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PROJECT APPRAISAL IN PICIC

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OUTLINE

- A. Introduction
 - B. Material Requirements
 - C. Aspects of Project Appraisal
 - I. Market and Marketing arrangements
 - II. Technical Soundness
 - III. Financial Prospects
 - IV. Management
 - V. Economic impact
 - D. Conclusion
-
- Annex I Loan application form for new industries
 - Annex II Loan application form for existing industries

A. INTRODUCTION

An objective and searching project appraisal must form the basis of financial decisions of an industrial development bank. The exact scope and nature of the exercise would differ from project to project and country to country. However, having regard to the economic conditions generally prevailing in under-developed countries, it can be said that project appraisal should not be concerned merely with conventional matters like cost, profit, terms of loan, etc. Instead, it should be broad in scope and cover aspects, such as impact of the project on the economy, development of a sound entrepreneurial class, growth of new industries, economic utilisation of resources, etc. Business risks in under-developed countries are usually larger than in advanced countries. The project appraisal should reflect a balanced attitude towards risk-taking; merely because a project does not come up to norms and standards established in advanced countries should not condemn it for rejection. Development financing rather than mere financing for profit should be the keynote of the bank's operation. Finally, the emphasis in appraisal should not be on finding weaknesses of the project as of correcting them. A positive outlook rather than negative screening, is essential if development banking is to be successful.

PICIC which is the leading Industrial Development Bank of Pakistan has sought to follow these objectives in its project appraisal. The following article seeks to outline PICIC's technique, problems and experience of project appraisal of medium and large sized industrial projects:

B. Material Requirements

Comprehensive, reliable and upto-date information is necessary for arriving at a sound decision with regard to financing of a project. PICIC has prescribed standard questionnaires as per specimens attached to elicit the

required information. The questionnaires cover all the major aspects regarding the borrower and his project, such as:

Borrowers

- a) Ownership and control of the enterprise and its capital structure;
- b) Quality of the management and efficiency of organisation;
- c) Present manufacturing facilities;
- d) Past operational performance, earning records and financial position of the borrower.

Project

- a) Physical features of the project, construction programme and technical know-how and supervision;
- b) Estimated cost of the project and financing method;
- c) Estimated production costs and profitability;
- d) Market and marketing arrangements;
- e) General economic justification;
- f) Financial projections.

It is rare that this preliminary presentation is adequate for appraisal. Usually many gaps in information, analyses and conclusions are revealed. To make up for this deficiency, a supplementary questionnaire is prepared to elicit more information. In the course of this data gathering exercise, mutual visits by PICIC staff and the intending borrowers are a normal feature. PICIC also provides such assistance as may be necessary to enable the applicant to fill out the questionnaire appropriately. In no case is a project rejected on minor technical grounds or non-availability of information. Policy regarding consultants feasibility studies is not rigid. While the applicants are encouraged to obtain technical and other advice from outsiders, regular feasibility studies are generally required only in respect of bigger and complicated projects. This is partly on account of the expense involved

and partly due to the fact that in smaller projects detailed surveys are not considered necessary. Since the required data about the project and borrower is of primary importance for appraisal, every effort is made to get as complete a picture as possible. Needless to say that this imposes quite a burden both on the borrowers and PICIC. Nevertheless the advantages of fuller information clearly out-weigh the cost and inconvenience involved and consequently the problem is squarely faced. Besides, providing a basis for sound decision making, this exercise helps to educate the industrialist in planning his investment on sound lines and in the long run is to the interest of the country as well as the borrower.

C. Aspects of Project Appraisal

The basic purpose of project appraisal is to ascertain whether the project is sound and to effect such improvements as would enhance its viability. This involves a careful examination of all the aspects of the project. Special attention is, however, paid to the following:

- I - Market and Marketing Arrangements
 - II - Technical Soundness
 - III - Financial Prospects
 - IV - Management
 - V - Economic Impact
- 1 - Market and Marketing Arrangements

The first step in project appraisal is the scrutiny of the forecasts of market and marketing arrangements. An adequate and growing market backed by aggressive sales promotion is essential if the project is to operate

profitably. In case the project fails to satisfy the tests of market in respect of quality, price, distribution, etc., its justification is clearly lacking. There is no project, if there is no market. Much as it may seem apparent, yet the predominant tendency among entrepreneurs is to take it for granted that a 'market' exists for their products. This reflects partly the optimism based on the experience of sellers' market in the past. Entrepreneurs frequently tend to take the view that while they are expanding, the others would be static. Detailed enquiries are also impeded by dearth of data. There is also an inadequate appreciation of distribution problems in a growing but progressively more competitive market. Consequently, in its project appraisal, PICIC pays particular attention to market and distribution arrangements.

The appraisal is centred round:

- a) product analysis
 - b) examination of past trends in supply and demand
 - c) examination of future trends in supply and demand
 - d) determination of specific market, and
 - e) sales administration and budgeting.
- a) The aim of product analysis is to appraise the potential of the product and its suitability for being encouraged. Products devoid of potential (e.g. alcohol in a Muslim country) or luxury items or items of temporary demand are considered unsuitable for financing. Projects for making goods which are being satisfactorily produced by cottage industries are also discouraged. The underlying idea behind product analysis is that a development bank should use its influence to change investment preferences in the direction of projects of high priority.

b) If the product proposed to be made is considered suitable for encouragement, the next step is to review trends, in the past, of supply and demand. Deficits and shortages are clearly indicative of the need and desirability of additional capacity, and vice-versa. A very common tendency in Pakistan is to magnify the deficit by over-rating demand and under-rating capacity. Although deficits have been encountered in the past, these were in many cases the result of unutilised capacity. It is obvious that this situation justifies utilisation of existing capacity rather than addition of new capacity. PICIC therefore seeks to establish realistic estimates so that extra capacity is not created through the under-estimation of production potential.

c) The crux of the market analysis is the forecasting of future demand and supply. A most important pitfall to be avoided is an exaggerated view of growth potential. Projected growth rate is examined to see as to how it compares with the past. In case of over-optimistic forecasts, downward adjustments are made. It is enquired whether the sponsors have allowed for changes in fashion, growth of substitutes and government policy. In case the project will replace imports, 100% displacement is ruled out in forecasting demand for local products. If exports are envisaged, then the sponsors' forecasts are subject to an even closer scrutiny in view of the competition in the world market. Unless natural advantages in raw material or other favourable factors exist, exports prospects are not rated highly. Demand forecasts are required upto five years. In calculating capacity, existing and sanctioned capacity is taken into consideration. In case future forecasts indicate shortfall of supplies, the project is considered to be justified from marketing angle.

d) It is inconceivable that whole of the unsatisfied market would be available or captured by the new-comer. Sales take time to build up and are affected by freight, price, quality, competition etc. etc. In estimating the specific market, realism and caution are PICIC's watch-words. Sometimes mere estimation of the likely share of market may not be deemed sufficient and entrepreneurs may be required to furnish written offers of purchases. This is done where the product is new and/or market is dominated by one purchaser. Thus, in a DDT project formal assurance of a certain offtake was required to be obtained from the Government Department concerned. Such an undertaking is also considered necessary where a sizable part of the output is intended for export. This 'specific market' problem is often said not to exist where the project aims at backward integration and thus caters to a captive market. However, in so far as it would displace supplies from existing sources, this may affect other producers and may lead to idle capacity. Moreover, even in a purely captive market there are limits on absorption arising from quality and price. Consequently PICIC aims that projects should not be based on too facile an assumption of the safety of captive market.

e) The final stage relates to scrutiny of the proposed selling arrangements. It is not enough that the product should be competitive in price and quality but it is also essential that the marketing arrangements are adequate. No generalisation is possible since the sale problem and sale channels differ from project to project. PICIC has few hard and fast rules in this connection. So far as possible, it aims that ex-factory marketing is divorced from production as both activities involve whole-time

efforts and can not be undertaken efficiently together. Expenditure on sales promotion equal to 1 - 5% of the sales is generally considered adequate.

II - Technical Aspects

A careful evaluation of the technical side of the project is very important. For reasons of general technical backwardness, tied credit and aggressive selling by machinery suppliers, it is not unusual for glaring errors to be found in the projects as presented by sponsors. Unless the development bank is alert in detecting them, the viability of whole project could be jeopardised. PICIC tries to associate itself with the technical side of the project at a rather early stage when the project is being formulated. It helps the borrower in the selection of consultants, in drafting their terms of reference and in arranging for preliminary inquiries and tests. In the sphere of technical appraisal, proper attention is focussed on:

- a) Manufacturing process
- b) Location and facilities for the implementation of the project
- c) Cost of project
- d) Unit cost of production

a) Manufacturing process has a vital bearing on the cost, profits and size of the project. The manufacturing process should be well-chosen with regard to technical characteristics of the available raw materials, the size of the market, location and climatic conditions etc. In doing so the alternative manufacturing processes available should be fully considered. It is often stated that developing countries should avoid such innovations in technology as have not been tried elsewhere. It is PICIC's experience that no such directive can be rigidly laid down. While a developing country need not be the guinea-pig for commercially untried inventions there might be circumstances when it would be in the interest of the country to be the pioneer in new technology. PICIC has financed the

manufacture of particle board from jute sticks which is the only project of its kind in the world.

Differences of opinion also exist with regard to the desirability of purchasing second-hand equipment incorporating out-dated technology. Again no inflexible rules can be enunciated. There have been occasions when PICIC after satisfying itself about cost and other factors has financed importation of second-hand equipment with satisfactory results.

b) The next stage of enquiry is regarding the suitability of proposed location and facilities for the implementation of the project. PICIC examines this aspect in the light of:

- i) Proximity to the market.
- ii) Availability of raw and auxiliary materials and their costs in the area.
- iii) Availability of fuel, power and water and their cost in the area.
- iv) Availability of skilled and unskilled labour and their wages in the area.
- v) The existence of transportation facilities (proximity to railways, main highways or to ports).
- vi) Effect of climatic conditions on the product.
- vii) Facilities for the disposal of effluence.

In some industries, location is self-determined (e.g. sugar, cement, etc). In many others, however, it is largely a matter of choice (e.g. textiles, engineering, vegetable oil). A frequently observed tendency in Pakistan is towards concentration in well-established industrial centres. As undue concentration of this type is neither in the long-run interests of the country nor of the projects, a worthwhile aim of a development bank should be to influence dispersal of industries in backward areas to the extent it is possible without prejudice to the technical considerations. PICIC is fully cognisant of this and its efforts, powerfully

supported by Government fiscal incentives notably tax-holiday, have led to establishment of industries in backward areas to the benefit of industrialists and the country.

c) By far the most important aspect of technical examination is the scrutiny of the project costs. In the event of project costs being under-rated, serious difficulties are inevitable. To verify the capital costs, an itemwise examination of the following components (and their costs both in foreign and local currencies) is carried out:-

- Pre-investment expenditure
- Land
- Land improvement
- Building and site facilities
- Machinery and equipment
- Furniture and fixtures
- Spare parts
- Motor Vehicles and Transport
- Duty and Taxes on imported goods
- Interest during construction
- Consulting services
- Intangibles
- Preliminary and start-up expenses
- Initial working capital requirements
- Contingency allowance (10-15%)

Notwithstanding the careful examination, under-estimation is not entirely eliminated. Under-estimation in capital costs and consequent over-runs tend to be caused by:-

- i) Price escalation
- ii) Incomplete equipment
- iii) Changes in original project through introduction of refinements, automation, etc
- iv) Lag in the provision of public utilities (e.g. electric supply, railway sidings) necessitating extra expenditure
- v) Uncertainty about the country of supply due to the tied nature of foreign credits

To minimise chances of over-runs in capital costs, PICIC takes special steps such as:-

- i) Rechecking of project costs by independent consultants and providing for price escalation

- ii) Firm international quotations of major items of machinery and equipment from several countries
 - iii) Suppliers' guarantee about the completeness and performance of the machinery
 - iv) Opening of LCs within the limit of validity of the quotations
 - v) Firming up of arrangements and tying of time schedules with public sector authorities regarding the availability of utilities.
- d) The final stage of technical appraisal is concerned with evaluation of the cost of production and whether the envisaged size of the plant is an economic one. This evaluation involves examination of the following components of cost:

- Cost of Raw material
- Cost of Auxiliary material
 - Power
 - Fuel
 - Water
 - Chemicals
- Cost of Labor
- Depreciation
- Repairs and maintenance
- Overhead expenses
 - Administrative expenses
 - Directors' remuneration
 - Packing expenses
 - Bonus to Labourers and Staff
 - Insurance of the factory and stocks
 - Labour welfare expenses
- Contingency allowance (10-15%).

Like capital costs, production costs are apt to be under-estimated by the sponsors. Where the project has been prepared by foreign consultants not having sufficient knowledge of local conditions, production costs often do not reflect real conditions. In view of this, PICIC analyses every cost element systematically. Special attention is paid to "rate of recovery" of raw material (or percentage relationship between input-output), forecasts of raw material prices, labour requirements, wage rates, maintenance expenses, salaries of foreign supervisory staff, depreciation and amortization expenses. Every attempt is made to arrive at fair and conservative estimates, lest on its completion the project may be found to be uneconomical.

III - Financial Prospects

The third stage of project appraisal is whether the project is soundly conceived from financial angle. For whatever the technical or other merits of the projects, unless it has fair prospects of profit and timely repayment of loan and interest, its financing would not be attractive for the development banker and the entrepreneur himself.

Much can be learnt about the financial prospects of a project by looking at its performance in the past. Therefore, PICIC closely scrutinises the balance sheets and earning statements for past 3-5 years. The trend in debt equity ratio is reviewed. Soundness of short-term position is judged by the trends in current ratio. Profit ratios are calculated to find out as to how these compare with the average in the industry. Apart from measuring profitability of an existing enterprise, policies relating to depreciation, reserves and dividends are also reviewed. Although bench-mark ratios in respect of debt-equity, current assets, net profit are prescribed, these are not taken literally; instead an enquiry in depth in individual figures and indices is undertaken to discover the real situation.

Where the project is new and a historical analysis is not possible, the antecedents of the sponsors are checked by reference to banks together with an examination of ^{their} other business activities.

While the analysis of the historical data in the light of the present is necessary, the most important consideration for a development bank is the prospects for the future. Here both the old as well as new projects pose peculiar problems. The problems here relate to the future which is uncertain. The best possible estimates of income, expenditure, profits, etc. are required. Often the basic data in this connection

is furnished by sponsors of the project and PICIC makes an independent verification to see that the project meets the following minimum financial standards:

- 1) That the operating costs and revenue estimates are complete, accurate, safe and realistic;
- 2) That the project will be able to service its total debt (both interest and principal repayment instalments) with a reasonable margin of safety;
- 3) That operating at a realistic level of production, the project can meet all costs and provide a reasonable return on shareholders' investment; and
- 4) That financing arrangements made or proposed shall ensure that the project will have the cash it needs, as and when it is required.

Like other aspects of project appraisal, the emphasis here too is on realism, moderation and caution. The results are expressed in the form of following ratios:

Gross Profit:	Sale
Operating Profit:	Sale
Net Income (after tax):	Sale
Net Income:	Total Capitalisation
Debt Service Coverage	

In general, a project is considered to be viable and fit for financing, if it meets the following norms:

Gross Profit:	Sale	20-25%
Operating Profit:	Sale	15-20%
Net Income (after Tax):	Sale	5-7½%
Net Income (after Tax, Interest):	Equity	10%
Debt Service Coverage		2-2.5 times

The final stage concerns examination of the financial plan envisaged in the project. The chief question here of course is the debt:equity ratio. A very substantial loan financing would be unacceptable to any development bank as being tantamount to lack of commitment on the part of the sponsors. At the same time

a high level of equity investment may not be possible for reasons of shortage of saving, non-availability of risk capital and weakness of stock market. In the initial stages of development, somewhat large dependence on loan financing is unavoidable. The exact desirable level of debt : equity cannot be postulated on a priori basis. PICIC as a rule seeks an equality in long-term debt and equity but relaxations are made for sound projects by providing longer amortisation schedules and by working out appropriate security arrangements. PICIC's experience is that such flexibility is necessary for accelerating development and encouraging private enterprise.

IV - Management.

Management is the key factor in the success of an enterprise and at the same time the most difficult of all elements to appraise. Where a project is to be carried out by an existing organisation, much can be learnt about the quality of the management from a study of what has happened in the past; yet it often happens that a management with a good past record is inadequate to handle greatly expanded operations. Good managers are rather scarce in under-developed countries. The predominant type of business organisation is one financed and controlled by a family or closely related group. Even where the enterprise is incorporated as a public limited company, the ownership and control continues to remain with the original family or group. There is a marked suspicion of outsiders and employment and promotion are normally on the basis of kinship and blood. Refusal to avail of financial assistance if it involves encroachment on tight control is not uncommon. A development bank could hardly afford to take chances with management in view of its pivotal position for the success of the enterprise. PICIC adheres to the

following broad guidelines in ensuring sound management:

- 1) Where an existing project has had a fairly long record of success, no attempt is made to seek changes in its management except in the event of the project becoming too complex or big after expansion.
- 2) New and big projects are as a rule required to be incorporated as public limited companies with diversified financial and administrative control.
- 3) In exceptionally big and complex projects, turn-key arrangements are considered necessary and are prescribed.
- 4) Employment of foreigners is generally required in new projects; technical collaboration is encouraged where special formulae and patents are involved.
- 5) In joint ventures with PICIC equity participation, PICIC is not averse to transferring its voting rights to foreigners to ensure their control on management.
- 6) PICIC reserves the right to appoint one or more directors of its own on the borrowing concern's board.

V - Economic Impact

A modern development bank is not merely a purveyor of financial assistance but an agency of development. It must, therefore, see that the projects financed by it are capable of generating economic benefits commensurate with the costs involved. A comprehensive analysis of projects' economic impact must form an integral part of its project appraisal. PICIC takes this exercise seriously. Following are the major criteria in this

connection:-

a) Value Added in Manufacture

Calculations of value likely to be added are made and related to its capital costs. If the capital: output ratio is above 3.5, the project is not considered suitable for financing.

b) Earnings/Savings of Foreign Exchange

Projects with potential to save or earn are preferred. PICIC projects generally repay their foreign exchange expenditure in less than 3 years which sets the norm.

c) Employment

Employment potential is given a high priority in view of surplus labour and shortage of capital resources. For this reason simple technology and less capital intensive projects are preferred to those which are more complex and expensive in capital terms.

d) Industrial/Agricultural Wastes and By-products

Another objective of PICIC is to promote utilisation of the national resources economically. Its appraisal therefore sorts out and shows special consideration to projects based on the utilisation of industrial and agricultural wastes and by-products.

The above completes the basic appraisal of the project. Properly organised and carried out, it yields a wealth of information of vital importance to decision making. If the project is found to be satisfactory on all the counts, it may be sanctioned financial assistance on PICIC's normal terms which are an interest rate of 7½% on foreign currency loans, 6½% on local currency loans and maturity normally of 7-12 years.

Follow-up and Supervision of Loans

The task of a long-term financing institution does not obviously end with the appraisal of the project and sanction of assistance. From the date of such sanction or entering into a commitment for such assistance, a new chapter begins in the relationship between the development bank and ^{the} industrial concern which it has decided to assist, the relationship which may spread over some ten years or more. This emphasises the need for a proper system of follow-up action and close supervision throughout the duration of the loan. The period of follow-up and supervision relates to (1) disbursement of funds after legal and other formalities stipulated with the borrower are complied with and the project goes into production; (2) supervising the operations of the project and assisting where necessary to ensure its smooth and profitable working, and (3) recovering the loan instalments as these become due. In this process, much first-hand information about project cost and operating expenses accumulate which serves as a check on estimation of future projects. For the purposes of collecting and analysing this data, PICIC has got a full fledged End-Use Department.

D. Conclusion

Development banking is a new technique in the under-developed countries and a natural question arises as to how far it has proved useful in promoting sound investments. This may be seen with reference to PICIC. In the seven-year period of its operation (1958-64), it has financed 405 projects for a total of Rs 1054.0 million in local and foreign currencies. The assistance has been in the form of loans in foreign and local currencies, direct equity participation,

under-writing and direct loan and foreign equity from abroad. Of the projects financed, 208 loans were for new projects and 197 loans were for balancing, modernisation or expansion projects. The projects covered 78 industrial categories and 214 projects have already been completed. A measure of the effectiveness of PICIC appraisal procedures is that so far not a single project has run into serious difficulties resulting in bad debts. Repayment of instalment and interest is by and large on time. Reflecting this, PICIC net profits (after tax) have risen continuously from Rs 0.39 million in 1958 to Rs 6.71 million in 1964. It has been paying dividend at the rate of 7% to its shareholders since 1963. The PICIC share is quoted on the stock exchange at a premium of over 40%.

Simultaneously, the economy has benefitted by judicious investments. Total investment in PICIC financed projects is estimated at Rs 2,500 million. The difference between this figure and assistance rendered by PICIC, viz., Rs 1,446 million measures the mobilisation of private resources. The capital mobilisation ratio works out to 1:1.4 which is regarded satisfactory. The Corporation has made a significant contribution to the increase in gross national product absolutely and as related to capital outlay. It is estimated that net value added in its projects would amount to Rs 661 million, yielding a capital output ratio of 3.8:1. Net foreign exchange savings / earnings are estimated at Rs 400.1 million per year. This when compared with the foreign exchange outlay of Rs 954.6 million means that on an average the projects repay the full foreign currency cost in 2.4 years. In some cases the rate is faster.

Impact on primary employment is estimated at 55,600 jobs, of which 29,900 will be skilled, 22,000 unskilled and 3,700 office workers.

There have been other benefits as well. Of the projects financed, 17 were joint ventures resulting in an inflow of foreign capital as well as valuable technical know-how and cooperation. Out of 208 new projects, 74 were sponsored by entrepreneurs entering the industrial field for the first time. PICIC financing has markedly strengthened the stock market, 50 enterprises have been established as joint stock companies, of which the shares of 24 companies were listed on the Stock Exchange. Last but not the least the private enterprise has been acquainted with the sophisticated techniques of project preparation and analysis so that it now displays a high degree of buoyancy and is in a position to progressively undertake larger and more complicated projects.

Pakistan Industrial Credit & Investment Corporation Limited

JUBILEE INSURANCE HOUSE

MCLEOD ROAD

POST BOX No. 5888

KARACHI.

LOAN APPLICATION FORM

(For New Industries)

PRELIMINARY INFORMATION

- (a) Applications should take the form of a letter or memorandum giving the information asked for below. Paragraphs should be numbered to correspond with those in this questionnaire.
- (b) It is not expected of the applicants to cover all points extensively while submitting their preliminary applications. PICIC will appreciate receiving a first application containing as much information as may be readily available. After this preliminary information has been received and studied, PICIC will inform applicants whether the project is suitable for financing and what detailed information is needed for processing the application.
- (c) Please send 3 copies of the replies.

A—GENERAL

- 1 Name and address of the applicant.
- 2 Nature of present business and location.
- 3 Nature and location of proposed project, its classification under the Industrial Investment Schedule. State the item number in Schedule.
- 4 Amount of loan applied for:
 - (a) Foreign currency
 - (b) Local currency
- 5. Name under which the project will be operated and whether it will be:
 - (a) Partnership—give names, interest and addresses of partners
 - (b) Private Ltd Co. —give names, interest and addresses of directors/proposed directors.

OR

- (c) Public Ltd. Co.—give names, interest and addresses of directors/proposed directors.
- 6. If you are one of a group of affiliated companies or enterprises give a brief description of the group and your relationship to it.
- 7. Name and address of banker(s) of applicant and of banker of individual partners/directors.

B- DESCRIPTION OF THE PROJECT

8. Describe in detail the project for which financing is requested, indicating the capacity to be installed for each production line, the land (if any) required and buildings to be erected. Furnish copies of engineering report (if any), flow chart of process, and lay out of plant and building and site plans
9. Give complete list of machinery and equipment proposed to be purchased under the loan with a description for each major item, indicating items to be imported, and their C&F cost and items which can be purchased and fabricated locally and their estimated price
10. Describe the manufacturing process and requirements and availability of raw materials, electric power, water, fuel, transport facilities and other essential services. Indicate what arrangements have been made or are planned to obtain them
11. Give an estimate of the time required to complete the project, indicating phasing of works preparatory work, placement of order, construction of buildings, delivery and installation of the equipment and trial operation)
12. Who will be incharge of construction of the project and its operation? Have you been advised by technical consultants? If so, state consultants' qualifications and forward a copy of their report. If not, would you be prepared to engage qualified consultants at your own cost and without any commitment from PICIC, to advise you on the project?

C-COST OF PROJECT AND MEANS OF FINANCING

13. Give an estimate of cost of the project as follows.

	Local	Foreign	Total
	(Rupees in thousands)		
Land			
Buildings			
Machinery	{ Imported		
	{ Local		
Assembling and installation including customs clearance inland freight and insurance.			
Auxiliary equipment			
Other items (specify)			
Total fixed assets			
Working capital requirements			
Total investment			

14. How is the cost of the project under column 3 above proposed to be met?

Local Foreign Total
(Rupees in thousands)

Your own contribution

Loan from PICIC

Other sources (specify)

D—ECONOMICS AND MARKETING

15. Give background and experience of those to be incharge of the commercial and technical management of the factory.
16. State the requirements and availability of skilled and unskilled labour and other staff. What arrangements, if necessary, will be made for training of labour ?
17. Give detailed estimate of cost of production per unit of the product (s), based on 100% annual capacity utilisation, stating number of days and shifts of the operation. How does this compare with C.I.F. value of similiar goods when imported from abroad
18. State the number of shifts you would normally operate and the quantities and costs of various raw materials required, classified under indigenous and imported.
19. Local demand, production, exports : Prepare and supply the following information for the product (s) you plan to produce.

Year	Total Local Demand		Total Current Production		Export Potential	
	Quantity	Value	Quantity	Value	Quantity	Value
196—(this year)
196—(next year)
196—
196—
196—

Please explain in detail exactly how you arrived at each figure in the above estimate.

20 Imports of your products

For Past Three Years

Year	West Pakistan		East Pakistan		Total Pakistan	
	Quantity	Value	Quantity	Value	Quantity	Value
Last year
Year before last
2 years before last

Please explain where you got each figure and mention the names of publications if any were referred to.

21. Estimated Unit Cost of Production of Unit

Selling Price, and Profit.

Unit Cost	Unit Selling Price	Unit Profit
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After Completion of Project

Please explain the basis for each figure. If they are based on a similar existing unit, full details of this unit may please be given. For a multi-product business above data should be furnished for each type size of product and should be given in an Annexure, and averages inserted in the above column.

22. What is the C.I.F. price of the same or similar imported products?
Rs.

If product is being imported from many countries, C.I.F. price for 3 leading countries should be given both listed and actual price.

23. After your project is completed what will your sales be?

Year	Sales forecast (Domestic)		Exports	
	Quantity	Value	Quantity	Value
1st year (196)
2nd
3rd
4th
5th

Please explain in detail exactly how you arrived at each figure in the above estimate.

How much do you expect to earn through bonus vouchers, if any?

24. Your Sales Organization.

List the names of your key sales or marketing executives, their experience and salary grades.

How many salesmen do you propose to employ ?

Give an estimate of your annual advertising expenditure

Who are the major consumers of the product you propose to manufacture?

Do you propose to sell through wholesalers, retailers, or direct, or a combination of wholesalers and retailers?

Please explain your proposed channel of distribution.

How much of your required raw material is available locally and how much will be imported?

- 25. What would be the estimated yearly foreign exchange savings/earnings consequent to the local manufacture of the product(s)? Please give the basis of year calculations.**

E—MISCELLANEOUS

- 26. Are there any special considerations which you think PICIC should take into account in considering your application**
- 27. Have you applied for a loan to any other institution? State result thereof.**

We hereby certify that the above particulars are correct to the best of our information and belief.

Signature of Authorized Representative.

Place.....

Date.....

Annex II Loan application form for existing industries

Pakistan Industrial Credit & Investment Corporation Limited

JUBILEE INSURANCE HOUSE

MCLEOD ROAD

POST BOX No. 5088

KARACHI.

LOAN APPLICATION FORM

(For Existing Industries Requiring Financing for Extension,
Balancing and/or Modernisation)

PRELIMINARY INFORMATION

- (a) Applications should take the form of a letter or memorandum giving the information asked for below. Paragraphs should be numbered to correspond with this questionnaire.
- (b) It is not expected of the applicants to cover all points extensively while submitting their preliminary applications. PICIC will appreciate receiving a first application containing as much information as may be readily available. After this preliminary information has been received and studied, PICIC will inform applicants whether the project is suitable for financing and what detailed information is needed for processing the application.
- (c) Please send three copies of the replies

A—GENERAL INFORMATION

- 1 Name and address of the applicant.
- 2 Nature and location of industry and year of establishment.
- 3 Names and addresses of bankers.
- 4 Amount of loan applied for :
 - (a) Foreign Exchange.
 - (b) Local Currency.
- 5 Nature of project and its classification under the Industrial Investment Schedule. State the item number in the Schedule.
- 6 State whether partnership, private limited or public limited company. In case of company furnish copy of Memorandum and Articles of Association.

- 7 Names and addresses of partners/directors and principal executives and their interest in other enterprises.
- 8 If the company (borrower) is one of a group of affiliated companies or enterprises give a brief description of the group and the company's (borrower's) relationship to it.

B--PRESENT OPERATIONS AND FINANCIAL POSITION.

- 9 Figures for the last 3 years in respect of :-

Year Year Year

- (a) Annual turnover
 - (b) Gross profit and
 - (c) Net profit (after depreciation but before taxation)
- 10 Balance sheets and profit and loss statements for each of the last three years and as of a recent date.
 - 11 Present borrowings (if any) and security given. Have you applied for a loan to any other institution? State result thereof
 - 12 Amounts (if any) lent to due from partners directors or other enterprises with full particulars.
 - 13 Full particulars of any litigations filed by or against the enterprise.
 - 14 Full particulars of any guarantees given for partners directors or other enterprises.

C--PROJECT TO BE FINANCED

- 15 Describe the present plant and give a list of the existing machinery indicating when it was installed, its country of origin and present condition.
- 16 Your present rated capacity (single shift 8 hours) for each of the items and your actual production. How do you account for the differences?
- 17 Describe in detail the project for which financing is requested, indicating the capacity to be installed for each production line, the additional land (if any) required and buildings to be erected. Furnish copy of engineering report, flow chart of process, and lay out of plant, if available.
- 18 Give full list of the machinery and equipment proposed to be purchased under the loan with a description of and justification for each item, indicating items to be imported and their CIF cost and items which can be purchased or fabricated locally and their estimated price
- 19 Describe the manufacturing process and the requirements and availabilities of raw materials, electric power, water fuel, railway and road transport and other essential services. Indicate what arrangements have been made or are planned to obtain them.

- 20 State the requirements and availability of skilled and unskilled labour and other staff.
- 21 State the number of shifts you normally operate and the quantities and cost of various raw materials required, classified under indigenous and imported.
- 22 In case of expansion of existing capacity :
- (a) What is the present daily output ?
- (b) What will be the daily output after expansion.
- 23 An estimate of the time required to complete the project, indicating phasing of work (preparatory work, placement of orders, construction of buildings, delivery and installation of the equipment and trial operation)
- 24 Background and experience of those incharge of the commercial and technical management of the factory. If a managing agency exists, furnish copy of contract. Who will be incharge of construction of the project and its operation? Indicate present or proposed arrangements for consultants and technical assistance

D—COST OF PROJECT AND MEANS OF FINANCING

25 Estimate of the cost of the project as follows

	(In thousand Rs.)		
	Existing Plant	Project	Total
Land			
Buildings			
Machinery { Imported			
{ Local			
Assembling and installation, including customs and clearance.			
Auxiliary equipment			
Total fixed assets	_____	_____	_____
Working capital requirements			
Total investments	_____	_____	_____

26 How is the cost of the project under column 2 above proposed to be met?

(In thousand Rs.)
Local Foreign Total

Your own contribution

Loan from PICIC

Other sources (specify)

E --ECONOMICS AND MARKETING

27 Local demand, production, exports: Prepare and supply the following information for the product (s) you plan to produce?

Year	Total Local Demand		Total Current Production		Export Potential	
	Quantity	Value	Quantity	Value	Quantity	Value
196--(this year)
196--+1
196--+2
196--+3
196--+4

Please explain in detail exactly how you arrived at each figure in the above estimates.

28. Imports of your products For Past Three Years

Year	West Pakistan		East Pakistan		Total Pakistan	
	Quantity	Value	Quantity	Value	Quantity	Value
Last year
Year before last
2 years before last

Please explain where you got each figure and mention the names of publications if any were referred to.

29. Estimated Unit Cost of Production, Unit Selling Price and Profit.

	Unit Cost	Unit Selling Price	Unit Profit
As at present
After Completion of Project

Please explain the basis for each figure. If they are based on a similar existing unit, full details of this unit may please be given For :

multi-product business above data should be furnished for each type/size of product and should be given in an Annexure, and averages inserted in the above column.

30 What is the C I F. price of the same or similar imported products?

Rs

If product is being imported from many countries, C.I.F. price for 3 leading countries should be given both listed and actual price.

31 What have your sales been for the past five years ?

Year	Domestic Sales		Exports	
	Quantity	Value	Quantity	Value
...
...
...
...
...

Please explain in detail exactly how you arrived at each figure in the above estimate.

How much bonus vouchers did you earn? How were they utilized? What were their sales proceeds ?

32 After your project is completed what will your sales be?

Year	Sales forecast (Domestic)		Exports	
	Quantity	Value	Quantity	Value
1st year (196—)
2nd ,,
3rd ,,
4th ,,
5th ,,

Please explain in detail exactly how you arrived at each figure in the above estimate.

How much do you expect to earn through bonus vouchers, if any?

33 Your Sales Organization.

(a) List the names of your key sales or marketing executives, their experience and salary grades.

- (b) What is the existing strength of your salesmen and how many more do you propose to add ?
- (c) What is your annual advertising expenditure at present and what increase do you expect as a result of this project ?
- (d) How much commission do you allow to your agents (if any) ?

F--MISCELLANEOUS

34 Are there any special considerations which you think PICIC should take into account in studying your project

We hereby certify that the above particulars are correct to the best of our information and belief

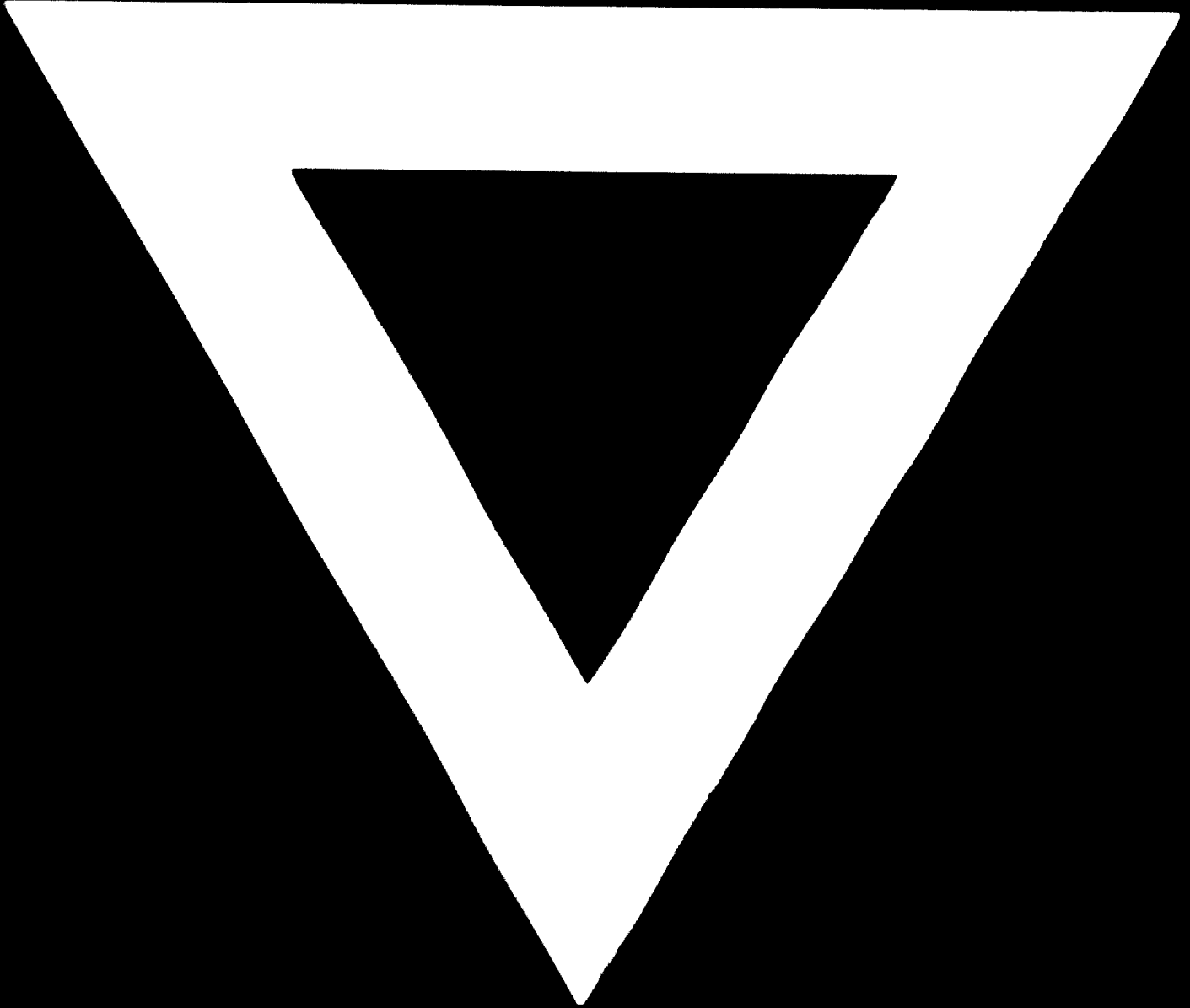
Signature of Authorised Representative

Place

Date



C-106



80.02.21