreign currency credit lines, lack of sufficient funds for project promotion and lack of concessionary finance for compensation of industries in less developed areas. The Government is recommended to alleviate these financial constraints.
- (iv) In view of diversified financial assistance RDFC reminds, in CTA's opinion, of a commercial bank. However, most DFIs in Pakistan are operating in a similar manner. As such criticism of RDFC is not justified.
- (v) There is a heavy concentration of RDFC activities to NWFP, the most industrialized province of the less developed areas. As long as sufficient funds for project promotion are not available, there will most likely be such lack of regional balance in the institution's financial operations.
- (vi) RDFC has experienced shortage of know-how of design, evaluation and monitoring, when starting a credit scheme for small business. This shortage of know-how can be alleviated by expert consultancy in RDFC.

- (vii) Start-up of a library and establishment of a monitoring cell are the most essential organizational changes, which have been initiated by the UNIDO-team and implemented during the mission.
- (viii) Delegation of decision-making from the top management is currently not possible due to the formative stages which the institution is passing. However, on a long term basis RDFC is recommended to delegate decision-making to the branch offices.
- (ix) RDFC is recommended to establish a separate Monitoring Division directly responsible to the top-management.
- (x) RDFC is recommended to make Minerals Division and PIDD a nucleus for project promotion in less developed areas, when sufficient funds are made available. That is to say any normal banking activities carried out in these divisions should be transferred to Projects Division. It is not possible to design a policy for project promotion, since adequate funds are not available. However, important issues to be considered in this context are development of industrial estates and promotion of joint ventures between Pakistani and foreign companies.
- (xi) RDFC is recommended to computerize the accounting system and carry out an analysis of possibilities to computerize MIS and a data base, in accordance with request for consultancy from UNIDO. In this context a separation of the Administration and Accounts Division should be considered: one Finance and Accounts Division, including the credit wing in PD, and one Administration Division. In addition the internal auditor should be transferred to a staff position, where he is directly responsible to the top-management. Short term courses in word processing should be organized for clerical staff, since insufficient know-how has been identified as a constraint by the UNIDO experts.
- (xii) RDFC is recommended to staff the branch offices in such a way that preparation, appraisal and monitoring of small scale projects are possible. On a long term basis decision-making should be delegated to the branch offices.
- (xiii) RDFC is recommended to employ additional qualified technical staff and establish a technical cell, comprising technicians in PD and PIDD.

- (xiv) RDFC is recommended to prepare an appraisal manual based on the appraisal guidelines, submitted by CTA.
- (xv) RDFC is recommended to organize project monitoring in accordance with the manual for project monitoring, prepared by CTA.
- (xvi) The Government of Pakistan is recommended to adopt a regional development policy for the less developed areas of Pakistan. Important issues to be considered in such a policy are identification of growth-poles, diversification of Government subsidies due to remoteness, subsidies on transportation of products, development of infrastructure including managerial and labour training and different kinds of concessionary finance.
- (xvii) When considering RDFC's role as a nucleus for development of industry in the less developed areas, UNDP/UNIDO is recommended to finance two fellowships for professional staff working in PIDD. Such fellowships should be utilized for studies of project promotion in less developed areas. In addition UNDP/UNIDO is recommended to finance two fellowships for professional staff within PD. These ones should be utilized for studies in evaluation of projects in less developed areas.
- (xviii) CTA's work should be compared with anticipated outputs, according to the project document/work plan. Such a comparison indicates that it has been possible to meet outputs. Hence, it has been anticipated that CTA, in addition to co-ordinating UNIDO technical assistance, is to assist RDFC in different kinds of financial analysis and make proposals on regional development issues, duties which have been carried out in accordance with RDFC priorities.

B. The Consultant on Computerized Feasibility Analysis and Reporting (COMPAR)

The Consultant on COMPAR arrived in Islamabad mid-June, 1987 and finalized his mission end-August, 1987. His project activities are summarized below:

- (i) Acquisition and Installation of Hard and Soft ware. CTA and UNIDO had before his arrival initiated purchase of an IBM AT unit including an IBM pro-printer through

the IBM office in Islamabad. During acquisition and installation of the hardware, some problems had to be solved since all items were not delivered in due time. It was possible to substitute such items. As such any delay in the work-progress was not experienced.

- (ii) Seminar on COMFAR. The consultant conducted a seminar on COMFAR for four weeks. The participants were 11 professional RDFC staff (5 from Projects Division, 3 from PIDD, 2 from Minerals Division and 1 - The Chief Accountant - from Administration and Accounts Division). Among the participants were three heads of RDFC - divisions. The seminar program included introduction to personal computers, application of COMFAR with case studies, utilization of COMFAR economic modules. Attendance was 100%. As such the participants indicated a great interest in the seminar.
- (iii) Adjustment of COMFAR. The consultant developed some adjustments with manual calculations to achieve the desired results, according to Islamic banking procedures.

Application of COMFAR will most likely have great benefits on RDFC-operations. The benefits may be summarized as follows:

- i) Time Saving. The calculations are reduced to a minimum of seconds. According to previous experience, net time saving should equal some 50%. When considering RDFC net time saving should equal roughly 32 man days per month.
- ii) Reduced Risk to Finance Non-viable Projects. The increased accuracy of the calculations, including sensitivity analysis, enables the analyst to reach more reliable conclusions.
- iii) Improved Presentation. The optional schedules of the main system and the graphic demonstration allow a convincing demonstration.

In his concluding remarks the consultant emphasized that the seminar could be carried out in a most efficient way. The participants, who were awarded certificates by the Joint Principal Secretary of Ministry of Finance at a closing ceremony, were showing great motivation, and willingness to learn was extremely high. At the end of his mission he made the following recommendations on application of COMFAR:

- (i) The heads of divisions should encourage their staff to utilize the COMFAR package. The management should also be patient and enable the staff to develop skills that can only be obtained through practice.
- (ii) The PIDD should use the main system and the grafix module for all studies.
- (iii) The Projects Division appraisal teams and the Minerals Division should use COMFAR for medium and large scale projects.
- (iv) Available funds should be utilized for purchase of one additional computer. CIA's remarks: UNDP has recently ordered the equipment from IBM.

C. The Expert on Agrobased Industry

The expert on agrobased industry arrived in Islamabad early November, 1986 and finalized his mission mid April, 1987. In carrying out the duties according to his job description the expert was facing some difficulties and had to adjust his work programme accordingly. Hence, RDFC was not in a position to provide a counterpart, specialized in agrobased industry. Aware of this difficulty RDFC put more emphasis on having a technical output, e.g. identified projects, than on the job training.

A revised work-programme was agreed upon with RDFC-management. In accordance with this programme the following activities were carried out:

- (i) Genreal and Regional documentation. The expert compiled general and sectorial documentation, made available by FAO, UNIDO, The Woprld Bank and others.
- (ii) Set-up of a central documentation/data base. The existing documentation was surveyed. On basis of this survey a proposal and a recommendation was made on how to organize central documentation.
- (iii) Area surveys. At request of RDFC the area surveys were restricted to NWFP. The main objective of the area surveys was to collect data on agricultural production. The data were handed over to RDFC.

- (iv) **Opportunity Studies.** The expert prepared opportunity studies on utilization of sugar mill by-products, cattle feed, poultry feed and rendering plants. The preliminary analysis indicated that these projects could be viable proposals. However, follow-up/further analysis is required.
- (v) **Other Activities.** The expert analyzed pre-feasibility and feasibility studies, prepared by PIDD. In addition he was providing advise to RDFC - clients.

The expert's activities should be compared with assumed outputs, according to the project document and the work-plan. On basis of such a comparison the following conclusions are possible:

- i) The outputs of the mission, as defined in the job description, were only partly met. The methodological aspects and the progress in the opportunity studies constitute the essential outputs.
- ii) On the job training could not be carries out as foreseen, e.g. by establishing project studies in co-operation with a counterpart.
- iii) His work was oriented towards a direct production of identified projects and a critical analysis of actual tasks and methods, used by PIDD.

The expert on agrobased industry made the following recommendations on RDFC - activities in the agro-processing sector.

- (i) Project identification and elaboration of pre-investment studies for sub-sectoral projects should be organized in a way, ensuring a higher degree of validity. This includes: the formation of teams of experts for specific studies and the selection of available national specialists, internal or external to RDFC, covering the major substantive fields of the project concerned.
- (ii) Methods and formats should be introduced that are compatible with the COMFAR-program and permit an immediate utilization of the processed project studies.
- (iii) Particular attention should be given to selection of data and information at the local, regional and sub-sectoral level.
- (iv) Sub-sectoral objectives should be adapted to the operational budget, which should be increased.

D. The Expert on Chemical and Engineering Industry

The expert on chemical and engineering industry arrived in Islamabad end-June, 1987 and finalized his mission end-November, 1987. His project activities are summarized below:

- (i) The expert prepared two sub-sector studies, covering rock phosphate chemicals and leather and tanning chemicals, with the objective of establishing present status and guideline for RDFC's policy towards these sectors.
- (ii) The expert prepared three reports on project identification (import substitution projects covering hydrocarbons, alcohols and carboxylic acids with derivatives thereof).
- (iii) The expert prepared two feasibility studies, utilizing COMFAR, studies covering production of Carboxi Methyl Cellulose (CMC) and production of pectine, lemon and calcium citrate from lemon and lemon peels. The CMC project was preliminarily found to be viable and should be further appraised/promoted.
- (iv) The expert prepared an analysis of the impact of import duties on the viability of chemical projects, with the objective of establishing guidelines for RDFC's policy towards this sector.
- (v) The expert prepared a proposal on technical co-operation between Pakistani and foreign companies, including a contract to form the basis for such co-operation.
- (vi) The expert assisted RDFC in appraisal and preparation of feasibility studies of chemical projects. In this context he prepared a description of cost estimation methods to be utilized by RDFC.

The expert's activities should be compared with assumed output, according to the project document and the work-plan. On basis of such a comparison the following conclusions are possible.

- (i) According to the work-plan the expert was to co-operate with two counterparts (one chemical engineer and one mechanical engineer). However, only the former counterpart was available for on the job training. As such training of the mechanical engineer could only be carried out to a limited extent, due to lack of documentation.

- (ii) The expert's technical output is in line with the project document and the work-plan. As such assumed outputs were met.

At the end of his mission the expert made the following recommendations on RDPC activities.

- (i) To promote the feasibility study of Carbon Methyl Cellulose (CMC).
- (ii) To carry out further studies of projects identified.
- (iii) To give priority to more expensive chemicals, since the impact of import duties and transportation costs is less.
- (iv) To pay more attention to MRB-loans.
- (v) To establish integrated industrial estates for chemical production.
- (vi) To attach officers, responsible for feasibility studies and appraisal, to the monitoring cell, when sites are visited and projects are analyzed.
- (vii) RDPC to attain better control of industrial estates.
- (viii) RDPC to try to secure a foreign currency credit line.
- (ix) RDPC to try to obtain a revision of the ordinance. Proposed revision: RDPC to be allowed to finance agricultural produce for chemical production.
- (x) RDPC to consider organizational aspects, concerning the mineral sector.
- (xi) RDPC to organize short-term courses for clerical staff in word-processing.

E. The Expert on Mining and Mineral based Industry

The expert on mining and mineral based industry arrived in Islamabad mid-June, 1987 and finalized his mission end-November, 1987. His project activities are summarized below:

- (i) The expert prepared comprehensive reports on various mining sectors (Brick - manufacturing, Marble-industry and raw materials for the Refractory industry) with the objective of establishing present status, guidelines for future development and cost and profitability data as a guideline for RDFC's loan policy towards these sectors.
- (ii) The expert prepared feasibility studies for light-weight aggregate production for local scale, establishment of a gypsum industry in NWFP and establishment of a refractory industry in Baluchistan and/or NWFP.

The expert's activities should be compared with assumed outputs according to the project document and the work-plan. On basis of such a comparison the following conclusions are possible.

- (i) RDFC made a qualified counterpart available during travelling and to some extent while working in RDFC. As such on the job training was carried out. However, it seems likely the counterpart will be working on normal banking activities. RDFC may therefore not fully benefit from the on the job training in project identification and preparation.
- (ii) The expert's technical output is in line with the project document and the work-plan. As such assumed outputs were met.

The expert made the following recommendations on RDFC activities in the mining sector.

- (i) Conduct of additional sectoral studies to establish and support a firm loan and development policy.
- (ii) Preparation of a pre-feasibility study on possibilities to establish mini steel-mills. Based on scrap and/or imported sponge. A study of mills, based on local ore, was negative because of high energy prices and insufficient ore deposits.
- (iii) Substantial strengthening of RDFC's technical capabilities.
- (iv) Incorporation of the mining division in a technical department, which can act as a consultant to loan officers and RDFC management in policy issues.
- (v) Conduct of regional studies in support and/or supplement to sectoral studies.
- (vi) Organize a set up of experienced technical advisors to RDFC's heads of divisions.

VI Summary of Conclusions on UNIDO Technical Assistance to RDFC/Recommendations

Conclusions on UNIDO technical assistance to RDFC and recommendations are summarized as follows:

- (i) Due to delays beyond UNIDO's control, in recruiting experts, some problems during phase 1 of CTA's mission had to be overcome.
- (ii) Though well-managed, RDFC is facing severe financial constraints, when considering its role as promoter of economic life in less developed areas. The constraints: lack of funds for equity participation outside NWFP, lack of a foreign currency credit line, lack of sufficient funds for project promotion and lack of concessionary finance for compensation of industries in less developed areas.
- (iii) Start-up of a library and establishment of a monitoring cell are essential organizational changes, which have been initiated by and implemented during the UNIDO-mission.
- (iv) Computerization of RDFC's accounting system, including an analysis of possibilities to computerize MIS and a data base, is considered the most urgent organizational requirement. In addition RDFC is recommended to strengthen its technical capability/establish a technical cell, strengthen the branch offices, develop an appraisal manual on basis of the UNIDO-mission's guidelines, organize project monitoring in accordance with the proposed manual and undertake other organizational changes which are discussed in this report.
- (v) When funds are made available for project promotion, PIDD and Minerals Division should be made a nucleus for development of industry in the less developed areas. Research on these areas and a data bank will become a necessity. Important issues to be considered in this context are: development of industrial estates and promotion of joint ventures between Pakistani and foreign companies.
- (vi) RDFC is currently experiencing a shortage of know-how of design, evaluation and monitoring of small scale credit schemes. Request for UNDP/UNIDO consultancy is recommended.
- (vii) When considering that RDFC will become a nucleus for promotion of industry in less developed areas, UNDP/UNIDO should finance four fellowships, two for professional staff in PIDD, to be utilized for studies of project promotion in less developed areas, and two for professional staff in PD, to be utilized for studies in evaluation of projects in less developed areas.

- (viii) The Government of Pakistan is recommended to adopt a regional development policy for the less developed areas including identification of growth poles, introduction of transport subsidies and concessionary finance and organization of adequate vocational training.
- (ix) Introduction of COMFAR in RDPC should be regarded as a great success. 11 participants were showing great motivation during the seminar, and willingness to learn was extremely high.
- (x) Utilization of COMFAR will offer great benefits to RDPC (time saving in calculations, reduced risk to finance non-viable projects and improved presentation).
- (xi) RDPC is recommended to utilize COMFAR continuously when preparing feasibility studies and carrying out appraisals of medium size and large scale projects.
- (xii) The expert on agro based industry has preliminarily identified four agro-processing projects. RDPC is recommended to finalize his work by preparing comprehensive feasibility studies.
- (xiii) The expert on mining and mineral based industry prepared extensive reports on various mining sectors. RDPC is recommended to utilize these studies, when promoting and financing mining projects.
- (xiv) The expert on mining and mineral based industry prepared feasibility studies of three projects. RDPC is recommended to promote these projects.
- (xv) RDPC is recommended to carry out additional sectoral studies and regional studies as a complement to the work carried out by the expert on mining and mineral industry.
- (xvi) RDPC is recommended to prepare pre-feasibility studies of the possibilities to establish mini steel mills.
- (xvii) The expert on chemical and engineering industry prepared two feasibility studies. RDPC is recommended to promote the study of CMC.
- (xviii) The expert on chemical and engineering industry identified three import substitution projects, analysed two subsectors, analysed the impact of import duties on chemical industry and prepared a description of cost estimation methods. RDPC is recommended to finalize studies of projects identified and utilize sector studies and other documentation, when promoting and financing projects.
- (xix) The expert on chemical and engineering industry prepared a proposal (including a contract) on technical co-operation between Pakistani and foreign companies. RDPC is recommended to promote joint ventures, in accordance with his recommendations.

- (xx) The expert on chemical and engineering industry identified a need for integrated industrial estates for chemical production. RDFC is recommended to promote such estates.

The activities of the UNIDO-mission should be compared with assumed outputs, according to the project document and the work-plans. Such a comparison indicates the following:

- (i) CTA has been able to carry out his duties, in accordance with the work-plan.
- (ii) Introduction of COMFAR should be regarded as such a success that outputs have been met at 100%.
- (iii) The outputs of the expert on agro-processing is only to some extent in line with assumed outputs, according to the project document. Four projects, requiring further studies have been identified. However, on the job training has not been possible in view of lack of a qualified counterpart.
- (iv) The expert on mining and mineral based industry has accomplished an extensive technical output, in line with the work-plan. A qualified counterpart was available. However, it seems likely this counterpart will be utilized for normal banking activities. As such the benefits to RDFC of on-the-job training in project identification, preparation and promotion may to some extent be questioned.
- (v) The expert on chemical and engineering industry has accomplished an extensive technical output, in line with the work-plan. According to the work-plan he was to co-operate with two counterparts (chemical engineer and mechanical engineer). However, only one counterpart, the chemical engineer was actually available to such extent as anticipated in the work-plan.

VII **A c k n o w l e d g e m e n t s**

CTA wishes to express his gratitude to Mr. Muzaffar Mahmood Qurashi, Chief Executive, Mr. Mirza Amin Baig, SVP and Mr. Syed Sadaqat Ali, AVP/PIDD for their interest and support in co-ordinating UNIDO technical assistance. Furthermore CTA wishes to thank Mr. Hassan Nawab VP/PD, Mr. Haier Zaman AVP/Monitoring, late Mr. Ahsan Ul Haq, AVP/Minerals Division and professional staff in RDFC for their assistance, when duties were carried out. A special thanks also to Mr. Afzaal Shariff, VP/Administration and Accounts Division and supporting staff who enabled smooth operations of the mission.

**WORK PLAN
for
CHIEF TECHNICAL ADVISER**

APPENDIX I

I. INTRODUCTION

Industries in Pakistan tend to concentrate in and around metropolitan areas, whereas certain regions remains less developed industrially. This development creates socio-economic problems - pollution and housing problems in large cities/non-utilization of natural resources in less developed areas. The Government of Pakistan has provided incentives in the form of duty exemption and tax holiday in less developed areas in order to encourage industry. However, these efforts have so far not been successful.

Realizing the need of industrializing less developed areas, the government has decided to establish Regional Development Finance Corporation (RDFC). RDFC is to promote and finance economic development in these areas.

The Government of Pakistan and UNDP have in 1986 reached an agreement on technical assistance to RDFC. Executing agency is UNIDO. The terms of the agreement have been specified in project document DP/PAK/85/024/A/01/37.

II. PROJECT ACTIVITIES

A. Major Tasks of the Project

The emphasis of the technical assistance to RDFC is on the development of new strategic industries in less developed areas as well as training of national staff in project identification, preparation, appraisal, monitoring and promotion. As a build-up of the national capability of RDFC in project preparation and appraisal, the introduction of UNIDO Computerized Financial Analysis and Reporting (COMFAR) System through installation of hardware, provision of software and conducting the corresponding training courses is included in the project.

A.1 Fielding of UNIDO-Mission

According to the project document, the UNIDO-Mission is to be fielded as follows.

- | | |
|---|---------|
| - Team leader/financial analyst | 6 m/m |
| - Expert on Agro-based industries | 5 m/m |
| - Expert on Chemical and Engineering industries. | 5 m/m |
| - Expert on Mining and Mineral based industries. | 7.5 m/m |
| - Consultants on COMFAR/Data Based Management System. | 5 m/m |

There is some doubt on the number of m/m for the expert on mining, since 5 is foreseen in the job description.

RDFC may wish to utilize 2.5 m/m for consultancy on other aspects of development banking. The number of required consultants on COMFAR is currently being considered by RDFC and the Government.

A.2 Equipment

US\$ 20,200 has been allocated for purchase of computer equipment. This equipment is to be purchased by UNIDO Head quarters and brought to Islamabad by the consultant on COMFAR.

A.3 Current Project Status

The current project status is summarized as follows.

- The Expert on Agro Based Industry (post 11.02) has arrived in Islamabad November 7, 1986. He has on December 10, 1986, submitted a work program to the Chief Executive of RDFC and UNIDO SIDFA, who have approved the program. He is currently, in accordance with the plan, concentrating his efforts on projects within the agro-processing sector.
- The CTA (post 11.01) arrived in Islamabad on January 8, 1987. During the first month of his assignment the following duties have been carried out.
 - (a) Collection of data on project activities before his arrival.
 - (b) Fact-finding on RDFC-Organization and institutional environment.
 - (c) Preparation of a work-plan.
- One candidate for post 11.03 (Expert on Chemical and Engineering industries) has received RDFC-approval. However, the government decision is still awaited. A realistic assumption: he will arrive in Islamabad at earliest March, 1987.
- Additional candidates for post 11.04 (Expert on Mining/ Mineral Industries) have recently been submitted to the Government and RDFC. One candidate has received RDFC approval. However, the government decision is still awaited. A realistic assumption: the expert will arrive in Islamabad at earliest April, 1987.
- Suitable candidates for posts 11.51 and 11.52 (Experts on Computer Model for Feasibility Analysis and Reporting-COMFAR and Data Based Management System) have recently been submitted to the Government and RDFC. One candidate has received RDFC approval. However, the Government decision is still awaited. A realistic assumption: the expert (s) will arrive in Islamabad at earliest April, 1987.
- Confirmation of UNIDO Head quarter's purchase of computer equipment is awaited.

A.4 Project Finance

The financial commitment of UNDP for this project is US\$ 221,275. At this early stage it is not possible to foresee, whether additional funds will be required.

A.5 CTA-Work Priorities and Time Schedule

When considering CTAs professional experience and the current status of the project, the following duties are considered most important.

- (a) Co-ordination of UNIDO Technical Assistance to RDFC (purchase of equipment and work of consultants).
- (b) Analysis of the requirement of RDFC, including an analysis of the institution (organizational aspects, training of personnel, appraisal techniques, follow-up procedures, service to clients at the implementation stage, procedures in identification, preparation and promotion of projects and project-finance policy).
- (c) Assistance to RDFC on preparation of an appraisal manual.
- (d) Visits to branch-offices and regional authorities (Provincial Governments) in areas concerned.
- (e) Advise to the management of RDFC on organizational aspects and on the job training of professional staff (point 'b' above).
- (f) Analysis of development policies, adopted by other organizations (e.g. Industrial Development Bank of Pakistan, Small Business Finance Corporation, National Development Finance Corporation; Ministries etc.).
- (g) Recommendation on regional development strategies.
- (h) Preparation of terminal report/debriefing on mission-findings.

A time-schedule for implementation of the proposed duties is presented in annex I. In annex II, there is a similar schedule, indicating implementation of UNIDO-Technical Assistance to RDFC. However, when considering uncertainties in expert recruitment, proposed stages in implementation should be regarded as most preliminary.

III. CTAs COMMENTS AND RECOMMENDATIONS

CTAs comments and recommendations are summarized as follows.

- A. Timing of UNIDO-Technical Assistance to RDFC has been poor. Thus one expert has arrived two months before CTA, whereas considerable delay in recruitment of other experts is foreseen. This poor timing has got negative effects on CTA's work plan, since implementation of the project cannot be foreseen accurately. UNIDO-SIDFA has made UNIDO HQ aware of this situation.

- B. COMFAR-equipment should be purchased as soon as possible. UNIDO is therefore requested to speed up procurement. It is a must that this equipment is brought by the consultant on COMFAR, when he arrives.
- C. Training in COMFAR will most likely be facilitated if one consultant is available for 5 m/m.
- D. According to the project document the emphasis of the technical assistance is on the development of new strategic industries in less developed areas. When considering RDFC's lending capacity, a loan-maximum of Rs.12.5 million for one single project, a strategic industry should be understood as a project, within the corporation's scope of operations.
- E. On the job training should be considered most essential. As such counterparts must be appointed and available. However, the expert on agro-processing industry has to some extent criticized RDFC, since appointed counterparts are some times not available. RDFC is therefore reminded of its obligations to provide suitable personnel - personnel which should be allowed to provide utmost priority to on the job training together with UN-staff.
- F. As outlined in the project document RDFC is to provide adequate office facilities. This may pose a problem, when more experts are arriving. RDFC is therefore reminded of its obligations.

CTA-Time Schedule

Annex 1

	January	February	March	April	May	June	July
a) Supervision of UNIDO-project.	_____						
b,c) Analysis of the institution RDFC/assistance on devise of an appraisal manual	_____						
d) Visits to branch offices and local authorities			_____				
e) Advising the management of RDFC.		_____					
f,g) Preliminary analysis of and recommendation on regional development strategies in Pakistan.				_____			
h) Preparation of terminal report and debriefing.						_____	

UNIDO-Technical Assistance to RDPC (Time Schedule)

	1986			1987							
	Nov.	Dec.	Jan.	Feb.	Mar.	April	May	June	Jul.	Aug	Sept.
Team Leader/Financial Analyst.			_____	_____	_____	_____	_____	_____	_____		
Expert on Agro-based Industries.	_____					_____					
Expert on Chemical and Engineering Industries.					_____	_____	_____	_____	_____		
Expert on Mining and Mineral based industries.							_____	_____	_____	_____	_____
Installation of CONFAR							_____				
Consultant on CONFAR							_____	_____	_____	_____	_____

DRAFT

Appendix II
17th August 1987

JOB DESCRIPTION

DP/PAK/85/024/51

- Title:** Expert in computerized accounting.
- Purpose:** To initiate the computerization of RDFC's accounting system.
- Duties:** In close cooperation with RDFC staff the expert will undertake the following activities:
- a) Analyse RDFC's manual accounting system, including monitoring of project receivables, and specify the potential for computerization. Improvements and future development should be incorporated as far as possible.
 - b) Select the most appropriate software. Existing hardware facilities of RDFC should be considered.
 - c) Depending on the availability of the software work out a plan/initiate the computerization for/of:
 - i) Installation and testing of the software.
 - ii) Training of RDFC accountants.
 - d) Carry out a preliminary analysis on the computerization of RDFC's Management Information System and the establishment of a Regional Data Bank.
 - e) Prepare a report summarizing findings and recommendations.
- Qualifications:** Systems Analyst with solid experience in computerized accounting of Development Finance Institutions. Preferably the expert should also have experience in the design and establishment of M.I.S. and Data Bank Management.
- Duration:** 2.5 months.

RDFC LOAN-PORTFOLIO JUNE 30, 1987 SECTORAL BREAK-DOWN)(RS. IN MILLION)

		No of Projects			Cost of Investments	Loans Approved
		Large Scale Rs. 20 m	Medium Scale 10-20 m	Small Scale 10 m		
Agro Food Processing	14	4	1	9	280.444	65.110
Wood Processing	6	-	-	6	4.608	2.503
Mining Quarrying	30		1	29	200.224	62.983
Chemical Industry	12	3	4	5	163.099	48.189
Mechanical Industry	18		2	14	89.503	53.789
Other Industry	30	3	3	24	210.157	83.475
Private Service	31		2	29	94.882	55.323
Public Service						
Total:-	139	10	13	116	1,021,959	371,372

Appendix IV

RDFC LOAN-PORTFOLIO JUNE 30, 1987 (REGIONAL BREAK-DOWN)(RS. IN MILLION)

		No of Projects			Cost of Investments	Loans Approved
		Large Scale Rs. 20 m	Medium Scale 10-20 m	Small Scale 10 m		
Baluchistan	34	2	3	29	202.119	72.257
N.W.F.P	71	5	9	57	621.970	228.765
Jammu/Kashmir	11	3	-	8	151.164	47.154
Northern Areas	21	-	-	21	32.786	21.022
Tribal Areas						
Sind/Punjab	2	-	1	1	13.920	2.174
Total:-	139	10	13	116	1.021.959	371.372

RDPC FEASIBILITY STUDIES AS ON JUNE 30, 1987/SECTORAL BREAK DOWN

.No.	No of Projects			Cost of Investments (in mln Rs)			G. Total
	Large scale Rs. 20 mln	Medium 10-20 mln	Small 10 mln	Large	Medium	Small	
Agro food Processing (10)	1	2	7	85.00	26.28	25.40	136.680
Wood Processing (4)	-	1	3	-	17.00	2.967	19.967
Mining Quarrying (13)	1	-	12	22.797	-	42.696	65.493
Chemical Industry (2)	2	-	-	49.4	-	-	49.4
Mechanical Industry (5)	-	-	5	-	-	42.47	42.47
Other Industry (7)	1	-	6	110.0	-	13.47	123.47
Private Services (8)	-	3	5	-	45.2	15.845	61.045
Grand Total (49)	5	6	38	264.197	88.480	142.848	498.525

RDFC FEASIBILITY STUDIES JUNE 30, 1987 (REGIONAL BREAK DOWN)

	(Rs. in mln)						G. Total
	No of Projects			Cost of Investment (in million Rs)			
	Large Scale Rs. 20 mln	Medium 10-20 m	Small 10 mln	Large	Medium	Small	
Baluchistan (10)	-	-	10	-	-	50.206	50.206
NWFP (23)	-	3	20	-	43.00	59.819	102.819
Azad Jammu & Kashmir (4)	3	-	1	159.4	-	8.59	167.99
Northern Areas (6)	-	1	5	-	17.20	8.339	25.539
Sind/Punjab (6)	2	3	1	107.797	38.28	5.894	151.971
Total (49)	5	7	37	267.197	98.48	132.848	498,525

REGIONAL DEVELOPMENT FINANCE CORPORATION

