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REPORT ON A MISSION
OF THE UNITED NATIONS INDUSTRIAL DEVELOPMENT ORGANIZATION
TO PAKISTAN - FEBRUARY 1970

by

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and
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INTRODUCTION

This report deals with a mission of the United Nations Industrial Development Organization to Pakistan from February 1st to February 28th, 1970. The mission was undertaken by:

Dr. Warner Gatz, Ph.D., Industrial Economist, Director of the Bremen Economic Research Institute, Bremen, Federal Republic of Germany, leader of the team, and

Mr. Stig Järllind, Industrial Engineer, Executive Director of the Trade Development Association, Stockholm, Sweden.

The terms of reference of the mission⁺⁺⁾ were, *inter alia*, the following:

"The team will work under the auspices of the Ministry of Industries and in co-operation with the Small Industries Corporations of West and East Pakistan and is expected to:

Review the policies and programmes for the development of small-scale industries in West and East Pakistan;

pinpoint obstacles to development and indicate critical areas where further assistance is required;

formulate projects for further United Nations assistance;

examine and make recommendations regarding a programme for the development of one industrial estate in West and one in East Pakistan."

The team tried as soon as possible to gain an idea on the situation of small industries in Pakistan and on the most recent tendencies of government policies in this field. The work primarily concentrated on contacts and interviews with government officials and staff members of West and East Pakistan Small Industries Corporations.

In addition, a certain number of industrial estates and small factories were visited, and all available documents on small industries in Pakistan were utilized to obtain the necessary information.

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- +) Mr. Järllind arrived in Pakistan on January 17th, 1970. The time until the arrival of the team leader he spent collecting statistics and other documents on the policies and programmes for the development of small industries in West and East Pakistan.
- ++) See job description PAK-54-A(515) of 31st March, 1969.

The following report sums up the findings of the mission. Part I deals with an overall review of the actual situation and the most recent policy developments for small industries in Pakistan, as well as with the more important obstacles to the development of these industries. In Part II suggestions are made on what could be done to overcome these obstacles and what kind of assistance could be provided by UNIDO.

The team would like to take this opportunity to thank all those who helped to provide the necessary information. Especially WPSIC's and EPSIC's assistance were most helpful. Without their contribution the team would not have been in a position to finish its work in the time available.

Part I: REVIEW OF POLICIES FOR THE DEVELOPMENT OF SMALL
INDUSTRIES IN PAKISTAN

1. General background

In Pakistan small industries have a long tradition.^{x)}

They are spread over the whole country and are principally established to meet the local demand for consumer goods. Small industries in West Pakistan are primarily concentrated in the central region of the province. Besides traditional food processing and manufacturing of textiles, footwear and weaving apparel, they utilize their outstanding engineering skills in the manufacture of cutlery, surgical instruments, musical instruments, sports goods, certain less sophisticated tools, etc. In East Pakistan, where the Dacca region contributes nearly 70 per cent of the total production of small industries, food processing and textile manufacturing continues to play the main role, but the importance of metal products manufacturing is increasing.

In this report, where only very rough guesses can be made on the economic implications of small industries for Pakistan's economy, an estimate of

x) The Pakistani definition of small industry has changed from time to time. According to the latest definition approved by Pakistan's National Economic Council, a "small industry" is a unit in which the investment in building and machinery does not exceed Rs. 5 lacs (500 000). The investment in land, the amount of working capital and other costs are not included in this limit (see: Investors Guide, EPSIC, Facilities and Services, The East Pakistan Small Industries Corporation, Page 2).

From time to time, the government has relaxed this limit in special individual cases, to allow somewhat larger units to receive assistance from the Small Industries Corporations. A further extension of the limit is under consideration. This extension seems, indeed, to be justified in order to take into account the rise of prices of capital goods as well as of building. But this might mean that the available limited funds for promoting small industries must be distributed to more units and that, consequently, the amount per unit would be smaller and promotion less efficient than before. Former definitions also mentioned the employment figures (not more than 50 workmen) or referred to the absence of mechanical motive power utilization in small industries (see: Survey of Small and Cottage Industries in the Province of East Pakistan, conducted by EISIC in 1962.63, Page 2).

the share of small industries in the GNP might be of particular interest. The order of magnitude of this share is 3-4 per cent. This and the fact that medium and large industries provide 8 per cent of the GNP (1968/69) make it quite obvious that Pakistan is still predominantly an agricultural country. Since independence, small industries have contributed a rising amount to the GNP, though economic development policy concentrated on medium and large sized industries as well as on agriculture. Growth of small industries was only a side effect of this policy. First of all, rising income and rising demand for consumer goods led to the establishment of many new small industrial units. Though certain tendencies to adopt modern techniques could not be overlooked, most of the small industries stuck to their traditional production methods. Obviously, this has changed since the Second Five Year Plan. Since then modernization, specialization and diversification of small industries, transformation of cottage industries into small factories seem to have gained more and more momentum.

2. Central Government

a) Central Government Planning and Priority List

The necessity of promoting small industries was already acknowledged in the First Five Year Plan of Pakistan, which provided three Small Industries Corporations. At present, there are two Corporations, one for West and one for East Pakistan (West Pakistan Small Industries Corporation - WPSIC, East Pakistan Small Industries Corporation - EPSIC). The Central Government is responsible for general economic planning, and thus, ultimately, determines the share of small industries in the general economic development.

Furthermore, the Central Government has given guidelines concerning the priorities to be observed, if public assistance is applied for by new industrial establishments (including small industries). The "Priority List of Industries"^{x)} which, in 1968, replaced the "Comprehensive Industrial Investment Schedule" of 1966 identifies the industries which,

^{x)} The Priority List of Industries of the Comprehensive Industrial Investment Schedule (1965-1970). Issued in June 1968. Ministry of Industries, Department of Investment Promotion and Supplies, Government of Pakistan.

according to the economic concept of the Central Government, should be given preferential treatment. The fundamental criteria of this Priority List are:

- (1) Balance of payments impact of new industrial establishments;
- (2) more emphasis on export orientation than on import saving;
- (3) better utilization of existing capacity;
- (4) reduction of interprovincial disparities.

Criteria (3) and (4) have to be adopted consistent with the objective of greater foreign exchange earning and saving. In this Priority List, treatment of small industries differs from that of large and medium industries. Certain industries have been omitted from the Priority List of small industries while the Priority List of large and medium industries makes provisions for them^x). Exclusive reservation of certain productions for small industries has been under consideration, but not adopted. The team has come to the conclusion that this device would not really have favourable impacts on Pakistan's economy, although in certain countries such a reservation has been used in order to stimulate small industries. Necessary competition would become impossible. Uneconomic use of scarce resources would be the result. There are enough other devices to foster small industries which avoid the unfavourable effects of such reservations.

b) Foreign trade and exchange controls

Foreign trade policy and foreign exchange regulations of the Central Government had a strong bearing on recent developments of small industries. Because of the bottleneck of foreign exchange, the Central Government applies very tight import and foreign exchange regulations.

Custom duties are extremely high. Consumer goods, not only capital goods, and also raw materials for small industries have to bear considerable tariff duties. The custom duty for capital goods amounts to at least 25 per cent. Additional taxes (sales tax, rehabilitation tax, etc.) lead to a total tax burden on imported capital goods of more than 50 per cent of the

x) See: Proposal for Financing Small Industries Projects in West Pakistan. For consideration by the International Bank for Reconstruction and Development, West Pakistan Small Industries Corporation, Chauburji, Lahore, June 1959, p.24-25 (cited in the following as "Proposal").

of price, taxes, and subsidies, it becomes extremely difficult for Pakistani industries, especially for small industries, to compete on international markets. Shortages for certain consumer goods along with more than 100 per cent surcharges, quantitative import restrictions, currency fluctuations and exchange controls, contribute to a considerable extent to the stagnation of domestic production. As a result of this stagnation, the general anti-competitive tendencies are very strong, and the price level of consumer goods is rather high. Meanwhile, more import substitution has become one of the priority goals of the Central Government, but as long as the present import and foreign exchange policy requires import substitution at the expense of the domestic buyers, who have to pay the high prices of domestic products instead of low priced imported goods, such a new policy will probably not be successful.

With regard to the foreign exchange controls exercised by the Central Government the anti-competitive influence is extremely strong, especially in certain sectors like agricultural products, but also on the import of raw materials. Export promotion is concerned the bonus system is not very efficient, but such a foreign exchange system which, of itself, is very difficult especially for a small entrepreneur to understand, might lead to miscalculation, misallocation of economic resources and, certainly, investment in the hands of entrepreneurs²²⁾ in particular. Furthermore, the existing exchange rate and exchange regulations have only a very short validity. Any change leads to such uncertainty which still

22) A Pakistani entrepreneur has the following possibilities to obtain an import licence:

(1) Cash licence, (2) Bonus licence, (3) Cash-cum-bonus licence. Under the cash licence the value of the licence is converted at the official exchange rate. Under the bonus licence, bonus vouchers with the face value equivalent to the face value of the licence have to be bought on the free market and to be surrendered to the competent authorities. Under the cash-cum-bonus licence a certain amount of the face value of the licence has to be paid according to the official exchange rate and the rest of the face value of the licence in bonus vouchers to be bought on the free market.

xx) See "Proposal", p. 26/27

industries have more difficulties to bear than medium and large industries.

c) Fiscal promotion and handicaps

As it is the case in most of the developing countries, also in Pakistan entrepreneurs are encouraged by tax holidays, depreciation allowances, carry forward of losses, and other fiscal incentives to establish new factories. The present fiscal promotion scheme was started in 1959. Though it should have originally expired at the end of the Second Five Year Plan, it was extended with some modifications for the duration of the Third Plan. To be eligible for a tax holiday the following conditions must be fulfilled:

- (1) The new industrial venture must be managed and controlled by a company incorporated in Pakistan, with a minimum subscribed capital of not less than Rs. 50 lakhs.
- (2) The industry must be primarily based on utilizing local materials;
- (3) The company must set aside 60 per cent of its net income during each year of the tax holiday to form an "investment fund" to be utilized for its expansion and development. The 60 per cent may also be invested directly in any industry listed in the Priority List (see p. 6) issued by the Ministry of Industries. Furthermore, the fund is utilized for the issue of bonus shares. In that case the tax deductible payable on bonus shares will be waived.

Tax holidays range from two to six years according to the geographical zone. New industrial ventures in less developed areas are normally offered a longer tax holiday than those in the more advanced areas. Despite this bias in favour of the less developed areas, entrepreneurs normally prefer the urban centres where they are offered a tax holiday of only two years (Lahore, Rawalpindi, Karachi, etc.)

Depreciation allowances to foster industrial development, inter alia, concentrate on:

- (1) Initial depreciation in addition to normal depreciation;
- (2) extra allowances for double shift and triple shift working.

Carry forward of losses is allowed for six years.

On export income the tax rebate is 30 per cent. Besides, manufactured goods for export are exempted from sales tax. Along with this, raw materials used in their manufacture are also exempted from sales tax.

To a certain degree, small industries are in a position to make use of these fiscal incentives. But, in discussions with the local entrepreneurs very often complained that

- (1) the fiscal promotion scheme favours medium and large industries;
- (2) small industries which were set up as proprietorship or partnership concerns are not eligible for any tax holiday;
- (3) small industries located in industrial estates do not qualify for any special fiscal favour.

Though, in fact, even small industries set up as proprietorship or partnership concerns enjoy certain tax privileges, the usual came to the conclusion that the government should not rely predominantly on tax incentives. Instead of these, devices were in line with a small industries promotion concept aimed primarily at assisting the smaller and frequently weaker units of small industries should be applied. Especially, preferential tax concessions to units joining the industrial estates should be avoided. Industrial estates should be so attractive in economic terms that no further privileges for industries making use of them are needed.

3. Provincial institutions and activities

a) Institutional framework

The Provincial Governments of West and East Pakistan avail themselves of a certain number of autonomous bodies to carry out the different development policies. Among these bodies the West Pakistan and the East Pakistan Small Industries Corporations are concerned with the execution of a comprehensive development programme for small

Industries. These Corporations, in the beginning were or less planned with private participation, and, therefore, to a certain degree independent from Provincial Government decisions, are now closely linked to the Provincial Governments and are more or less responsible for the executions of the Government policies. The two Corporations depend on the Commerce and Industries Department of the Provincial Governments.

Both Corporations work closely together with the Industrial Development Bank of Pakistan (IDBP). In the financing of small industries they also co-operate with private banks.

b) Main activities

The functions assigned to the two Small Industries Corporations include three principal categories:

- (1) the development of infrastructure for industry;
 - (2) the provision of technical assistance and services;
 - (3) the financing of private industry.
- (1) In the field of infrastructure the two Corporations so far have concentrated on the development of industrial estates (West Pakistan 9, East Pakistan 18, in different stages of completion). The estates provide small entrepreneurs with land, power, water and in certain cases also with sewerage^{x)}.

Obviously, the development of industrial estates has become the most promising and the most important activity of the Small Industries Corporations in West as well as in East Pakistan. The rather ambitious programmes worked out by these two Corporations, and partly already implemented, aim at developing industrial estates in all regions of West and East Pakistan. The backward areas are also included in this programme. The

x) The term "industrial estate" is normally used by Pakistani authorities for industrial areas, though in rare cases standard factory buildings are also provided.

Industrial Estates in Pakistan 1969

Location of industrial estates	Area in acres	Cost of projects Rs. in lacs ^{x)}	No. of plots	No. of plots allotted	No. of units under production	No. of units under construction
<u>West Pakistan</u>						
Bahawalpur	51.00	14.26	197	10	2	1
Fuairanwala	103.05	52.37	305	201	88	39
Gujrat	70.50	30.85	398	31	6	4
Lahore	9.75	5.57	33	2	-	2
Larkana	59.90	25.61	313	29	4	1
Peshawar	54.41	29.28	295	21	3	-
Quetta	43.24	16.13	104	21	5	1
Sialkot	98.00	46.59	330	70	32	18
Sukkur	110.50	34.11	301	49	13	3
Total	691.00	254.77	2 276	434	158	69
<u>East Pakistan</u>						
Barisal	122.91	37.14	403	70	10	15
Bogra	14.50	3.69	79	65	5	12
Coxilla	54.00	37.14	124	80	23	17
Cox's bazar	21.00	4.13	92	34	1	2
Dinajpur	33.42	7.13	199	64	4	3
Feni	24.04	9.35	133	35	4	4
Jessore	50.00	15.90	274	40	11	4
Khulna	42.00	17.53	234	140	6	21
Kushtia	12.49	4.53	79	7	5	1
Nyrensingh	10.31	6.86	60	40	1	2
Pabna	103.00	37.14	416	56	20	1
Rajbari	15.28	2.99	77	24	1	2
Rajshahi	105.72	37.14	327	75	22	2
Rangpur	20.68	3.25	82	44	1	5
Sholashahar } Kalurghat } Fouzderhat }	62.08	31.11	293	120	-	4
Swarupkati	13.74	6.28	147	48	17	-
Sylhet	24.09	8.33	136	92	7	20
Tongi	66.45	43.82	214	150	7	23
Total	834.33	314.41	3 369	1 134	150	142
Pakistan Total	1 435.93	569.18	5 645	1 618	308	211

x) 1 lac = 100,000

table on page 12 which gives some details on these data or makes it quite clear that the actual programme goes beyond the physical and financial possibilities of the corporations. So far the capacity of most of the estates already in existence has only been used to a very small extent. Only a few impressive performances, primarily in West Pakistan, demonstrate how advantageous concentration on a smaller number of industrial estates would be.

The team got the impression that the provision of standard factory buildings as a device to make industrial estates more attractive for small industries has not so far been used to any appreciable extent. Especially in such areas where additional incentives for the location of small industries are needed, a more flexible policy in this connection would certainly help to attract small industrial entrepreneurs.

All industrial estates are run by the corporations which are public bodies. Their employees are civil servants. So far no attempt has been made to run some of them on a private basis, or to encourage co-operation between the public and private owners. The team formed the impression that mobilisation of more private initiative and self-help by participation of private owners in the management of the industrial estates, would perhaps accelerate the use of idle capacities and avoid certain shortfalls of a public administration. This participation of private owners might also be in the form of co-operation.

- (2) Technical assistance is the principal activity of the "Small Industries Institute" of the West Pakistan Small Industries Corporation and the "Small Industry Advisory Service" (SIAS) of the East Pakistan Small Industries Corporation. Feasibility studies, selection of machinery, financial advice, etc., are provided by these services. In both wings technical assistance is also given by a certain number of pilot plants, service institutions in various fields, facility centres (especially for textiles, engineering, cutlery, wood working, etc.).

As far as the advisory service centres in the two Corporations are concerned, neither EPSIC's SIAS nor WPSIC's Small Industries Institute seem to be really in a position to meet the demand. SIAS as well as the Small Industries Institute of WPSIC need assistance from outside sources. Pilot factories, service and facility centres exist in abundance in both wings of Pakistan. It is obvious that the team could only visit a small number of these institutions. Quality of

staff and equipment varies from institution to institution. In pilot plants run, up until now, by EPSIC, that means by a public body, "disinvestment" has been started. Though, initially, public ownership and management might have been justified, the team now fully agrees with disinvestment which should even be accelerated. As a matter of fact, private interest could make these factories more efficient and diminish the financial burden of the corporation.

A certain concentration of fewer, but more efficient service institutions and facility centres also seems to be justified, though the team is fully aware how many problems are still to be solved in this field.

Assistance in marketing is quite insufficient. Neither the sales possibilities on the domestic markets nor on foreign markets are fully utilized. Supply lags behind domestic demand. Subcontracting, in other countries one of the most efficient devices to promote small industries, does not exist as yet in Pakistan. The device of Government purchasing of small industries produce also does not seem to be utilized in Pakistan or plays only an unimportant role. Marketing abroad, which needs very sophisticated promotional measures, is either neglected or supported in a very superficial way despite the urgency for a further increase of export earnings of small industries.

(3) Financing of private industry is based on loans from different sources:

(a) Provincial Government.

(b) Central Government in co-operation with the Industrial Development Bank of Pakistan (IDBP) utilizing Rupee capital from Government sources and bilateral foreign exchange credit available through the Government of Pakistan.

(c) Commercial Banks.

Obviously, the fundamental idea behind the activity of the two Corporations is to offer a fully integrated scheme of promotion to small industries. The main obstacles for the implementation of such an ambitious scheme are primarily connected with finance. For the Third Plan Period (1965-1970) an investment target of

x) transfer of government run factories to private entrepreneurs

Rs. 7.2 billion for the small industries sector was set. These funds had to be spent on certain identified industries according to the Priority List. Though it was difficult to fulfill the various targets set for these industries, no compensation by investments in other industries was allowed. Another limiting factor was the lack of foreign exchange to correspond to the foreign exchange content of these investments. There is no doubt that actual investments in small industries lag behind the needs of a population of 120 millions.

There are also procedural difficulties which could be surmounted without or almost without additional costs. These difficulties relate mainly to the procedures followed by IDBP. IDBP is predominantly engaged in financing large and medium industries accustomed to the rather sophisticated operations of advancing loans. Small industrial investors are very rarely in a position to do all this preliminary, lengthy, time-consuming and intricate work. Moreover, appraisal has to be done by two different agencies. The Small Industries Corporations and the Industrial Development Bank of Pakistan, or the Consortium of Private Banks have to come to a common approval despite the fact that the Small Industries Corporations provide guarantees for the small investor. Such a procedure might last a year or more and lead to frustration. In certain cases, even financial losses might be caused because it is really impossible to coordinate all the different activities connected with the establishment of a new industrial unit with the credit procedure.

Credit types and lines do not always correspond with the necessities of small industries. Other more suitable ones are not utilized. Hire purchase, which could diminish the creditor's risk, does not seem to play a significant role in the promotional system for small industries in Pakistan. Certain countries, which have provided foreign exchange credits for capital goods only accept credits of a minimum, too high for small industries, thus favouring medium and large industries at the expense of the small industries. Credits received from some socialist countries cannot always be used for small industries because these countries are rarely in a position to offer machinery for small

industries. Besides, these countries do not have agents in Pakistan.

4. Summary of obstacles to the development of small industries

The obstacles to the development of small industries in Pakistan may be divided into (a) general obstacles having a bearing on all sectors of the economy, but particularly harmful to the weaker ones, and (b) special obstacles by which primarily small industries are handicapped. The latter were dealt with in the preceding paragraphs.

The general obstacles are only mentioned here to give, as far as possible, a complete picture of the obstacles the Pakistan authorities have to overcome in their efforts for the development of small industries. Among these general obstacles are geographical handicaps (division of the country in West and East Pakistan and the long distances between the two wings, etc.), population handicaps (high growth-rate, high density, especially in East Pakistan, commitment to old traditions, different languages, a high rate of illiteracy), infrastructural shortfalls and economic handicaps (unbalanced structure of the economy, insufficient capital formation, lack of raw materials, insufficient foreign exchange earnings, etc.).

The following obstacles have a special bearing on small industries in Pakistan.^{x)}

A. Central Government Policy

1. Limits for various small industries set up by general economic planning and limited investment funds.
2. Priority List: Omission of certain industries in fields most attractive for small industries^{xx)}.

x) The enumeration of a special obstacle does not mean that the team believes special measures for the removal of each obstacle ought to be applied, as will be pointed out later on (e.g.) insufficient fiscal protection should be compensated by other devices (favourable conditions in industrial estates concerning rents, credits, etc.).

xx) e.g. cold storage, fruit and vegetable processing, light engineering workshops (service and repair), cycle tyres and tubes, etc.

3. Fiscal measures:

- a) No tax holidays for proprietorship and partnership concerns;
- b) insufficient tax holidays for small industries set up as companies;
- c) procedural difficulties for small industries to obtain refunds;

4. Foreign exchange controls, import licensing:

- a) Insufficient licenses for imports of raw materials and capital goods;
- b) lack of assistance in import licensing;
- c) procedural pitfalls.

5. Customs duties:

- a) High tariffs for industrial equipment and certain raw materials;
- b) insufficient rebate facilities by which especially small industries are hit.

B. Provincial level

1. Institutional framework:

- a) Too much centralization;
- b) insufficient co-operation between the Small Industries Corporations and other promotional organizations (Chambers of Commerce, etc.);
- c) lack of qualified staff;
- d) lack of mobility (no mobile units, especially designed to provide counselling services for remote rural areas).

2. Industrial Estates:

- a) Too ambitious programmes - especially in East Pakistan;
- b) unfavourable location of certain estates - consequence of the programme for developing backward areas of the country;
- c) insufficient incentives for new entrepreneurs to apply for vacant plots;
- d) lack of standard factories in estates in remote locations;
- e) procedural difficulties.

3. Small Industries advisory services:

- a) bottlenecks in qualified staff;
- b) insufficiency of technical and management advisory services;
- c) deficiencies concerning marketing advice (lacks in market research, quality control and standardisation, neglect of subcontracting, insufficient export promotion).

4. Service institutions, facility centres, pilot and demonstration plants:

- a) deficiencies caused by scattering available staff and other resources;
- b) insufficient demonstration effects of pilot and demonstration plants (for the rest see 3).

5. Financial handicaps:

- a) Lack of funds both in local currency and for foreign exchange;
- b) credit procedures too time-consuming;
- c) excessive formalities;
- d) inadequate credit rate and additional security of small industrial entrepreneurs;
- e) credit conditions do not suit small industries;
- f) duplication of work between IBUP and the Small Industries Corporation;
- g) lack of private initiative to make use of the existing credit facilities;
- h) insufficient co-operation of small industries in the exploitation of own financial resources.
- i) insufficient linking up of private credit institutions and technical assistance.

6. Public relations, propaganda:

- a) deficiencies concerning propaganda (advertisements, campaigns, pamphlets, etc.);
- b) too little care for a better image of small industries and their economic importance for the country (public relations work).

Part II: Recommendations

1. General Recommendations

a) Central Government level

- (1) The definition of small industries should be adjusted to recent developments of the economic situation. Taking into account the increase of building and machinery costs and to provide further assistance for small industries having exceeded the actual limit of Rs. 5 lacs (invested in building and machinery), this limit should be extended to Rs. 7,5 lacs. For small industries, the capacities of which are designed to more than 50 per cent for the production of export goods or of parts and components (as sub-contractors) for large industries, the limit should be extended to Rs. 10,0 lacs. A further extension should be envisaged, if prices for building and capital goods continue to rise.
- (2) The Central Government should use the opportunity of launching the Fourth Five Year Plan to provide the small industries sector with the required higher investment allocations and to modify the administrative procedures to such an extent that small industrial entrepreneurs can make full use of the allocations. A considerably higher allocation would also be necessary to meet the equity cost in Rupees of pending loans for the financing of imports of capital goods for small industries (International Bank for Reconstruction and Development and the Asian Development Bank).
- (3) The revision of the investment programme should be combined with a revision of the Priority List. A number of industries actually not mentioned in the Priority List for small industries should be included. In addition, it should be carefully considered whether the investment targets for certain small industries ought not to be made interchangeable with those for other small industries. This might lead to an investment pattern corresponding better with the needs of the national situation.

- (4) As far as possible, the Central Government should try to liberalize the existing import for small-scale industries and assure its stability.
- (a) Raw material imports should be liberalized to avoid inconsistencies between the import policy system and the industrialization concept of the Government. Bonus payments should preferably be given for finished products.
- (b) To facilitate and accelerate import licensing for small industries, the Small Industries Corporations should be provided with bulk licenses for distribution among small industrial units.
- (c) The tariff duty system should be reviewed in order to remove inconsistencies similar to those mentioned under (a). As far as protection of domestic industries is concerned, prohibitive tariff duties should be avoided to preserve at least a certain amount of competition from abroad. Raw materials should principally be imported duty-free. Capital goods should normally be taxed only if this seems to be necessary in favour of existing domestic industries. Such structural changes of the tariff system would decisively improve the competitive position of small industries in Pakistan. A sensible lowering of the whole tariff level also seems to be justified because, on account of procedural difficulties, which especially small industries are not in a position to cope with, possible rebates on custom duties very often are not claimed by small industrial entrepreneurs. For the time being and until the tariff has been revised, the procedural difficulties should at least be diminished by giving the Small Industries Corporations full authority to issue the certificates for claiming rebates on custom duties, which is now vested in the Industries Department of the Government to whom the Small Industries Corporations report.

- (5) In certain cases tax incentives might be a rather efficient device to stimulate industrialization, and tax privileges for small industrialists should by no means be neglected. Perhaps, tax holidays might be extended to property and home taxes. However, the team does not believe that regional discrimination in taxation (longer tax holidays for remote areas), as at present applied, is a very efficient scheme. The team feels that differentiation in form of location should be applied selectively and more intensively. The team also rejects special tax privileges for small industrialists joining industrial estates. Participation in an industrial estate should be economically so advantageous for small industries that the decision to participate no longer depends on tax incentives. For the rest, the promotion of small industries should concentrate less on tax incentives and more on those devices which correspond with the economic situation of small industrialists and their typical mentality.

b) Provincial level

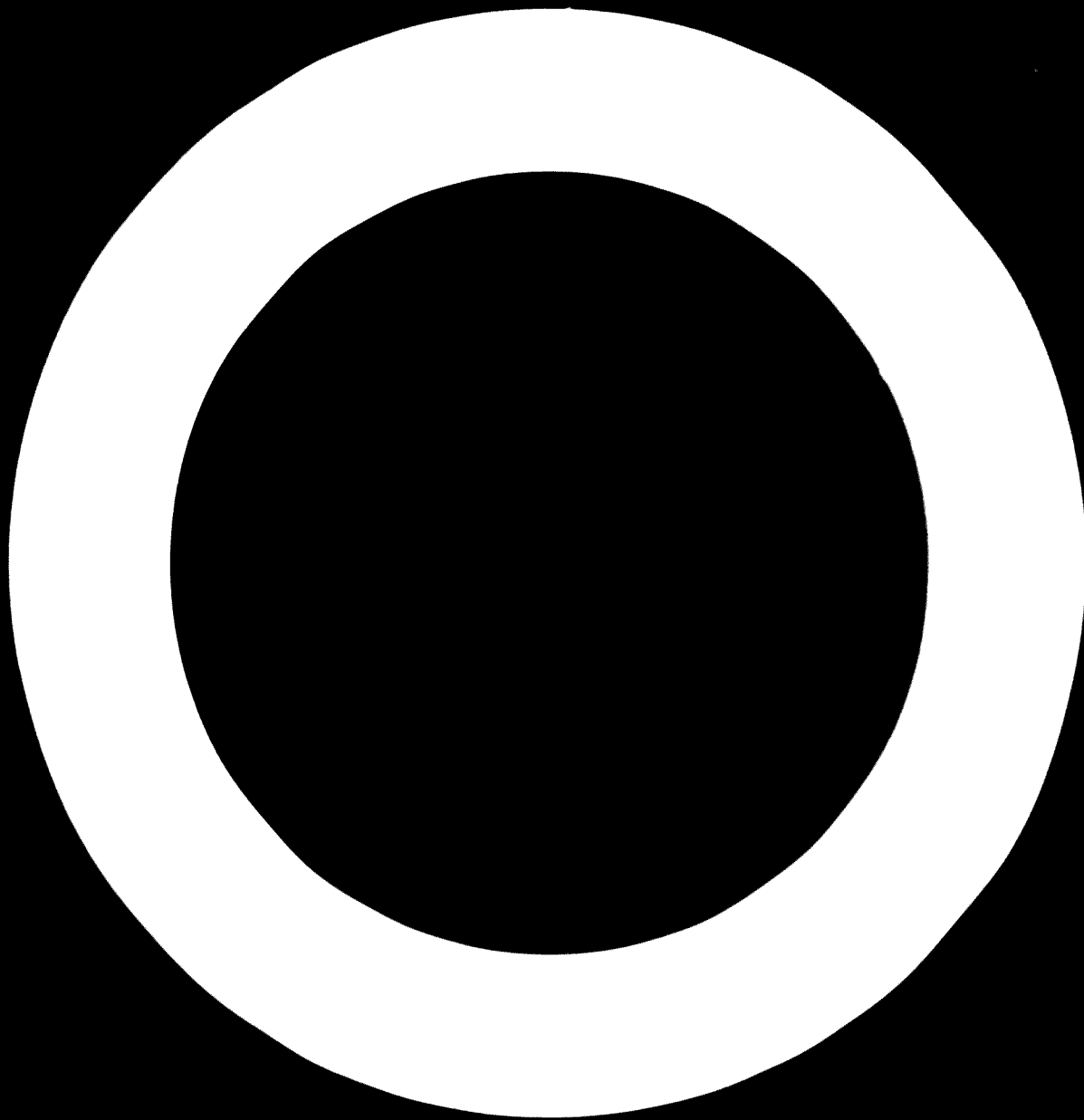
- (6) The imminent provincial bifurcation of West Pakistan should be used to decentralise, as far as possible, the assistance programme for small industries. It should be considered whether the mobility of the technical advisory services could not be improved by the creation of mobile units in order to supply the remote areas with services they need.
- (7) The industrial estates programme should concentrate on such estates as offer a real chance to be used within a foreseeable period of time. The team believes that, for the time being, EPSIC should concentrate its efforts on the industrial estates^{x)} mentioned in the proposal submitted to the International Bank for Reconstruction and Development. The inclusion of more estates in its present programme might exceed its limited resources. A similar concentration does not seem necessary for EPSIC because of the very much lower number of estates so far established in West Pakistan. But even here additional

x) Fungi, Chittagong, Khulna, Bogra, Comilla, Sylhet.

industrial estates should not be established within the next few years, and a priority should be given to those estates, the location of which offers certain advantages nearly unused until now (e.g. Gujrat, Peshawar).

- (8) The team thinks that there should be more flexibility in what facilities the industrial estates offer. In remote areas, which are not very attractive for small industries, industrial estates should offer maximum facilities including standardized factory buildings which so far have been offered very rarely only. Industrial estates in more favourable locations, however, do not need to offer the whole range of facilities, but only improved plots of land and loans for buildings and machinery.
- (9) Within the framework of urban planning industrial location policy should favour the location of small industries near medium and large industries, in order to facilitate sub-contracting. In certain circumstances even medium industries should be allowed to join industrial estates, provided there is enough space.
- (10) When selecting entrepreneurs from among the applicants for plots and credits, the professional qualification of the applicants should be the decisive criteria, though a certain amount of risk capital, provided by the applicants, should also be an indispensable prerequisite. But, more flexibility concerning the minimum initial downpayment seems to be necessary.
- (11) So far all Pakistani industrial estates are run by the two Small Industries Corporations. Their employees are civil servants. The team thinks that participation of private entrepreneurs in the management of industrial estates could be advantageous. Though, at the moment, there is no possibility for estates being operated only by private independent profit-making entrepreneurs, it should be carefully considered whether participation of private entrepreneurs should be encouraged on the basis of co-operatives or associations of the participating small industries.

- (12) (a) The central advisory services should be reviewed and more closely adjusted to the needs of the small industries. Advisory services in marketing, quality control and standardization, sub-contracting and export promotion (goods specifically made by the small industries sponsored by WPSIC and EPSIC) in particular should be intensified. WPSIC's Small Industries Institute urgently needs realignment; both WPSIC's Small Industries Institute and EPSIC's SIAI should be provided with additional qualified staff in order to amplify and ameliorate their advisory and training activities.
- (b) Concerning training of extension officials of the Small Industries Corporations the team thinks that the training courses that have already been started within WPSIC should be further expanded. WPSIC should also start such training courses for its officials.



- (13) The existing network of service institutions, facility centres, pilot and demonstration plants should be reviewed. Inefficient units should be closed and the available resources concentrated as far as possible on the more efficient ones. The team agrees with the "disinvestment" programme for pilot and demonstration plants in East Pakistan. Where disinvestment is not possible, the units concerned should at least work on a self-sufficient basis.
- (14) The team thinks that until now the sales possibilities for small industries, offered by the domestic market and abroad, are only made use of to a very limited extent. One reason for this shortfall is the lack of supply possibilities. However, even where enough supplies exist, small industries do not fully utilize their sales possibilities. To make better use of them the small industries corporations should concentrate more on rendering advice for marketing, especially for export promotion. Subcontracting has so far been neglected. In this field, the small industries corporations should try to function as intermediaries (clearing houses) between medium and large scale industries on one side and small-scale industries on the other side. Government purchases, another device not yet utilized in Pakistan to foster small industries, should be applied in the same way. In this connection, the Small Industries Corporations should negotiate with Government agencies in order that realistic production programmes are prepared for implementation by the small industries.
- (15) Obviously, the main bottleneck for further development of small industries is finance, especially the foreign exchange content of new projects. This problem might seem solved for the next few years by the forthcoming international loans. But these funds will only partly satisfy the capital needs for further development of small industries. Additional funds will be necessary, and every effort should be made to make more funds available in order to utilize the already existing physical capacities of the industrial estates to their full extent.

- (16) To make the best use of their own financial means the Small Industries Corporations should consider whether a scheme could be established by which, on a co-operative basis, small industrial units needing additional finance could be provided with temporarily idle money from other small industrial units.
- (17) Credit procedures for small industries should be simplified. The number of forms should be diminished. In order to avoid double work, the position of the Small Industries Corporations should be strengthened. They should be responsible for the appraisal of the projects' feasibility. IDBP should concentrate on the administrative issue of loans for small industries and for the technical and commercial evaluation rely on the appraisal of the Small Industries Corporations. It should also be considered, whether even the technical details of credits up to a certain amount could be left to the Small Industries Corporations, thus leaving to IDBP only the settlement of larger credits. This would enable the Small Industries Corporations to strengthen the links between extension services and financial assistance. In this connection, hire-purchase contracts should play an important role in facilitating the modernization of small-scale industries by supply of improved machinery and equipment. However, this system would involve initially an administrative and financial burden on the Corporations.
- (18) Small Industries Corporations should engage more in public relations work. Attractive pamphlets, booklets providing necessary information, etc., should be prepared. Modern means of communication such as Radio and TV should be used in order to create in the public a better image of small industries and their importance for the economy of the country.

2. Assistance of UNIDO

Many, but not all, of the aforementioned recommendations might be realised without assistance from abroad and from international organisations by the government authorities and the institutions themselves, which are responsible for the policy for development of small industries. UNIDO, which is primarily concerned with technical assistance, could, however, offer its services to implement recommendations (7) and (12)-(14).

- (1) According to the terms of reference, the team was asked to prepare a programme for the development of one industrial estate in West and one industrial estate in East Pakistan. The point was carefully discussed with the two Small Industries Corporations. It was agreed that neither in West nor in East Pakistan a new industrial estate should be established. UNIDO's assistance should concentrate on the existing ones. Out of the industrial estates in West Pakistan Peshawar was proposed by WPSIC. Having visited this industrial estate on the request of WPSIC the team fully agrees with WPSIC that this industrial estate should be selected. In co-operation with WPSIC a detailed programme for UNIDO assistance to this estate was worked out. UNIDO would have to provide the services of one industrial economist and one industrial engineer and two fellowships (duration 6 month each). The experts would be needed for two years. All further details are described in Annex I.
- (2) As was pointed out in recommendation (1), the Small Industries Institute of WPSIC urgently needs reorganization and additional technical assistance to fulfill its objectives. In this context, a programme was prepared, which might be implemented with the technical assistance of UNIDO. The team recommends that the services of one industrial economist and one industrial engineer (duration two years each) and two fellowships (12 months each) are provided. For further details see Annex II.
- (3) Instead of technical assistance to one industrial estate to be selected out of the existing 18 in East Pakistan, EPSIC's management declared itself more interested in the participation of UNIDO in a comprehensive programme for small industries promotion. Within its framework the most outstanding item is an industrial estate programme to be implemented during the Fourth Plan period with a World Bank loan, which will probably receive final approval within the next few weeks. Therefore, the team did not further insist on the proposal of only one industrial estate for UNIDO's technical assistance. Obviously, technical assistance of UNIDO covering the whole range of EPSIC's activities and backed by a World Bank loan would be much more efficient than

a programme for one estate only. It has to be taken well into account that technical assistance for small industries is still more urgently needed in East Pakistan than in West Pakistan. Thus, the recommended considerable amount of technical assistance by UNIDO, which will not be provided by the World Bank, seems to be justified. UNIDO would fill a gap.

EPSIC put forward a comprehensive list of experts needed. The team thinks that the following long term (2 years - with possibility of extension) experts should be provided:

- (1) Industrial economist;
- (2) industrial engineer;
- (3) marketing expert;
- (4) food processing expert;
- (5) rice processing expert.

Short term (6-9 months) experts would be needed for the following industries:

- (1) Rice bran oil and solvent extraction;
- (2) agricultural implements manufactures;
- (3) leather tanning and finishing;
- (4) leather footwear;
- (5) leather goods;
- (6) ceramics;
- (7) specialised textiles (warp knitting and circular knitting);
- (8) metal working.

In addition, 10 fellowships (6-12 months) are recommended. The aforementioned experts would, at the same time, assist SIAS, which is short of qualified staff in various fields.

A rough estimate of funds needed for experts and fellowships for this Technical Assistance Programme for the Development of Small Industries in East Pakistan amounts to US \$ 450,000 over a period of 2 years. This project might consequently become a UN Special Fund project. The team recommends to send an expert (industrial engineer) to EPSIC for two months to work out a formal government request which should also cover a certain amount of machinery for demonstration purposes. For further details of this programme see Annex III.

TECHNICAL ASSISTANCE PROGRAMME FOR THE DEVELOPMENT OF THE
INDUSTRIAL ESTATE AT PESHAWAR

Background

The Peshawar district is situated to the north of West Pakistan and lies between longitudes $71^{\circ}25'$ and $72^{\circ}15'$ east of latitudes $33^{\circ}00'$ and $33^{\circ}25'$ north. Total area of the district is 2,637 sq.miles. It is surrounded on all sides by the hills except to the east. Through the district flows the Kabul river in a south-easterly direction.

Average temperature in summer is 89.2°F , in winter 57.3°F and 64.3°F in spring. The average rain fall is about 16.5" and the humidity is highest in the winter and monsoon periods, and least in May and June.

The total population of the Peshawar district, according to 1961 census, was 1214000 out of which 68.5 % was the rural population. The total population of the Peshawar city, however, was 217 000. Out of 121 000 of male population in the district, about 500 000 was in the age group between 19-59 years. The average density of population has been worked out to be 737 persons per sq.mile. Literacy in 1961 was 13.2 % of total population.

Peshawar is the most developed town in the former North West Frontier Province. It lies on the traditional trade route to Central Asia on which Kabul, the capital of Afghanistan, is also situated. Peshawar is the main market for consumer goods which are brought mainly from other parts of West Pakistan, and also smuggled from Afghanistan. It is fairly backward in respect of industrial development excepting about 3 or 10 large/medium units of paper and board, sugar, cigarettes, chemical and pharmaceutical and fruit canning industries which are situated about 10-20 miles away from the city.

The supply of electricity is from the Marsak Hydro Power Station which is about 15 miles from Peshawar. Irrigation is mainly by the three perennial canals, seasonal streams and rivers tributaries.

Justification

Selection of Peshawar Estate for further assistance is based on the following factors:

- (1) Infrastructure facilities like roads, railway, electricity, telephone, water, and drainage are adequately provided.
- (2) Peshawar provides good markets for consumer goods, traditional handicrafts (because of its tourists attraction), automobile parts, agricultural implements, etc. It is also the main centre for distribution of goods to other parts of the province.
- (3) An Engineering College and a Polytechnic Institute are located in Peshawar. They bring out trained and skilled manpower for industries and other fields and can help filling up requirements of the industrial estate. Area Regional Laboratories, which undertake research for developing new products for commercial exploitation, can also render useful technical assistance to the industrial estate.
- (4) The availability of abundant and cheap labour will ensure economical production, especially in those industries which are labour intensive or even moderately capital intensive.
- (5) As Peshawar lies close to Afghanistan, it definitely enjoys a comparative transport cost advantage over other areas for the purpose of exports of goods to Afghanistan.
- (6) There is a well developed cottage industry in metal and wood working, agricultural implements, shoes including embroidered shoes, ceramics, etc. which have possibilities of further development if financial and technical facilities are provided. Besides skills which have already been developed will be put to good use for further development of these and other industries.

Existing stage of development of the estate

- (1) Size: 54.4 acres
- (2) Actual Capital Expenditure: Rs. 3 067 000
- (3) Facilities: Administration and amenity buildings
Roads
Water supply system
Sewerage system
Planned plots of the following dimensions:
76 of 10 000 sq. ft. each
91 of 5 000 sq. ft. each
128 of 3 000 sq. ft. each

(4) Number of plots allotted: 22

(5) Units completed/in production:

Small arms manufacturing	2
Surgical cotton manufacturing	1
Fruits & vegetables processing	1
Wheat milling	1
Leather shoes manufacturing	1
Wood working	1
Marble chips & powder manufacturing	1
Total	<u>8</u>

(6) Units being finalized or pending:

Wheat milling	1
Drugs & pharmaceutical	1
Textile shuttles	1
Steel doors, windows, almirahs, etc.	1
Bicycles parts manufacturing	1
Carpet & rugs manufacturing	1
Total	<u>6</u>

(7) Foreign and local credits utilized or committed (in rupees):

	<u>Utilized</u>	<u>Committed</u>	<u>Total</u>
Foreign	157 000	1 457 000	1 654 000
Local	-	267 000	267 000
Total	<u>157 000</u>	<u>1 764 000</u>	<u>1 921 000</u>

(8) Other information:

The estate is considered as one of the most important development projects of North Western Frontier Province, and adequate funds are likely to be provided during the 4th Plan period for its development in the public sector programme.

Financial assistance in foreign currency to private investors will be met from the existing West German credit and by the expected World Bank credit. No foreign credit, however, has been specifically allocated for the development of the estate at present.

(9) Types of industries likely to be established during the 4th Plan period (1970-75)

About 125 industrial units of the following types are likely to be established in the estate during the 4th Plan period:

Food preservation; dry farming; steel & pipe/iron
millings; mineral processing; textile spinning/weaving
finishing; carpets & rugs; ice & cold storage; specialized
metallic machinery; polywood garments; footwear; wood
workings; paper converting & packaging/printing; leather/rubber
goods manufacturing; distilleries; laundry & soap
manufacturing; building articles & cement products; ceramics;
springing of books & ornaments, cutlery; toys all sorts;
the following industries & repair industries.

Other projects and the of which financed and reassured by IFC
in financial aid:

current projects	7
completed projects (development and social projects)	7
approved projects	1
total projects	15
new working capital centre (to be established in 1970-71), which will be used to provide technical assistance and to act as a centre for the development of this centre.	
number of units given long term credits:	4
number of units given short term credits:	50
number of units registered:	7 156

INDUSTRIAL DEVELOPMENT IN THE 1970s

The establishment of the centre will give a boost to the industrial
development of the region by creating employment for 2 thousand persons,
and generating considerable income effects. A portion of the increased
income will be reinvested back into the industrial stream for continuing
the process of industrialization. The increased income will stimulate
demand for consumer products which in turn will induce more investment,
greater production, higher income, more savings which will again be
reinvested. In this way through the multiplier effect the economic
activity will be stimulated to the limit.

Technical skills will be developed. Some of the engineers and technicians
who are not from the local village and technical institutions will be
trained and further education will be provided to local population
to provide technical training.

As the industries, there will be more competition which will raise
production efficiency and product standards. The standard products

will be produced, the market can conveniently export to Afghanistan and even to Russia through the traditional route which will bring in badly needed foreign exchange.

When the economy of the region improves, the government revenues will also increase in which case more funds will be released for launching programmes of mineral and forest development and also for providing greater and improved tourist facilities in the region for attracting foreign tourists and thus earn more foreign exchange.

Type and duration of assistance

One reason why the estate at Peshawar could not be developed was the lack of experienced and trained technical personnel. Numerous difficulties were encountered to find out feasible line of investment and also in carrying out feasibility studies and projects formulation work. Therefore, assistance from UNIDO would be very effective and fruitful to fill in the gap caused in the requirements of technical personnel due to non availability of local technically skilled and qualified experts. In this regard the services of an industrial economist and an industrial engineer are needed.

Industrial economist:

The expert will, in co-operation with his local counterpart, guide and supervise the work relating to:

- (1) Preparation of feasibility studies;
- (2) project appraisal and project formulation;
- (3) estimate the type and number of new industries to be established;
- (4) advise on the organization of the industrial estate authority and the management of the industrial estate;
- (5) suggest improvement on the existing procedure and system of financing and processing applications;
- (6) make recommendations on the need and type of training of personnel inside and outside Pakistan;
- (7) train his counterpart to enable him to take up the assignment previously carried by the expert;
- (8) make recommendations for further United Nations assistance which might be needed to carry out the project.

He will be a fully qualified industrial economist with a degree in industrial economics having a high level practical experience and knowledge in the planning and establishment of industrial estates and administration of development schemes for small industries. The expert should also have wide practical experience in conducting investigation and surveys on the problems of small industries in developing countries. He should be familiar with the administrative, financial and operational procedure of various types of organizations and corporations, private or public, responsible for the planning, construction and operation of industrial estates.

The expert will be needed initially for a period of two years. After two years his work and the level of capability of his counterpart will be evaluated, and if considered necessary, his term may be extended for a further period of one year.

Industrial engineer:

The industrial engineer will look after the technical aspects of the work. In this context he will have to

- (1) assist in the preparation of feasibility studies, project appraisal, project formulation, and the selection of new industries;
- (2) contribute to the technical operation of the industrial estates;
- (3) consider the need for standard facilities and common service facilities;
- (4) give technical assistance to industrial units joining the industrial estates;
- (5) provide technical information to prospective entrepreneurs;
- (6) train his counterpart.

He should have a degree in industrial engineering and must possess a high level and wide range experience in his field. Special experience in food processing would be highly appreciated.

The industrial engineer will be needed for a period of two years with possibility of extension.

Fellowships:

For training abroad of Pakistani counterparts of the aforementioned experts two fellowships (duration 6 months, to be spent in industrial estates in European countries) would be needed.

**TECHNICAL ASSISTANCE PROGRAMME FOR THE DEVELOPMENT OF A
.....
SMALL INDUSTRIES ADVISORY SERVICE OF WPSIC
.....**

Background

Small Industries Institute, a project of WPSIC, was established in 1964 to provide technical, economic and management assistance to small industrialists and the IDA aided projects viz. two estates, Gujranwala and Sialkot and three Service Centres of Light Engineering, Cutlery and Sports Goods located at Gujranwala, Huzarabad and Sialkot respectively. It was proposed to work in close co-operation with the aforementioned projects in an integrated framework to augment the process of planned development in small industries sector.

The Institute made sizeable contributions towards fulfilling its objective as it carried out economic and market research studies for providing assistance to project appraisal work. It also provided architectural service to the private investors who were to establish industrial units on the estates at Gujranwala and Sialkot. However, for one reason or another, the Institute could not contribute much towards fulfilling its obligations to provide consultancy and advisory service to the private sector and to WPSIC projects in the public sector. After about two years its working continued to gradually move away from the achievement of the objective. One of the reasons for this was that as the estates at Gujranwala and Sialkot were rapidly and sufficiently colonized, the flow of assignments to the Institute continued to diminish. The situation, therefore, required reframing of the objectives. But concrete efforts could not be made for reframing the objectives as sufficient funds were not available for bringing about a practical and workable reorganization; and also the services of experts were not available. However, it has now been decided to reorganize the Institute for providing the following assistance to WPSIC and Private Sectors:

- 1) Appraisal of projects to be established inside and outside the estates;
- 2) technical, management and costing consultancy service to projects established by WPSIC in public sector;

- 3) undertake research to find out feasible lines of investment to assist the Government in framing a workable investment schedule for the development of small industries;
- 4) provide advisory service to the intending entrepreneurs by affording guidance in selecting feasible projects and assistance in formulation of investment proposals;
- 5) develop effective training programmes for the technical personnel of MPSIC and to provide facilities of training in industrial control and management, production planning and marketing, etc., to the small industrialists.

Need and area of assistance

It seems to be possible to undertake the appraisal work effectively and in accordance with the current requirements of Industrial Development Bank of Pakistan. This Institute has already gained sufficient experience in this field.

It will also be possible to develop training programmes for providing training to MPSIC technical staff and small industrialists. The programme will be implemented by making use of the services of the existing technical and specialists staff and by hiring the services of management experts from local agencies.

For reasons outlined below it may not be possible to develop an effective advisory service programme for the promotion of small industries without assistance from outside:

- 1) There is a paucity of experienced and capable specialists available to Pakistan; the few who are available demand very high salaries which is beyond financial resources of the Institute;
- 2) funds which are made available by the Government are not sufficient to meet the cost of research and trainings;
- 3) training facilities for consultants are either inadequate or not of a high standard; besides there are very few organizations which provide management, economic and technical consultancy services; obviously, technical know-how in this field is still under-developed;

- 4) existing level of management in Pakistan is not yet alive to the need for developing and making use of consultancy services; particularly the authorities in public sector are not well prepared and equipped to meet the requirement of an effective consultancy organization.

Pakistan in the last few years has made enormous progress in industrial development, but unfortunately this progress was not as substantial in the small industries sector. One of the reasons for this is that majority of the small industrialists is conservative and illiterate and employ outdated methods of production and marketing techniques. The production efficiency is fairly low because a small entrepreneur is not in a position to hire the expensive services of private consultants. Moreover, he is not aware of the modern developments in management and marketing techniques, which, when applied sensibly, can reduce costs and increase sales and profits.

In the last few years the composition of Pakistani exports have changed significantly from primary commodities to manufactured goods. But still a long way has to be gone before the manufactured goods can compete in international markets in quality and price.

Pakistan's industrial capacity is already not being fully utilized because of restricted availability of imported raw materials. To make the best use of available resources production efficiency and quality of manufactured goods for export must be improved. To achieve this end, small industries can play an important role, if besides other factors, the industrialists are guided and advised on modern methods of production, management control and marketing. MPSIC at present is not in a position to contribute substantially in this area because of limited resources.

One of the functions of this Institute is to select feasible lines of investment for guiding the private investors and also assist the Government in formulating a workable investment schedule. For organizing, guiding and supervising this programme of research and investigations, UNIDO assistance will be needed for better and effective implementation. This will enable MPSIC to divert investable funds available in private sector into profitable industrial enterprises and also assist the Central Government in framing a workable investment schedule.

Type and duration of assistance

The services of one industrial economist and one industrial engineer will be needed for two years (with possibility of extension).

Industrial Economist

The expert will work in the Small Industries Institute and advise this institute on the formulation and implementation of a programme of development of small industries. In co-operation with the industrial engineer, he will assist in:

- 1) Carrying out surveys of prospects of small-scale industry development in various localities, taking into account the availability of local resources, skills and other factors, market opportunities and trends of demand, and possibilities of subcontracting between large and small industries;
- 2) stimulating local entrepreneurship, by providing guidance on industrial opportunities, carrying out feasibility and pre-investment studies, facilitating credit, assisting in formalities and steps leading to the establishment of industrial undertakings and disseminating economic, technical and legal information relating to the development of small-scale industries;
- 3) organizing and setting up an industrial extension service providing technical and managerial counselling and assistance to small entrepreneurs at all stages of establishment and operation;
- 4) drawing up programmes of financial assistance at liberal conditions, including supervised credit, supply of machinery on hire-purchase, etc.;
- 5) training counterpart personnel;
- 6) advising on further assistance which might be requested from the United Nations.

A highly qualified industrial economist, with knowledge and experience in formulating policies and programmes for the development of small scale industries in the developing countries. Experience in the organization and operation of promotion agencies and in the establishment of industrial estates would be desirable.

Industrial Engineer

The expert will work in the Small Industries Institute and advise MPSIC on the formulation and implementation of a programme of development of small industries^{es} drawn up with the assistance of an industrial economist. In particular, he will assist in:

- 1) Drawing up a list of small-scale industries whose establishment is feasible and desirable in different parts of the country and determining their priorities, taking into account the resources and needs of different areas, and the various measures of encouragement and support provided in programmes;
- 2) carrying out detailed feasibility and pre-investment studies on the priority industries, preparing bankable projects for the establishment of new small-scale industries and the expansion and modernization of existing ones and providing technical and economic information to prospective entrepreneurs;
- 3) setting up an industrial extension service and providing advice and assistance to small industrialists throughout all stages of establishment and functioning - installation, operation, maintenance and repair of equipment, improvement of production processes, quality control, accounting and cost accounting, marketing and so on;
- 4) contributing to the operation of industrial estates and, especially, to the establishment and operation of common service facilities, such as forge, foundry, mechanical workshop, electroplating workshop, maintenance workshop, and so on, and to the organization of a technical assistance and information service, as part of the industrial estate;
- 5) training counterpart personnel.

He should have thorough theoretical and practical knowledge and considerable experience in small-scale industries of different types and be familiar with feasibility studies and methods of operation. Experience in services and facilities for small-scale industries as well as experience in metal working and/or agricultural implements would be desirable.

Fellowships

For training abroad of Pakistani counterparts of the aforementioned experts two fellowships (duration each 12 months) would be needed. This training programme would be most beneficial if educational and training

facilities in industrial economics and industrial engineering were provided along with study tours to different Advisory and Research Institutions working in different countries for small industries. It may be mentioned that Pakistani Universities do not offer programmes in Industrial Economics.

**TECHNICAL ASSISTANCE PROGRAMME FOR THE DEVELOPMENT OF SMALL
INDUSTRIES IN EAST PAKISTAN**

Background

In order to develop small industry to achieve the objective of balanced industrial development and rapid growth of the economy, the East Pakistan Small Industries Corporation was created by a statutory act of the Provincial Assembly in 1957. Operation started in 1958. Initially the Corporation was more or less engaged in commercial activities viz. promoting and supplying of machinery and raw material to existing small industries and extending credit facilities out of its share capital and other funds received from Government for the purpose.

With the commencement of the Second Five Year National Plan it has been given the responsibilities of creating infrastructural and institutional facilities for small industries and to promote the growth and modernization of private sector small industries of the Province. Financing programme of private sector industries have also been expanded.

During the Second and Third Five Year Plans the Corporation has taken up the following promotional and commercial projects:

Small Industries Estate Programmes	18
Small Industrial Advisory Service Programmes	1
Sericulture and Silk Project	18
Salt Project	4
Service and Facility Centres	14
Model Production units and Promotional Projects	30
Joint Venture Projects	0
	<hr/>
	94

EPSIC's major promotional programme, however, has been the establishment of 18 Industrial Estates where all the infrastructural facilities like developed land, water, power, communication facilities, etc., are available to small entrepreneurs throughout the Province, and creation of Small Industries Advisory Service to assist the entrepreneurs in selection of viable product line, preparation of investment Briefs, selection of appropriate machinery, installation and operation and their business

management. Until December, 1968, SIAS has extended counselling service to more than 700 parties, supplied business information to more than 2 000 parties published 70 Investment Briefs and trained more than 200 personnel).

The Corporation has a three-type loan operation programme for financing of small industry. The first is a lending programme financed from EPSIC's own fund utilizing Rs. 5 750 000 of capital furnished by the provincial government and from which loans are made in local currency only. The second programme is carried out jointly by EPSIC and the IDDP. Loans under this programme can be made both in local and foreign currencies. The third and the most important loan programme is carried out by SIAS of EPSIC in co-operation with the consortium of commercial banks (10 schedules banks) and the State Bank of Pakistan. In two years of operation the EPSIC-Consortium Loan Programme has created a favourable impact in the mind of private industrialists and as a result so far 27 cold storage plants have been established accommodating 26 000 tons of potatoes, one tyre retreading plant and one polystyrene plant for making insulation have been established under this programme. Letters of credit have been opened for rice milling, shoe manufacture, tobacco processing, automobile servicing shops, printing presses, freezing plants for the export of shrimps, etc. under this programme.

The following table shows the loan disbursement by EPSIC:

EPSIC Loan Programme	Rs. 8 908 000
EPSIC-IDDP Loan Programme	" 5 906 000
EPSIC-Consortium Programme	" 25 182 000
Total	Rs. 41 156 000

Technical Assistance

To assist the Corporation and the Consortium of Banks in its loan and infrastructure programme technical assistance is being provided by different agencies. Since the beginning of the Third Plan Period, 25 advisors have served the Corporation for a total of 32.3 man years.

The principal sources of technical assistance have been the Ford Foundation, the Colombo Plan through the Government of Japan and New Zealand, and the United States Agency for International Development.

The bulk of Technical Assistance came from Ford Foundation which is 63 % of total technical assistance received from different agencies.

As a result of a recent policy approved by the USAID, the Ford Foundation and the Corporation, assistance from the Ford Foundation is now being phased down. At present the Ford group is being reduced from three advisors down to one.

Recently EPSIC has piloted a proposal for financing small industry in East Pakistan to the extent of US \$ 5 million to be provided by the International Bank for Reconstruction and Development. In connection with the loan of the World Bank 6 priority industrial estates have been selected for financing the industries to be located within these estates along with viable projects outside the industrial estates.

It is expected that the IDB-credit will be made available within a short time. It has been proposed that the following industries will be sponsored:

- Textiles;
- light engineering and metals;
- agricultural machinery and implements;
- paper and paper products;
- leather, rubber and plastic;
- chemicals;
- glass and ceramics;
- wood processing;
- food processing.

Technical assistance requirements during the fourth Plan period

EPSIC foresees four primary areas in which foreign resident technical assistance will be required during the Fourth Plan Period (1970-75) to help guide its expanding programs for developing small industry in East Pakistan.

The first is for continued advisory assistance to the Small Industry Advisory Service (SIAS) and the Consortium Bank programme to help guide utilization of the forthcoming World Bank loans for small industry in East Pakistan. A continuing requirement for three to four resident advisors plus short-term advisors is seen in this area. The USAID has expressed a desire to support this requirement, and EPSIC welcomes such assistance.

The other areas of requirement for resident advisors are as follows:

A. Long-term advisors

1. EPSIC industrial estates programme;
2. marketing and export promotion of small industry products;
3. development of food processing industries in East Pakistan.

B. Short-term advisors

1. Rice bran oil and solvent extraction;
2. agricultural implements manufacture;
3. leather tanning and finishing;
4. leather footwear;
5. leather goods;
6. ceramics;
7. specialized textile manufacture (warp and circular knitting);
8. metal working.

Each area is associated with the type of projects which UNIDO has often supported in other developing countries, and hence are proposed for consideration of support by UNIDO.

A. Long-term advisors

1. EPSIC industrial estates programme

For the management of the industrial estate programme and the completion of the six priority industrial estates two resident long-term advisors are needed.

One should be an Industrial Economist specializing in Industrial Estate management. This individual would primarily carry on the functions which have been carried out to date by the Ford Foundation advisor in this area who will be leaving in June, 1970. This includes acting as a general management advisor to the EPSIC Industrial Estate Department on a wide range of matters concerned with completion of the facilities on the estates, establishment of policies for leasing, construction, and industrial development on the estates, and EPSIC administration and management of the Estates. Experience in financial and legal aspects of Estate management is important. This individual will be required from July, 1970, and is requested for a period of two years initially, subject for consideration of later extension.

The second long-term advisor required should be an Industrial Engineer with experience and knowledge of the machinery requirements for a broad

range of small industries. He will be needed to help in the planning of machine specifications and layout, machinery installation and operation, and solution of other technical problems for the new industries being established on the six priority industrial estates. His services will also be required for a minimum period of two years, subject to consideration for later extension.

The two advisers described above would operate as a team, with the Industrial Economist acting as Chief of Project.

The basic requirements for effective utilization of the two advisers mentioned above are already existing: The East Pakistan Small Industries Corporation provides the institutional base of support. The Industrial Estate infrastructure, with the massive Government funds invested, already exists and needs to be capitalized on. The World Bank has tentatively approved a loan for sponsoring the machinery imports for industries to be established on the six priority Industrial Estates. The Consortium of Commercial Banks has pledged the Rupee financing necessary to sponsor the industries to be set up. The Small Industry Advisory Service (SIAS) has a trained staff of management and technical consultants to advise entrepreneurs in the planning and sponsorship of the industries. The Government of East Pakistan has pledged its full support to the program. There is no problem of sufficient entrepreneurial interest in the localities of the six estates. Hence, the only remaining ingredient for successful accomplishment of this project is the availability of the two advisers mentioned above to help guide the Corporation in the implementation of the project on the six priority estates. It is felt that UNIDO should be in a unique position to contribute in these areas due to its vast experience in Industrial Estate development in other countries.

2. Marketing and export promotion of small industry products

The majority of production of small industry products in East Pakistan is intended for domestic consumption, hence the largest requirement for assistance in this area is in improving the channels of distribution for local consumer products and in training and counselling entrepreneurs

food processing industries not now established.

Primary among the areas needing modernisation are the rice mills in the Province, including facilities for paddy storage, drying, parboiling, and milling of rice, development of industries for fruit and vegetable preservation and canning, fish freezing and preservation, edible oils, and cold storage of vegetable and fruits such as potatoes.

EPIC is the primary Government agency concerned with encouragement and support of growth of food processing industries in the Province. The Corporation obtains permission for setting up such industries, and supports them with necessary loans, import of machinery and spare parts required, licences for import of raw materials or spare parts. The Small Industry Advisory Service (SIAS) of EPIC also includes food technologists and other engineers capable of counselling food processing industries in operating problems.

Still, this has not proved enough to cope with the magnitude of need in the broad area. As one of the primary sectors of manufacturing and industrial development in the Province, which could make good use of internal resources, food processing deserves greater emphasis. For this reason, technical assistance is urgently required.

EPIC stresses a need for two resident long-term advisers in the area of food processing industries.

The first would be a general expert in food processing, experienced in the establishment of industries for fruit and vegetable preservation, canning, fish freezing and processing, edible oil manufacture, dairy products, and cold storage. Such an expert would have strong engineering and technical inclination, and should be familiar with the machinery requirements in each of the areas described above and should have an understanding of the minimum feasible scale of operation and intermediate level of technology often appropriate in such a labour-intensive economy. This expert would be required for an initial period of two years, subject to later consideration for extension. He would work in the EPIC both as an adviser and trainer of EPIC professional staff concerned with food processing industries and also as an expert to assist new EPIC-sponsored industries established in this field.

A second long-term resident advisor is needed in the specialized area of rice processing. Rice is the most important agricultural commodity of the Province, and East Pakistan is still deficient in producing sufficient rice to meet its consumption requirement. Consequently, there is an urgent need for modernization and increase in the efficiency of present rice processing methods. A certain number of modern rice mills have been established in the Province, but none of these are operating at full economic scale yet because of lack of know-how in proper operation of this complex industry.

A modern paddy processing centre should include facilities for bulk storage of grains, mechanical drying, automatic parboiling, a modern automatic rice mill, and conveyors and elevators for movement of the rice between all processes. As this is a complex field involving machinery with which there is little local experience, foreign technical assistance is needed to help guide the modernization of the rice milling economy of the Province. It is anticipated that a substantial share of future foreign credit received for machinery imports during the Fourth Plan Period may be used for modern rice milling machinery.

Hence, the need for this expert advisor is most important to EPSIC and to the economy of East Pakistan. The requirement is seen for an initial period of two years, subject to consideration of later extension.

B. Short-term advisors

In addition to the general requirements for long-term advisors in EPSIC, the Corporation foresees a need for a number of specialist short-term advisors during the next two years. The primary areas in which assistance is needed, along with a brief description of the consultant requirement is given below:

1. Technologist in rice bran oil and solvent extraction:

East Pakistan has a deficit in edible oils. The bran from the Province's substantial rice harvest is presently wasted or burned, yet contains valuable edible oil content which is obtainable through a solvent extraction process. The technique is complicated and new to East Pakistan, although is carried out in Japan, Burma, and other countries. The Government of East Pakistan has approved a scheme for a pilot Rice Bran Oil Plant to be established as a joint venture between EPSIC and a private entrepreneur. One technical expert with experience in this specific field will be needed

for a period of 6 to 9 months to help plan and implement this project. He will be needed to help plan machinery specifications, layout plans, and installation instructions.

2. Technologist in agricultural implements manufacture:

A number of agricultural implements with growing domestic demand are feasible for manufacture on a small scale. Included are threshers, weeders, sprayers, tines for tillers, hand tools, low-lift irrigation pumps, moldboard plows, etc. This industry is not well organized at present, and most items on the market are manufactured sporadically by various light engineering firms on receipt of specific orders. There is scope, however, for mechanized regular production of a number of items. The sector is of vital importance to the improvement of agricultural productivity in the Province. EPSIC foresees a need for one short-term consultant expert in this area for a period of six to nine months to help plan the products and machinery specifications for a number of new private sector industries expected to be sponsored in this area.

3. Technologist in leather tanning and finishing:

The leather tanning industry in East Pakistan is one of the larger sectors of small industry activity, and much of the production is exported. The technology employed, however, is only slightly mechanized, and the products are primarily only blue-chrome hides, partially finished. There is substantial scope for improvement of this industry, both to mechanize and modernize the existing tanning units, and also to introduce facilities for finishing fine leathers. Because this technology is complex, involving both chemical processes and mechanical know-how of machine processes, one engineer expert broadly experienced in leather tanning and finishing could be productively employed for a period of six to nine months working with the private leather tanning units of the Province under the sponsorship of the EPSIC.

4. Technologist in leather footwear:

Shoemaking in East Pakistan is mostly done in small hand-work shops. A few larger modern leather footwear factories have been set up, but there is scope for many additional units using more modern machine methods of shoe production. EPSIC has set up several Service Facility Centres for leather products and footwear which have not yet gone into operation for want of technical know-how to operate them. In addition, several new private industries have been sponsored recently in this sector, but are facing numerous problems in planning and implementation. EPSIC needs the services of an expert in this area to work with such industries and to plan an operational programme for the S.F.C.s. The assignment would be six to nine months.

5. Technologist in leather goods:

A similar requirement for technical assistance to that for leather footwear exists for a broad range of other leather goods products. Included is the manufacture of suitcases, handbags, brief cases, belts,

wallets, etc. At present, such work is done entirely by hand, and the quality and consistency of production is inferior. Numerous new small industries could be established in the private sector in this area if given proper designs and scheme plans for such industries, using partial mechanization. An assignment by a technical expert with experience in project planning for a period of six to nine months should accomplish the task.

6. Technologist in ceramics:

Clay is available as a raw material in East Pakistan, and a modern ceramics industry is slowly beginning to replace traditional handwork and imports of chinaware and other items. The next step in this development is planned to be industries for manufacture of insulators, sanitary wares, and glazed tiles. A scheme has been approved by Government for establishment of a model unit in this field, set up as a joint venture between EPSIC and a private entrepreneur. Technical know-how, however, is totally lacking in the Province for planning and setting up these industries on an efficient basis. The services of one short-term consultant expert could be productively employed by the EPSIC for a period of 6 to 9 months for this purpose.

7. Technologist in specialized textile manufacture (wrap and circular knitting):

The wrap knitting industry is new in East Pakistan; the first six units have been recently sanctioned by EPSIC, and additional units are planned for sponsorship under the forthcoming IBRD loan. There is large demand for knit goods in the local markets which is being supplied mostly from West Pakistan at present. A circular knitting industry exists with several hundred small units in Pabna and Narayanganj, but the machinery used is generally of a very old type and finishing techniques are inadequate. It is expected that both of these allied industries will undergo substantial modernization during the next few years with the availability of import of new machinery under the IBRD loan. A short-term expert advisor will be needed to help plan the units properly, with special reference to specification of machinery, planning of layout plans, improvement of product designs, etc.

8. Technologist in metal working:

Metal working industries of various types are among the most common small industries of East Pakistan. Included are numerous types of "light engineering workshops", sheet metal shops, foundries, etc. New units are being sponsored constantly, and existing units are striving to modernize and expand. The foundry industry is in particular need of technical assistance. There is scope for at least one engineer advisor to work with numerous private EPSIC-sponsored industries in this area for a period of 6 to 9 months. He would both render technical assistance to existing units facing operating problems and also assist in the planning and machinery specification for new industries being sponsored in this sector.

Requirement for foreign training fellowships

In addition to the EPSIC requirements for long-term and short-term experiences expert service mentioned above, the Corporation has been aiming to have associated foreign training of its own officers so that they could become productively as counterparts for the foreign experts and carry on their work effectively after the departure of the foreign experts. Some of the fields where the need for foreign training is felt are listed in the table below.

Name of the field	Duration	Country or Country
1. Food Technology	1 year	Italy/India/Italy/ Germany/Finland
2. Agricultural Implements	1 year	Germany/India
3. Leather Tanning & Finishing	6-9 months	Italy/Italy/Italy/ India
4. Leather Footwear	1 year	Italy/Italy/Italy/ India
5. Ceramics	1 year	Italy/India
6. Specialized Textiles	6-9 months	Italy/Italy/India
7. Metal Working	1 year	Germany/India/Japan
8. Project Planning & Project Evaluation	6-9 months	U.S.A./Canada/U.K.
9. Management of Industrial Estates	3-6 months	U.S./Japan/Sweden
10. In-Plant Counselling	6 months	U.S.A.

For experts and fellowships in the framework of this programme for East Pakistan US \$ 250,000 are needed. The team thinks that machinery for demonstration purposes would also be necessary. But, during the short stay of the team in East Pakistan it was not possible to draw up a precise list of this machinery. The team was also not in a position to make up its mind, how far the Pakistani Government would contribute to this programme. It is recommended to send an expert (industrial engineer) to EPSIC for two months to prepare a formal request to the UN Special Fund, provided this programme could become a UN Special Fund project. In the framework of this request the expert should, inter alia, draw up a precise list of machinery needed for demonstration purposes and give details on the government contribution for this project.

LIST OF PERSONS VISITED

MINISTRY OF INDUSTRIES AND NATURAL RESOURCES, Islamabad
A. H. Siddique, Deputy Secretary of Industrial Division
Zub Salah, Section Officer of Industrial Division

PLANNING COMMISSION, INDUSTRY AND COMMERCE SECTION, Rawalpindi
R. H. A. Kureshi, Chief, Industry and Commerce Section
J. V. Krupka, ILO Industrial Economist

GOVERNMENT OF WEST PAKISTAN, Lahore
Asad Ali Shah, Secretary, Industries and Commerce
Farooq Ayub, Deputy Secretary, Industries and Commerce
Jim Prozek, ILO Industrial Economist

GOVERNMENT OF EAST PAKISTAN, Dacca
Munim Ali, I.D.D. Chief Secretary, Planning and Development
A. H. Sayed, Secretary, Commerce and Industries Department

UNEP, Islamabad
A. H. Arif, Resident Representative
Olga Szymonovitch, Deputy Resident Representative
Philip Kuznetsov, Assistant Resident Representative
Rosa J. Lichner, Assistant Residential Representative
A. H. Qureshi, Finance Officer

UNDP, Dacca
Karlritz Wolff, Deputy Resident Representative
J. G. J. Pompey, Assistant Resident Representative
Antoine Hachour, Administrative Officer

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, Islamabad
David L. Gordon, Resident Representative in Pakistan

DACCA CHAMBER OF COMMERCE & INDUSTRIES, Dacca
Faher Rahman, President (and board of Directors)

WEST PAKISTAN SMALL INDUSTRIES CORPORATION, Lahore
Lt. Col. Kamal Sharif, Executive Director
Gulshan H. Khan, Principal, Small Industries Institute
Rana Ehsan Bakhsh, Manager, Handicraft Design Centre
Ahmad Ismail, Manager, Credit and Development, Outside Estates
Nasir Ahmad, Deputy Manager, Credit and Development, Inside Estates
Mohd. Riaz Malik, Manager Handicrafts
Khalid Hameed, Industrial Economist, Small Industry Institute
Roland Dietrich, German Project Advisor

EAST PAKISTAN SMALL INDUSTRIES CORPORATION, Dacca

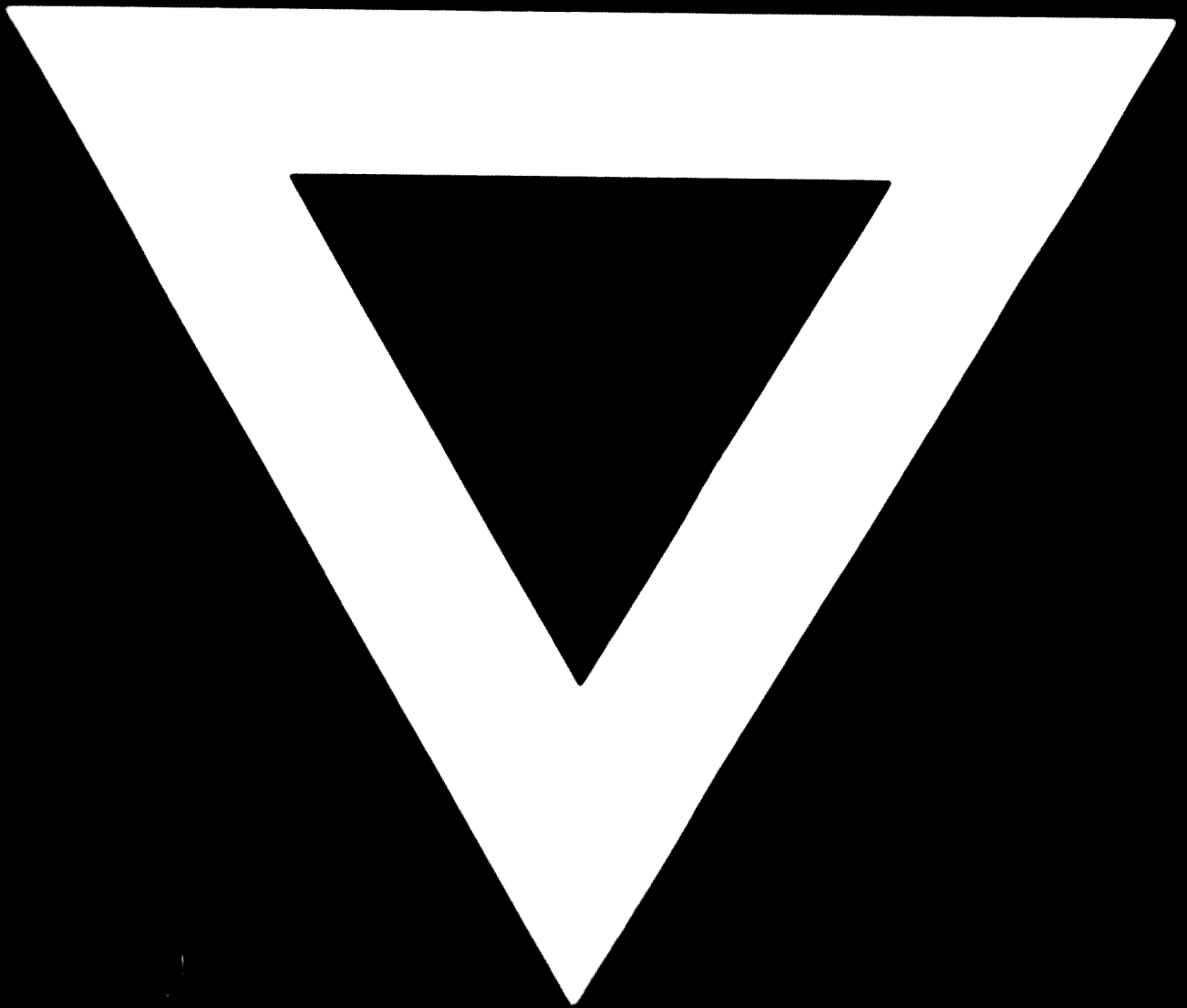
M. Zaman, Chairman
M.Y. Latifulla, Executive Director
M.A. Karim, Joint Director, Planning
M.M. Quddus, Joint Director, Private Sector
Nazmul Hossain, Joint Director, Industrial Estates
M. Rahman, Joint Director, Projects
N.R. Chowdhury, Manager SIAS Consortium
M. Ahmed, Deputy Manager, SIAS Textile
A. Zaman, Research Officer, SIAS Consortium
Robert B. Young, Economic Advisor, Stanford Research Institute,
The Ford Foundation
Donald R. Jones, Industrial Finance Advisor, USAID
Richard C. Kimball, Industrial Advisor, USAID

INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN, Dacca
M. Zaman, Executive Director

LIST OF ABBREVIATIONS

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|-------|--|
| EPSIC | East Pakistan Small Industries Corporation |
| IDBP | Industrial Development Bank of Pakistan |
| SIAS | Small Industries Advisory Service |
| WPSIC | West Pakistan Small Industries Corporation |





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