DEVELOPMENT BANKS IN PAKISTAN

With

Special Reference to their Contribution toward Industrialization in Pakistan

By

AKHLAK H. TERMEZY

A Thesis
Submitted in Partial Fulfillment
of the Requirements for the Degree
of Master of Business Administration
in the Department of Business Administration, American University of Beirut

May, 1965.

PREFACE

The developing countries like Pakistan have faced a need for a new type of financial institutions to help them accelerate the pace of industrialization — the most important path to economic development. The industrial development banks evolved and sponsored largely by the International Bank for Reconstruction and Development (IBRD) have been the chief vehicle for this purpose.

The term "development bank" is applied to a host of institutions which have in common the objective of providing medium- and long-term funds for productive investments and, usually, also technical advice needed to formulate and carry out such investments. Such institutions can perform a valuable function by identifying promising fields for investment and helping to bring together the factors of production. By becoming an active and important element in the country's capital market, they can help to mobilize domestic savings and in combination with technical know-how, channel them them into productive activities. At the same time, they can become channels through which foreign and international capital and skill can flow into the national economy, reaching the enterprises too small to be able alone to attract foreign capital and technology.

This study is an attempt to understanding the operations of such development institutions in Pakistan, and evaluate their performance with special reference to their contribution toward industrialization. The study may be divided into three major parts:

(i) Economic environment of Pakistan; Chapter I examines the economic environment of the country which provides the background to understand better the functioning of development banks and against which to evaluate their performance.

(ii) Case Sutides: Chapters II, III and IV are devoted to the case study of the country's development banks, i.e., two development corporations, viz., (a) West Pakistan Industrial Development Corporation; and (b) East Pakistan Industrial Development Corporation; and two finance corporations, viz., (a) Pakistan Industrial Credit and Investment Corporation, and (b) Industrial Development Bank of Pakistan. These chapters are primarily descriptive and have as their aim to provide an understanding of their operations.

(iii) The last two chapters evaluate the performance of these development banks towards industrialization of the country; chapter V being devoted to assess their achievement in quantitative terms and chapter VI, the last, to evaluate their performance in qualitative terms.

Methodology: No effort has been spared in order to collect all the available material on development banks in Pakistan. The writer made a special visit to Pakistan to conduct a series of interviews with the competent authorities — government and development bank officials. A checklist reproduced in Appendix A was used as a guide for interviews and collection of printed as well as mimeographed material.

The office of the World Bank Representative in Karachi, as well as the office of the World Bank in Washington, were helpful in providing the writer with all the printed material on the subject as well as the press releases concerning the loans extended to Pakistan by the World Bank or its affiliates.

However, it was not always possible to obtain detailed and uptodate data on the operations of the development banks. But this is a characteristic limitation of almost any study conducted in developing countries. The reluctance of management to make data available to "outsiders" need hardly be emphasized.

Another limitation of the study was the distance that separated the writer from the sources of information in Pakistan which made cross-checking of ideas with the competent officils extremely difficult.

However, in view of the inadequacy of the unprinted material on development banks, any addition to the existing literature ought to be welcome. It is hoped that this study, with all its limitations, will, nevertheless, play a small part in assessing the role of development banks towards industrialization in Pakistan as well as the comparison and cross-fertilization of experience in various parts of the world.

The writer wishes to express his deep gratitude to his able advisor, Professor Zuhair Mikdashi of Department of Business Administration, whose comments and advice were of great help in completing this study. Thanks are also due to Miss Emmy Shwairi for reading the draft and giving valuable suggestions.

Akhlak H. Termezy

TABLE OF CONTENTS

LIST OF TABLES

LIST OF CHARTS

CHAPTER I

INTRODUCTION

A. PURPOSE

The objective of the study is to trace the growth of development banks in Pakistan and to assess, through case-studies, the role they play in the country's march towards industrialization. Four such institutions exist in Pakistan:

(i) West Pakistan Industrial Development Corporation

(ii) East Pakistan Industrial Development Corporation

(iii) Pakistan Industrial Credit and Investment Corporation

(iv) Industrial Development Bank of Pakistan.

A distinction between finance corporation and development corporation, as employed in this study, is often made (by the United Nations, for instance). "Finance Corporation" is defined as an institution "concerned primarily with long-term loan capital", and "development corporations" as that "concerned primarily with equity capital" and with "fostering and managing specific companies as well as providing financial support."[1] As Diamond observes

---

[1] William Diamond, Development Banks (Baltimore, Maryland: The John Hopkins Press, 1957), p. 2.

> This distinction may be conceptually valid but is usually too blurred to be useful in practice. In some cases, banks or corporations created to invest in both loans and equity have gradually moved, in their actual operations, to one or the other end of the spectrum; and others, created to serve one purpose, have evolved in a quite contrary direction, as a result of changing circumstances or shifting government policy. Moreover, in the area between outright debt and common shares lies a broad range of useful investment possibilities. All these possibilities can be of great importance in the stimulation of a capital market, which is another objective of many development banks.[1]

The first two provincial organizations, viz., the West Pakistan Industrial Development Corporation and the East Pakistan Industrial Development Corporation belong to the category of development corporations and the last two, viz., the Pakistan Industrial Credit and Investment Corporation and the Industrial Development Bank of Pakistan to the category of finance corporations.

No sound evaluation of a development bank's work can be made without an adequate knowledge of the economic, institutional and social environment in which it operates. The remaining part of this chapter, therefore, examines the economic and social conditions prevailing in Pakistan.

B. ECONOMIC HERITAGE

Pakistan emerged as an independent state in August 1947. It inherited primarily the agricultural and less

---

[1] _Ibid._

developed frontier areas of the Indo-Pakistan subcontinent. The agricultural methods employed were, for the most part, primitive, and average yields were among the lowest in the world.[1] Industry was nearly non-existent. Financial institutions to provide credit, mobilize savings and channel them into productive investment, were rudimentary. Social services were limited in quantity and quality.

Partition of the Indo-Pakistan subcontinent was accompanied by the wholesale transfer of population and enormous upheaval. Trade was disrupted. Industrial and commercial organizations were crippled. The mass departure of non-Muslim population created a void in many fields, which the Muslim refugees, with their different occupational pattern, could not always fill. Banks and insurance companies were badly affected as the Hindus who operated them deserted in large numbers, leaving only inexperienced and low grade staff behind. The village money lenders, who, in spite of their shortcomings, provided a much needed source of credit for cultivators, largely disappeared.

C. DEVELOPMENT SINCE INDEPENDENCE

The initial difficulties were surmounted by 1949, and the economic situation began to improve. The occupational

---

[1] Government of Pakistan, National Planning Board, The First Five Year Plan, 1955-60 (Karachi: December, 1957), p. 7.

gaps caused by mass migration were gradually filled. Banking services were restored after the establishment of the State Bank of Pakistan in July 1948. The 1951-52 Korean war boom boosted the economy significantly, but with its end came a period of severe economic strain.

The First Five-Year Plan

The government, faced with the task of promoting the rapid development of the country, assumed greater efforts towards economic planning. The First Five-Year Plan was drafted for the period 1955-60. It was a comprehensive and coordinated attempt to harness human efforts and physical resources to raise the living standard of the people. The plan aimed at increasing the national income by 15 per cent and per capita income by around 7 per cent.[1] This was to be achieved largely through the provision of irrigation, power, transport and communication facilities. The plan was also designed to increase the technical and organizational resources of the country and to bring about the institutional changes necessary for the implementation of the development program. Expenditure amounted to Rs. 10,800 million — Rs. 7,500 million in the public sector and Rs. 3,300 million in the private sector.[2]

---

[1] *Ibid.*, p. 13.

[2] *Ibid.*

In October 1958, during the latter half of the First Five-Year Plan, the present regime of President Ayub Khan came into power. This brought the country political stability which it had lacked earlier.

By the end of 1960, however, the First Five-Year Plan fell short of its projected goals. National income rose only by 11 per cent — against the expected 15 per cent.[1] This hardly caused any increase in per capita income, as the population increased by 2.16 per cent per year which was more than the expected rate.[2] But while the agricultural sector failed to show any appreciable increase in its output, progress in the industrial sector was impressive. The index of industrial production rose from 39.5 in 1950 to 191 in 1960,[3] and industry's share in national income from 9.2 to 11.0 per cent.

The failure of the First Five-Year Plan to achieve its objectives fully was mostly due to deficient advance planning, adverse terms of trade, falling foreign exchange earnings, and shortage of key personnel, equipment and

---

[1]Government of Pakistan, Planning Commission, The Second Five Year Plan, 1960-65 (Karachi: June, 1960), p. 3.

[2]Government of Pakistan, Ministry of Finance, Economic Survey of Pakistan, 1961-62 (Karachi: May, 1962), p. 6.

[3]Government of Pakistan, Central Statistical Office, Statistical Yearbook, 1962 (Karachi: 1962), Table 57, p. 125.

materials.

The Second Five-Year Plan

The Second Five-Year Plan was drawn up by the Planning Commission in 1960 and was revised in the following year upon completion of the population census. It aimed at raising the national income by 24 per cent and per capita income by 12 percent.[1] Special emphasis was laid on the development of small industries, water and power resources and improvement of communication.

To achieve these objectives, the plan proposed a total expenditure of Rs. 23 billion, of which Rs.14.62 billion was to be spent in the public sector and Rs. 8.38 billion in the private sector. Details are given in the following table:[1]

TABLE 1

THE PLAN DATA

	Rs. in Millions
Financing of the Plan:	23,000
Revenue Surplus	1,220
Net Capital Receipts	1,400
Additional Taxation	1,750
Deficit Financing	200

[1] Government of Pakistan, Planning Commission, Mid-Plan Review of the Second Five-Year Plan (Karachi: March, 1963), p. 3.

[2] PICIC at Work, Pakistan Industrial Credit and Investment Corporation (Karachi: August, 1963), p. 10.

TABLE 1—Continued

Local Bodies	200
Project Aid and Loans	6,850
Foreign Private Investment	600
Commodity Aid	3,500
Customs on Commodity Aid	700
Project Loan Counterpart Funds	600
Private Savings (including public corporations' own resources)	6,180
Development Expenditure on Industry:	5,120
Public and Semi-public Sector	2,040
Private Sector	3,080
Estimated Foreign Investment in the Private Sector of the Industry:	2,050
Investment through PICIC	750
Investment through PIDBP................	600
Other Foreign Investment	700

The Third Five-Year Plan

The outline of the Third Five-Year Plan for 1965-70, approved recently, proposes a total expenditure of Rs.52 billion which is twice as large as the Second Plan. It aims at 30 per cent increase in national income or approximately 15 per cent increase in per capita income.[1]

Industry is likely to continue to be the leading sector in rate of growth during the Third Plan. The Plan projects an annual growth rate of about 10 per cent in the industrial sector, about 3 per cent in the agricultural

[1] Government of Pakistan, Outline of the Third Five-Year Plan, 1965-70 (Karachi: August, 1964), p. 29.

sector, and about 6 per cent in services. Within the industrial sector, considerable emphasis has been laid on the development of heavy industries — a departure from consumer goods to producer goods. The main producer goods industries will be iron and steel, petrochemicals, heavy engineering, heavy electrical equipment, heavy chemicals, machine tools, tractors, trucks, diesel engines and pumps.[1]

However, agriculture has not been ignored. In order to increase the country's food production by 25 per cent, Rs. 4.34 billion will be spent in the public sector for agricultural development. In addition, Rs. 4.0 billion is earmarked for irrigation, Rs. 2.52 billionfor supporting industries like fertilizer and pesticide, Rs. 680 million for rural roads and Rs. 500 million for rural worksprogram. This brings the total in agriculture sector to over Rs. 12 billion besides the estimated private investment of Rs. 2 million.

Following is the break-up in the public sector of the Third Five Year Plan:[2]

---

[1] Ibid., p. 125-132.

[2] Ibid., p. 39.

TABLE 2

THE THIRD FIVE-YEAR PLAN 1965-70

In Million Rupees

	E. Pak	W. Pak	Total
Agriculture	2,230	2,110	4,340
Water and Power	3,870	4,760	8,630
Industry	3,120	1,630	4,750
Fuel and Minerals	480	420	900
Transport and Communications	3,050	2,820	5,870
Physical Planning and Housing	1,440	1,300	2,740
Education	1,475	1,265	2,740
Health	640	540	1,180
Social Welfare	110	90	277
Manpower	85	65	150
Works Program	1,500	1,000	12,500
TOTAL	18,000	16,000	34,000

For the purpose of economic analysis, the 15 years of planned development can be divided into two distinct sub-periods, from 1950 to 1960 and 1960 to 1965. During the 1950's the GNP is estimated to have increased at an annual rate of 2.5 per cent and this increase was nearly offset by population growth.[1] The later period (1960-65)

[1]Population in Pakistan increased at a compound rate of 2.3% during 1950-60 and 2.6% during 1960-65. Ibid. p. 1.

is estimated to have witnessed a growth rate of GNP of over 5 per cent. An analysis of the growth rate in GNP in Table 3 shows that industry has been the leading sector of the economy.

TABLE 3

COMPONENTS OF THE GROSS NATIONAL PRODUCT[2]

(Rs. in millions; 1959-60 prices)

Sector	1949-50	1954-55	1959-60	1964-65	Annual Compound rate of growth (%) 1950-60	1960-65
Agriculture	14,860	15,800	16,330	19,000	1.0	3.1
Manufactuing	1,740	2,500	3,430	5,100	7.0	8.3
Large-Scale	(370)	(960)	(1,650)	(2,950)	16.1	12.3
Small-Scale	(1,370)	(1,540)	(1,780)	(2,150)	2.7	3.9
Services	8,240	9,600	11,850	15,840	3.7	6.0
Total	24,840	27,900	31,610	39,940	2.5	4.8

Pakistan still has a predominantly agricultural economy. The annual growth rate in this sector was only 1.6 per cent

[1] Ibid., p. 2.

over the last 15 years[1] which fell short of population growth rate of about 2.5 per cent. The slow rate of growth in agriculture limited the availability of exportable surplus in agricultural raw materials as well as tended to dampen the demand for industrial products, since purchasing power in rural areas was not increasing at a fast enough rate. However, the growth rate in agriculture has improved recently from 1.0 per cent in 1959-60 to an estimated 3.1 per cent in 1964-65.[2] This has been due to two exceptionally favourable crop years, the invigorating effect of which has been felt throughout the economy. An evaluation report released by the Planning Commission on April 10, 1965, now estimates the growth in the national income during the Second Five-Year Plan at 29 per cent, five per cent more than the target.[3]

D. FINANCIAL INSTITUTIONS

It is appropriate to examine at this point the various financial institutions — other than development banks — which operate in Pakistan. This will help us

---

[1] Ibid., pp. 2-3.

[2] Ibid.

[3] The Economist, Vol. CCXV, No. 6348, (April 24, 1965), p. 441.

better understand the role played by development banks in the country's march toward industrialization and will also serve as a background against which we can evaluate their performance. The institutions examined in the following few pages are the central bank, commercial banks, insurance companies and post office saving banks.

1. The State Bank of Pakistan

The State Bank of Pakistan, established on July 1, 1948, is the chief monetary authority of the country. Its share capital is Rs. 30 million, of which 51 per cent has been subscribed by the government and 49 per cent by the public.[1] In this way, compromise has been achieved between the ideas of having a shareholders' bank and a state-owned bank.

As regards management, the bank is under the supervision and control of a central board of directors and three local boards, one for each of the three areas of Karachi, Lahore and Dacca. The central board of directors consists of the governor and 9 directors, of which 6 are nominated by the central government and 3 elected by the shareholders.[2]

---

[1] Government of Pakistan, Department of Investment Promotion and Supplies, Investment Opportunities in Pakistan (Karachi: December 1963), p. 125

[2] S.M. Akhtar, Economics of Pakistan (Lahore: Publishers United Ltd., 1963), II, p. 264.

The State Bank of Pakistan performs the usual central banking functions, i.e.,

(a) It is the banker of the central and provincial governments, keeps their cash balances, and is responsible for flotation and management of public loans on their behalf.

(b) It acts as a banker to the other banks of the country and exercises control over all the banks in the interest of sound banking practices.

(c) It has the sole right of issuing currency notes and is responsible for the management of the currency system of the country.

(d) It is responsible for maintaining the external value of the currency and for implementing the exchange control policy of the government.

(e) It is the custodian of the monetary reserves, including the reserves of foreign exchange earned by trade.

Over and above these functions, the bank is entrusted with statutory responsibilities for regulating the monetary and credit system with a view to securing "monetary stability" and the "fuller utilization of the country's productive resources."[1]

The State Bank has realized from the outset that in

---

[1]*Ibid.*, p. 265.

an underdeveloped country, its effective performance as a central bank depends upon the growth of a broad-based, integrated and responsive credit structure and it has, therefore, taken upon itself certain development activities in addition to its normal functions. To start with, the State Bank organized training facilities to meet the acute shortage of banking personnel. It played a direct role in sponsoring the National Bank of Pakistan in 1949. It has also taken a leading part in establishing the Agricultural Development Bank of Pakistan, the Pakistan Industrial Credit and Investment Corporation, the Industrial Development Bank of Pakistan, and is playing an active role in promoting and developing institutions for meeting the needs of various sectors of the economy.

2. Commercial Banks

The commercial banks in Pakistan constitute the most important source of organized credit in the economy, and have played a vital role as mobilizers of the liquid savings of the community. At the end of June 1963, there were 37 scheduled banks,[1] which held deposit resources of Rs.5,188.6

---

[1]A scheduled bank is one that has paid-up capital of Rs. 500,000 or more and has been declared to be a scheduled bank under the State Bank of Pakistan Act, 1956, Ibid., p. 273.

million,[1] and 48 non-scheduled banks,[2] mostly small and local institutions, commanding total deposits of only Rs. 15.67 million.[3]

For the purposes of convenience, commercial banks have been conventionally classified into three groups : (a) Pakistani Banks, (b) Indian Banks, and (c) Foreign Banks.

Pakistani Banks. The phenomenal growth of Pakistani banks is one of the most striking features of the banking scene of the last decade. From the meagre beginning of 4 Pakistani banks with only 23 branches, by June 1963, the number had grown to 16 Pakistani banks with 883 branches throughout the country.[4]

The main factors in the rapid growth of Pakistani banks were the support and encouragement which they have received from the government and the central bank of the country. A policy of restricting the opening of new branches by the foreign banks in the interior of the

---

[1] State Bank of Pakistan, Department of Statistics, Banking Statistics of Pakistan, 1962-63 (Karachi: 1963), Table II, pp. 12-13.

[2] Ibid., Appendix III, pp. 201-202.

[3] Ibid., Table III, pp. 14-15.

[4] Ibid., p. vii.

country was decided upon in 1950, as it was felt that their management and organization could effectively impede the progress of Pakistani banks.[1] The leading Pakistani banks have taken advantage of this situation to rapidly extend their services into the interior. Starting from a position of comparative insignificance, they have now come to a pre-eminent position in the country's banking structure, which is no longer dominated by foreign banks.

It is worth noting at this point the role, the National Bank of Pakistan and Habib Bank Ltd., have played in the country's development.

The National Bank of Pakistan was established in November 1949 in the face of a severe financing crisis in the jute trade, and within a short period of time it completed arrangements which saved the jute economy from disaster. In 1950, it performed a similar service for the cotton trade by rapidly opening a network of branches in the cotton-growing areas in order to finance purchases and later worked closely with official agencies to operate the price-support schemes of the government. It is today the largest financier of the jute and cotton trades in the country. Its operations consist of all types of banking activities including short-term industrial credit and

---

[1]Government of Pakistan, Credit Enquiry Commission Report (Karachi: September, 1959), p. 93.

financing of a wide variety of consumer goods and general merchandise. It also finances imports of iron and steel, so vital for the industrial development of the country.[1]

Habib Bank is a private bank and was originally registered in India in 1941. It was the only scheduled bank of undivided India which transferred its head office to Pakistan. It has already opened 90 branches in the two wings of the country and has five branches abroad.

Habib Bank has served the country in various ways. It has trained a large number of banking officials who now hold responsible positions in banking and other allied institutions in the country, has subscribed share capital to some important credit institutions, and has assisted the government in the procurement and stockpiling of essential commodities, particularly foodstuffs. It has also actively associated itself in the establishment of new industries by making available medium-term finance and issuing deferred payment guarantees against importation of machinery.[2]

Indian Banks. Indian banks had a large network of branches in Pakistan areas before partition, but since then many of

---

[1] *Ibid.*, p. 92.

[2] S.M. Akhtar, *op. cit.*, p. 245.

have moved out of the country. Their activities are more important in East Pakistan than in West Pakistan, due presumably to the presence of large Hindu business interests in that wing.

The Indian banks are mainly interested in the financing of Indo-Pakistan trade. But since trade between these two countries has greatly decreased, their operations have contracted. Moreover, most of them have greatly reduced their business in Pakistan because of the increasing competition from Pakistani banks.[1] "Considering the present political relations of India and Pakistan, the Indian banks will (probably) never revive though their rapid decline seems now stemmed."[2]

Foreign Banks. These are the banks which have their headquarters outside the Indo-Pakistan subcontinent. They are mostly British and American banks, and are the pioneers of modern commercial banking in Pakistan. They were primarily engaged in the financing of foreign trade. But now their activities have extended to other spheres of business as well. They finance internal trade by giving assistance in

---

[1] S.M. Akhtar, op. cit., p. 246-47.

[2] Richard C. Porter, Liquidity and Lending: The Volume of Bank Credit in Pakistan (Karachi: The Institute of Development Economics, March 1963), p. 8.

the movement of goods from up-country centres to ports and also make advances to manufacturing and other groups of borrowers.[1]

In Table IV, we examine the purposes for which the commercial banks have made advances to various economic groups and the relative importance of each of these groups. Comparison is made between December 31, 1963 and March 31, 1953, the earliest year for which details are available.

TABLE 4

CLASSIFICATION OF BANK CREDIT BY ECONOMIC GROUPS IN PAKISTAN AS ON MARCH 31, 1953 AND DECEMBER 31, 1963.

Economic Group	March 31, 1953		December 31, 1963	
	Rs. in millions[a]	Per cent of Total	Rs. in millions[b]	Per cent of Total
1. Agriculture, Hunting, Forestry and Fishing	56.2	9.4	374.3	8.9
2. Mining and quarrying	-	-	7.6	0.2
3. Manufacturing	95.6	16.0	1,468.9	34.1
4. Construction	8.8	1.5	87.3	2.2
5. Commerce	322.8	54.2	1,689.6	40.3
6. Public Utilities	14.6	2.5	100.9	2.5
7. Services	61.7	10.4	313.7	7.6
8. Miscellaneous	36.0	6.0	172.2	4.2
Total	595.7	100.0	4,214.5	100.0

[1] S.M. Akhtar, op. cit., p. 246.

TABLE 4—Continued

[a]The figures have been extracted from Credit Enquiry Commission Report - 1959, op. cit., p. 93.

[b]The figures have been taken from Economic Survey of Pakistan 1963-64, Government of Pakistan, Ministry of Finance (Rawalpindi: 1964), p. 148.

The most important purpose for which advances are made by the scheduled banks, as shown in Table 4, is commerce. This has been a leading purpose throughout the period under study; but its relative importance has decreased from above 50 per cent to about 40 per cent of the total. The gain has been mostly for manufacturing which improved its position from about one-eighth to almost one third of the total advances over the period. Agriculture also is receiving more attention now than ten years earlier though it still claims less than 10 per cent of the total advances.

The report submitted by the Credit Enquiry Commission in September 1959 identified three problems in the commercial banking field.[1] First, they found that commercial banks were confining their operation almost entirely to the provision of short-term working capital for commerce and industry. This is quite understandable since their deposits, being mostly demand deposits, cannot be locked up for long periods.

---

[1]Credit Enquiry Commission Report, op. cit., pp.93-100.

The solution as suggested by the Commission was to create alternative institutions for long-term loans when needed.

The second problem arose out of the over-concentration of credit. A striking disproportion was found between the total credit extended to the largest loan accounts and the small amounts committed for loans below Rs. 25,000. While recognizing that the pattern of credit is determined by factors outside the control of banks, the Commission recommended that "measures should be considered to gradually direct a somewhat greater flow of credit towards borrowers at the lower end of the scale."[1]

The third defect relates to the geographical coverage of banking facilities. The Commission found "a measure of dissatisfaction with the pace of growth of the offices of the scheduled banks especially in the less developed parts of the country."[2] No doubt, the growth of banking, remarkable though it has been in Pakistan, falls much shorter of the needs of the economy. The Commission recommended that a system of financial assistance be evolved to encourage Pakistani banks to open branches in the interior. The danger, however, is that under the protection of financial

---

[1] Ibid., p. 100.

[2] Ibid.

assitance by the State Bank of Pakistan, many uneconomic bank branches may be established which may be difficult to eliminate later. Some safeguards are needed against such a contingency. The situation in this respect has not changed much since the report was submitted.

Broadly speaking, industrial enterprises require two different types of finance: (a) fixed or blocked capital, and (b) floating or working capital. The former includes, usually, not only the initial capital for the purchase of land, the construction of factory buildings and purchase of machinery, but also the funds required for extension, replacement and modernization. The floating or working capital is required for the payment of wages, purchase of raw materials and other sundry expenses.

The Credit Enquiry Commission found that while the working capital needs of large industries are being adequately met by the commercial banks, accommodation for their fixed capital requirements is deficient. Further, the Commission underlined that "the lack of special arrangements for medium-scale and small-scale industries constitutes a lacuna in the institutional structure for industrial finance in Pakistan which must be corrected."[1]

Some of the industries have been able to plough

---

[1] Ibid., p. 118.

back a substantial proportion of their profits into reserves for expansion and in this policy they have been encouraged by tax incentives after the 1955-56 central budget.[1] But not all industrial enterprises can rely on self-financing for growth. And turning to the Stock Exchange is not much of a help, considering its embryonic nature.

The most important instrument for financing and managing industry in the Indo-Pakistan subcontinent has been the well-known Managing Agency system. Managing agencies are usually firms of repute which undertake to promote, finance and manage industries. They are usually partnerships and sometimes joint-stock companies formed for floating a concern and managing it. Originally, they appeared because of Hindu joint family system and peculiar economic conditions in India where managerial talent and financial facilities were lacking. They have been widely criticized for their monopolistic powers and unscrupulous methods. But the best among them have done good service to the industrial development of the subcontinent.

Most of the existing managing agencies moved to India after partition, but in recent years a few Muslim managing agencies have come into being in Pakistan. The Pakistan Industrial Development Corporation, which was government-

---

[1] S.M. Akhtar, <u>op. cit.</u>, p. 48.

sponsored, became the most important managing agency. It sponsored a number of enterprises in collaboration with private industrialists. Facilities for providing blocked capital, however, were not adequate, particularly during the early years after independence. Two institutions, viz., the Pakistan Industrial Credit and Investment Corporation and the Industrial Development Bank of Pakistan, were created by the government to fill this gap — their object being "to make medium and long-term credit more readily available to industrial concerns in Pakistan".[1]

3. Insurance Companies

Insurance, besides its primary function of providing protection against risks, also serves as an effective device for promoting personal savings and capital formation. Small amounts contributed by individuals in their own self-interest aggregate to sizeable funds in the hands of insurance companies which can be utilized for long-term investment.

Pakistan had a very meagre share of insurance facilities in pre-partition days. Partition and disturbances which accompanied and followed it affected insurance business in two ways: first, due to the great loss of life and property that occurred, insurance companies had to face heavy claims on them; second, the movement of non-Muslims, who were

---

[1]Government of Pakistan, Central Statistical Office, Pakistan Statistical Yearbook, 1963 (Karachi: 1964), Table 102, p. 240.

controlling this business, left Pakistan giving a heavy blow to this aspect of economic life. Many of these insurance companies transferred their offices and assets from Pakistan to India. Since then the insurance business has expanded rapidly in Pakistan. The gross direct premiums paid per year on casualty insurance has increased from 9.6 million in 1948 to Rs. 84.0 million in 1961.[1] At present there are 74 insurance companies in Pakistan out of which 29 are Pakistani companies,[2] and they now account for about 50 per cent of the total insurance business in the country.[3]

In spite of recent progress, however, insurance business in Pakistan is still in infancy. The per capita life insurance is one of the lowest in the world, being approximately Rs. 7 as against Rs. 29 in India, Rs. 2,288 in the United Kingdom, Rs. 10,918 in U.S.A. and Rs. 8,333 in Canada.[4] Insurance has not contributed any large amounts to capital formation in Pakistan: during the past few

---

[1]Government of Pakistan, Central Statistical Office, Pakistan Statistical Yearbook, 1963 (Karachi : 1964), Table 102, p. 240.

[2]*Ibid.*, Table 101, p. 240.

[3]S.M. Akhtar, *op. cit.*, pp. 252-54.

[4]*Credit Enquiry Commission Report*, *op. cit.*, p. 172.

years insurance companies have been investing only Rs. 15 to 20 million annually.[1] Most of the insurance business concerns fire insurance, marine insurance and insurance against accidents. Much of the premiums is absorbed by claims and operating expenses.

There is considerable scope for the expansion of insurance business in Pakistan. Gradual extension of postal life insurance to the rural areas, as recommended in the First Five-Year Plan and suggested by the Credit Enquiry Commission, could be a means of increasing premium income.

4. Post Office Saving Banks

The Post Office is the oldest government agency for the collection of small savings from the general public. Approximately 7,600 out of a total of 15,000 post offices in the country are carrying on saving bank business.[2]

Compared to certain foreign countries like Japan, U.K. and Australia, the performance of the post office agency in the mobilization of savings cannot be considered satisfactory. This is attributable largely to the general lack of saving mindedness in the rural areas and partly

---

[1] Credit Enquiry Commission Report, *op. cit.*, p. 171.

[2] *Ibid.*

to the administrative limitations under which the post office discharges its savings bank work. The number of post offices which have separate staff exclusively for this purpose is limited and savings bank business is treated as a subsidiary function of the post office.[1]

However, the recommendations made by the Credit Enquiry Commission to improve the performance of the post office agency are receiving the active consideration of the government, and when implemented are sure to make this particular service more widespread in the country.

E. ECONOMIC IMPEDIMENTS

It is an established fact that investment is necessary to economic growth. Hence, saving is necessary to growth, since there can be no investment without savings.

In 1963, per capita income in Pakistan was Rs. 259,[2] which is very low compared to that of the more advanced countries. In spite of the efforts put forth by the government, per capita income has failed to rise by any appreciable degree. Such a low level of income hardly permits any savings by the household. An average family spends about 64 per cent of its income on food, which leaves little money for investment

---

[1]Ibid.

[2]PICIC at Work, op. cit., p. 4.

in productive endeavors. Low income implies little investment, and little investment keeps the income from rising. This is the familiar vicious cycle in which underdeveloped countries like Pakistan are caught. For development to take place, there must be a break in this cycle. As Rostow aptly observes, it is a necessary but not sufficient condition for the take off that "the proportion of net investment to national income (or net national product) rises from, say, 5 per cent to over 10 per cent, definitely outstripping the likely population pressure, ... and yielding a distinct rise in real output per capital."[1]

It is in the rural areas — where is concentrated more than 80 per cent of the population — that the problem of poverty is acute. Pakistan's economy is actually a dual economy: the urban areas display an industrial money economy, while the rural areas have a subsistence agricultural economy. Thus, while the urban population uses money for its transactions, in the rural areas most deals are made in kind.

Obviously, individuals who rarely use money as a means of exchange are hardly in a position to accumulate substantial amounts of savings. As for those who live in the urban centres and can afford to save a proportion of their income, they usually prefer to invest their funds in

---

[1] W.W. Rostow, The Stages of Economic Growth (Cambridge: The University Press, 1960), p. 37.

the traditional channels such as real estate and commerce rather than embark on new and risky ventures.

SOCIAL-CULTURAL IMPEDIMENTS

The social values prevailing in the rural areas of Pakistan also discourage the formation of savings. The general feeling is that nothing can be done about poverty or against fate. Actually, there is greater concern over ensuring one's position in the next world than in this one, and "unnecessary consumption" is considered sinful. Wants being limited by habits and taboos, there is no incentive for working harder and earning more money.

Another value-orientation which discourages hard work is the fact that inherited wealth is considered socially more desirable than income from one's own efforts. In fact, a person's social position tends to be inversely related to the degree to which he personally supervises his wealth. Manual work is looked upon with scorn and considered degrading. White-collar jobs carry greater prestige and are very much sought after by the semi-educated population.

One of the main obstacles to the mobilization of savings in Pakistan is the extended family system, which prevails in the rural areas. A family household usually includes three or more generations. Land is jointly owned and operated, and all resources are shared. If a man goes to city to look for work, he usually leaves his wife and children with his parents and sends money home for their support.

The extended family system has tremendous advantages in societies living at a subsistence level, but it seems not to be appropriate to societies where economic growth is occurring. While in the former, the extended family constitutes a form of insurance against illness and old age — "a means of social security"[1]— in the latter, it is almost certainly a drag on personal effort. Initiative is likely to be stifled if the individual who makes the effort is required to share the reward with many others. To quote Lewis, "such a system is a drag on initiative because it provides everyone with automatic insurance against want, thereby diminishing mobility, thrifts, and enterprise."[2]

Another important consideration is that the extended family system, along with the prevailing religious belief, encourage a high birth-rate. The fact that a large proportion of the population consists of children has two related outcomes: first, the proportion of population which is "gainfully occupied" or "economically active" is greatly reduced;

---

[1]W.A. Lewis, The Theory of Economic Growth (London: George Allen & Unwin Ltd., 1955), p. 113.

[2]*Ibid.*, p. 114.

second, the adult population assumes a considerable burden, for it has to devote time and resources to bringing up children which could alternatively be used for raising the living standard of adults.

CHAPTER II

PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION (PIDC)

A. HISTORY AND SCOPE OF ACTIVITIES

The first development corporation in Pakistan — PIDC — came into existence in 1950 by an Act of the Parliament. However, the first board of directors was not appointed until January 1952. The primary object of the corporation was to promote basic industries which other industrialists were either unable or unwilling to undertake. The corporation aimed to combine government initiative and finance with private enterprise. The emphasis of the corporation was on promotion and not on ownership of industries. The PIDC Act, 1950 limited the operations of the corporation to 14 industries listed in the schedule, namely, jute, paper board and newsprint, heavy engineering (including iron and steel), ship building, heavy chemicals, fertilizers, sugar, cement, textiles, natural gas, chemicals, pharmaceuticals and dyestuffs, development of power from natural gas, petro-chemicals and coal and peat.[1]

---

[1]Pakistan Industrial Development Corporation, The Role of PIDC in the Industrial Development of Pakistan (Karachi: November, 1960), p. 1.

As industries became a subject for the provincial governments, PIDC was bifurcated on July 1, 1962, into two provincial corporations, viz., East Pakistan Industrial Development Corporation (EPDIC) and West Pakistan Industrial Development Corporation (WPIDC). The two corporations are twin institutions with similar aims of developing basic industries in their respective provinces.

During more than a decade of its existence, PIDC concentrated on the development of large-scale basic industries. The corporation took initiative in promoting enterprises that required heavy initial capital outlay, or which took a long period to construct, or which involved complicated processes requiring high degree of technical knowledge and operating experience. It also attempted to rectify the lop-sided industrial development arising from an excessive concentration of industries in a few large towns. However, the corporation refrained from setting up industries, though within its charter, which were receiving adequate attention from private investors, such as, cotton textile mills.[1]

B. SOURCES OF FINANCE

The original capital of the corporation was Rs. 10 million divided into one hundred ordinary shares, of which

---

[1] PIDC, Progress Report on Projects (Karachi: May 1962), pp. 7-8.

one half of the shares were issued and subscribed in full by the Government of Pakistan.[1]

All the finances for the projects undertaken by PIDC came from annual budgetary grants of the central government, and such private capital as the corporation was able to attract. This was supplemented by foreign aid and loans, and working capital loans obtained from Pakistani banks on normal commercial terms.[2]

The government budgetary grant averaged from Rs.150 to 200 million per year and constituted the bulk of the capital investment of PIDC. A substantial part of the government finance was in the form of foreign exchange.[3] Table 5 shows, in a summary form, the total funds received from and refunded to the government.

Private participation in PIDC enterprises varied from project to project. It constituted about 28.4 per cent of the total investment in the completed 54 projects upto June 30, 1962. Part of the private capital came from

---

[1] The Role of PIDC in the Industrial Development of Pakistan, op. cit., p. 3.

[2] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

[3] The Role of PIDC in the Industrial Development of Pakistan, op. cit., p. 3.

TABLE 5

STATEMENT OF FUNDS RECEIVED FROM AND REFUNDED TO THE GOVERNMENT OF PAKISTAN[1]
June 30, 1961
(Rs. in Millions))

	Total funds rec'd upto 30th June 1961	Refunds to Govt. upto 30 June 1961	Net fnds rec'd. upto 30 Jun '61
1. Companies under other management	222.8	153.9	68.9
2. Companies under PIDC management	494.4	13.8	480.6
3. Underway projects	352.8	-	352.8
4. Completed in Production	229.5	-	229.5
5. Revolving Credit	5.0	-	5.0
6. Middle East Jute Mills	12.5	-	12.5
	1,317.0	167.7	1,149.3

the foreign investors, notably £ 1.0 million each from Burmah Oil Company and the Commonwealth Development Corporation. Smaller amounts were invested by the Inchcape Group in the Star Jute Mills, Khulna; by Bayers in the Dyes and Chemical Plant at Daudkhel; and by May & Baker in the Pakistan Pharmaceuticals Ltd. at Dacca.[2]

---

[1]PIDC, Annual Report, 1960-61 (Karachi: 1961), p. 55.

[2]Interview with the Public Relations Manager, WPDIC, Karachi, on May 4, 1964.

PIDC received foreign aid from a number of countries to finance some of the projects. By October 1960, the total amounted to Rs.138 million when a consortium of a number of countries and institutions interested in the development efforts of Pakistan was formed which committed a total amount of US $ 549.3 million in the form of grants and loans for various development projects during the Second Five-Year Plan period.[1]

C. ACHIEVEMENTS OF THE PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION

In its life time —from July 1952 to June 1962 — PIDC was responsible for completing 54 projects at a total cost of Rs. 1,309 million. Of these, 37 projects were converted into public limited companies, and shares were offered for public subscription. The total paid-up capital of these companies amounted to Rs. 820 million of which Rs. 526 million was provided by PIDC and the remaining Rs. 294 million was subscribed by private investors.[2] Table 1 in Appendix B provides a list of these projects and the share of PIDC as well as that of private investors in the cost of each of these projects. A study of this table shows that PIDC

---

[1] Ibid.

[2] PIDC, Progress Report on Projects, op. cit., p. 8.

undertook the establishment of projects in all the industries assigned to it, either on its own or in partnership with private entrepreneurs. Included among them were twelve jute mills; three paper, cardboard and newsprint mills; three ship-building and repair yards; five sugar mills; two cement factories; three fertilizer factories; four chemical plants; one penicillin factory; one dyestuff plant; three woollen mills; two cotton textile mills; a gas transmission pipeline from Sui to Karachi and another from Sui to Multan; two gas distribution companies; and development of coal mines. The corporation undertook surveys and investigations connected with the prospecting of iron ore. Further, to modernize cotton ginning, six model cotton ginning factories were established by PIDC in West Pakistan.

The total value of the goods produced by PIDC upto June 30, 1961 was estimated at Rs. 3,004.9 million whereas annual production during 1960-61 was valued at Rs. 632.88 million. Table 2 in Appendix B gives itemwise distribution of production of PIDC projects and table 3 gives the foreign exchange earnings of these projects during the same period.

Besides completed projects, there were 16 other projects, under various stages of completion, in both wings of Pakistan on June 30, 1962. These included five jute mills; two paper and cardboard mills; two coal development schemes; one iron and steel mill; one cotton mill; one pharmaceutical factory; one fertilizer factory and one cement plant expansion project. These on-going projects were estimated to cost Rs. 619.47 million. Table 4 in Appendix B provides the details.

PIDC was also responsible for setting up four jute factories in various countries of the Middle East. The following table gives the investment of PIDC in these jute factories.

TABLE 6

PIDC'S INVESTMENT IN MIDDLE EAST JUTE MILLS[1]
June 30th, 1961

Name of the Project	Amount Invested (Rs. in Millions)
1. EGYPT: Jute Products, Cairo	2,720,896
2. TURKEY: Turkish Jute Mills, Ankara	5,853,546
3. IRAQ: Iraq Jute Mills, Baghdad	1,994,788
4. LEBANON National Industries, Beirut	1,173,192
	11,742,122

[1]PIDC, Annual Report, 1960-61, op. cit., p. 74.

D. PROFITABILITY

On June 30, 1961, the total assets of PIDC were estimated at Rs. 67.192 million and the profit and loss statement of the same year showed a net profit of Rs. 5.418 million. In the early years of its , the corporation earned meagre profits, as most of its work was primarily of development nature. Also, profit considerations played insignificant role in the choice of its enterprises. Nevertheless, as the corporation overcame initial hurdles and acquired experience, it began to show profit. Total profits of the corporation, from its inception in 1952 to 1961 amounted to Rs. 20.93 million. Table 7 gives the net profit figures for three years from 1959 to 1961.[1]

TABLE 7

PIDC'S PROFITABILITY

1959-61

Fiscal Year end June 30	Net Profit After Tax Rs. in millions.
1959	1.31
1960	7.28
1961	5.42

[1] PIDC, Annual Reports for the Years 1959 to 1961.

The chief sources of income for the corporation were dividends received from the PIDC sponsored companies and the capital gains realized from the sale of shares of its companies to private investors. However, the net profit figures given in the above table are exclusive of the losses that the corporation incurred as a result of converting its projects into joint stock companies and selling them to the private investors at less than their cost. Such losses, upto June 30, 1961 amounted to Rs. 18.25 million.

In Appendix C is given the balance sheet and the income statement of the corporation for the year ended June 30, 1961.

WEST PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION (WPIDC)
AND
EAST PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION (EPIDC)

E. SCOPE OF ACTIVITIES

As pointed out earlier in the chapter, the two provincial development corporations came into existence as a result of bifurcation of PIDC - the parent organization - on July 1, 1962. The primary aim of the two twin organizations continues to be the same, i.e., promotion and development of essential industries which the private enterprise is either unable or unwilling to undertake. The operations of EPIDC is confined to the same 14 industries named in the PIDC Act of 1950, whereas WPIDC's charter now extends to 16 industries; viz., jute; paper, cardboard and newsprint; heavy engineering, including iron and steel; ship building; heavy chemicals; fertilizers; sugar; cement; textiles; chemicals, pharmaceuticals and dyestuff; coal and peat; exploitation of marine fisheries; industries based on forest products; development of cottage and small industries; refractory products; and clay products.[1]

The two corporations, each in its respective province, are responsible for:[2]

1. Planning, promotiing, organizing, implementing programmes for the establishment of industries listed in the schedule to the ordinance;

2. exploration, exploitation and development of minerals and mines; and

3. exploration, exploitation and development of any raw material which the central government may entrust with.

The two corporations are also authorized to :

1. sponsore limited companies and act as managing agents for such companies, unless directed otherwise by the

---

[1]Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

[2]Interview with the Secretary, WPIDC, Karachi, on May 9, 1964.

government;

2. issue the capital required for the aforesaid companies for public subscription and if any portion thereof remains unsubscribed after the expiry of the closing date for the public subscription, subscribe on behalf of the government;

3. underwite the whole or any portion of the capital issued for the aforesaid companies; and

4. sell or transfer the shares subscribed for by it, when they consider the time opportune.

F. SOURCES OF FINANCE

The two corporations were set up with an authorized capital of Rs. 10 million each, divided into one hundred fully paid-up shares, of which 45 shares of each of the corporations have been issued in the first instance to the government and the remaining shares may be issued from time to time by the corporations with the previous sanction of the respective provincial governments.[1]

The annual budgetary grants of the provincial governments are the chief source of the corporations' finances, being supplemented by such private capital as the corporations are able to attract, foreign aid and loans and working capital

---

[1] Economic Advisor to the Government of Pakistan, Ministry of Finance, <u>Financial Institutions</u> (Rawalpindi: May, 1964), pp. 74 and 87.

obtained from Pakistani commercial banks on normal commercial terms. A substantial part of the government finance is in the form of foreign exchange.[1]

G. MANAGEMENT AND ORGANIZATIONAL STRUCTURE

The general direction and administration of each of the corporations and its affairs is vested in their respective board of directors headed by chairmen. The respective provincial governments appoint the chairmen and the other members of the boards of directors. The boards of directors, in discharging their functions, act on commercial considerations and are only guided on policy matters affecting national interests through directions given by the provincial governments concerned. The extent of government control and supervision is, otherwise, limited to essential matters like the appointment of chairmen and directors, approval of annual budgets, development schemes, financing arrangement, the terms of sale of corporations' projects to private parties and the auditing of accounts.[2]

The chairman and the three directors share among themselves the control of each of the corporations' enterprises. The organization of EPIDC, which is similar to its

---

[1] Interview with the Public Relations Manager, WPIDC, on May 4, 1964.

[2] Interview with the Secretary, WPIDC, Karachi, on May 9, 1964.

counterpart in West Pakistan, is described by Chart I. The chairman of EPIDC is responsible for the management of jute industries, natural gas transmission, iron and steel industry, purchasing, and public relations departments. The remaining of the industries are controlled by the other two directors, while the third director is responsible for Finance and Accounts departments.

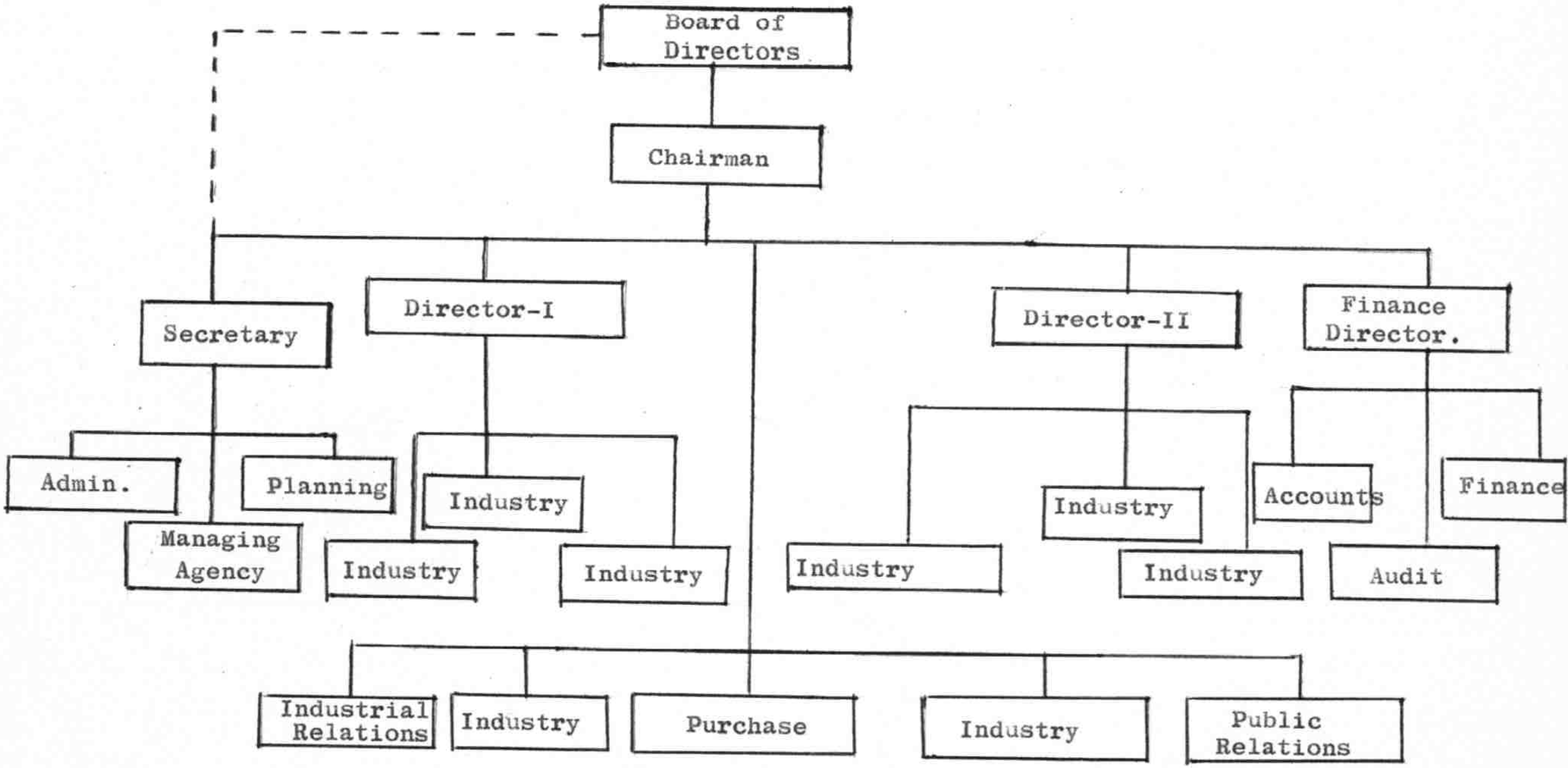
H. MODE OF OPERATION

Like the parent organization, the policy of the two provincial development corporations has been to supplement, rather than to supplant, private enterprise. Secondly, the emphasis of the corporations is on promotion and not on ownership of industries.

To initiate a project, the provincial corporation carries out a preliminary survey for which each of the corporations is provided with a revolving credit of Rs. 5 million. Efforts are made to associate private capital from the very beginning. If the private participation is not immediately forthcoming, the project is carried out by the corporation alone. After the project is ready, efforts to attract private capital, or to sell the project, are renewed. If there is no success even at that stage, the project is converted into a joint stock company and the shares are placed on the market with the corporation acting as managing

CHART 1

EAST PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION
ORGANIZATION CHART



Source: East Pakistan Industrial Development Corporation, Progress Report, 1962-63 (Dacca; 1963), p. 73.

agents.[1]

I. INVESTMENTS

WPIDC — On bifurcation of the parent organization, WPIDC inherited 33 completed and 4 on-going projects in the field of the large-scale industry. The total cost of the projects handed over to WPIDC was Rs. 1,371.0 million of which PIDC's investment amounted ton Rs. 1,196.8 million.[2] Since then, by June 30, 1964, WPIDC had completed two of the on-going projects and sponsored additional 72 projects. Of these 72 projects, 27 were in the field of large-scale industry; viz., jute manufacture, paper, cardboard and forest industry, heavy engineering, shipbuilding, fertilizers, sugar, cement, textiles, chemicals, coal, natural gas, salt mines and refractories, and two survey and development schemes; and 43 small industry projects. The small industry projects included 9 small industrial estates, 16 cottage industries development centres, 8 service and common facility centres, and 10 miscellaneous projects.

The details of investment by WPIDC and private interests are given in tables 5 and 6 in Appendix B.

---

[1] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

[2] Economic Advisor to the Government of Pakistan, Ministry of Finance, Economic Survey of Pakistan, 1963-64, op. cit., p. 40.

The completed projects of WPIDC produced a total output valued at Rs. 368.5 million during the year 1963-64, of which goods worth 4.4 million were exported . Table 7 in Appendix B provides commoditywise break-up of the output.

EPIDC — On July 1, 1962, the former PIDC's investment in various projects in East Pakistan was valued at Rs. 832.7 million of which EPIDC inherited Rs. 558.1 million.[1] Since the bifurcation of PIDC, EPIDC has increased appreciably the pace of investment in East Pakistan. During the first year upto June 1963, the corporation invested Rs. 113.3 million on developing various industries and the investment increased to Rs. 205.7 million in the year 1963-64.[2]

Upto June 30, 1964, the corporation completed 6 projects - raising the number of completed projects to 27 with a total investment of Rs. 890.0 million. Included among the completed projects were 16 jute mills, 2 paper and newsprint mills, 2 ship and dockyards, 4 sugar mills, 1 fertilizer factory, 1 pharmaceutical factory, and 1 textile mill.[3]

The corporation had a fairly long list of on-going

---

[1] Ibid., p. 42.

[2] Abdul Hafiz, "Survey of Activities since Bifurcation," Industry (Dacca: July-August, 1964), Vol. 2, No. 4, p. 143.

[3] Ibid., p. 144.

and proposed schemes during 1964. There were 39 approved projects under implementation, of which 15 were on-going and 24 new. These included 15 jute mills of 250 looms each, 1 hardboard factory, expansion of Khulna Newsprint Mills, 5 sugar mills including expansion of one existing mill, iron and steel works, Chittagong, 4 chemical plants, 1 natural gas fertilizer factory, one dry dock, installation of 500 looms in Muslin Cotton Mill, etc. The completion of these projects is estimated to cost Rs. 1,448.7 million.[1]

The completed projects of EPIDC produced goods worth Rs. 727.6 million in 1963-64, of which goods exports amounted to Rs. 410.8 million. This represented an increase of Rs . 171.0 million in production and Rs. 61.2 million exports over the year 1962-63.[2]

J. PROFITABILITY

While the last two years' financial statements were not available, the two corporations are reported to have continued to show profits during more than two years of their existence. Exclusive of losses resulting from converting corporation's enterprises into joint stock companies,

---

[1] Ibid., p. 144.

[2] A.K.M. Hafizuddin, "Two Years of EPIDC: An Evaluation," Industry, op. cit., p. 132.

EPIDC's profits during 1962-63 were at Rs. 24.8 million, and this figure rose even higher during 1963-64.[1] Similar profit trend was observed in WPIDC, though actual figures were not available.[2]

The two corporations' performance shows that they have reached a stage of maturity, backed by more than a decade of experience in the development of basic industries in Pakistan. Commercial considerations in the choice of enterprises and their expansion are playing increasingly important role. Both the corporations during the Third Five-Year Plan, 1965-70, are moving ahead with confidencein the field of heavy industry to meet the country's challenge of self-sufficiency in industrial machinery and equipment.

---

[1] Abdul Hafiz, <u>op. cit.</u>, p. 144.

[2] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

CHAPTER III

THE PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LTD.

(PICIC)

A. HISTORY AND SCOPE OF ACTIVITIES

On November 1957, the Pakistan Industrial Credit and Investment Corporation (PICIC) was founded after initial negotiations between a steering committee consisting of private businessmen, the government of Pakistan, the State Bank of Pakistan, and the International Bank for Reconstruction and Development. The corporation was organized as a privately owned development bank under the Companies Act of 1913.

The main objectives of the Corporation are to assist industrial enterprises in the private sector by helping them in their creation, expansion and modernization, as well as by the encouraging, sponsoring and facilitating participation of private capital in such enterprises. The assistance may be afforded in any of the following forms:[1]

---

[1] Articles of Association, PICIC, Karachi, pp. 1-2.

(a) providing finance in the form of long- or medium-term loans or share participations;

(b) sponsoring and underwriting any issue or conversion of shares and securities;

(c) guaranteeing or counter-guaranteeing loans and obligations;

(d) making funds available for re-investment by causing the transfer of shares and securities and by revolving investments as rapidly as prudent; and

(e) furnishing managerial, technical and administrative services to Pakistani industry.

An important feature of the corporation's scheme of assistance is that it can not only provide loans for industry but may also subscribe to share capital. It may provide loans both in local and foreign currencies.

The corporation does not normally take direct part in the management of enterprises financed by it, but it may in special circumstances seek to appoint a director to represent its interests.

PICIC is precluded from participating financially or otherwise in public enterprises. The provision of short-term working capital loans is also outside the scope of its activities.[1]

---

[1] Credit Enquiry Commission Report, op. cit., pp. 112-113.

B. SOURCES OF FINANCE

PICIC derives its financial resources from its paid-up capital and reserves, long-term government loans, and foreign credit.

1. Capital and Reserves

PICIC has an authorized share capital of Rs. 150 million, of which on December 31, 1963, Rs. 40 million was paid-up and the corporation had reserves and surplus in the amount of Rs. 7.35 million.[1]

Of PICIC's capital, 60 per cent has been subscribed by private Pakistani investors, while the remaining 40 per cent is held by the International Finance Corporation and private interests in USA, UK, Canada, Japan and West Germany. Table 8 shows the composition of the shareholdings in PICIC.

TABLE 8

COMPOSITION OF SHAREHOLDINGS IN PICIC[2]
June 30, 1963

	Rs. in Millions	Per cent
Pakistani shareholders	24.00	60.0
U.K. Shareholders	4.36	10.9
U.S.A. and Canadian shareholders	4.32	10.8

[1] PICIC, Sixth Annual Report, 1963 (Karachi,1964), pp.8-9.

[2] PICIC, PICIC at Work (Karachi; August 1963), p. 8.

TABLE 8—Continued

Japanese Shareholders	2.92	7.3
West German Shareholders	2.40	6.0
I.F.C.	2.00	5.0
Total	40.00	100.0

The bulk of the Pakistani portion of the capital is held by institutional investors, i.e. banks, insurance companies and investment houses; but there is also a large number of private individual shareholders located all over the country. There are approximately 800 shareholders, both local and foreign.[1]

2. Government Assistance

The Government of Pakistan, as a measure of assistance to PICIC, has advanced two long-term loans of Rs. 30 million each. The first advance granted in 1957 is interest free, while the second, sanctioned in 1961 carries an interest of 4 per cent per annum. A special feature of these advances is that until repaid, they are subordinated to all other debts, liabilities and share capital of the corporation. Therefore, these advances are considered as equity

[1] Interview with the Secretary, PICIC, Karachi, on May 7, 1964.

for the purpose of debt-equity ratio.[1]

3. Foreign Currency Borrowings

Besides rupee funds, the corporation requires foreign currency resources to meet the industry's demand for import of capital goods and machinery. For this purpose, PICIC obtained long-term credit loans in foreign currencies from various sources. At the end of 1963, the corporation had total credit of $ 118.40, granted with the Government of Pakistan guarantee as under.

TABLE 9

PICIC'S SOURCES OF FOREIGN EXCHANGE CREDIT[2]

As on December 31, 1963

Agency/Country	$ in Millions
IBRD	49.20
West Germany	25.00
U.S.A. (AID)	21.70
Japan	12.00
France	8.00
U.K.	2.50
Total	118.40

[1] Interview with the Secretary, PICIC, on May 7,1964.

[2] PICIC, Sixth Annual Report, 1963, op. cit., p. 5.

C. MANAGEMENT AND ORGANIZATIONAL STRUCTURE

Control of PICIC's policy and administration is vested in a board of directors comprising of 20 members, of whom 12 are elected by private Pakistani shareholders, 5 by foreign shareholders, and three are appointed by the Government of Pakistan. The government and foreign directors do not enjoy any special powers and all decisions are taken on a majority basis. The board of directors meets once every quarter. A standing committee of the board, consisting of six directors, meets roughly once a month.

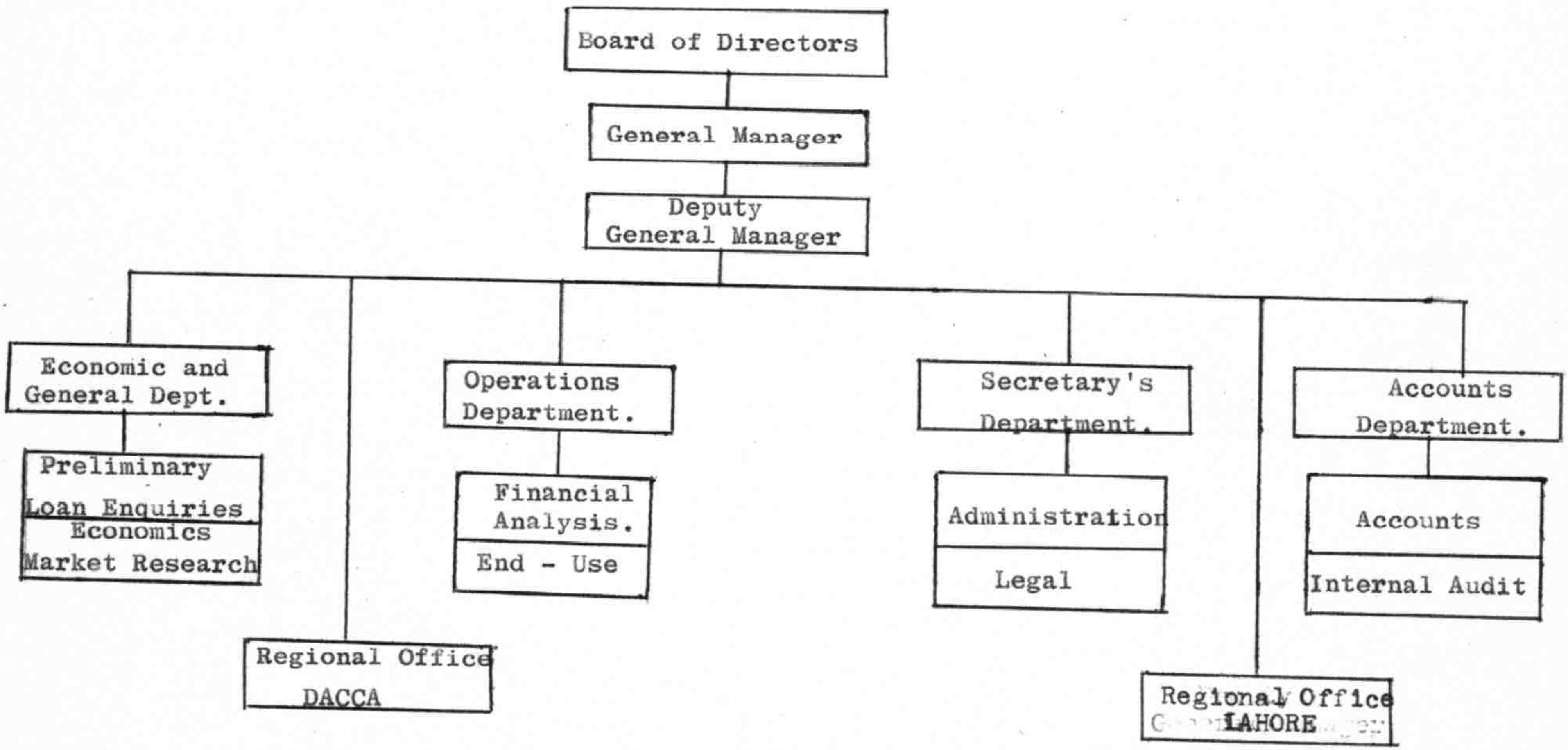
The chief executive of PICIC is the General Manager who is at the head of four main departments, viz., Operations Department, Economic and General Department, Secretary's Department, and Accounts Department. Chart II shows the organizational structure of the corporation.

The operations department deals directly with the clients and is responsible for appraising loan applications. It is manned by financial analysts, industrial engineers, and marketing research specialists.

The Economics and General Department is concerned with keeping a check on the utilization of loan funds in accordance with the terms of the loan and their recovery on schedule. In addition, this department maintains regular contacts with the clients after the sanctioning of the loans,

CHART 2

PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION
ORGANIZATION CHART



Source: Pakistan Industrial Credit and Investment Corporation, PICIC at Work (Karachi; 1963), p. 3.

watches carefully the construction of the projects, and, therefore, the success of their operation. In the event of any difficulty, it furnishes the necessary help and advice to the project owners.

The Secretary's Department handles the secretarial and administrative work of the corporation, while the Accounts Department is responsible for preparing and keeping the books of accounts and other financial records of the corporation.

Besides the Head Office in Karachi, there are two regional offices, one at Dacca (East Pakistan), and the other at Lahore (West Pakistan). The regional offices are primarily responsible for receiving loan applications within their areas and carrying out a preliminary project appraisal. The projects are, then, routed to the Head Office for detailed analysis and examination by the project appraisal committee. The regional offices, in addition, supervise sanctioned projects within their areas under the overall direction of the Head Office.

The corporation maintains a sizable staff of financial analysts, engineers and market specialists. The technical organization of PICIC is mostly centralized within the Operations Department, which is headed by a senior executive.

In addition, lawyers are included in the regular cadre of the corporation and are responsible for the preparation, scrutiny and registration of loan contracts and security documents. The Legal Division is organizationally a part of the Secretary's Department, but works in close cooperation with the Operations Department.[1]

D. MODE OF OPERATION

Processing of Loan Applications

The processing of loan applications is a highly critical phase of industrial development banking as in the selection of sound enterprises lies the real security for the loans, and it is at this stage that unprofitable projects may be rejected. Therefore, PICIC has an orderly and well defined procedure for this process.

Prospective borrowers are required to submit a loan application furnishing complete information on the proposed project. Staff assistance is provided in appraising the project. In case the project under consideration is particularly large or technically complicated, the sponsors are advised to seek the assistance of suitable technical consultants and submit a feasibility report.

Incoming applications in the Head Office go first to the Economic and General Department for preliminary

---

[1] Interview with the Secretary, PICIC, Karachi, on May 7, 1964.

scrutiny and on its recommendations to the Project Appraisal Committee for their disposal. This committee is headed by the General Manager and includes the Deputy General Manager, the department heads, the Chief Engineer, the Chief Economist, and the Economic Advisor.

The Project Appraisal Committee examines each application carefully and recommends suitable action. Uneconomical projects are rejected at this stage. Others are routed to the Operations Department for detailed analysis.

PICIC follows a "working party" or a "team basis" of project analysis. Projects are first routed by the Operations to Economic Research for a clearance on the point of markets. If no market can be found for the product of a company, it is considered useless to explore technical and financial considerations. When a green light is given,on the market side, the "working party" takes over. The object of its analysis is to determine whether the project is technically, financially, and economically sound.

In evaluating a project, not only the quality and experience of the entrepreneurs, the capital structure, technical layout, management schemes and sales prospects are considered, but also the project's suitabulity from the national point of view. Projects which fall within the scope of national priorities, as listed in the "Industrial Investment Schedules",[1] process indigenous raw materials, or are likely to earn or save foreign exchange, are given preference.

All projects reports, when completed by the "working parties" are sent to the project appraisal committee from where the recommended loans go to the board of directors for sanction.[2]

Terms of Assistance

PICIC does not quote any standard terms for grant of financial assistance. Interest rates vary with the security offered, the market prospects of the enterprise, the size of financing, the extent of supervision required, and the general level and tendency of interest rates in the country and abroad. So far, the rates have ranged between 6 to 7 per cent on loans in local currency and 6 1/2 to 7 1/2 per cent on loans in foreign currencies.[3] These rates are only a little higher than the short-term loans granted by the commercial banks, most of which range between 3 and 6 per cent.[4]

---

[1] Cf., pp.90-91.

[2] Nathaneal H. Engle, Industrial Development Banking in Action (Karachi: 1962), pp. 92-93.

[3] Interview with PICIC's Legal Attorney, Karachi, on May 12, 1964.

[4] Banking Statistics of Pakistan, 1962-63 (Karachi: State Bank of Pakistan), Table VI, pp. 68-69.

PICIC's loans are normally granted for a period ranging from 5 to 10 years, which is a long enough period to repay its loan from out of earnings. Repayment of loans is accepted in semi-annual instalments according to a schedule determined at the time of commitment. The corporation, as a rule, does not accept premature payments.

Being conceived as a development institution, PICIC can lend not only against existing assets but also against the mortgage of prospective assets which are tocome into being as a consequence of its financing. In exceptional cases, it may agree to accept a guarantee from a commercial bank acceptable to it. The corporation may also accept personal guarantee from the directors of private limited companies.

As regards equity participation, PICIC is authorized to participate in the share capital of an enterprise and has done so on a number of occasions. However, such participations are generally combined with a loan. PICIC usually attaches convertibility provisions to its loans granted to new and large industrial enterprises, so that it may, at option, convert a portion of loan (generally 20 per cent) into equity.[1]

---

[1]Interview with PICIC's Legal Attorney, Karachi, on May 12, 1964.

E. LOANS AND INVESTMENTS

As outlined earlier, PICIC's chief objective is to promote the growth of industries in the private sector along sound lines. The Government of Pakistan brings out periodically a document called the "Industrial Investment Schedule" whose purpose is to provide a list of possible industries (along with desirable investment targets) from which the private sector can choose. PICIC can finance any of these industries upto investment ceilings without prior permission of the government. With respect to industries not covered by the schedule or not carrying monetary targets, special permission for financing is required from the government, which is readily given.[1]

PICIC began its lending operations early in 1958. After a slow start, it gained momentum and upto December 31, 1963, had sanctioned 434 loans out of which 73 were either withdrawn or cancelled. As will be observed from statistics in table 10, the volume of financing by PICIC has been on the increased from year to year.

---

[1] Ibid.

TABLE 10

LOANS GRANTED BY PICIC FROM 1958-1963[1]

Year ending December 31	No. of Projects	Loan Amount (Rs. in million)
1958	35	41.8
1959	72	52.2
1960	91	73.8
1961	76	110.7
1962	90	153.0
1963	70	189.5
Total (1958-1963)	434	621.0
Less withdrawn or cancelled by December 31, 1963	73	69.7
Loans in effect on Dec. 31, 63	361	551.3

Out of a total of 361 loans on the portfolio of the corporation, aggregating to Rs. 551.3 million as on December 31, 1963, loans for Rs. 516.2 million were in foreign currencies and Rs. 35.1 million in local currency. Regionwise distribution of these loans is given in table 11 below.

[1]PICIC, <u>Sixth Annual Report, 1963</u> (Karachi: 1964), p. 3.

TABLE 11

REGIONWISE DISTRIBUTION OF LOANS
GRANTED BY PICIC[1]

December 31, 1963

Region	Number	Loans in Local Currency	Loans in Foreign currencies	Total	Percentage of Total
Karachi	108	6.1	112.1	118.2	21.40
Rest of West Pakistan	157	7.9	270.0	277.9	50.50
East Pakistan	96	21.1	134.1	155.26	28.20
Total	361	35.1	516.2	551.3	100.00

In addition to the loans, detailed in table 11, PICIC financed projects included 13 joint ventures, resulting in an inflow of Rs. 28.0 million worth of foreign capital over and above that supplied by PICIC. PICIC made direct equity investments amounting ton Rs. 6.9 million in projects assisted by it and underwrote 5 public issues for Rs. 16.3 million. Total acquisitions under underwriting liabilities amounted to Rs. 1.323 million or only 8.1 per cent of the total amount underwritten. It also arranged loans from abroad for 6 large projects in the amount of Rs. 137.5 million. Thus, at the end of 1963, total assistance through PICIC amounted to the

[1] *Ibid.*, p. 4.

equivalent of Rs. 725.0 million as under:[1]

	Rs. in Millions
Loans in foreign currencies	516.2
Loans in local currency	35.1
Direct participation in equity	6.9
Underwriting of public issues of which PICIC had to take up	1.3
Direct loans from abroad for PICIC projects	137.5
Foreign equity participation in PICIC financial projects	28.0
Total	Rs. 725.0

Although the loans sanctioned by PICIC are widely distributed among industries, there is a fairly heavy concentration in textiles, sugar and food processing. This is natural, since, these industries stem from the raw materials base of Pakistan. Furthermore, the fact that textiles rank at the top is hardly surprising in view of the important place occupied by this industry in Pakistan's economy. Textile industry accounts for about 40 per cent of the total private investment in manufacturing industries, and provides 38 per cent of the total employment in all medium and large scale industries in the country.[2] Table 12

[1]PICIC, Sixth Annual Report, op. cit., p. 4.

[2]PICIC, PICIC at Work, op.cit., p. 11.

reveals the details.

TABLE 12

CLASSIFICATION OF PICIC PROJECTS
BY INDUSTRIES[1]

As on June 30, 1963

Industrial Group	No. of Projects	Amount (Rs in Million)	Per cent
I. Textiles - Cotton, Woollen, Jute and Art silk	100	180.1	35.6
II. Sugar	18	54.0	10.7
III. Engineering, metal and electrical industries	58	49.4	9.8
IV. Food Products & processing	61	46.2	9.1
V. Chemicals and pharmaceuticals	26	42.7	8.5
VI. Inland water Transport	11	37.6	7.5
VII. Paper, Paper Products and Printing	14	26.5	5.2
VIII. Cement	1	14.3	2.8
IX. Glass, Clay, Ceramics and Building Materials	16	12.9	2.6
X. Other Industries	46	41.5	8.2
	351	505.2	100.0

F.

[1] *Ibid.*, p. 26.

F. INDUSTRIAL PROMOTION

PICIC is not only a money lending organization, but also plays an active role in the promotion of new industries. For this purpose, it arranges surveys and prepares schemes to determine the desirability and profitability of setting up manufacturing units in new and unexplored fields. Its most fruitful efforts in this direction have been surveys of cement, paper, sugar, and sugar by-products industries, as a result of which several projects were developed and financed.[1]

G. PROFITABILITY OF PICIC

Being a privately owned finance corporation, profit considerations have played a dominent role in the choice of enterprises for PICIC's financing. Its operations have been successful from the very beginning and profits have increased every year reflecting favourably on the performance of the corporation.

Starting from 3 3/4 per cent in 1959, PICIC has paid dividends upto 6 percent to its shareholders during the last three years. On December 31, 1963, PICIC's total assets were valued at Rs. 291.38 million and the income statement showed a net profit of Rs. 4.98 million after taxes. Table 13

---

[1] Interview with the Secretary, PICIC, Karachi, on May 7, 1964.

below shows the steady increase in profit figures over the seven years of its existence upto December 31, 1963; and balance sheet and income statement for the last year are given in Appendix C.

TABLE 13

PICIC'S PROFITS[1]

1958-63

Fiscal Year Ending December 31	Net Profit after tax (Rs in Millions)	Rate of dividend paid on equity (Per cent)
1958	0.39	-
1959	1.22	3 3/4
1960	1.93	5
1961	2.99	6
1962	3.13	6
1963	4.98	6

[1]PICIC, Annual Reports, 1958 to 1963.

CHAPTER IV

INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

A. HISTORY AND SCOPE OF ACTIVITIES

In 1949, the Pakistan Industrial Finance Corporation — the predecessor of the Industrial Development Bank of Pakistan — was formed to provide medium and long-term credit facilities to the industrial concerns engaged in manufacturing, preservation and processing of agricultural products, mining and power generation. The corporation provided financial assistance to industries in one of the following forms:[1]

(a) By granting loans to or subscribing to debentures of industrial concerns repayable within a period not exceeding twenty years.

(b) By underwriting the issue of stocks, shares, bonds and debentures of industrial concerns.

(c) By guaranteeing, on terms and condition as might be agreed upon, such loans raised by industrial concerns as were repayable within a period not exceeding twenty years.

The corporation was not authorized to subscribe directly to the shares and stock of any company. The grant

---

[1] S.M. Akhtar, _op. cit._, pp. 48-49.

of loans or underwriting of shares and debentures by the corporation had to be supported by a pledge mortgage, hypothecation or assignment of movable or immovable property as might be prescribed.[1]

The corporation suffered from certain basic defects:

(a) It did not accept deposits.

(b) It could not finance the establishment of new industries; and

(c) It was unable to provide foreign exchange to any industrial projects.

The corporation was particularly criticized for showing a preference in favour of large-sized loans and for being reluctant to entertain smaller loan applicants.[2]

The decision to convert the Pakistan Industrial Finance Corporation (PIFCO) into the Industrial Development Bank of Pakistan (IDBP) was taken on the recommendations of the Credit Enquiry Commission which submitted its report to the Government of Pakistan in September 1959. This was done with the primary object of catering to the credit requirements of medium and small-scale industries, both existing and new. The Commission stated

---

[1] Interview with the Public Relations Manager, IDBP, Karachi, on April 26, 1964.

[2] Ibid.

> ... that PIFCO's lending limit should not exceed Rs. 1.0 million except with respect to certain sectors of the economy like mining and inland transport ... In order to extend the scope of PIFCO activities to cover development functions, we recommend that it maybe allowed to lend against prospective assets and to afford short-term credit to industries with which it has dealings. In order to attract funds from the general public, the corporation may also be encouraged to accept deposits from the general public.[1]

Thus PIFCO was converted into IDBP under the Industrial Development Bank Ordinance which came into force in August, 1961. IDBP has a much wider scope of operations than PIFCO. Whereas, PIFCO could finance existing industries only, the Bank can finance the establishment of new industries besides the modernization and balancing of the existing units. An important feature of the Bank's policy is to provide credit for the small and the medium-sized enterprizes which had not received adequate attention in the past, mainly because of the lack of proper institutional set up. IDBP, concentrating, largely, on the medium and small units, can sanction loans upto Rs. 2.5 million (the foreign exchange component of which may not exceed Rs. 1.5 million).[2]

Industries eligible for assistance from IDBP include

---

[1] Credit Enquiry Commission Report, op. cit., p. 118.

[2] The Industrial Development Bank of Pakistan, Review of the First 23 Months, August 1, 1961 to June 30, 1963. (Karachi: August 1964).

agricultural processing, engineering, chemicals, electricals, food products, leather products, production and exhibition of films, hotels, etc.

The Bank is authorized to provide assistance to industrial enterprizes by:[1]

(a) granting loans to or subscribing to debentures; such loans or debentures being repayable within a period not exceeding twenty years;

(b) guaranteeing loans, debts and credits raised, or incurred by, or granted to an industrial concern and repayable within a period not exceeding twenty years;

(c) underwriting the issue of stocks, bonds or debentures;

(d) administering loans as agent of the Central government in such manner as the Central government may direct;

(e) carrying out survey of industries and maintaining statistics relating thereto; and

(f) taking over, running or selling of such industrial concerns as have failed to repay in full the bank loans.

---

[1] Government of Pakistan, Ministry of Law and Parliamentary Affairs, The Industrial Development Bank of Pakistan Act, 1961, p. 9.

B. SOURCES OF FINANCE

The authorized, issued and paid-up capital of the Bank is Rs. 30 million, divided into 300,000 fully paid-up shares of Rs. 100 each. Of these, 49 per cent are held by the public, including banking and non-banking corporations, while the balance has been subscribed by the government. In addition, the Bank had, on June 30, 1963, reserves totalling to Rs. 4.56 million.

Rupee Resources[1]

The means of raising rupee funds available to the Bank are:[2]

(a) borrowings from the Central government;

(b) borrowings from the State Bank of Pakistan secured by the guarantee of the government;

(c) borrowings from the National Bank of Pakistan securedby the guarantee of the government;

(d) rediscounting of bills with the State Bank of Pakistan;

(e) issue and sale of bonds and debentures; and

(f) time deposits.

---

[1] IDBP, Second Annual Report, 1963 (Karachi: June 30, 1963), p. 14.

[2] IDBP, Review of the First 23 Months, op. cit., p. 6.

The following table gives the details of rupee resources of the Bank as on March 31, 1964.[1]

TABLE 14

RUPEE RESOURCE POSITION OF IDBP

As on March 31, 1964.

		Rs. in Millions
RESOURCES:		
Paid up Capital		30.0
Reserves		4.6
Loans from the government		61.4
Credit lines:		
From State Bank of Pakistan against government guarantee	50.0	
From State Bank of Pakistan against securities	2.9	
Bills rediscounting facility from State Bank of Pakistan	10.0	
From National Bank of Pakistan against government guarantee	22.5	85.4
		181.4
LESS:		
Outstanding Advances	159.5	
Investments in government securities, etc.	4.8	
Furniture, Fixture, etc.	0.5	164.8
Total Resources available		16.6
Outstanding Commitments		57.7
Deficit		-41.1

[1] Interview with the Chief Accountant, IDBP, Karachi, on May 2, 1964.

As table 14 shows, the outstanding commitments of the Bank exceeded its available funds, which the Bank hoped to replenish through rediscounting of bills at the State Bank of Pakistan.[1]

Foreign Exchange Resources

By March 31, 1964, the Bank had committed about $ 153.08 million, out of the total loans of $ 195.30 million allocated to it. IDBP's future foreign exchange requirements are expected to be met out of allocations by the government from various loans negotiated from the foreign loan giving agencies. The position of the allocations and sanctions of the foreign exchange resources of the Bank as on March 31, 1964 is given in the following table:[2]

TABLE 15

POSITION OF FOREIGN EXCHANGE ALLOCATIONS AND SANCTIONS AS ON MARCH 31, 1964

US $ in Millions

Foreign Credits	Amount Allocated to IDBP	Amount Allocated by IDBP
1. Second UK Loan	12.98	12.97
2. Third UK Loan	4.34	4.34
3. Fifth UK Loan	9.35	9.35
4. Sixth UK Loan	12.00	9.55
5. First Japanese Textiles Credit	20.00	20.29

[1] Ibid.

[2] Ibid.

TABLE 15—Continued

6. First Yen Credit	4.10.	3.80
7. Second Japanese Textiles Credit	13.00	12.98
8. Second Yen Credit	5.00	0.17
9. Third Yen Credit	6.50	4.00
10. Eximbank Credit	8.90	7.12
11. First German Credit	38.58	38.58
12. Second and Third German Credits	24.25	13.94
13. French Credit	6.00	5.34
14. Yugoslav Credit	6.50	5.90
15. Swiss Credit	2.50	0.49
16. Guarantees under Eximbank Loan	11.30	4.16
17. Eighth UK Credit for Jute Mills	10.00	-
Total	195.30	153.08

C. MANAGEMENT AND ORGANIZATIONAL STRUCTURE

IDBP is an autonomous organization having complete independence regarding its day-to-day operations. Its affairs are looked after by a board of directors. The board consists of 11 members of whom the chairman, the Managing director and six other members are appointed by the Central government, and the remaining three members are elected by the local private shareholders.[1]

To transact its day-to-day business, the Bank has organized as number of departments, each department being

---

[1]The six appointed Directors are secured as follows:

a. two from persons serving under the Central government;

b. two from persons serving under the provincial governments - one from each province;

c. two non-officials - one from each province.

Interview with the Public Relations Manager, IDBP, Karachi, on April 26, 1964.

under the over-all control of the Deputy Managing Director and finally of the Managing Director.

In order to promote economic development in the underdeveloped regions of Pakistan, the Bank has been expanding its activities and is in the process of moving into the remoter areas of the country. It has opened fully-equipped Regional Offices in Karachi, Lahore and Dacca to provide prompt and efficient service to the regions, and branches in Chittagong, Rawalpindi, Sukkur, Peshawar and Bogra.[1]

The organizational chart of IDBP, along with a sketch of the steps taken in processing a loan application is given on the following page. This will facilitate the discussion of the broad functions of the major departments.

1. Industries Promotion Department

This department assists the prospective entrepreneurs in identifying and selecting most profitable and sound lines of investment often with no charges to the clients. It also investigates the investment possibilities in new and untapped fields; thus, undertaking activities of a promotional nature. By providing such advisory services to a middle class investor, who cannot hire the services of suitable consultants, the Bank promotes investment

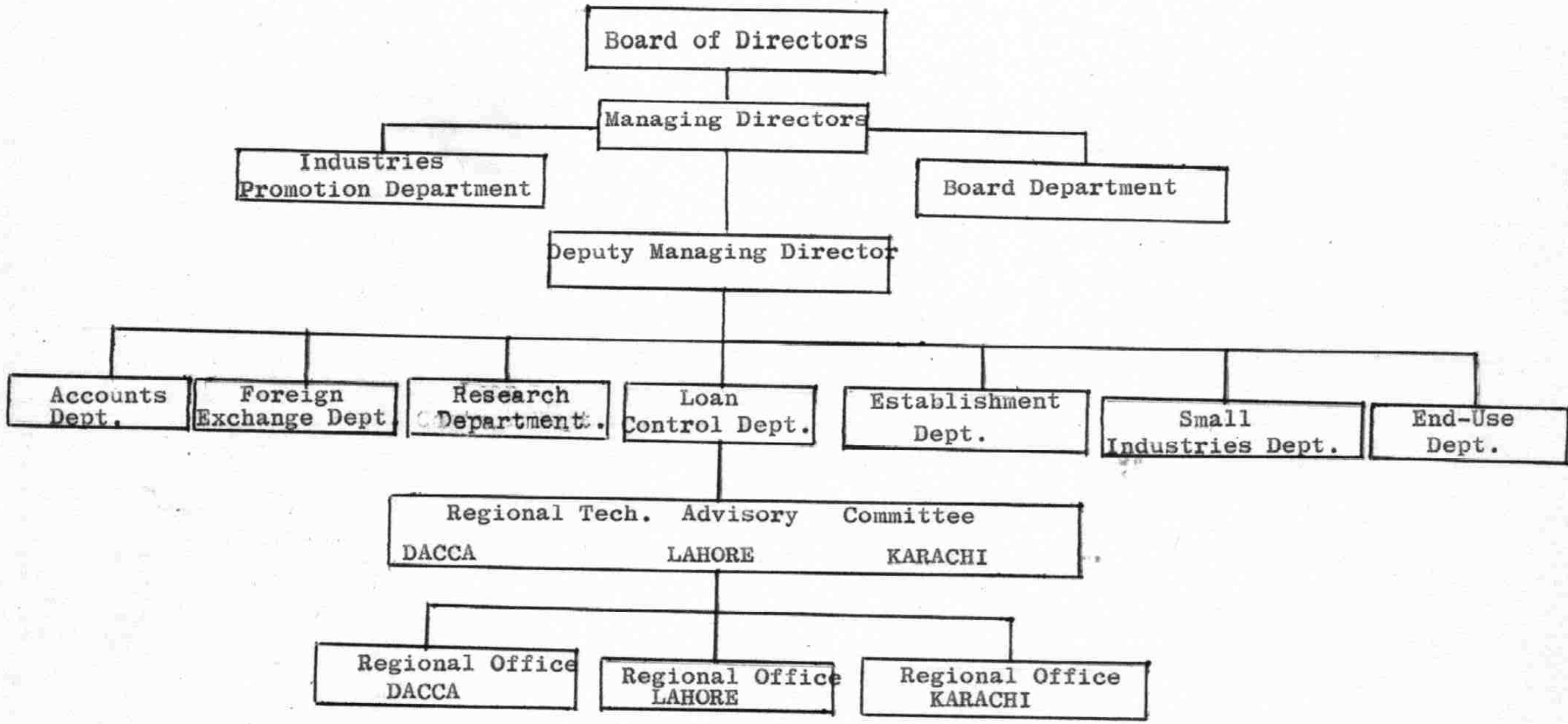
---

[1] Ibid.

CHART 3

INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

ORGANIZATION CHART



Source: Industrial Development Bank of Pakistan, Review of First 23 Months (Karachi; 1963) p. 25.

in industrial field.

2. Foreign Exchange Department

It is responsible for the management and administration of the foreign lines of credit that are made available to the Bank.

3. Research Department

The Research Department is being continually strengthened to perform the following functions:

a. to collect, maintain and supply basic data regarding the Bank's investment operations and economic matters generally;

b. to undertake detailed independent studies of various industries and to examine their present position, future trends, etc.;

c. to conduct market research on the various schemes before it;

d. collection, compilation and interpretation of important industrial and other statistics; and

e. development and maintenance of a good professional research library.

4. Loan Control Department

It undertakes the scrutiny of the schemes through a Committee of senior executives (bankers, cost accountants, market analysts and/industrial engineers). It scrutinizes all aspects of the scheme and determines its bank-ability before it is submitted for review to the Technical Advisory Committee, which consists of leading experts and consultants drawn from various spheres of industry, trade, and the economic ministries of the government.

5. End-Use Department

There is a separate department at each regional office, as well as at the Head Office, known as the End-Use Department. Its responsibility is to follow up the sanctioned projects, both during the construction and the operational stages in order to ensure that the development of the projects corresponds with the approved plans and estimates. More specifically, its functions are :

a. to supervise the utilization of loans;

b. to ensure that the project is operating at optimum capacity, is generating enough funds for servicing the loan, and is otherwise functioning on sound lines; and

c. to watch the recovery of loan instalments;

6. Small Industries Department

This Department has been established to deal with the requirements of the small industries and to assist in the setting up of such industries in the small industries

Estates.[1]

D. MODE OF OPERATION

The Bank requires its prospective clients to submit a loan application giving complete information on the proposed project. We have seen in the foregoing discussion how the loan application is processed, both in the Head Office and in the regional offices — all schemes are subjected to a technical, financial and economic evaluation undertaken by the Bank's qualified staff of industrial consultants, financial analysts, market specialists, cost accountants, bankers and engineers.

The policy of the Bank is to give preference to those projects which are import-competing, export-oriented or dependent on indigenous raw materials, keeping in mind, of course, that the primary object is to meet the medium and long-term credit needs of small and medium-scale industries.[2]

The provisions with regard to security requirements have been revised to enable IDBP to conduct its business more freely than PIFCO. The Bank can accept pledges, mortgages, hypothecation or assignment of any property, movable

---

[1] IDBP, Review of the First 23 Months, op. cit., p.16.

[2] Interview with the Public Relations Manager, IDBP, Karachi, on April 26, 1964.

or immovable, so long as it is satisfied that the funds so loaned will be used for industrial purposes.

In certain circumstances, the Bank can also extend credit against a legal undertaking tomortgage, hypothecate or assign prospective assets.[1]

E. LOANS AND INVESTMENTS

During the first 23 months of its existence, i.e. from August 1961 to June 1963, IDBP has provided assistance to as many as 725 projects. The total loans sanctioned by the Bank, both in local and foreign currency, amounted to Rs. 372 million. At the same time, the counterpart investment, i.e. investment from the sponsorés themselves, came to about Rs. 280 million. To an extent this has been possible due to the maintenance of a realistic debt-equity ratio-maintained to accommodate the samller entrepreneurs who would otherwise have had little prospect of entering the industrial arena.

The Bank has also issued local and foreign currency guarantees "on behalf of the government" to the tune of Rs. 212 million, and a rupee guarantee of Rs. 3.1 million on behalf of a client.[2]

---

[1] Review of the First Eleven Months: August 1, 1961-June 30, 1962, (Karachi: Industrial Development Bank of Pakistan), p. 6.

[2] IDBP, Review of the First 23 Months, op. cit., pp. 9-10.

In pursuance of the Policy of the IDBP to meet the credit requirements of the small and medium-sized industries, small loans (upto Rs. 0.5 million) formed the bulk of those sanctioned by the Bank upto June 30, 1963, as under:[1]

	Per cent of Total Cases
Loans upto Rs. 0.5 million	78.5
Loans from Rs. 0.5 million to Rs. 1.0 million	11.8
Loans of Rs. 1.0 million and above	2.7
Total	100.0

However, in view of the recent enhancement of the Bank's lending limit from Rs. 1 million (with a foreign exchange component of not more than Rs. 0.5 million) to Rs. 2.5 million (with a foreign exchange component of not more than Rs. 1.5 million) the Bank will now be able to give more attention to the upper slab of the medium sized industries. The raising of the Bank's lending limit has been necessary because of the ever-increasing cost, both internal and external, of the machinery and tools and other factors of production.[2]

---

[1] _Ibid._, p. 2.

[2] Interview with the Chief Accountant, IDBP, Karachi, on May 2, 1964.

The total loans sanctioned by the Bank for new units amounted to Rs. 240.6 million as against Rs. 131.4 million for balancing and modernization. A major share of the Bank's loans has, thus, gone towards the establishment of new enterprizes. The following table gives the details.

TABLE 16

NATURE OF FINANCING BY IDBP[1]

August 1, 1961 to June 30, 1963

	New Units		Balancing/Modernization of Existing Units	
	No. of Cases	Rs. in Millions	No. of Cases	Rs. in Millions
West Pakistan	153	104.4	285	68.9
East Pakistan	174	136.2	113	62.5
PAKISTAN	327	240.6	398	131.4

In advancing loans, IDBP has also been guided by the policy of distributing its loans and investments fairly widely among different types of industries as well as mong different regions. Such a policy not only minimizes the risk involved in long-term investment, it also fosters the balanced development of industries and regions which is so important

[1] IDBP, Review of the First 23 Months, op. cit., p. 20.

from the standpoint of long-term economic growth in a developing country like Pakistan. Figures showing the Bank's industrywise operations in the two provinces are given in the following table.

TABLE 17

INDUSTRYWISE DISTRIBUT ON OF LOANS SANCTIONED BY I.D.B.P.[1]
(August 1, 1961-June 30, 1963)

(Rs. in Millions)

CATEGORY OF INDUSTRY	EAST PAKISTAN		WEST PAKISTAN	
	Local Currency	Foreign Currency	Local Currency	Foreign Currency
Cotton ginning	-	-	0.4	11.1
Jute Baling	-	1.6	-	-
Chemicals	1.7	-	2.5	7.8
Electrical	0.8	0.9	0.4	2.2
Engineering	2.8	2.7	4.7	5.7
Food Products	10.1	2.3	11.7	2.1
Leather & Leather Products	1.4	-	1.5	-
Milling	0.1	0.4	0.8	0.3
Mining	-	-	1.0	-
Natural Gas & Motive power	0.5	-	-	-
Non-Metallic Mineral, Products	3.2	3.6	0.2	-
Paper and Stationery	2.2	1.5	1.4	-
Rubber Products	0.4	0.5	0.4	-
Textile and Clothing	19.3	112.8	16.4	35.4
River Transport	4.2	5.1	-	-
Road Transport	0.5	-	2.4	-
Sea Transport	0.9	-	-	40.9
Wood Products	1.5	0.3	-	1.1
Sea Transport	0.9	-	-	40.9
Mechanized Fishing	0.5	1.3	0.2	0.4
Oil Storage and Distribution	-	5.7	-	8.5

[1]IDBP, Review of the First 23 Months, op. cit., p.11.

TABLE 17—Continued

Films	0.1	-	2.3	-
Hotels	3.0	0.5	3.3	-
Surgical Goods	-	-	0.3	-
Printing and Publishing	1.8	0.9	1.8	-
Small Scale Industries	0.2	-	0.7	1.8
Miscellaneous	2.8	0.4	1.8	0.9
Total	58.0	140.5	54.2	119.3

Textile and Clothing - About 49 per cent of the total amount of loans sanctioned went to cotton and jute industries. Cotton textile accounted for 148 cases (about 20 per cent of the total cases), of which 48 were new units. The size and importance of the cotton textile industry seems to justify both the volume and the nature of loans sanctioned to the industry.

Chemicals - A total of Rs. 11.9 million was advanced to 20 cases of chemicals and pharmaceuticals. These included a caustic soda plant, which alone required foreign exchange expenditure of Rs. 3.0 million, and a calcium carbide manufacturing plant.

Food Products - Loans involving Rs. 26.1 million in local currency and Rs. 3.9 million in foreign exchange were sanctioned to 50 cases (including cold storage units, beverages, canning and preserving of fish, cigarette manufacture, etc.).

Thus, the food manufacturing industries shared about 7 per cent of the total loans sanctioned by the Bank.

Transport - A total amount of Rs. 4.2 millions in local currency and Rs. 5.1 million in foreign currency was sanctioned to 26 cases of inland water transport enterprises. The Bank feels that the existing facilities of inland water transport in East Pakistan are inadequate but has not been able to allocate greater proportion of loans, due to limited foreign exchange resources placed at its disposal.[1]

Besides, the Bank sanctioned Rs. 40.8 million in foreign exchange to 5 shipping companies (including a loan of Rs. 22.6 million to a new shipping company for the purpose of purchasing two cargo ships from Yugoslavia). To improve road transport facilities in the country, the Bank also granted loans amounting to Rs. 2.8 million in local currency to 12 road transport operators.

Non-metallic Mineral Products - The industrial enterprises engaged in manufacturing glass, bricks and other clay products received loans from the Bank aggregating to Rs. 3.4 million in local currency and Rs. 3.6 million in foreign currency.

---

[1] Interview with the Chief Accountant, IDBP, Karachi, on May 2, 1964.

F. PROFITABILITY

As the financial statements of IDBP for 1963-64 were not yet available, the Bank's performance will have to be judged on the figures of the two previous years (i.e. the first two years of operation). The comparison indicates that the total assets of the Bank increased from Rs. 118.4 million in June 1962 to Rs. 174.9 million in June 1963; and gross profit by Rs. 1.4 million.[1] While the audited accounts of the Bank for 1961-62 showed a gross profit of Rs. 3.7 million, the gross profit for 1962-63 was Rs. 5.1 million.[2] IDBP's Balance Sheet and Profit and Loss Statement for the year ended June 30, 1963, are given in Appendix C.

---

[1] IDBP, Second Annual Report, Op. cit., pp. 12-15.

[2] Ibid.

CHAPTER V

ACHIEVEMENTS OF THE DEVELOPMENT BANKS IN PAKISTAN

What have been the achievements of the development banks in Pakistan? More specifically, to what extent have they contributed to industrialization and to the growth of the capital market? This chapter is an attempt to answer these questions.

A. CONTRIBUTIONS TO INDUSTRIALIZATION

Pakistan, which at the time of its inception was mainly a producer of food and raw materials and an importer of manufactured goods, is to-day manufacturing the bulk of its consumer requirements and has developed a considerable export potential in a few lines.

The First and the Second Five-Year Plans marked definite stages in the country's economic progress. The First Five-Year Plan (1955-60) aimed at increasing the national income by 15 per cent largely through the provision of irrigation, power, transport and communication of facilities. A primary objective of the plan was to increase the

the technical and organizational resources of the country and to bring about the institutional changes necessary for the implementation of the development programs. By the end of the First Five-Year Plan, most of the institutions connected with industrial development were founded, thus laying the infra-structure of the economy for the march towards industrialization.

During the first four years of the Second Five-Year Plan (1960-65), a fairly satisfactory progress has been witnessed in industrial investment and production, both in the private and public sectors, and the trend is likely to continue during the last year of the plan period. The production of large and medium size industries during the first three years of the plan increased by 34 per cent and that of small industries by 15 per cent, against 60 percent and 25 per cent respectively aimed at during the entire plan period.[1] The tempo of industrial progress was largely made possible through the help and assistance of the development banks under consideration.

Industrial Investment Schedule

In order to accelerate the pace of industrial development, the Government of Pakistan announced in November 1960

---

[1]Economic Adviser to the Government of Pakistan, Economic Survey of Pakistan, 1963-64, op. cit., p. 37.

the first "Industrial Investment Schedule" which set out the investment program for the private sector within the framework of the Second Five-Year Plan. The Schedule listed as many as 107 items, covered practically all types of industries and provided for a total expenditure of Rs. 2,840 million with a foreign exchange component of Rs. 1,700 million.[1]

The progress made in the implementation of the Industrial Investment Schedule issued in November 1960 and the availability of new studies and projects necessitated a revision of the Schedule, and a revised Industrial Investment Schedule for the remaining period of the Second Plan, envisaging an investment of Rs. 1,530 million, was issued in February 1963.[2]

The rupee portion of the investment is to be provided by Pakistani investors while the foreign exchange components are expected to flow from the following sources:

a. Loans from PICIC

b. Loans from IDBP

c. Loans from international financial institutions such as the U.S. Development Loan Fund, the World Bank, the Export-Import Bank, the International Finance Corporation

---

[1]Investment Proposal sanctioned by the Investment Promotion Wing, Department of Investment Promotion & Supplies, Government of Pakistan, (Karachi: July 1963), pp. i-iii.

[2]Revised Industrial Investment Schedule, Department of Investment Promotion and Supplies, Government of Pakistan, (Karachi: February, 1963), p. 1.

d. Credit from Foreign countries

e. Foreign private investment

f. Utilization of bonus vouchers[1]

g. The country's own foreign exchange resources which may be made available to the provincial governments from time to time.[2]

The government's permission for the establishment of industries specified in the revised Schedule is not necessary when the foreign exchange requirements are met by PICIC, IDBP, or bonus vouchers. Industries which are based on locally available raw materials or which are established with locally produced machinery do not require the government's approval.

Perhaps, the best way to assess the contribution of the development banks to industrialization in Pakistan is to examine the various industries which have been assisted by them. How were these industries developed? What was their condition prior tobeing assisted by the development banks? What has been the nature and extent of the banks assistance? How effective has it been? What has been the

---

[1]To encourage the export of manufactured goods and specified commodities, the Government of Pakistan introduced an "Export Bonus Scheme" in January 1959. Under this scheme the exporter is granted a bonus of 20 to 40 per cent of the export earnings in foreign exchange.

[2]Revised Industrial Investment Schedule, op. cit., p.1.

particular role of each of the development banks under consideration? What are the prospects for the future? These are the questions to be answered in the following few pages.

Cotton Textiles

At the time of partition in 1947, Pakistan had only 17 textile mills with 170,000 spindles and 4824 looms.[1] This capacity was insignificant as compared to the production of raw cotton (which ranges between 1.7 to 2.0 million bales per year) and the huge internal demand for cotton textiles.[2] After the establishment of Pakistan, however, the cotton textile industry grew rapidly. By December 1963, the total number of textile mills had risen to 95 with an installed capacity of 2.4 million spindles and 33,900 looms.[3]

The Second Five-Year Plan proposed to increase the cotton textile manufacturing capacity from 1.9 million spindles and 30,000 looms in 1960 to 2.5 million spindles and 41,000 looms at the end of the plan period.[4] In view

---

[1] PICIC at Work, op. cit., p. 11.

[2] Economic Survey, 1963-64, pp. 54-55.

[3] Ibid., p. 54.

[4] Ibid.

of the phenomenal expansion in cotton textiles, these targets were raised to 2.9 million spindles and 45,280 looms.[1]

In addition to the further expansion envisaged in the revised targets, the textile industry in Pakistan requires financial assistance for:

(a) replacing old and obsolete equipment. This is a continual process in an industry where there are rapid technological changes and developments, and in which almost all units have been running three shifts over the last several years;

(b) modernization and balancing, in order to meet the increasing requirements for finer varieties of cloth in the home market, improve the quality, and extend the range of production; and

(c) improving its overall efficiency and reducing costs so as to strengthen its position in the export market. Considerable cost reduction could be achieved by installing air conditioning, humidification plants, and high draft conversion equipment. This would lower wastage of material and labour hours and increase production efficiency.

Besides availability of raw material and ready market, the credit facilities granted by the development agencies have played a significant role in the growth of

---

[1] Ibid.

this industry. More specifically, by June 1963 PICIC had assisted 50 cotton textile mills in their balancing, modernization and replacement program[1] (an assistance which constitutes about 22 per cent of the total loans advanced by PICIC), while, IDBP had financed 148 cases (about 20 per cent of all the cases, of which 48 were new units.[2] This financing was largely directed towards:

(a) assisting the textile mills in producing increasing quantities of finer varieties of yarn and cloth;

(b) helping them to rationalize their production costs so that they could effectively compete in the export market.

As for EPIDC and WPIDC, their contribution to the cotton textile industry has been limited: each corporation has helped financing only one cotton mill in its own province. The reason for this is that their general policy is to invest only in those industries where private investors are either unable or unwilling to undertake projects on their own. Since, the cotton textile industry has been well taken care of by the private investors, the two corporations have

---

[1] PICIC at Work, op. cit., p. 13.

[2] IDBP, Review of the First 23 Months, op. cit., pp. 10-12.

directed their efforts towards other fields.

Jute Industry

Jute is a major crop in East Pakistan and occupies a pivotal position in the economic development of the country. From the point of foreign exchange earnings, jute manufacturing is by far the largest source of the country's foreign exchange gains. Production of jute manufacture rose from almost nothing at the time of independence to 315,260 tons in 1963.[1] PIDC and, later, the two provincial development corporations have been the most important contributors to the growth of jute industry. Starting from scratch, during the First Five-Year Plan, PIDC was responsible for setting up 12 jute mills with a loomage of 8000.[2] During the same period only two other jute mills, with 291 looms, were set up entirely by private enterprise. Today only one of these jute mills is managed by EPIDC. This is in agreement with the corporation's policy to transfer its investment to private enterprise as soon as it is judged appropriate. During the Second Five Year Plan, EPIDC was entrusted by the Government of Pakistan to increase jute

---

[1] Economic Survey of Pakistan, 1963-64, op. cit., op. cit., p. 54.

[2] Progress Report, 1962-63, EPIDC, op. cit., p. 21.

manufacturing capacity by 10,000 looms. EPIDC installed 4000 looms during the first two years of the Plan and made arrangement for achieving the target by the end of the Plan period.[1]

In West Pakistan, WPIDC is establishing a jute manufacturing plant as a result of successful cultivation of jute at the experimental farm near Lyallpur.[2]

Although the contributions made by PICIC and IDBP to the development of the jute industry have not been as significant as that of PIDC, they have had, nevertheless, effective results. PICIC has assisted 10 jute mills in their programs of modernization and expansion, including a specialized unit to make twine and yarn, and has also initiated the financing of broad jute looms which produce wide hessian cloth used for the backing of carpets. The carpet-backing cloth is in great demand in the European countries and USA, and its production will considerably increase the foreign exchange earning potential of the jute industry. Broad jute looms will also provide the much needed diversification in the jute industry.

As for IDBP, about 19 per cent of the total loans

---

[1] Abdul Hafiz, "Survey of Activities Since Bifurcation", <u>Industry</u>, <u>op. cit.</u>, p. 144.

[2] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

sanctioned by it have gone to the jute industry in East Pakistan. The investment includes, in addition to the balancing and modernization of existing plants an installation of 1,000 looms in the four newly established jute mills.[1]

Woollen Textiles

Woollen textiles and blankets are in good demand in the country, especially in West Pakistan, where winter is severe. At the time of independence, Pakistan did not have any manufacturing capacity in woollen textiles. The industry, however, has steadily grown and is now in a position to meet a sizable portion of the country's demand for hosiety yarn, woollen and worsted cloth, and blankets.

The sanctioned capacity for the Second Five-Year Plan period for woollen textiles is 26,464 spindles and 172 looms, and that for worsted textiles 23,386 spindles and 298 looms.[2] Two years after the plan had been in operationthere were 18 woollen/worsted units with 23,672 worsted spindles and 14,628 woollen spindles — a good overall show.

The indigenous wool is of coarse variety and not suitable for producing worsted yarn and cloth. The woollen

---

[1] IDBP, Review of the First 23 Months, op. cit., p. 11.

[2] Economic Survey of Pakistan, 1963-64, op. cit., p. 55.

textile induxtry in Pakistan, therefore, has been importing its entire requirements of wool in the form of wool tops, i.e. combed wool. PICIC has sanctioned two loans for setting up two top-making plants.[1] After the establishment of these plants, wool combing will be done locally while wool in raw form, which is cheaper, will be imported. This would result in considerable foreign exchange savings.

PICIC has further contributed to the development of the woollen industry by providing financial assistance to 6 mills in West Pakistan for purposes of balancing and modernization, and by establishing a new mill in East Pakistan.[2]

PIDC had set up 3 woollen mills in West Pakistan at a total cost of Rs. 13.0 million.[3] Two of these mills have not worked as economically as some of the privately owned woollen mills, because of their high operating costs in areas away from industrial centres and competition from private mills. The third one has proved efficient and is producing blankets of good quality for the Pakistan Army.

---

[1] PICIC, PICIC at Work, op. cit., p. 13.

[2] Ibid.

[3] The Role of PIDC in the Industrial Development of Pakistan, op. cit., p. 11.

Sugar

Pakistan ranks fourth among the principal producers of canesugar in the world, but its sugar imports during the year 1962 costed the country Rs. 37 million in foreign exchange.

The reason for this anomalous state of affairs is the lack of sufficient capacity for manufacturing refined sugar. Of the 22.90 million tons of sugar-cane produced, only 18 per cent goes in the production of refined sugar.[1] The rest is put to less economical use, such as the manufacture of indigenous unrefined sugar which results in a loss of about 30 to 40 per cent of the sucrose contents of the cane.

Sugar being an essential part of the human diet, the country felt the need of fostering the development of this industry. In 1947 Pakistan had only 8 mills with a production capacity of 52,000 tons per year. Ten more sugar mills were established by June 1963, and the annual production rose to 217,700 tons. The Sugar Commission appointed by the government had recommended that the sugar capacity be expanded to 500,000 tons.[2] The government has

---

[1] PICIC, PICIC at Work, op. cit., p. 14.

[2] Ibid.

accepted this recommendation and it is expected that this target will be reached by the end of 1965.

PICIC is actively assisting in the national program to step up sugar production. It has made direct contributions to the development of the cane-sugar industry by meeting the entire foreign exchange cost of three new large sugar mills, and by helping in the balancing and expansion of four existing sugar mills.

With the successful growth of beet in the northern areas of West Pakistan, and in view of the fact that the sucrose content of beet is more than that of the sugarcane grown in the country, PICIC has provided beet crushing plants to two sugar mills in the region.

PICIC financed projects are expected to increase sugar production by 105,200 tons per year by 1965.[1] This will be 30 per cent of the total production of sugar in the country. In addition, more projects for refined sugar are now under PICIC's consideration.

The corporation has also done pioneering work in promoting utilization of the by-products of the sugar industry. It hired an American expert to suggest possibilities of establishing industries based on these by-products. The expert prepared a comprehensive report suggesting the

---

[1] Ibid.,

utilization of molasses for the manufacture of industrial alchohol, yeast, citric acid, manosodium glutumate and cattle-feed, and of bagasse for the manufacture of paper, newsprint, hardboard and chipboard. As a result, PICIC has already sanctioned loans to five projects for producing industrial alcohol from molasses.[1]

Besides the utilization of the by-products of the cane-sugar industry, PICIC has also encouraged the utilization of waste from the beet-sugar industry. The corporation has sanctioned a foreign currency loan to an existing sugar mill to install a cattle-feed manufacturing plant using beet-pulp as raw material.

During the First Five-Year Plan period, PIDC was responsible for setting up five sugar mills with a combined capacity of 80,575 tons per year.[2] More recently, WPIDC has financed two sugar mills in West Pakistan which are expected to go into production during 1965. As for EPIDC, it is operating four of the nine sugar mills in East Pakistan. It is also working on the construction of two more sugar mills and is studying eight new schemes, of which five are for new plants and three for the expansion of

---

[1] Ibid., p. 15.

[2] PIDC, The Role of PIDC in the Industrial Development of Pakistan, op. cit., p. 9.

existing units.[1]

Food Products and Food Preservation

Another industry which is receiving encouragement from the development banks is the food manufacturing industry, i.e. canning and preservation of fruits, vegetables and fish.

There are at present about 200 factories for the canning and preservation of fruits and vegetables in Pakistan, and their annual production is valued at Rs. 25 million.[2] Because of the lack of suitable machinery and technical know-how, however, the quality of their products has not yet come up tothe international standards.

The performance of the fish processing industry, on the other hand, has been more satisfactory. Pakistan has abundant fish in its coastal waters. Shrimps, which are regarded as a delicacy in America and Europe, are caught in large quantities in both wings of the country. Fish freezing and canning, therefore, constitutes an important source of foreign exchange earnings. PICIC has stimulated the stable growth of this industry by financing six fish freezing and processing units. The corporation has

---

[1] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

[2] Economic Survey of Pakistan, 1963-64, op. cit., p. 54.

also extended finance to three fruit juice processing units and one fruit canning unit.[1]

As for IDBP, seven per cent of the total loans sanctioned by it upto June 1963 were for the food manufacturing industry. These loans involved a total of Rs. 26.1 million in local currency and Rs. 3.9 million in foreign currency.[2]

Cement

The existing cement production capacity in Pakistan is 1.5 million tons per annum. The country's annual demand as estimated under the Second Five-Year Plan is expected to rise to 3 million tons by 1965.[3] The gap between supply and demand is thus wide and the installation of additional capacity for the production of cement is a challenging necessity.

In 1959, PICIC engaged a team of foreign experts to survey the cement situation and to make recommendations for installing additional capacity. In view of the proximity of the sources of raw material and the availability of markets, three sites were recommended forsetting up new cement

---

[1] PICIC, PICIC at Work, op. cit., p. 27.

[2] IDBP, Review of the First 23 Months, op. cit., p. 12.

[3] PICIC, PICIC at Work, op. cit., p. 17.

plants. An expansion program was also recommended for the existing cement plants. The government accepted the recommendations for setting up three new plants — two having a capacity of 360,000 tons and the third 300,000 tons per year.

The next step was to establish the technical feasibility of the projects. This work was entrusted by PICIC to foreign experts, who, after extensive investigations, prepared feasibility studies for two of the projects. Two leading industrialists were selected by PICIC to implement these projects, and each one of them has now established a company for the purpose. The foreign exchange requirements of one of the plants were provided by PICIC in collaboration with the International Finance Corporation, the former providing $ 3 million and the latter $ 4 million. The factory went into production in early 1964. The other plant was financed through the German credit.[1]

In addition to the promotion of the portland cement industry, PICIC is also active in sponsoring a plant for the production of white cement. The PICIC-sponsored cement plants are expected to play an important role in the economic development of Pakistan through the construction of various industrial, irrigational, and power projects.

---

[1] Ibid.

PIDC contributed, too, to the growth of the cement industry. The corporation had set up two cement factories, one with a rated capacity of 240,000 tons per annum, and the other with a capacity of 100,000 tons per annum.[1] By the end of 1964, through the assistance of WPIDC, the total annual capacity of the two plants was increased by 730,000 tons.[2]

Paper and Cardboard

The demand for paper in Pakistan is rapidly rising with increasing literacy and growing urbanization. During 1963, the total domestic production of writing and printing paper amounted to only 35,000 tons.[3]

This capacity was not sufficient to meet the growing demand for paper in the country, with the result that:

a. the limited supply restricted the consumption of paper, thus retarding the pace of progress; and

b. a large quantity of paper was imported, causing a heavy burden on the foreign exchange resources of the country.

Realizing how acute the shortage of paper in the

---

[1] PIDC, The Role of PIDC in the Industrial Development of Pakistan, op. cit., p. 10.

[2] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

[3] PICIC, PICIC at Work, op. cit., p. 22.

country, PICIC decided to conduct a comprehsnsive economic survey of the paper industry. The results of this survey were verified through a survey carried out by the "Economist Intelligence Unit, London." Both the surveys indicated that there is a large unsatisfied demand and an ever widening gap between existing capacity and projected demand.

PICIC, therefore, took upon itself the development of the following projects:[1]

a. A paper mill which will make economic use of baggase, a by-product of the sugar industry. This mill will be the second largest paper mill in the country and will produce 18,000 tons of printing and writing paper per year.

b. A small paper mill, with a capacity of 3,000 tons of paper per year, which will use wheat straw and cotton linters as raw materials and will produce paper of superior quality, including security paper.

c. A plant which will produce 2,800 tons of specialized paper per year, such as air-mail paper, cigarette paper, carbon paper and coating paper, in addition to small quantities of writing and printing paper.

Cardboard is required principally for use in the packaging, printing, and publishing industries. Upto now, there was only one paper-board mill in the country which

---

[1] Ibid.

met the entire local demand, supplemented by imports. To meet the increasing demand for paper-board, PICIC has sanctioned two foreign currency loans — one for the expansion of the existing mill and the other for the setting up of a new mill. The total production capacity of paper-board is expected to rise to 23,400 tons per year, thus making the country self-sufficient in its requirements.[1]

PIDC was responsible for the establishment of a large paper mill, a cardboard mill, and a newsprint factory.[2] At present, WPIDC is financing a chip-board factory with an annual capacity of 5,000 tons, while EPIDC is financing a newsprint mill with an annual capacity of 10,000 tons.[3]

Chemicals and Pharmaceuticals

Pakistan is still at the threshold of these two highly specialized technological fields of industry. The country has, however, substantial potentialities for the production of various chemicals, for, raw materials such as natural gas and industrial and agricultural waste products are available in adequate quantities.

With the progress of industry in the country, the

---

[1] *Ibid.*

[2] PIDC, *The Role of PIDC in the Industrial Development of Pakistan*, *op. cit.*, p. 6.

[3] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

demand for chemicals is rapidly increasing. At present, however, most of the industrial chemicals are being imported, as there is little domestic capacity. The development of the chemical industries is, therefore, highly desirable in order to save foreign exchange and improve the supply position.

PICIC has been the largest contributor to the growth of this industry. It has extended loans for the setting up of a number of chemical plants, including two caustic soda, chlorine and bleaching power plants in East Pakistan. With the establishment of these two plants, East Pakistan will become self-sufficient in these essential chemicals.

Plants for the manufacture of sulphuric acid and hydrochloric acid have also been approved by PICIC. These plants will be an integral part of an already existing caustic soda-chlorine factory. The sulphuric acid produced in this factory will also meet the requirements of the DDT factory in East Pakistan.

PICIC has also financed a number of other projects: a plant for the manufacture of adhesive resin to be used in the chipboard and plastic industries; a hydrogen peroxide unit which will contribute towards better finishing and bleaching of cotton textiles; a number of projects for the manufacture of starch, sodium sulphide, glycerine, soda ash and insecticides; and four pharmaceutical units, including a project for the manufacture of liver extract.[1]

IDBP has not been inactive in this field either. During the first 23 months of its existence, it sanctioned loans amounting to Rs. 11.9 million to 20 cases of chemicals and pharmaceuticals.[2] These include a caustic soda plant and a calcium carbide plant.

PIDC set up three plants for heavy chemicals; a caustic soda plant, a sulphuric acid plant, and a DDT factory. It also financed a number of other projects for the manufacture of chemicals and pharmaceuticals. One of these projects is undergoing expansion through WPIDC assistance. As to EPIDC, it has established, in collaboration with May and Baker Ltd. of UK., a pharmaceutical company, and is presently studying the setting up of a streptomycin factory and a DDT plant.[3]

Engineering

As the Second Five-Year Plan reaches its close, Pakistan stands at the threshold of a new era in the industrial field. With near self-sufficiency in most consumer

---

[1]PICIC, PICIC at Work, op. cit., p.23.

[2]IDBP, Review of the First 23 Months, op. cit., p. 12.

[3]Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

goods, the country is looking forward to developments in engineering.

PICIC has encouraged a number of projects in the engineering field. Among the projects financed so far are those for the manufactures of electric motors and switch gears, agricultural implements, textile spares, pipes and pipe fittings, steel re-rolling, light engineering and metal products.

To help satisfy the growing demand for motor scooters and three wheelers, PICIC has financed a plant that will progressively manufacture 2,000 scooters and 1,000 three-wheelers a year. To make the average man more mobile, it has also financed four units in the bicycle manufacturing industry.[1]

WPIDC has two projects underway. The first, a machine-tool factory, involves an estimated outlay of Rs. 9.6 million and envisages production of small to medium size machine-tools not yet produced in Pakistan, such as milling and grinding machines, shapers, transmission gear and rear axles of trucks and cars, and textile machinery. The Second, a Heavy Machinery Complex, involves a total outlay of Rs. 250 million and envisages the manufacture of locomotives, road building equipment, machinery for sugar and cement factories, equipment for fertilizer plants, refineries and petrochemical

---

[1]PICIC, PICIC at Work, op.cit., pp. 20-21.

units, boilers and heat exchangers.[1]

Another project — a Heavy Electrical Complex — is still in its preliminary stages. It will be concerned with the manufacture of high and low tension motors, generators, transformers and rectifiers, frequency convertors, electrical equipment and machinery for special duties.[2]

With the help of German consultants, EPIDC is currently studying an iron and steel works project which is estimated to cost Rs. 270.77 million.[3]

As to IDBP, it has provided total loans of Rs. 16.72 million to industries in the engineering field, out of which Rs. 11.46 million were in foreign currency.[4]

Shipbuilding and Inland Water Transportation

Two shipyards and a dockyard were set up by PIDC in East Pakistan. The first phase of the Karachi Shipyard was completed in 1956 and since then extensions have been carried out. Today, all the shares in Karachi Shipyard are held by WPIDC on behalf of the government. The shipyard

---

[1] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

[2] Ibid.

[3] Abdul Hafiz, op. cit., p. 143.

[4] IDBP, Review of the First 23 Months, op. cit., p.13.

provides dry docking facilities for both Pakistani and foreign ships and has undertaken a good deal of ship repairs and construction work.[1]

In East Pakistan EPIDC is executing a bold program for modernizing and expanding Narayanganj Dockyard and Khulna Shipyard. The corporation is sponsoring another dry dockyard at Chittagong. This will not only serve national purpose but also provide services to the foreign vessels calling South East Asian ports.[2]

Inland water transport plays a vital role in the economy of East Pakistan, and many efforts have been directed towards its expansion and modernization. A master-plan for the development of all forms of transport in East Pakistan was prepared by a firm of American Consultants, and the task of promoting inland water transport facilities in the private sector was assinged toPICIC. The World Bank agreed to make available to PICIC foreign exchange funds for this purpose.

PICIC staff, in collaboration with a team of consultants sent by the World Bank, appraised the inland water transport projects of those private operators who had requested

---

[1]Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

[2]Abdul Hafiz, op. cit., p. 147.

PICIC to finance their foreign exchange requirements (local currency was to be provided by the operators themselves in accordance with PICIC's financing policy). As a result, the corporation sanctioned loans aggregating to Rs.m40 million to nine private companies.[1] Implementation of these projects, with the expert advice of a British firm of Consulting Naval Architects engaged by PICIC, is underway. The effect of these projects is that 24 uneconomic large-sized flats and 6 steam-driven tugs will be replaced by 60 modern pusher barges; and 6 pusher tugs, and a number of new tugs, barges, passenger launches, oil tankers and cargo vessels will be purchased.[2]

Fertilizers

PIDC took initiative in setting up three fertilizer factories, two in West Pakistan and the third in East Pakistan. The machinery and equipment of the largest factory in West Pakistan was supplied by USA in accordance with its economic aid program. The other two factories, using natural gas for the production of ammonium sulphate, were financed by the Government of Pakistan, except for a grant of $ 10

---

[1] PICIC, PICIC at Work, op. cit., p. 16.

[2] PICIC, PICIC at Work, op. cit., p. 16.

million given by the United States of America.[1]

PIDC's successors have taken over the task of promoting the fertilizers industry. WPIDC has established another fertilizer plant and has under execution four projects for the expansion of the existing plants,[2] while EPIDC is working on another project for the production of superphosphate.[3]

Natural Gas

The discovery of natural gas at Sui in 1952 provided West Pakistan, for the first time with an important domestic source of fuel. Sui is one of the 10 largest natural gas fields in the world, with reserves estimated at over 5 million cubic feet, equivalent to over 115 million tons of fuel oil.[4] The availability of Sui gas in Karachi, Hyderabad and other centres has made possible a steady growth of industrial production in West Pakistan which, otherwise, would have been severely hindered by the necessity to use scarce foreign exchange resources for importing fuel.

Following the discovery of the Sui natural gas, PIDC, in collaboration with the Burmah Oil Company, built a 16-inch

---

[1] PIDC, The Role of PIDC in the Industrial Development of Pakistan, op. cit., pp. 8-9.

[2] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

[3] Abdul Hafiz, op. cit., p. 146.

[4] PIDC, The Role of PIDC in the Industrial Development of Pakistan, op. cit., p. 12.

pipeline from Sui to Karachi — a distance of 352 miles. The cost amounted to Rs. 84 million, and the World Bank provided a loan of Rs. 46.2 million.[1]

PIDC financed the construction of another 16-inch pipeline from Sui to Multan at a total cost of Rs. 97.3 million.[2] The corporation also participated in the setting up of two gas distribution companies for the Sui-Karachi pipeline. WPIDC is now financing another distribution company for the Sui/Multan pipeline.

In order to extend the distribution of the Sui gas to the northern part of West Pakistan, a public limited company under the name of Sui Northern gas Pipeline Ltd., has been formed with an authorized capital of Rs. 400 million (issued capital Rs. 100 million). One third of the shares are owned by WPIDC and one third by the Burmah Oil Co. The remaining shares were sold in Pakistan by public offering.[3]

Coal

To promote mineral development, the Second Five-Year Plan provided for an expenditure of Rs. 850 million —

---

[1] PIDC, Progress Report on Projects, 1962, op. cit., p. 41.

[2] Ibid., p. 42.

[3] International Bank for Reconstruction and Development, Bank Press Release No. 64/17, May 14, 1964.

Rs. 124 million in the public sector, Rs. 176 million in the semi-public sector, and Rs. 550 million in the private sector.[1]

PIDC proved to be the most active development bank in that field and financed the development of a number of local mines. Its provincial successor, WPIDC, is currently working on two mine projects which, when completed in 1970, will have a total capacity of 2,450 tons per day.[2]

Leather and Rubber

In Pakistan, the large number of domestic and wild animals are a rich source of hides and skins. The annual production of hides and skins is estimated at 20 million pieces of which the major portion is exported.[3] Export of raw hides and skins does not bring as great a benefit to the national economy as export of tanned leather. It was necessary, therefore, to expand and improve the leather tanning facilities which were inadequate.

By December 1963, PICIC had provided loans to this industry in the amount of Rs. 2.3 million for the establishment of three new tanning units and the balancing and

---

[1] The Second Five Year Plan, op. cit., p. 267

[2] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

[3] PICIC, PICIC at Work, op. cit., p. 29.

modernization of six existing units;[1] and IDBP's loans amounted to Rs. 2.8 million.[2]

The rubber industry received loans of Rs.800,000 from PICIC[3], and Rs. 1.35 million from IDBP.[4]

Glass and Ceramics

The basic raw material for glass and ceramics is abundantly available in Pakistan and the development of this industry carries significant economic justification.

Among the enterprises assisted by PICIC is a large sheet glass making factory and a modern high pressure bottle manufacturing plant. PICIC has also financed the establishment of three ceramic units, three sanitary wares and fittings units, and two bricks and tiles units. The corporation's total loans tothis industry amounted toRs. 15.2 million by December 1963.[5]

WPIDC has a project underway for the production of

---

[1]PICIC, Sixth Annual Report, 1963, op. cit., p. 16.

[2]IDBP, Review of the First 23 Months, op. cit., p.11.

[3]Ibid.

[4]PICIC, PICIC at Work, op. cit., p. 30.

[5]PICIC, PICIC at Work, op. cit., p. 30.

fire-bricks. The plant will have an annual capacity of 10,000 tons and will cost Rs. 5.2 million.[1]

Edible Oils

Oil seeds occupy an important position among the agricultural commodities produced in Pakistan. The oil extracted from the seeds is used for food as well as industrial purposes. At present the per capita consumption of fats in Pakistan is much below the normal dietory level. As the production of vegetable oils can be increased more easily and speedily than that of animal fat, an increase in the supply of oils is of special significance.

By December 1963, PICIC had financed six new and eleven existing edible oil projects, providing loans in the amount of Rs. 13.3 million.[2]

Cigarettes

Cigarette Manufacturing ranks high among the consumer goods industries in Pakistan. There were, by 1963, 12 cigarette factories producing 13,700 million cigarettes per year.[3]

PICIC has sanctioned two loans for the expansion

---

[1]Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

[2]PICIC, Sixth Annual Report, 1963, op. cit., p. 15.

[3]PICIC, PICIC at Work, op. cit., p. 29.

and modernization of existing units in order to enable them to meet the growing demand for cheap brands of cigarettes.[1]

Flour Milling

At the time of partition there were 30 flour mills in Pakistan. The general working conditions of these mills were unsatisfactory; over 40 per cent of the mills were more than 30 years old and needed modernization.

By December 1963, PICIC had provided loans aggregating to Rs. 7.0 million for the establishment of nine new units and the balancing of two existing units.[2] IDBP's loans amounted to Rs. 1.6 million.[3]

Small Industries

Small industries employ about 80 per cent of Pakistan's industrial workers and account for about 40 per cent of industrial production. Most of these enterprises are rural cottage industries. A great many of them, however, manufacture items that in more industrialized countries are produced in highly mechanized establishments. Their output includes such items as machines and machine parts, machine

---

[1]PICIC, Sixth Annual Report, 1963, op. cit., p. 15.

[2]Ibid.

[3]IDBP, Review of First 23 Months, op. cit., p. 11.

tools, electrical equipment, foundry components, re-rolled steel products, soap, paint, varnish, bricks, ceramics, glass, sports goods and surgical instruments.[1]

Although their production has expanded significantly since 1947, these enterprises need to maintain their economic position. To be able to make use of more advanced technology, they need better premises, easier access to credit and raw materials, and assistance in marketing.

As indicated earlier, IDBP is entrusted with providing finance to medium and small industries. The bank maintains a separate department to deal with the requirements of the small industries and to assist the setting up of such industries in the small industrial estates.

In West Pakistan, WPIDC has a division for the development of small industries. This division carries out surveys and investigations about small industries, and runs a number of service centers which provide training and research facilities as well as consultancy services to small industries.

Under the Estate Development Program, nine small industries estates are being set up throughout West Pakistan with a view to make funds available to the private entrepreneurs setting up industrial units in the estates and providing facilities like road, power, water, sewerage, banks, post

---

[1] International Development Association, Press Release No. 62/20, November 2, 1962.

offices, etc. These estates, covering a total area of 600 acres and offering 2,600 factory sites, are being developed by the semi-public sector at a total cost of Rs. 24.3 million.[1]

B. CONTRIBUTIONS TO THE DEVELOPMENT OF THE CAPITAL MARKET

The volume of private voluntary savings is relatively low in Pakistan. The existing level of per capita income, which in spite of the efforts put forth by the government has failed to rise, hardly allows any savings by the household. Gross domestic savings, however, are estimated, between 7 and 8 per cent of the gross national product.[2] By means of institutional inovations, this large proportion of savings can be redirected to more productive uses. Efforts to develop a capital market should aim at providing the incentives and means for the investment of savings in new ways, which will make financing more readily available for productive projects requiring more funds than entrepreneurs can readily provide.

Development banks in Pakistan have fostered the growth

---

[1] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

[2] Gross National Product during the Second Five-Year Plan period is estimated at 25-30 billion rupees per year, See _Outline of the Third Five Year Plan_, _op. cit._, p. 1.

of the capital market in a number of ways. Foremost among them is the sale, from their portfolios, of securities of enterprises that have passed initial hurdles and have become successful. Not only has this encouraged broader ownership of industrial shares and increased the supply of the marketable securities, but it has also replenished the development banks' resources from domestic sources and enabled them to continue and expand their new investment activities. This has been the case particularly with PIDC and later with WPIDC and EPIDC.

WPIDC and EPIDC have at times showed some reluctance to part with their share interests in the enterprises that they have established. This is understandable, for, the disposal of successful investments leaves the corporations with those which are unable to attract the private investor.

Portfolio sales are only one aspect of the ordinary financing activities of the development banks. But they are sufficiently important to warrant directing each stage of the financing process to this end. The necessary condition for marketability is the established success of the enterprise and reasonable prospects for its future. The quality of the initial investment and the willingness to hold the investment until it becomes seasoned, perhaps for three or four years, is thus basic to any effort the bank makes to sell securities from its portfolio.

The form of the investment is equally important. In Pakistan, equity securities are probably the only readily marketable securities because of the inflationary trend in the economy. A bond market exists only for government securities.

Another technique used increasingly by the development banks is underwriting the public issues of shares and debentures of the enterprises they assist. The appraisal of the enterprise by the development bank and its willingness to invest some of its own funds helps to create in the investing public confidence that the enterprise being assisted is sound.

The practice of underwriting in Pakistan is different from that prevailing in developed capital markets like New York or London. Underwriters in New York, for example, perform essentially a marketing function. They intend and expect to dispose of all the securities they underwrite, and consider the operation unsuccessful if they are left with any substantial amount. In Pakistan, as in the other developing countries, underwriting combines marketing and investment function.

In cases where underwriting of a public issue was not possible, the development banks have encouraged the average investors, who are not in a position to appraise the technical, financial and managerial aspects of an enterprise, by participating in the projects. This technique was employed in a number of cases by PIDC and later by its provincial successors. In 1954, PIDC participated in the share capital of Sui Gas Distribution Company and could sell three quarters of the equity to private investors in Pakistan and UK.[1] Interestingly, many small investors were among the purchasers. In 1964, WPIDC could sell two-thirds of the initial capital of Sui Northern Gas Pipeline Limited to private investors in Pakistan by participating in one-third of the equity.[2]

PICIC also participated in 13 joint ventures, in which the bulk of the equity capital was supplied by private investors in Pakistan as well as abroad.

The management of the development banks can in many other ways encourage the flow of private savings into productive investment. Some of the methods are discussed below.

(a) Sale of Industrial Securities with Bank's Guarantee

The advantages of placing industrial securities directly with the public are clear. Developing a willingness to hold securities is an ultimate goal of efforts to develop

---

[1] International Bank for Reconstruction and Development, Press Release No. 362, June 2, 1954.

[2] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

a capital market. This maybe accelerated through the sale of clients securities with the bank's guarantee. The investor thereby obtains the additional protection of a direct claim upon the bank's resources in case of trouble. From the standpoint of the institutional investors, a security of this kind has a great attraction. But it may seem less desirable from the standpoint of the bank, since widespread portfolio sales with the bank's guarantee might narrow the market for its own obligations.

(b) Sale of the Bank's own Obligations

This avoids many of the difficulties inherent in selling industrial securities directly. The investor does not need to appraise the merits of particular enterprises. He only has to decide whether he has sufficient confidence in the management of the bank and in its investment decisions to commit to it a part of his savings.

It should be noted, however, that the sale of the bank's own obligations does not necessarily broaden the market for industrial securities, particularly where the obligations carry special guarantee and redemption privileges. This is essentially a device for enlarging the bank's resources.

C. INDUSTRIAL PROMOTION

Development banks in Pakistan have engaged in a variety of non-financial activities which may be described as entrepreneurial. They have undertaken research and surveys to uncover new investment opportunities. They have tried, both by making investment opportunities widely known and by direct solicitation, to persuade private industrialists to take up new lines of endeavour. They have established enterprises themselves whenever efforts to interest private capital proved unsuccessful. And they have well informed the public— businessmen, industrialists, investors — about the type and the extent of the services they are equipped to provide.

The two Development Corporations (WPIDC and EPIDC) prepare surveys and project reports before undertaking large industrial ventures. In cases where competent staff is not locally available they seek the assistance of foreign experts. The existence of a revolving fund of Rs. 5 million for each of the corporations has made it possible for them to undertake these surveys without waiting for formal government sanction, and thus to have always a portfolio of suitable projects. This allows the corporations tobegin construction almost immediately after a proposal is approved.[1]

PICIC also lays great emphasis on the promotion of

---

[1] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

industries in new and untapped fields. For this purpose it arranges surveys and prepares schemes to determine the desirability and profitability of setting of manufacturing units in new and unexplored fields. Its most fruitful endeavour in this direction has been its surveys of the cement, paper, sugar and sugar by-products industries as a result of which several projects have been developed and financed.

IDBP, too, maintains a separate department for industrial promotion. This department assists the prospective entrepreneurs in identifying and selecting the most profitable and sound lines of investment. It undertakes pre-investment studies of the various projects and determines their potential. It also investigates the investment possibilities in new and untapped fields.

CHAPTER VI

EVALUATION

Industrialization has become one of the most important roads to economic development, and successful industrialization depends on a number of factors: capital, entrepreneurship, skilled labor, access to modern manufacturing techniques and to markets. Pakistan, like other developing countries, lacks an adequate supply of most of these ingredients. Some of them, like capital, management, and technical know-how, were directly imported in the past by a few relatively large scale industries. The small and medium size enterprizes had to depend on the locally available resources.

In order to increase the supply of these ingredients of economic development, virtually every country of the world has established institutions to mobilize its resources of capital and know-how and channel them into productive use. Though their form and activities differe greatly these institutions are generally known by the term "Development Banks". Their common objective is to provide medium- and long-term funds for productive investment as well as technical advice for the implementation of such investments.

EVALUATION OF THE ECONOMIC IMPACT
OF THE DEVELOPMENT BANKS

The existing development banks have exerted a significant impact on the economy of Pakistan. Their operations have broadened the industrial base, accelerated the growth of the capital market, and increased foreign exchange earnings. This they have achieved by :

(a) identifying the promising fields for investment and helping in bringing together the factors of production;

(b) acting as a channel through which foreign capital and know-how could flow into the national economy;

(c) stimulating the capital market to mobilize domestic private savings and channel them into productive investment.

For the implementation of the above items, the development banks have been entrusted with the following tools:

(a) a supply of long-term capital — part of it being available in foreign exchange;

(b) experienced management, well versed in modern investment techniques and capable of appraising objectively investment opportunities and market possibilities, and having a sound knowledge of local conditions;

(c) contacts with foreign business, investment institutions, and international financial and technical assistance agencies.

PERFORMANCE OF THE DEVELOPMENT CORPORATIONS

Before going into more details, a brief "summary of figures" about WPIDC and EPIDC is perhaps appropriate.

WPIDC

Upon bifurcation of the parent organization (PIDC), WPIDC inherited 33 completed and 4 non-going projects in the field of large-scale industries. By June 1964, the corporation had completed two more projects. The total capital outlay on all these projects amounted to Rs. 803.3 million, of which the corporation's investment was Rs.577.4 million.[1] Of the 34 completed projects, 22 are limited companies of which 12 are under the management of WPIDC while the remaining 10 are managed by private parties.[2]

EPIDC

At the time of bifurcation, the investment of the former PIDC in various projects in East Pakistan was valued at Rs. 832.7 million, of which the share of EPIDC amounted to Rs. 558.1 million.[3] During the first two years of its existence, i.e. upto June 30, 1964, the investment made by the corporation amounted to Rs. 319.1 million.[4] The number

---

[1] Economic Survey of Pakistan, 1963-64, op. cit., p. 40.

[2] See Table 5, Appendix B.

[3] Economic Survey of Pakistan, 1963-64, op. cit., p. 40.

[4] Abdul Hafiz, op. cit., p. 143.

of completed projects rose from 21 to 27, while 39 projects involving a total capital outlay of Rs. 1,448.7 million are under different stages of execution.[1]

The size and range of the enterprises financed by the two development corporations show that they have played a decisive role in the industrial growth of Pakistan. They took initiative in financing industries that required a heavy initial capital investment, a long period to set up, or involved complicated processes and high technical knowledge. They have limited their activities to the development of industries listed in their schedules, and have refrained from assisting industries which are receiving adequate attention from private investors. They have emphasized the promotion and not the ownership of industries. In cases where private capital was not forthcoming at the outset, the corporations would invest their own funds and then try to transfer the completed projects to private management once it was shown tobe profitable. The corporations met with considerable success in this direction, which can be judged from the fact that out of 43 completed projects in the large-scale industries and mining, WPIDC could associate private capital in as many as 24 projects. The investment ratio of WPIDC and private capital in all the 42 completed projects

---

[1] Ibid., p. 144.

is 84:16.[1] EPIDC has also associated private capital in a number of cases, and has transferred 7 projects to private investors.

By this policy of transferring enterprises to private interests the corporations have greatly contributed to the development of a spirit of entrepreneurship in the country. And by relieving themselves from the management of those enterprises which they have established in the consumer and intermediary industries, they are able to concentrate on the more complex organizational and technical problems of the heavy industry projects.

Being development banks, WPIDC and EPIDC have a dual role to play. Theyare interested in profits, just like private enterprises, but unlike privately owned financial institutions for which earnings are the exclusive test of economic efficiency, they are primarily concerned with the total impact of their projects on the economy of the country.

A study of their activities reveals that the corporations have well performed their "development" role. They have invested only in those projects which private industrialists are either unable or unwilling to undertake. They have taken the initiative in setting up more difficult and less profitable industries, such as heavy engineering, mining

---

[1] Interview with the Public Relations Manager, WPIDC, Karachi, on May 4, 1964.

heavy chemicals, fertilizers and pharmaceuticals. Most of these enterprises required a large amount of capital, complicated processes, or a long time to set up, which private investors often cannot afford.

Although required by their charters to act on the basis of commercial conside-ration, in the discharge of their functions, the corporations have nevertheless been careful not to regard the profit motive as the sole criterion governing their decisions. They have also sought to develop the industrial potential of the two wings of the country. In determining the location of factories, special efforts were made to distribute them as widely as possible and to avoid the excessive concentration of industries in a small number of urban centers. This was done to insure a balanced growth, not only productwise but also regionwise. Over-concentration in a few places would leave the underdeveloped regions unexploited, and it is precisely the underdeveloped regions that are likely tobe avoided by the private entrepreneurs. No wonder, then, that the projects of the corporations have sprung up far and wide, bringing new prosperity and infusing a new spirit in people who otherwisewould have been left out of the immediate benefits of industry.

In view of the acute shortage of technical experts, the corporations have not hesitated to hire foreign consultants whenever the magnitude of their ventures made it essential. This practice added considerably to both the initial capital expenditure and the operational costs, but it had the advantage of providing a training ground for the Pakistani employees.

The corporations have granted a number of benefits to their employees: residential and medical facilities, production or profit bonuses, provident fund. Such a paternalistic attitude has helped in raising working conditions as other privately owned enterprises have tried to follow the example set by the Development Corporations.

As it appears from the foregoing discussion, WPIDC and EPIDC must be givén credit for the way they have fulfilled their role as development institutions. They do have, however, some shortcomi gs. Being entirely owned by the government,they are subject to political pressure by private groups. Also, because the urge for large profits is absent, there has been at times a certain amount of inefficiency. Thus, the PIDC sponsored woollen and cotton mills produced very little profits, but once they were transferred to private hands, their profit position immediately improved.

PERFORMANCE OF THE FINANCE CORPORATIONS

PICIC

Since its inception to March 31, 1964, PICIC sanctioned loans amounting to Rs. 593.9 million of which Rs. 558.7 were in foreign currencies and Rs. 35.3 million in local currency.[1] This together with the entrepreneurs' own contribution was estimated to lend to a total investment of Rs. 1,414.5 million in the private industrial sector. Therefore, Rs. 820.7 million measure the mobilization effect of PICIC loans. It is significant that one rupee of PICIC loan mobilized on the average Rs. 1.38 of private funds. Once completed, the projects are estimated to contribute Rs. 401.5 million as the value added by manufacture. The impact in terms of foreign exchange savings or earnings is forecasted at Rs. 245.9 million per year.[2] Since the foreign exchange expenditure of the projects amounted to Rs. 686.1 million, the entire expenditure is expected to be recovered in about three years.

Though formed with the backing of the government, PICIC is the only privately owned finance corporation in Pakistan. The fact that its management is selected by and-

---

[1] Economic Survey of Pakistan, 1963-64, op. cit., pp. 158-59.

[2] Ibid.

responsible to private shareholders means that it can in many cases make better investment decisions than a public institution would, without being subject to political pressures. It has furthermore considerable freedom to engage and dismiss staff and to establish administrative and fiscal procedures appropriate to its purposes and needs. Its ability thus to function on a businesslike and efficient basis has enhanced the corporation's effectiveness in stimulating investment activity in the private industrial sector.

PICIC has been instrumental in fostering the spirit of entrepreneurship in a number of ways. As noted earlier, it has provided the necessary foreign exchange for productive projects where the rupee portion of the investment was supplied by Pakistani investors. It has also made available foreign exchange to those enterprises which needed it to finance the import of machinery for balancing and modernization. This, it has been able to do because of large foreign exchange loans secured from abroad and especially from the IBRD which tends to favour privately owned development banks.

One should not fail to mention in this connection PICIC's remarkable work in research and surveys for exploring productive investment opportunities. Its various studies led to the establishment of a number of new enterprises in previously unexplored fields.

As one would expect from a privately owned financial financial institution, PICIC has shown greater concern for profits than the other development banks in Pakistan. It has concentrated on providing large loans to big and medium enterprises in order to keep the cost of investigation and administration low.

Although PICIC's charter authorizes it to grant loans on the basis of the personal guarantee of the directors of an enterprise, it has seldom made use of this provision. It prefers to obtain a comprehensive mortgage or hypothecation on movable and immovable assets. PICIC's attempt to obtain a mortgage on all of an enterprise's assets is not in line with the objectives of a development institution, namely, to keep open, for an enterprise, other avenues of finance. This, however, is not a serious shortcoming, as the corporation later on releases some of the enterprise's assets to enable it toobtain working capital credit from a commercial bank approved by it.

PICIC should be given credit for its efforts to encourage the development of the capital market. A large number of business firms in Pakistan are family-owned and insist on keeping the control and management within the family circle. In order to broaden industrial ownership, the corporation requires as a condition of finance that the larger enterprises be limited companies with a general issue of shares to the public. Thus, in spite of the prevailing mores of the business community, PICIC has been able to bring into existence 42 joint stock companies, 22 of which are already listed on the stock exchange.[1]

IDBP

From its inception in August 1961 to March 1964, IDBP sanctioned loans amounting to Rs. 224.9 million — Rs . 69.6 million in local currency and the rest in foreign exchange. Apart from the loan that the bank has sanctioned on its own it was also called upon to administer foreign currency loans to various projects on behalf of the government.[2]

IDBP has contributed to the industrial development of Pakistan by bringing into the industrial arena a large number of new entrants — medium and small entrepreneurs — especially in the underdeveloped regions of the country. While PICIC caters mostly to the requirements of large enterprises, IDBP was established by the government to meet the needs of enterprises in the lower brackets. Small and medium-sized industries occupy an important place in the economy of Pakistan. They employ about 80 per cent of the country's

---

[1] Interview with the Secretary, PICIC, Karachi, on May 7, 1964.

[2] Economic Survey of Pakistan, 1963-64, op. cit., p.161.

industrial workers and account for about 40 per cent of the industrial production. It is hardly surprising, then, that the Credit Enquiry Commission Report recommended the conversion of PIFCO, which could finance only existing large-scale industries by granting long-term loans, into an institution more suited to the needs of the country.

Financing such small and medium scale enterprises, however, presents special cost and risk problems. The entrepreneurs in these brackets are generally not well known to the bank and do not have any record of dealings with it to help IDBP determine their credit worthiness. In many cases they are uneducated, possess little managerial ability and do not keep proper accounts. Under such conditions, IDBP must undertake more careful investigations about their credit worthiness and their projects and has to exercise a greater amount of loan supervision.

In spite of the high costs of administering small loans, about 80 per cent of IDBP's loans were for less than Rs. 500,000. At the same time, it has tried to quote uniform interest rates on big and small loans to avoid criticism of discrimination against small enterprises.[1]

IDBP has often been criticized for being more of a mortgage bank than a development institution. It does not

---

[1]Interest rates on IDBP's loans have ranged from 6 to 8 per cent. Interview with the Chief Accountant, IDBP, Karachi in May 1964.

grant loans against the future earnings of an enterprise and/or the personal guarantee of the sponsors, but requires a 100 per cent coverage of its loans with specific assets. It, thus, fails to comply with a basic requirement of sound development banking: to finance enterprises with good earning prospects even though a mortgage on assets is not available. Such a conservative attitude may be traced to the fact that most of the personnel employed by IDBP have come over from commercial banks and continue to apply conventional criteria of evaluating the financial soundness of a project. It should not be forgotten, however, that IDBP is a relatively young institution and lacks, therefore, the experience and confidence of a long established development bank. It is hoped that with time IDBP will modify its extra-conservative policy to meet the requirements of an effective development bank.

With respect to working capital, IDBP expects the enterprise financed to obtain working capital loans from commercial banks and prefers, therefore, to take mortgage only on fixed assets; it, nevertheless, requires the enterprise to secure its permission before incurring additional obligations.

SOME GENERAL CONSIDERATIONS

<u>Establishment of New Enterprises Versus Expansion of</u>

<u>Established Units</u>: One of the primary aims of the development banks in Pakistan has been to open new fields of economic activity and enlarge the variety of skills of the labour force and the entrepreneurial group. This is particularly important as only the development banks may supply the initiative and assume the risks involved in financing new enterprises. This was one of the major reasons for reorganizing PIFCO, which could not finance new enterprises, in the IDBP.

All the development banks in Pakistan have tried to explore and finance new undertakings. To further this aim they are engaged in research and survey of new projects. At the same time they have not neglected the established enterprises. They have often helped them to obtain funds from other sources. especially those which are closed to the new firms and have themselves granted loans whenever the enterpriser's efforts proved unfruitful. PICIC and IDBP should be given credit for striking a reasonable balance between financing established and new enterprises. Of the 372 projects financed by PICIC, as many as 187 were new and in 72 cases the entrépreneurs were entering the industrial field for the first time. With respect to IDBP, about 58 per cent of the total loans have gone to set up new units. In this connection, it may be pointed out that more new projects were undertaken in East than in West Pakistan. This is is justified by the deficiency of capital formation and dearth of industries in that province. The greater proportion of loans advanced for modernization and balancing of established units in West Pakistan was necessary to help improve the quality of industrial products through the import of modern machinery.

Loans in Foreign Exchange: There are some special problems which the Finance Corporations encounter in extending loans in foreign currencies. The principal among them relates to the risk of depreciation in the rate of exchange. The finance corporations could not prudently assume this risk. If they did, a devaluation of any magnitude, in the local currency, like that of the mid-fiftees, would seriously impair their capital, especially if they do not have enough reserves toabsorb the loss. In case of PICIC, the Government of Pakistan agreed to safeguard the corporation against any foreign exchange loss arising out of the first IBRD loan, but did not continue such an insurance against all of PICIC's borrowings. Now both IDBP and PICIC pass this risk on to borrowers who must repay their foreign exchange loans at the rate prevailing at the time of repayment of the loan. This is only logical because if the enterprises were to borrow foreign exchange on their own they would pay back at the prevailing market rate at the time of repayment.

<u>Equity Financing Versus Loan Financing</u> : Although both PICIC and IDBP are permitted by their charters to provide equity capital, most of PICIC's and almost all of IDBP's financing has been in the form of loan capital. This was done because of the preference of the development banks and the private entrepreneurs.

The finance corporations prefer to provide loan capital for the following reasons: first, in the early years of their operations, they are more concerned with building up reserves, meeting administrative expenses, servicing borrowed capital and paying dividends on their sharecapital. The regular and immediate income generated by a loan portfolio has a much greater appeal for the corporation than the delayed and uncertain returns on equity investment. Second, with loan capital in an enterprise, the corporations do not have to concern themselves with the management problems of of the enterprise which would cause pressure on their staff's time. Also the management of an enterprise calls for skills which are different from these employed in project or credit worthiness appraisal and in loan administration.

With respect to the entrepreneurs, they benefit from a tax advantage if the additional funds are borrowed rather than obtained by selling capital stock, because interest on loans is a deductible expense and dividends are taxed in

Pakistan. Second they prefer to obtain loan capital, because in most cases the firms are family owned and they are reluctant to share ownership and management with others. By sharing ownership, they would have to disclose details and secrets of their operations which may mean unnecessary investigation by government or tax inspectors. Furthermore, the shares owned by the development banks could be sold to rival interests or to persons who are undesirable as partners.

Profitability of Development Banks

As noted earlier the development banks in Pakistan are not primarily profit making institutions. They were established with the main objective of accelerating the industrial growth of the country by providing the missing ingredients of industrial development, major among them being medium and long-term capital.

As development institutions, their major concern has been to select those enterprises for finance which are in line with the government's industrial policy. This is to increase the industrial potential of the country by promoting industries which manufacture products based on the indigenous raw materials available in the country or industries which employ imported raw materials but save or earn much needed foreign exchange.

Being a developing economy, Pakistan offers a good potential market for making profits in the industrial field. The fact is that lamost any soundly conceived enterprise is likely tobe profitable, particularly in the field of medium and large-scale industry.

The two development corporations, viz., WPIDC and EPIDC have taken upon themselves the responsibility of developing these industrial enterprises which are unattractive to private investor but serve the overall interest of the economy. PICIC being a pirvately owned corporation is normally more profit minded than IDBP which is governed owned and subject to political pressure from a large number of small and medium-sized enterprises.

There are a number of factors, other than profit making, that influence the interest policy of the two corporations. They must take into consideration the minimum dividends that they should pay to keep shareholders' funds voluntarily invested and to preserve the possibility of expanding their equity base in future. Charges to cover administrative expenses and the cost of borrowed funds must also be accounted for.

The finance corporations cannot, however, fix their interest rates independently. There are externally determined limits beyond which the interest rates may not rise.

A fundamental factor is the effect that interest charges may have on the demand for loans. That demand, furthermore, is not determined exclusively by their interest rates. It may be stimulated by the availability of non-financial service and advice; and by the "certificate of soundness" that the corporations' financing may represent in the country.

Another important consideration in fixing the interest rates is whether the demand for loans in the country is high enough to engage all of corporation's resources, financial and human.

Encouragement to Savings : The development banks in Pakistan have encouraged savings by general public and enterprises by providing incentives to save, and channeling them into productive endeavours. This they have done in the following ways:

(i) By offering capital stock of public limited companies sponsored by the developed banks to general public. In most cases it was observed that purchasers of stock in this category were a large number of small investors spread throughout the country.

(ii) By providing the investors new avenues of investment, and necessary finance in foreign exchange to potentially profitable enterprises. The new investment opportunities created by promotional and entrepreneurial activities undertaken by the development banks have helped redirecting of savings from traditional channels of investment like commerce and real estate to industrial ventures.

(iii) By requiring that family firms be converted into public limited companies and shares offered for general subscription. Also, by increasing the number of listed companies on stock exchange has helped the development of capital market, which itself stimulates savings and investment.

(iv) IDBP has also encouraged savings by accepting deposits from general public and small investors.

APPENDIX A

CHECK-LIST USED FOR CASE STUDIES OF DEVELOPMENT BANKS IN PAKISTAN

1. History:

    (i) When and how the Corporation was formed

    (ii) Method of Incorporation

    (iii) Special features of the charter

2. Scope of Activities:

    (i) Objectives of the development banks

    (ii) Limitations on the type of industries that the bank can finance

    (iii) Limitations on the type of finance offered

3. Sources of Finance:

    (i) Capital structure

    (ii) Sources of equity capital

    (iii) Sources of loan capital

    (iv) Other sources of funds

4. Management and Organizational Structure:

    (i) Policy makers of the bank

    (ii) Board of Directors and their responsibilities

    (iii) Appointment of board of directors and the chief executive of the bank

(iv) Major departments and their functions

(v) Recruitment of staff

5. Mode of Operation:

(i) Criteria for selecting an enterprise for finance

(ii) Process of project appraisal

(iii) Investment terms

(a) Form of investment - equity or loan

(b) Size of investment

(c) Interest policy

(d) Security policy

(e) Loans in foreign exchange

(f) Other investment terms

6. Contribution to Industrial Development:

(i) Volume of investment

(ii) Industrywise distribution of investment

(iii) Contributions towards developing specific industries

(iv) Establishment of new industries and enterprise s

(v) Expansion and modernization of existing enterprises

(vi) Development of capital market

(vii) Entrepreneurial and exploratory activities

(viii) Other contributions to the growth of economy

(ix) Future programs

7. Profitability of Development Banks:

(i) Financial statements

(ii) Attitude towards profit making

(iii) Major sources of earnings and expenses

(iv) Self evaluation of performance

APPENDIX B

TABLE 1

PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION

Investment in Projects completed upto 30th June, 1961.

(Rs. in million)

Name of the Projects	Location	Total	Paid-up Capital/Capital Cost PIDC Investment b	Private Investment
A: EAST PAKISTAN				
1. Adamjee Jute Mills Ltd.	Narayangaj	50.00	-	50.00
2. Amin Jute Mills Ltd.	Chittagong	12.50	1.00	11.50
3. Crescent Jute Mills Ltd.	Khulna	17.50	4.67	12.83
4. Chittagong Jute Mfg.Co.Ltd.	Chittagong	12.50	6.25	6.25
5. Latif Bawany Jute Mills Ltd.	Dacca	15.00	0.40	14.60
6. People Jute Mills Ltd.	Khulna	20.00	5.00	15.00
7. Daulatpur Jute Mills Ltd.	Khulna	7.50	-	7.50
8. Karim Jute Mills Ltd.	Dacca	6.10	3.00	3.10
9. Dacca Jute Mills Ltd.	Dacca	8.58	3.00	5.58
10. Nishat Jute Mills Ltd.	Dacca	4.08	2.10	1.98
11. Platinum Jubilee Jute Mills Ltd.	Khulna	30.00	28.66	1.34
12. Star Jute Mills Ltd.	Khulna	10.02	7.50	2.52
13. Karnaphuli Paper Mills LTd.	Chandraghona	46.00	1.00	45.00
14. Dockyard & Engineering Works Ltd.	Narayanganj	7.50	4.50	3.00
15. Muslin Cotton Mills Ltd.	Kaliganj	20.00	10.50	9.80
16. Khulna Shipyard	Khulna	41.50	41.50	-
17. Rangpur Sugar Mills	Rangpur	26.94	26.94	-
18. Thakurgaon Sugar Mills	Thakurgaon	20.89	20.89	-
19. Zeal-Pak Sugar Mills	Dewanganj	18.56	18.56	-
20. Khulna Newsprint Factory.	Khulna	150.00	150.00	-
B: WEST PAKISTAN				
1. Adamjee High Grade Board Paper Mills & 2. Nowshera Chemical Works (Adamjee Industries Ltd.)	Nowshera	30.00	2.50	27.50
3. Sethi Straw Board Mills Ltd.	Rahwali	11.50	2.20	9.30
4. Lyallpur Chemical and Fertilizers Ltd.	Lyallpur	2.50	1.88	0.62
5. Kurram Chemical Co.Ltd.	Rawalpindi	0.10	0.85	0.05
6. Pak-American Fertilizers Ltd.	Daudkhel	90.00	90.00	-
7. Haripur Rosin & Turpentine Factory Ltd.	Haripur	1.20	0.50	0.70
8. Maple Leaf Cement Factory Ltd.	Daudkhel	50.00	50.00	-

TABLE 1

PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION

Investment in Projects completed upto 30th June, 1961.

(Rs. in million

Name of the Projects	Location	Total	Paid-up Capital/Capital Cost PIDC Investment b	Private Investment
A! EAST PAKISTAN				
1. Adamjee Jute Mills Ltd.	Narayangaj	50.00	-	50.00
2. Amin Jute Mills Ltd.	Chittagong	12.50	1.00	11.50
3. Crescent Jute Mills Ltd.	Khulna	17.50	4.67	12.83
4. Chittagong Jute Mfg.Co.Ltd.	Chittagong	12.50	6.25	6.25
5. Latif Bawany Jute Mills Ltd.	Dacca	15.00	0.40	14.60
6. People Jute Mills Ltd.	Khulna	20.00	5.00	15.00
7. Daulatpur Jute Mills Ltd.	Khulna	7.50	-	7.50
8. Karim Jute Mills Ltd.	Dacca	6.10	3.00	3.10
9. Dacca Jute Mills Ltd.	Dacca	8.58	3.00	5.58
10. Nishat Jute Mills Ltd.	Dacca	4.08	2.10	1.98
11. Platinum Jubilee Jute Mills Ltd.	Khulna	30.00	28.66	1.34
12. Star Jute Mills Ltd.	Khulna	10.02	7.50	2.52
13. Karnaphuli Paper Mills LTd.	Chandraghona	46.00	1.00	45.00
14. Dockyard & Engineering Works Ltd.	Narayanganj	7.50	4.50	3.00
15. Muslin Cotton Mills Ltd.	Kaliganj	20.00	10.50	9.80
16. Khulna Shipyard	Khulna	41.50	41.50	-
17. Rangpur Sugar Mills	Rangpur	26.94	26.94	-
18. Thakurgaon Sugar Mills	Thakurgaon	20.89	20.89	-
19. Zeal-Pak Sugar Mills	Dewanganj	18.56	18.56	-
20. Khulna Newsprint Factory.	Khulna	150.00	150.00	-
B: WEST PAKISTAN				
21. Adamjee High Grade Board Paper Mills & 22. Nowshera Chemical Works (Adamjee Industries Ltd.)	Nowshera	30.00	2.50	27.50
23. Sethi Straw Board Mills Ltd.	Rahwali	11.50	2.20	9.30
24. Lyallpur Chemical and Fertilizers Ltd.	Lyallpur	2.50	1.88	0.62
25. Kurram Chemical Co.Ltd.	Rawalpindi	0.10	0.85	0.05
26. Pak-American Fertilizers Ltd.	Daudkhel	90.00	90.00	-
27. Haripur Rosin & Turpentine Factory Ltd.	Haripur	1.20	0.50	0.70
28. Maple Leaf Cement Factory Ltd.	Daudkhel	50.00	50.00	-

Name of the Projects	Location	Paid-up Capital/Capital Cost		
		Total	PIDC Investment	Private Investment
29. Zeal-Pak Cement Factory Ltd.	Hyderabad	30.00	24.44	5.56
30. Charsadda Sugar Mills Ltd.	Charsadda	13.00	2.99	10.81
31. Harnai Woollen Mills Ltd.	Harnai	5.00	4.12	0.88
32. Bannu Woollen Mills Ltd.	Bannu	5.00	5.00	-
33. Model Cotton Ginning Factory Ltd.	Mirpukhas	0.50	-	0.50
34. Model Ginning Factory Ltd.	Sargodha	0.90	0.90	0.81
35. Model Ginning Factory Ltd.	Sultanabad	0.50	0.05	0.45
36. Sui Gas Transmission Co., Ltd.	Multan	37.80	8.15	29.65
37. Indus Gas Co., Ltd.	Karachi	5.00	5.00	-
38. Makerwal Colliereies Ltd. (including Gullakhel Mallakhel Collieries).	Makerwal	15.00	15.00	-
39. Karachi Gas Co., Ltd.	Karachi	15.00	5.00	10.00
40. Karachi Shipyard and Engineering Works Ltd.	Karachi	78.69	78.69	-
41. D.D.T. Factory	Nowshera	3.02	3.02	-
42. Jauharabed Sugar Mills	Jauharabad	10.85	1.25	-
43. Qaidabad Woollen Mills	Qaidabad	3.06	3.06	-
44. Preparatory Survey of Iron Ore in Dammar Nissar (Chitral Area)	Chitral	0.19	0.19	-
45. All Weather Road & Tunnel Projects	Chitral	0.30	0.30	-
46. Iron Ore Survey & Prospecting		7.88	7.88	-
47-49 Model Cotton Ginning Factories	Multan	2.10	0.21	1.89
	Noabad	2.10	0.21	1.89
	Matli	2.10	0.21	1.89
50. Sui/Multan Gas Pipeline	Sui/Multan	97.30	97.30	-
51. Penicillin Factory	Daudkhel	12.18	12.18	
52. Pak-Dyes & Chemicals Ltd.	Daudkhel	6.00	4.20	1.80
53. Talpur Textile Mills	Tando Mohd Khan	5.00	2.45	2.55
54. Natural Gas Fertilizer Factory	Fenhuganj	244.00	244.00	-
	Total:	1,309.55	1,006.87	302.68

Source: PIDC, Annual Report, 1960-61 (karachi: 1961), pp.44-45. (This data was brought up-to-date during an interview with the Public Relations Manager, in PIDC, Karachi on May 4, 1964).

Name of the Projects	Location	Paid-up Capital/Capital Cost		
		Total	PIDC Investment	Private Investment
29. Zeal-Pak Cement Factory Ltd.	Hyderabad	30.00	24.44	5.56
30. Charsadda Sugar Mills Ltd.	Charsadda	13.00	2.99	10.81
31. Harnai Woollen Mills Ltd.	Harnai	5.00	4.12	0.88
32. Bannu Woilen Mills Ltd.	Bannu	5.00	5.00	-
33. Model Cotton Ginning Factory Ltd.	Mirpukhas	0.50	-	0.50
34. Model Ginning Factory Ltd.	Sargodha	0.90	0.90	0.81
35. Model Ginning Factory Ltd.	Sultanabad	0.50	0.05	0.45
36. Sui Gas Transmission Co., Ltd.	Multan	37.80	8.15	29.65
37. Indus Gas Co., Ltd.	Karachi	5.00	5.00	-
38. Makerwal Colliereies Ltd. (including Gullakhel Mallakhel Collieries).	Makerwal	15.00	15.00	-
39. Karachi Gas Co., Ltd.	Karachi	15.00	5.00	10.00
40. Karachi Shipyard and Engineering Works Ltd.	Karachi	78.69	78.69	-
41. D.D.T. Factory	Nowshera	3.02	3.02	-
42. Jauharabed Sugar Mills	Jauharabad	10.85	1.25	-
43. Qaidabad Woollen Mills	Qaidabad	3.06	3.06	-
44. Preparatory Survey of Iron Ore in Dammar Nissar (Chitral Area)	Chitral	0.19	0.19	-
45. All Weather Road & Tunnel Projects	Chitral	0.30	0.30	-
46. Iron Ore Survey & Prospecting		7.88	7.88	-
47-49 Model Cotton Ginning Factories	Multan	2.10	0.21	1.89
	Noabad	2.10	0.21	1.89
	Matli	2.10	0.21	1.89
50. Sui/Multan Gas Pipeline	Sui/Multan	97.30	97.30	-
51. Penicillin Factory	Daudkhel	12.18	12.18	
52. Pak-Dyes & Chemicals Ltd.	Daudkhel	6.00	4.20	1.80
53. Talpur Textile Mills	Tando Mohd Khan	5.00	2.45	2.55
54. Natural Gas Fertilizer Factory	Fenhuganj	244.00	244.00	-
	Total:	1,309.55	1,006.87	302.68

<u>Source</u>: PIDC, <u>Annual Report, 1960-61</u> (karachi: 1961), pp.44-45. (This data was brought up-to-date during an interview with the Public Relations Manager, in PIDC, Karachi on May 4, 1964).

TABLE 2
PRODUCTION OF PIDC'S PROJECTS
AS AT 30TH JUNE, 1961.

o.	Commodity		1960-61		1951-52 to 1960-61	
		Unit	Quantity	Value	Quantity	Value
1.	Jute Manufacturers	Tons	239,683	299.60	1,246,405	1,577.42
2.	Paper (Karnaphuli).	"	29,271	54.15	177,854	324.57
3.	Board/Paper.	"	13,344	20.52	60,853	95.93
4.	Newsprint & Mechanical paper	"	30,517	35.46	48,871	56.97
5.	Cement	"	567,620	41.43	2,267,870	165.44
6.	Cotton Yarn	Lbs	8,279,458	22.77	42,788,103	118.10
7.	Blankets	Nos.	27,133	.67	560,700	14.84
8.	Woollen Fabrics	Yds.	394,270	6.30	2,759,389	45.54
9.	Coal	Tons	190,384	8.19	966,681	43.32
.	Iron Ore	"	-	- -	77,981	0.755
.	Sulphuric Acid	"	5,234	2.22	12,771	5.75
.	Oleum	"	393	0.16	2,029	1.05
.	Super Phosphate	"	8,844	2.64	12,970	3.89
.	Caustic Soda	"	3,686	1.35	18,732	6.86
.	Chlorine Liquid & Bleach Liquid	"	-	-	63,861	3.92
.	Chlorine Gas	"	1,146	0.71	5,176	3.20
.	D.D.T.	"	278	2.64	2,411	22.15
.	Fertilizer	"	46,612	15.20	131,869	43.06
.	Rosin	Mds.	82,000	3.94	248.145	10.09
.	Turpentine	Gallons	105,689	0.21	295,096	0.66
.	Santonin	Kilos	-	-	26,154	14.94
.	Congo Red	Tons	-	-	94, 66	1.18
.	Sulphur Black	"	134	0.73	407,20	2.23
.	Sugar	"	35,325	14.36	190,208	221.00
.	Natural Gas					
	1. Sui/Multan	M.C.Ft.	4,828	9.47	6,924,051	14.79
	2. Sui/Karachi	M.C.Ft.	16,910	31.75	69,864,368	132.02
.	Shipyard		-	29.55	-	73.85
.	Penicillin	No. of vials filled	1,859,715	1.85	1,859,715	1.85
				632.88		3004.925

Source: PIDC, Annual Report, 1960-61 (Karachi: 1961), pp.48-49.

TABLE 2
PRODUCTION OF PIDC'S PROJECTS
AS AT 30TH JUNE, 1961.

No.	Commodity	Unit	1960-61 Quantity	1960-61 Value	1951-52 to 1960-61 Quantity	1951-52 to 1960-61 Value
1.	Jute Manufacturers	Tons	239,683	299.60	1,246,405	1,577.42
2.	Paper (Karnaphuli).	"	29,271	54.15	177,854	324.57
3.	Board/Paper.	"	13,344	20.52	60,853	95.93
4.	Newsprint & Mechanical paper	"	30,517	35.46	48,871	56,97
5.	Cement	"	567,620	41.43	2,267,870	165.44
6.	Cotton Yarn	LBs	8,279,458	22.77	42,788,103	118.10
7.	Blankets	Nos.	27,133	.67	560,700	14.84
8.	Woollen Fabrics	Yds.	394,270	6.30	2,759,389	45.54
9.	Coal	Tons	190,384	8.19	966,681	43.32
10.	Iron Ore	"	-	- -	77,981	0.755
11.	Sulphuric Acid	"	5,234	2.22	12,771	5.75
12.	Oleum	"	393	0.16	2,029	1.05
13.	Super Phosphate	"	8,844	2.64	12,970	3.89
14.	Caustic Soda	"	3,686	1.35	18,732	6.86
15.	Chlorine Liquid & Bleach Liquid	"	-	-	63,861	3.92
16.	Chlorine Gas	"	1,146	0.71	5,176	3.20
17.	D.D.T.	"	278	2.64	2,411	22.15
18.	Fertilizer	"	46,612	15.20	131,869	43.06
19.	Rosin	Mds.	82,000	3.94	248.145	10.09
20.	Turpentine	Gallons	105,689	0.21	295,096	0.66
21.	Santonin	Kilos	-	-	26,154	14.94
22.	Congo Red	Tons	-	-	94, 66	1.18
23.	Sulphur Black	"	134	0.73	407,20	2.23
24.	Sugar	"	35,325	14.36	190,208	221.00
25.	Natural Gas					
	1. Sui/Multan	M.C.Ft.	4,828	9.47	6,924,051	14.79
	2. Sui/Karachi	M.C.Ft.	16,910	31.75	69,864,368	132.02
26.	Shipyard		-	29.55	-	73.85
27.	Penicillin	No. of vials filled	1,859,715	1.85	1,859,715	1.85
				632.88		3004.925

Source: PIDC, Annual Report, 1960-61 (Karachi: 1961), pp.48-49.

TABLE 3

PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION

EXPORT EARNINGS BY P.I.D.C. PROJECTS

AS ON 30TH JUNE 1961.

(Rs. in million

Name of Commodity	Unit	1960-61 Quantity	1960-61 Value	1959-60 Quantity	1959-60 Value	1953-54 to 1960-61 Quantity	1953-54 to 1960-61 Value
1. Jute Manufactures	Tons	196,457	325.90	194,268	227.35	819,282	1,088.27
2. Santonin	Kilos	4,013	0.84	1,646	0.39	32,209	5.86
3. Cement	Tons	2,961	0.27	-	-	104,642	10.44
4. Cotton Yarn	Lbs	188,400	0.04	936,000	0.57	1,124,400	0.61
5. Carpet Yarn	"	47,000	0.20	35,166	0.14	82,166	0.34
6. Artemisia Oil	"	-	-	-	-	2,400	0.30
7. Newsprint	Tons	9,155	9.97	-	-	9,155	9.97
Total:			337.23		228.45		1,115.79

Source: PIDC, Annual Report, 1960-61 (Karachi: 1961) p. 50.

TABLE 3

PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION

EXPORT EARNINGS BY P.I.D.C. PROJECTS

AS ON 30TH JUNE 1961.

(Rs. in million

Name of Commodity	Unit	1960-61		1959-60		1953-54 to 1960-61	
		Quantity	Value	Quantity	Value	Quantity	Value
1. Jute Manufactures	Tons	196,457	325.90	194,268	227.35	819,282	1,088.2
2. Santonin	Kilos	4,013	0.84	1,646	0.39	32,209	5.8
3. Cement	Tons	2,961	0.27	-	-	104,642	10.4
4. Cotton Yarn	Lbs	188,400	0.04	936,000	0.57	1,124,400	0.6
5. Carpet Yarn	"	47,000	0.20	35,166	0.14	82,166	0.3
6. Artemisia Oil	"	-	-	-	-	2,400	0.3
7. Newsprint	Tons	9,155	9.97	-	-	9,155	9.9
Total:			337.23		228.45		1,115.7

Source: PIDC, Annual Report, 1960-61 (Karachi: 1961) p. 50.

TABLE 4

PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION

Estimated Investment in Underway Projects

June 30, 1962

(Rs. in million)

Name of the Project	Estimated Cost
A: EAST PAKISTAN	
1. Quami Jute Mills, Sirajganj	15.00
2. W.Rahman Jute Mills, Chandpur	15.00
3. Pak Jute Mills, Ghorasal	15.00
4. United Jute Mills, Narsingdi	15.00
5. Hafiz Jute Mills, Chittagong	30.00
6. Extension to Khulna Newsprint Factory	40.00
7. Hard Board Factory, Khulna	10.00
8. Iron & Steel Works, Chittagong	133.25
9. Jaipurhat Sugar Mills, Japurhat	20.25
10. Kushtia Sugar Mills, Kushtia	21.00
11. Modernisation & Expansion of Muslin Cotton Mills, Kaliganj	2.92
12. Pakistan Pharmaceutical Industry Ltd.	7.50
13. Peat Development, Faridpur	12.85
Total A:	337.77
B: WEST PAKISTAN	
14. Natural Gas Fertilizer Factory, Multan	239.00
15. Development of Central Block Sor-Range	26.50
16. Zeal-Pak Cement Factory, Hyderabad (Extension) IV Kiln	16.20
TOTAL B:	281.70
Total A + B:	863.42

Source: PIDC; Annual Report, 1960-61 (Karachi: 1961) p. 46. (The data was brought up-to-date during an interview with the Public Relations Manager, in PIDC, Karachi on May 4, 1964.

TABLE 4

PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION

Estimated Investment in Underway Projects

June 30, 1962

(Rs. in million)

Name of the Project	Estimated Cost
A: EAST PAKISTAN	
1. Quami Jute Mills, Sirajganj	15.00
2. W.Rahman Jute Mills, Chandpur	15.00
3. Pak Jute Mills, Ghorasal	15.00
4. United Jute Mills, Narsingdi	15.00
5. Hafiz Jute Mills, Chittagong	30.00
6. Extension to Khulna Newsprint Factory	40.00
7. Hard Board Factory, Khulna	10.00
8. Iron & Steel Works, Chittagong	133.25
9. Jaipurhat Sugar Mills, Japurhat	20.25
10. Kushtia Sugar Mills, Kushtia	21.00
11. Modernisation & Expansion of Muslin Cotton Mills, Kaliganj	2.92
12. Pakistan Pharmaceutical Industry Ltd.	7.50
13. Peat Development, Faridpur	12.85
Total A:	337.77
B: WEST PAKISTAN	
14. Natural Gas Fertilizer Factory, Multan	239.00
15. Development of Central Block Sor-Range	26.50
16. Zeal-Pak Cement Factory, Hyderabad (Extension) IV Kiln	16.20
TOTAL B:	281.70
Total A + B:	863.42

Source: PIDC; Annual Report, 1960-61 (Karachi: 1961) p. 46. (The data was brought up-to-date during an interview with the Public Relations Manager, in PIDC, Karachi on May 4, 1964.

(Rs. in million)

Ser. No.	Name of Project	Total Cost Paid up capital	INVESTMENT WPIDC	Private	Managing Agents
	II. Under Private Management:				
1.	(a) Adamjee Paper Board Mills, Nowshera) (b) Nowshera Chemical Works) (Total paid up capital of Adamjee) industries is Rs. 300 lacs)	21.00	-	21.00	M/S.Adamjee Industries Ltd.
2.	Sethi Straw Board Mills Ltd. Rahwali	11.50	-	11.50	M/S. Sethi Brother Ltd.
3.	Charsadda Sugar Mills Ltd. Charsadda	15.00	2.99	12.06	M/s Khan of Hoti Group.
4.	Model Cotton Ginning Factory Ltd. Mirpurkhas	0.75	-	0.75	M/s Khuda Baksh
5.	Model Cotton Ginning Factory Ltd. Sultanabad	0.50	0.05	0.45	M/s Major Ataullah.
6.	Model Cotton Ginning Factory Ltd. Sargodha	0.90	0.09	0.81	M/s Malik Khizar Hayat Tiwana.
7.	Sui Multan Gas Pipeline	97.30	97.30	-	Taken over by Sui Northern Gas Pipeline Co. Ltd.
8.	Sui Gas Transmission Co. Ltd.	38.70	8.15	29.65	M/s Burnah Oil Co.
9.	Karachi Gas Co.,Ltd.	15.00	5.00	10.00	M/s Industrial Management Ltd.
	Total	200.80	113.58	87.22	

TABLE 5
WEST PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION
INVESTMENT IN COMPLETED PROJECTS
LARGE INDUSTRY
JUNE 30, 1965.

(Rs. in millions)

Ser. No.	Name of Project	Total Cost Paid up Capital	INVESTMENT WPIDC	Private
	A) FORMED INTO LIMITED COMPANIES:			
	1. Under WPIDC Management:			
1.	Karachi Shipyard & Engineering Works Ltd.,Karachi	78.69	78.69	-
2.	Lyallpur Chemicals & Fertilizers Ltd., Lyallpur	2.50	1.87	0.62
3.	Pak-American Fertilizers Ltd., Daudkhel	90.00	90.00	-
4.	Makerwal Collieries Ltd., Mari Indus	15.00	15.00	-
5.	Zeal-Pak Cement Factory Ltd., Hyderabad	30.00	23.00	6.94
	" (4th kiln) " " "	16.20	16.20	-
6.	Maple Leaf Cement Factory Ltd., Daudkhel	30.00	30.00	-
7.	Harnai Woollen Mills, Ltd., Harnai	5.00	4.11	0.88
8.	Bannu Woollen Mills, Ltd., Bannu	5.00	5.00	-
9.	Indus Gas Co. Ltd., Karachi	5.00	5.00	-
10.	Pak-Dyes & Chemicals Ltd., Daudkhel	6.00	4.20	1.80
11.	Kurram Chemical Co., Ltd. Rawalpindi	0.10	0.05	0.05
12.	Rosin & Turpentine Factory, Ltd., Haripur	1.20	1.00	0.20
	Total	284.69	274.18	10.50

Sr. No.	Name of Project	Total Cost Paid up Capital	INVESTMENT WPIDC	INVESTMENT Private	Managing Agents
	B) Not YET FORMED INTO LIMITED COMPANIES:				
	I. Under WPIDC Management:				
1.	Qaidabad Woollen Mills, Qaidabad	3.06	3.06	,-	-
2.	Preparatory Survey of Iron Ore in Dammer Nissar (Chitral Area)	0.19	0.19	-	-
3.	All Weather Road and Tunnel Project	0.30	0.30	-	-
4.	Iron Ore Survey and prospecting Kalabagh	14.08	14.08	-	W.P.I.D.C.
5.	Penicillin Factory, Daudkhel	12.18	12.18		
6.	Natural Gas Fertilizer Factory, Multan	239.00	239.00	-	-do-
7.to)	Rock Salt Mines & Quarries at Kalabagh.)				
12.)	Khewra, Warcha, Jatta, Bahadurkhel & Karak.)	5.28	5.28	-	-do-
13.	Survey of Shrimp Resources, Makran Coast	0.23	0.23	-	-do-
	Total	274.32	274.32		
	II. Under Private Management				
1.	D.D.T. Factory, Nowshare	3.02	-	3.02	M/s.International
2.	Kohinoor Sugar Mills, Jouharabad	10.85	1.25	9.60	M/s Kohinoor Ltd.
3.	Talpur Textile Mills, Tando Mohd Khan	5.00	2.45	2.55	M/S Fateh Text
4 to 6	Model Cotton Ginn, Fac. Motli, Noabad & Multan	2.10	0.21	1.89	-
7 to 8	Rives Crossing Schemes of Sui/Multan Gas Pipeline (Indus & Sutlej)				Taken over by M/s. Sui Northern Gas Pipeline Co.Ltd.
	Total	20.97	3.91	17.06	
	Grand Total A + B	780.79	666.00	114.79	

Source: WPIDC, Unpublished "Progress Report 1963-64" obtained from the office of WPIDC, Karachi.

TABLE 6

WEST PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION

ABSTRACT OF UNDERWAY PROJECTS

JUNE 30, 1964

(Rs. in million)

Sr. No.	Name of the Industry	No. of Projects 3	Estimated cost ARs. in lacs. 4
1.	Jute.	1	31.40
2.	Paper, Board and Forest Industries	4	25.15
3.	Heavy Engineering	2	246.10
4.	Ship-Building	1	32.00
5.	Fertilizer & Tar Distillation	4	50.92
6.	Sugar	2	48.48
7.	Cement	3	80.60
8.	Textile	1	0.38
9.	Chemicals, Pharmaceuticals & Dyestuff	1	5.16
10.	Coal	3	98.43
11.	Natural Gas	1	10.00
12.	Salt	3	2.32
13.	Refractories	1	5.21
14.	Survey & Development Schemes	2	1.14
	Total - 'A'	29	637.31

Sr. No. 1	Name of the Industry. 2	No. of Projects 3	Estimated cost ARs. in lacs.Q 4
	B. SMALL INDUSTRIES:		
1.	Small Industries Estates.	9	18.71
2.	Cottage Industries Development Centres.	10	2.07
3.	Service and Common Facility Centres.	8	12.00
4.	Scheme for Depressed Area.	6	1.96
5.	Miscellaneous Schemes.	10	8.74
	Total - 'B'	43	43.48
	G. Total (A + B)	72	680.79

Source: WPIDC, Unpublished "Progress Report, 1963-64" Obtained from the Office of WPIDC, Karachi.

TABLE 7
WEST PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION
PRODUCTION FOR THE YEAR 1963-64
(Rs. in million)

Name of the Industry	No. of Projects	Capital Investment	Value of Production 63-64	Value of export 1963-64
A. LARGE INDUSTRIES:				
1. Paper Board	2	29.90	33.23	-
2. Ship-building	1	78.69	16.17	1.80
3. Heavy Chemicals	2	5.62	5.90	-
4. Fertilizer	3	331.50	58.99	1.98
5. Sugar	2	25.90	46.68	-
6. Cement	2	76.20	91.86	-
7. Textiles (Woollen & Cotton)	10	22.31	15.69	0.06
8. Chemicals Pharmaceuticals and Dyestuffs	4	19.48	16.58	0.41
9. Coal	1	15.00	13.96	-
10. Natural Gas	6	168.70	64.62	-
11. Salt	6	5.28	4.80	0.06
12. Survey & Development Schemes	4	14.81	-	-
Total (A)	43	793.39	368.48	4.31
B. SMALL INDUSTRIES:				
1. Carpet Development centres	8	5.33	-	-
2. Sales and Display Depots	8	0.97	-	-
3. Sericulture Development Centers	4	1.19	-	-
4. Peripetatic Parties	3	0.14	-	-
5. Miscellaneous	4	4.30	-	-
Total (B)	27	11.93	-	-
Total (A + B)	70	805.32	368.48	4.31

<u>Source</u>: WPIDC, Unpublished "<u>Progress Report, 1963-64</u>" obtained from the Office of WPIDC, Karachi.

APPENDIX C

STATEMENT NO. 1

PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION

Balance Sheet as at 30th June, 1961.

CAPITAL AND LIABILITIES

	Rs.		Rs.
CAPITAL			
Authorised: 100 Ordinary Shares of Rs. 1 lakh each	10,000,000		
Issued: 50 ordinary shares of Rs. 1 lakh each fully paid			5,000,000
ADVANCES BY GOVERNMENT OF PAKISTAN			
Amount authorised as at 30th June, 1961.	1,870,585,000		
AMOUNT ADVANCED LESS REPAYMENTS			
For Investment in Companies under management other than PIDC	68,924,476		
For Middle East Jut Mills	12,535,478		
For companies under P.I.D.C. Management	480,566,129	562,026,092	
For Projects completed & in Production	229,852,801		
For Projects Underway	352,857,297	582,410,098	
Revolving Credit for Survey and Investigation		5,000,000	1,149,436,190
DIVIDENDS ON GOVERNMENT HOLDINGS IN ASSOCIATED COMPANIES ETC., PAYABLE TO GOVERNMENT OF PAKISTAN			
PROFIT AND LOSS ACCOUNT			
Balance on 1st July 1960		15,513,992	
Add: Net Profit for the year		5,418,302	20,932,294
INSTITUTE OF PERSONNEL TRAINING (TWI)			
AMOUNT DUE TO ASSOCIATED COMPANIES AND COMPANIES UNDER PIDC MANAGEMENT			
Due to Associated Companies		259,324	
Due to Companies Managed by PIDC		15,735,780	15,995,104
CURRENT LIABILITIES OF HEAD OFFICE REGIONAL AND BRANCH OFFICES			
Due to Trustees of Provident Fund		61,843	
Advances and Deposits		1,588,851	
Creditors and Accrued Charges		736,404	2,336,898
Note: The above Profit is exclusive of the loss on Projects as shown on the Assets side.			
			1,200,916,241

STATMENT NO. 1 - Continued

PROPERTY AND ASSETS

FIXED ASSETS OF HEAD OFFICE REGIONAL AND BRANCH OFFICES			
Less: Depreciation per Schedule attached.			9,793,172
P.I.D.C. PRINTING PRESS			422,029
INSTITUTE OF PERSONNEL TRAINING (TWI)			88,590
INVESTMENTS: At cost			
In companies under Management other than P.I.D.C.		59,299,610	
In Companies under P.I.D.C. Management		480,277,483	
In Middle East Jute Mills		11,742,123	551,319,216
(The Book value of the quoted Investment at 30th June, 1961 was Rs. 47,448,120; their market value was Rs. 77,721,903)			
PROJECTS			
Projects Completed and in Production at Cost less net operating losses since date of completion.		206,072,449	
Project under Erection at Cost		261,485,345	467,557,794
EXPENDITURE OUT OF REVOLVING CREDIT FOR SURVEY AND INVESTIGATION			1,155,360
ADVANCES TO ASSOCIATES & COMPANIES UNDER PIDC MANAGEMENT			
Advances to Associated Companies		14,986,178	
Advances to Companies Managed by P.I.D.C.		70,152,400	85,138,578
CURRENT ASSETS OF HEAD OFFICE REGIONAL & BRANCH OFFICES			
Stocks & Stores Stationery Etc.		2,539,213	
Debtors and Prepayments		3,782,101	
Cash at Bank	60,860,269		
Cash in hand	10,386	60,870,655	67,191,969
PROJECT PROFIT AND LOSS			
Loss upto 1st July 1960		19,824,257	
Less: Loss taken over by Companies floated during the year		2,945,527	18,249,533
		16,878,830	
Add: Net loss for the year		1,370,703	
			1,200,916,241

STATMENT NO. 2
PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION
Profit & Loss Account for the year ended 30th June 1961

			Rs.
Dividends received from Investment in Companies	3,331,015.00		
Premiums received on sale of shares in Companies	14,895,029.50		18,226,044.50
Less: Premium received from Investment in Companies			18,192,734.00
			33,310.50
Paid or payable to Government			382,346.27
Net Rent of PIDC House & Other Buildings			-
Excess Insurance Claim received on Consignment			
S. S. Tricolour			
Insurance Commission received			694,061.91
Managing Agency Commission:-			
Zeal-Pak Cement Factory Ltd.	728,199.47		
Muslin Cotton Mills Ltd.	106,464.81		
Karnaphuli Paper Mills Ltd.	284,869.00		1,119,533.28
Income from Interest:-			
Bank Interest	1,097,110.85		
On Advances to Companies & Projects	2,055,850.34		
Other Interest	211,188.06		3,364,149.25
Sundry Income Received			236,118.22
			5,829,519.43
Less: Proportion of Administrative Expenses			
Administrative Expenses at Head Office, Regional and Branch Offices.	4,939,927.82		
Less amount allocated to Projects			
Fees charges to Companies under PIDC Management	4,819,079.82	120,848.00	

STATMENT NO. 2-Continued

Provision for losses of Stock	10,953.00		
Provision for doubtful debts	18,734.00		
Sundry Expenses		29,687.00	
Deduct Income Tax paid		260,682.55	
Net Profit for the year			411,217.55
			5,418,301.88

STATEMENT NO. 3

THE PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LTD.

Balance Sheet As At 31st December, 1963.

CAPITAL			
Authorised			
4,000,000 Ordinary shares of Rs. 10 each	..	40,000,000	
11,000,000 Unclassified shares of Rs. 10 each	..	110,000,000	
		150,000,000	
Issued and Subscribed			
4,000,000 Ordinary shares of Rs. 10 each fully paid in cash	.. ..		40,000,000
RESERVES AND SURPLUS			
Share premium - Note 1	.. .. ..	140,000	
Capital - Note 2	.. .. ..	966,507	
Special ..	.. .. ..	2,149,287	
General ..	.. .. ..	4,000,000	
Unappointed profit	.. .. ..	96,108	7,351,902
BORROWINGS - Unsecured			
Rupee borrowing from Government of Pakistan	..	60,000,000	
Foreign currency borrowings - Note 3	.. ..	172,799,592	232,799,592
CURRENT LIABILITIES			
Unsecured bank overdraft	.. .. ..	1,010,769	
Accrued expenses	.. .. ..	3,439,117	
Sundry creditors	.. .. ..	791,580	
Deposits against effective advances	.. ..	805,587	
Provision for taxation	.. .. ..	2,669,846	
Unclaimed dividends	.. .. ..	14,535	
Proposed dividend	.. .. ..	2,500,000	11,231,434
		Rupees	291,382,928

STATEMENT NO.3 - Continued

CASH AND BANK BALANCES			
Cheques on hand		711,743	
With banks on current account ..		2,336,884	
With banks on deposit account		4,981,492	8,030,119
INVESTMENTS - AT COST			
Trustee securities - market value .. Rs. 22,461,500 (1962 Rs.22,453,000) ..		22,342,000	
Shares in joint stock companies quoted-market value Rs. 17,769,270 (1962 Rs. 17,483,347)		13,157,779	
Unquoted-including deposit against shares to be issued Rs.2,105,000 ..		4,785,000	
Investment Trust units		500,000	
Foreign government treasury bills ..		4,360,639	
Bank acceptances		2,565,484	
Accrued interest		371,889	48,082,791
EFFECTIVE ADVANCES			
Secured advances - Note 4	228,289,823		
Interest and charges ..	8,778,352	237,068,175	
Less: Amounts received before due date		2,265,318	234,802,587
OTHER ASSETS			
Furniture, equipment and vehicles			
Cost to 31st December 1962	468,427		
Additions during the year	132,748		
	601,175		
Disposals ..	99,241		
	501,934		
Accumulated depreciation	236,856	265,078	
		202,083	467,161
		Rupees	291,382,928

Source: The Pakistan Industrial Credit and Investment Corporation Limited *Sixth Annual Report*, (Karachi, June, 1963)

STATEMENT NO. 4

THE PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT CORPORATION LTD.

Profit and Loss Account for the year ended 31st December, 1963.

INTEREST, COMMITMENT CHARGES AND COMMISSIONS ..		8,723,134
ADMINISTRATIVE EXPENSES		
Salaries and allowances	1,243,126	
Contribution to staff benefits	60,691	
Travelling and other allowances	90,984	
Rent and utility services	91,103	
Printing and stationery	40,099	
Postage, telegrams and telephones	65,645	
Miscellaneous	235,861	1,827,509
OTHER ITEMS		
Directors' fees and expenses	33,777	
Legal and other professional charges ..	7,333	
Auditors' fees	8,000	
Depreciation	110,375	159,485
NET PROFIT CARRIED DOWN		8,627,534
	Rupees	19,337,662
PROVISION FOR TAXATION		
On current year's profit	3,650,000	
Additional provision for previous years ..	521,859	4,171,859
APPROPRIATIONS FOR 1963		
Capital reserve	129,800	
Special Reserve	801,704	
General reserve	2,750,000	
Proposed dividend	2,500,000	6,181,504
BALANCE CARRIED TO BALANCE SHEET		96,108
	Rupees	10,449,471

STATEMENT NO. 4 - Continued

INCOME FROM ADVANCES AND UNDERWRITING		
Interest and commitment charges	15,639,548	
Technical assistance fees and other income ..	1,565,337	17,204,885
INCOME FROM INVESTMENTS		
Dividend on shares	690,626	
Interest on itermediary investments ..	1,377,054	2,067,680
MISCELLANEOUS RECEIPTS		19,207
PROFIT ON DISPOSAL OF FIXED ASSETS.		45,890
	Rupees	19,337,662
Balance on 1st January 1963		190,769
Profit on Sale of Investments ..		129,800
Net Profit brought down		8,627,534
Special Reserve - excess transfers in previous years now written back ..		1,501,368
	Rupees	10,449,471

Source: The Pakistan Industrial Credit and Investment Corporation Limited *Sixth Annual Report*, (Karachi, June, 1963)

STATEMENT NO. 5
INDUSTRIAL DEVELOPMENT BANK OF PAKISTANT
Balance Sheet As At 30th June, 1963

CAPITAL AND LIABILITIES		30th June, 1963.
CAPITAL		
Authorised, issued, subscribed and paid-up. (300,000 shares of Rs. 100/- each) ...		30,000,000.00
RESERVES		
Special Reserve	1,775,000.00	
General Reserve	2,790,000.00	
DEPOSITS AND OTHER ACCOUNTS		
Fixed & Short Term	1,531,282.69	
Other Accounts	28,197,140.93	29,728,423.62
BORROWINGS FROM BANKS		
State Bank of Pakistan (Secured by Demand Promisory Note and Central Government Guarantee)	9,500,000.00	
Others	37,800,000.00	47,300,000.00
OTHER BORROWINGS		
Central Government	51,400,000.00	
Others	10,000,000.00	61,400,000.00
OTHER LIABILITIES		
Dividend for the year	1,350,000.00	
Unclaimed Dividend	5,002.46	
Provision for Income Tax (Less advance payments)	552,254.19	1,907,256.65
PROFIT & LOSS ACCOUNT		
Profit for current year as per Profit & Loss Account	5,082,440.02	
Less Appropriations relating to current year	5,082,440.02	-
CONTINGENT LIABILITIES		
The Bank's Contingent Liability on account of Guarantees and Letters of Credit as at 30th June, 1963 was Rs.406,324,132.50 (Rs. 174,500,000.00 as on 30th June, 1962). Deferred Liability of Rs. 1,665,533.03 to Central Government taken over by this Bank from PIFCO.	-	-
		174,900,680.27

STATEMENT NO. 5-Continued

PROPERTY AND ASSETS	Rs.	30 June 1963 Rs.
CASH IN HAND AND WITH BANKS		
In hand and with State Bank of Pakistan ...	3,192,785.46	
With other Banks in Current Account ...	4,541,462.63	
With other Banks at Call and Short Notice	29,000,000.00	36,734,248.09
INVESTMENTS		
Central Government Securities at cost less amounts written off Market value as on 30th June, 1963 Rs.3,113,842.60 (Rs. 3,104,219.00 on 30th June, 1962) ...	3,100,204.38	
Other Investments at cost or market price whichever is lower	600,000.00	3,700,204.38
ADVANCES		
LOANS	132,076,482.23	132,076,482.23
(Particulars of Advances-see separate annexed)		
FURNITURE, FITTINGS, EQUIPMENTS, ETC.		
Less Depreciation	310,967.84	310,967.84
OTHER ASSETS		
Stationery, Stamps, Suspense ...	329,918.84	
Inter-Office Adjustments	164,368.48	
Adjusting Account, Interest, Commission, Etc.	1,584,490.41	2,078,777.73
		174,900,680.27

STATEMENT NO.6

INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN
Profit and Loss Account For The Year Ended
30th June, 1963.

EXPENDITURE

	Rs.
Interest paid on Deposits and Borrowings ...	2,366,622.15
Establishment	1,417,908.68
Travelling expenses	71,418.12
Rent, Taxes, Insurance, Lighting, Etc. ...	291,156.48
Postage and Telegram	16,519.38
Stationery and Printing	79,959.71
Repairs to Bank's property	4,587.82
Depreciation on Bank's property	44,941.57
Miscellaneous Expenses	235,590.60
Directors' Fees and Expenses	60,307.70
Law Charges	32,398.93
Auditors' Fees	5,000.00
Balance of Profit Carried down	5,082,440.02
	9,708,851.16

Adjusted against Rs. 1,664,160.66 previous period Rs. 1,665,533.03 paid by Central Government on account of guaranteed dividend	-
Bonus to Staff	129,440.02
Provision for Taxation	2,225,000.00
Transfer to Special Reserve	508,000.00
Transfer to General Reserve	870,000.00
Proposed Dividend @ 4.50 per share for the year ended 30th June, 1963	1,350,000.00
Balance carried to Balance Sheet ...	Nil
	5,082,440.02

STATEMENT No. 6 - Continued.

INCOME	Rs.
Interest, Exchange, Commission and Miscellaneous Receipts Less usual and necessary provisions other than provisions for taxation	9,708,851.16
	9,708,851.16
Balance of profit brought forward from previous account	-
Balance of profit for the year brought down ...	5,082,440.02
	5,082,440.02

Source: Industrial Development Bank of Pakistan Second Annual Report, (Karachi: June, 1963), pp. 12-13.

BIBLIOGRAPHY

Akhtar, S.M. Economics of Pakistan. 2 Vols. Lahore: Publishers United Ltd., 1963.

Boskey, Shirley. Problems and Practices of Development Banks. Baltimore, Maryland: The John Hopkins Press, 1959.

Diamond, William. Development Banks. Baltimore, Maryland: The John Hopkins Press, 1957.

Engle, Nathaneal H. Industrial Development Banking in Action. Karachi, Pakistan: Pakistan Industrial Credit and Investment Corporation, 1962.

Government of Pakistan, Central Statistical Office. Statistical Yearbook, 1962. Karachi: 1962.

________. Pakistan Statistical Yearbook, 1963. Karachi: 1964.

________. Credit Enquiry Commission Report. Karachi: Manager, of Publications, 1959.

________. Investment Proposals. Karachi: Department of Investment Promotion and Supplies, 1961.

________. Revised Industrial Investment Schedule. Karachi: Department of Investment Promotion and Supplies, 1963.

________. Investment Opportunities in Pakistan. Karachi: Department of Investment Promotion and Supplies, 1963.

________, Economic Advisor, Ministryof Finance. Financial Institutions. Rawalpindi, Pakistan: 1964.

________. Economic Survey of Pakistan, 1961-62. Rawalpindi, Pakistan: 1962.

________. Economic Survey of Pakistan, 1963-64. Rawalpindi, Pakistan, 1964.

________, Ministry of Law & Parliamentary Affairs. The Industrial Development Bank of Pakistan Act, 1961.

Government of Pakistan, National Planning Board. The First Five-Year Plan, 1955-60. Karachi: 1957.

_______, Planning Commission. The Second Five-Year Plan, 1960-65. Karachi: 1960.

_______. Mid-Plan Review of the Second Five Year Plan. Karachi: March, 1963.

_______. Outline of the Third Five-Year Plan, 1965-70. August, 1964.

Industrial Development Bank of Pakistan. Review of the First Elevent Months . Karachi: June 1962.

_______. Second Annual Report, 1963. Karachi: June 1963.

_______. Review of the First 23 Months. Karachi: August 1963

Pakistan Industrial Credit and Investment Corporation. PICIC at Work. Karachi: August, 1963.

_______. Sixth Annual Report, 1963. Karachi: 1964.

_______. Articles of Association. Karachi: 1964.

Porter, Richard C. Liquidity and Lending: The Volume of Bank Credit in Pakistan. Karachi: The Institute of Development Economics, 1963.

Lewis, W.A. The Theory of Economic Growth. London: George Allen & Unwin Ltd., 1955.

Pakistan Industrial Development Corporation. The Role of PIDC in the Industrial Development of Pakistan. Karachi: November, 1960.

_______. Annual Reports, 1959-1961. Karachi: 1961.

_______. Progress Report on Projects. Karachi: May 1962

Rostow, W.W. The Stages of Economic Growth. Cambridge: The University Press, 1960.

State Bank of Pakistan, Department of Statistics. Banking Statistics of Pakistan, 1962-63. Karachi: 1963.

Articles , Journals/Periodicals

The Economist. Vol. CCXV, No. 6348, April 24, 1965.

Hafiz,Abdul. "Survey of Activities Since Bifurcation," Industry. II, No. 4 (July-August, 1964), pp.142-46.

Hafizuddin, A.K.M. "Two Years ofEPIDC: An Evaluation," Industry. II, No. 4 (July-August, 1964), pp . 131-34.

International Bank for Reconstruction and Development. Bank Press Release No. 362, June 2, 1964.

International Development Association. Bank Release No. 62/20, November 2, 1962.

International Bank for Reconstruction and Development. Bank Release No. 64/17, May 14, 1964.

Interviews

IDBP. Personal Interviews with the Public Relations Manager, and the Chief Accountant. April-May 1964.

PICIC. Personal Interviews with the Secretary and Legal Attorney. May, 1964.

WPIDC. Personal Interviews with the Public Relations Manager, and Secretary. May, 1964.

Unpublished Material

WPIDC. Unpublished "Progress Report, 1963".