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PD-AAD-639-C1

PROJECT APPRAISAL REPORT (PAR) | UNCLASSIFIED | 391-16-240-258

East Pakistan Small Industry Development (EPSID)

13p

Pakistan

45	45	45
		131

The purpose of this project is to stimulate the development of private sector small industries in East Pakistan through a program involving cooperation between the East Pakistan Small Industries Corporation (EPSIC) and the commercial banks. EPSIC is a semi-autonomous government organization involved in several business activities, i.e. preparation and publication of potential business

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opportunities, project report preparation for individual customers, development of industrial estates, joint ventures, and administration of enemy property. Essentially, this project is concerned with EPSIC's evaluation of the technical-economic feasibility of projects in conjunction with commercial banks who concentrate on the financial analysis and lending.

The project objectives are (a) to assist the commercial banks to develop the ability to carry out long term lending; (b) to contribute to capital formation in East Pakistan by providing foreign exchange needed for small industry development; (c) to train a group of Pakistani professionals in EPSIC capable of carrying out a small industry loan program.

Through a contract between AID and Checchi & Co., the project [illegible] an Industrial Finance Advisor in November, 1967. The consultant's [illegible] responsibilities involved providing an advisor to make an appraisal of [illegible] as the medium for funneling capital into East Pakistan's [illegible] and provide technical assistance to EPSIC and the commercial banks.

Technical assistance provided to EPSIC under this project [illegible] technical assistance offered by the Stanford Research Institute [illegible] Foundation grant over the previous three years to strengthen [illegible] of EPSIC and its industrial estates program.

In March 1968, the contract advisor submitted a special [illegible] the capability of EPSIC and proposed several alternative organizations for small business lending. These alternatives have been [illegible] by A.I.D. and early in 1969 a USAID employee, experienced [illegible] an independent study and similarly proposed [illegible] arrangements for small business lending. USAID is actively [illegible] proposals in consultation with the G.O.P., because it is apparent [illegible] operational pattern which involves individual more-or-less ad hoc [illegible] between EPSIC and the several commercial banks should be replaced [illegible] satisfactory institutional arrangement. Late in 1968, A.I.D. [illegible] the AID contract to provide a second consultant to assist EPSIC in the area of administration.

Despite the limitations, the project as presently constituted has [illegible] a degree of success in stimulating small industry in East Pakistan and has provided the mechanism through which small industrialists have been able to obtain medium term foreign exchange and Rupee financing at favorable interest rates. During

098 NARRATIVE FOR PART I-A (contd. from page 2)

FY 1969 EPSIC and nine commercial banks processed projects and loan applications which utilized $1 million allotted from the FY 1967 AID Commodity Loan No. 121. As a result, 31 industries are now being established having a total investment of $5.88 million (rupee equivalent). An additional $1 million was committed to EPSIC and the commercial banks from the FY 1968 Commodity Loan No. 131.

[illegible] historically has been no effective channel in East Pakistan [illegible] which capital could be directed into small industry development. As a result, the foundation for industrial development, the small private [illegible] sector, is in an unsatisfactory state, with too few industrial [illegible] and those which exist characteristically under-financed. This [illegible] an important effort to correct this situation. While the EPSIC [illegible] bank small industry loan program may not be the ultimate [illegible] it does provide a working base. At this state of the project it [illegible] precisely what the ultimate solution will be, but it is clear [illegible] and technical assistance is required in developing the solution [illegible] and during this interim period of EPSIC/Commercial [illegible] the Government of East Pakistan is increasingly [illegible] the problem and receptive to assistance. If political [illegible] 24 months permit, significant accomplish[illegible] The two new Chenchi consultants will be on the job [illegible] will be made after their study and evaluation

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[illegible]

[illegible]

1. CODE NO. AID/W USE ONLY	2. This section is designed to [illegible] output target which was scheduled to [illegible] target is significantly greater or less than scheduled, describe reasons) beneath the target.	ACTUAL AND PLANNED OUTPUTS (ALL DATA CUMULATIVE) 3. ACTUAL RUN TO DATE	4. AS OF PRIOR JUNE 30 5. PLANNED	6. ACTUAL	7. PLANNED BY NEXT JUNE 30	8. PROJECTED TOTAL FOR PROJECT LIFE
	1. Through the Checuni advisor, technical assistance has been given to the commercial banks. Commercial bank interest in medium term lending as yet is not great, because the banks are in a good profit position in short term working capital lending. However, they participated in this project under government pressure and because of special refinancing arrangements made by the government to support the banks in their medium term lending operations. The government has given assurance of continued support.	Note: No Project Implementation Plan (PIP) has as yet been prepared for this project. It is not possible at this juncture to make more precise statements regarding project output.				
	2. EPSIC in its functional role in working on small industry lending is a more viable organization than it was 1-2 years ago. EPSIC understands its shortcommings better and is more receptive to change.					
	3. A participant training program is being developed.					
	4. The project has realized a contribution to capital formation in East Pakistan through the $1 million commodity loan. Including the local commercial bank contribution, the total capital formation amounted to $5.88 million (rupee equivalent).					

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PART I-B – Continued

B.2 – OVERALL ACHIEVEMENT OF PROJECT TARGETS

Please [illegible] the following [illegible] that [illegible] of the overall progress [illegible] project targets:

	X				
		Fulfilled			Outstanding

PART I-C – PROJECT SIGNIFICANCE

[illegible] GOALS (This detailed [illegible] is [illegible])

[illegible]

[illegible] Goal: To contribute to capital formation in [illegible] by stimulating the development of private [illegible] small industries.	3	2

[illegible] the stimulation of the development of private sector [illegible] developing a group of Pakistani professionals in EPSIC capable [illegible] technical feasibility of projects, preparing and evaluating feasibility [illegible] and counseling potential investors. The project also is to assist commer[illegible] to develop their ability to carry out medium term lending.

EPSIC as organized and operating today is not as effective as it might be in assisting the small industrialist. Basically EPSIC is involved in too many other activities and does not have enough adequately trained personnel in the departments directly concerned with small industry appraisal and financing. The GOEP is aware of EPSIC's short comings and has taken steps to move EPSIC out of some of its operational responsibilities, by requiring disinvestment of wholly owned plants and activities. The GOEP also arranged for Ford Foundation financing for consultants who improved the EPSIC operations in some of the areas in which EPSIC's continued involvement was necessary. Skilled technical assistance can improve the capability of the EPSIC department and personnel involved with small industry and financing.

The commercial banks are in a good profit position on short term working capital loans, hence the small volume, medium term, relatively higher risk loan operations are not particularly attractive. The GOEP has provided refinancing facilities for the commercial banks which have participated in the small industry lending program and continues to exert pressure on the banks to participate. Study is continuing of ways of increasing bank participation and of possible alternative organizational arrangements between [illegible] and the commercial banks to replace the rather ad-hoc arrangements [illegible] to obtain.

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PART I-C – Continued

C.2 – GENERAL QUESTIONS

Titles [illegible] PAR. For each question place "Y" for Yes, "N" for No, or "NA" for Not Applicable in the right hand column. [illegible] "Y" is entered, explain briefly in the space below the table.	MARK IN THIS COL.
[illegible] not covered so far in this PAR?	N
[illegible]	Y
[illegible] make contributions to the [illegible] by another donor?	N
[illegible] the project [illegible]	N
[illegible]	N
[illegible]	N
[illegible]	N
[illegible]	N

[illegible] which developed late in 1968 is [illegible] [illegible] however, developments subsequent [illegible] of this report are encouraging.

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PART II – IMPLEMENTATION REPORT

II-A – STATUS OF SCHEDULE

[illegible] – INDIVIDUAL ACTIONS (See detailed instructions M.O. 1026.1). This is a listing of major actions or steps which were scheduled for [illegible] start or continuing implementation in the reporting period as reflected in the Project Implementation Plan, Part I.

(a) [illegible]	[illegible] ACTIONS OR STEPS, CAUSES AND RESULTS OF [illegible] STEPS	(b) STATUS – PLACE AN "X" IN ONE COLUMN		
		(1) BEHIND SCHEDULE	(2) ON SCHEDULE	(3) AHEAD OF SCHEDULE
	At this stage of the project, it is not practical or possible to specify implementation steps or schedule.			

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PART II – Continued

(a) On schedule

(b) Ahead of schedule

(c) Behind schedule

(4) Volunteers

(5) Participants

(6) Commodities (non-FFF)

(7) Cooperating Country

(8) Commodities (FFF)

(9) Other (specify)

[illegible]

PART II-B – Continued

3. PACKAGE COMMODITIES

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	X	672 Control measures against damage and deterioration in shipment.	
625 [illegible]						673 Control measures against deterioration in storage	
[illegible]						[illegible]	
[illegible]						[illegible]	
[illegible]						[illegible]	
[illegible]						[illegible]	
						[illegible]	

[illegible] this PAD, implementation [illegible]

[illegible] Wheechi was a well qualified individual but he [illegible] working conditions and environment. [illegible] study and report [illegible] operations rather than [illegible] technical assistance. He was viewed by the [illegible] staff [illegible] "investigator". He was accustomed to giving orders and [illegible] instruction followed. He wrote several procedures for [illegible] push for implementation. As a result, while he was [illegible] his technical qualifications his working relationship was not good [illegible]. The [illegible] transferred the original consultant and his replacement [illegible] second staff member is scheduled.

[illegible] CDCs, East Pakistan has given very little attention to small industry, particularly to private small industry. There is a strong tendency to support large industries and especially publicly owned industry. Only recently has serious attention been given to small industry, including provisions for small industry financing.

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PART III - ROLE OF THE COOPERATING COUNTRY

The following list of illustrative items are to be considered by the evaluator. In the block after only those items which significantly affect project effectiveness, write the letter P if the effect of the item is positive or satisfactory, or the letter N if the effect of the item is negative or less than satisfactory.

SPECIFIC OPERATIONAL FACTORS:	
[illegible]	
[illegible]	P
[illegible]	N
[illegible]	N
[illegible]	
[illegible]	
[illegible]	
[illegible]	P
[illegible]	P
[illegible]	
[illegible]	
[illegible]	
[illegible]	N
[illegible]	
[illegible]	
[illegible]	
[illegible]	
[illegible]	
[illegible]	
[illegible]	N
[illegible]	N
[illegible]	
[illegible]	N

[illegible] support provided to small private enterprise historically by [illegible] has been inadequate; the government has attempted to improve [illegible] during the pastthree to four years. The Government provided for technical assistance to be supplied to EPSIC through Ford Foundation and [illegible] through this Project. Also the government has arranged to provide two allocations of foreign exchange ($1.0 million each) from U.S. Commodity Loans for use of small private industrialists. The Government also has provided for a source of local currency financing through the commercial banks and has supported this operation by providing refinancing facilities through the State Bank. While the arrangements are somewhat ad hoc in nature, new industry is being started and study is underway on better methods small industry financing.

082 EPSIC and other similar agencies lack basic financing data and controls. The various alternative approaches to this project take this into consideration and subbest remedial staps.

106 NARRATIVE FOR PART III (Contd. from page 8)

033 While EPSIC has some qualified people, particularly in the departments concerned with small industry appraisal and financing, top management is involved in too many other activities to give adequate attention to this phase of their operations. The alternate approaches under consideration recognize this fact.

[illegible] present arrangement the procedures for processing a project and a [illegible] through EPSIC and the local banks are not as effecient as would be desireable for an effective lending program. However, the EPSIC/Commercial [illegible] arrangements are a tremendous improvement over the system followed [illegible] the facilities of the Industrial Development Bank of Pakistan. [illegible] EPSIC/Commercial Bank arrangements, the full amount of the [illegible] million was processed in about nine months. Under the IDBP EPSIC [illegible] the small number actually processed during the 1964-66 period [illegible] took from 12 months to two years each. The Consultants [illegible] better organisational relationships and procedures.

[illegible] the arrangements between the commercial banks and EPSIC [illegible] financing are not as institutionally desireable as they might [illegible] commercial banks are not completely enthusiastic about [illegible] their high profit short term working capital lending [illegible] and rupee financing has been made available [illegible] had prevailed upon the State Bank to provide [illegible] for the commercial banks medium [illegible] two $1.0 million allocations of [illegible] for the [illegible] of small private industry [illegible] this project.

[illegible] private businessmen [illegible] although [illegible] subsequent to the date of this [illegible]

[illegible] technical assistance provided by the Consultants.

[illegible] agency is forced to follow the [illegible] therefore has difficulty competing for qualified people. This is a situation which obtains in all such agencies. Hopefully the development of a new operational relationship, being proposed by the Consultants will improve this situation.

[illegible]	[illegible]
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PART III – PROGRAMMING IMPLICATIONS

III-A – EFFECT ON PURPOSE AND DESIGN

[illegible] to date with this project and/or changing country circumstances call for [illegible] implications. [illegible] any of the following considerations or [illegible] additional illustrative considerations.) [illegible] Relevant experience or country situations [illegible] should be left to the appropriate programming [illegible] has [illegible] need for change.

[illegible]

[illegible] alternate approaches to the [illegible] /Commercial [illegible] are under serious consideration.

[illegible] and reviewed in view of recent studies of it, [illegible] and recent political unrest.