

PII-ARJ-383

90374

**REVISED SCOPE OF WORK FOR STUDY  
TO DEVELOP FINANCIAL MECHANISMS  
TO PROMOTE CROSS-BORDER TRADE  
UNDER THE ASSP/PSA PROJECT**

**PRESENTED TO DEVELOPMENT  
ALTERNATIVES, INC (DAI)**

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**Management and Financial Applications (Private) Limited**

**Date : May 23, 1991**

**Place: Islamabad, Pakistan.**

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## **I. BACKGROUND**

## I. BACKGROUND

The findings of a study of the possible financial mechanisms to promote Pak-Afghan cross-border trade that was undertaken by Management and Financial Applications (Pvt) Limited (MFA) on behalf of DAI was presented to USAID recently. The study covered the type of financing needed, the loan size requirement, available collateral and its acceptability under Pakistan's financial sector laws, and the terms and conditions for the different types of financing. The most problematic issue tackled in this assignment was, however, the organizational structure that would be created to handle the reflow funds.

Our knowledge of the country's financial sector regulations and interviews with numerous financial institutions -- private and public -- led to the elimination of several options that were considered early on in the course of this study. Thus, the reporting requirements of the State Bank of Pakistan and its restrictions concerning the on-lending of funds to finance foreign transactions meant effectively that formal sector Pakistani financial institutions were loath to participate in a scheme for which permission was likely to be very difficult to get from the State Bank. Compounding the regulatory difficulties of any possible financial institution involvement in a co-venture relationship with DAI and/or a NGO is the fact that the risk in a cross-border lending situation without the presence of a stable and known legal umbrella is perceived by them as intolerable.

At the early stages of this study then, we were aware that its scope was not and could not remain as originally envisaged ie, to define and select three to five financial instruments. The instruments became secondary to the need to define an appropriate financial institution that could manage the funds to begin with.

Our initial recommendation focused on the possibility of an NGO collaborating with Orix Leasing (which would provide the management skills) in a non-profit entity that would act as the financial institution. However, before resolving the structure of this financial arrangement certain policy issues had to be resolved. These pertained to matters such as the expected life of the scheme, the period of availability of the reflow funds, and the accountability for any bad debts incurred under this scheme.

It appears now that USAID is keen to see the establishment of a revolving credit fund in which DAI would be involved directly with management assistance to be provided by Orix Leasing. This fund would have a relatively short existence -- possibly around six months -- and would be phased into a Venture Capital Institution (VCI) to be set up in Afghanistan.

MFA will now prepare two concept papers for: (a) a short term arrangement (about six months or so) whereby DAI enters into a relationship with Orix Leasing for setting up a revolving credit

fund using the reflow funds and (b) a Venture Capital Institution (VCI) to be set up in Afghanistan which will supersede and perhaps take over the operations of the revolving credit fund.

## II. OBJECTIVES

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The objectives of the second phase of this assignment are to prepare a broad framework that defines how a revolving credit fund and a VCI would work.

The mechanisms underlying the operations of a revolving fund would be worked out in terms of:

- (a) the division of responsibility between DAI and Orix and the terms of the agreement thereof;
- (b) the lending instruments to be deployed by the fund;
- (c) the necessary documentation to be used in lending operations;
- (d) the nature of the collateral likely to prove acceptable given the legal system in Pakistan;
- (e) the loan monitoring mechanism that could be used to track the status of the loans; and
- (f) the recommendations on policy such as the likely composition of the loan portfolio and bad debt write-offs.

The VCI concept paper would address the following issues:

- (a) the process by which the revolving credit fund is to be transformed/merged into a VCI;
- (b) the scope and business mission of the VCI, ie, what the functions of the VCI would entail apart from the role in taking up an equity position in new ventures, e.g., training of entrepreneurs in accounting concepts or arranging for joint ventures with Pakistan based companies. The guidelines that the VCI would follow in its investment practices would also be discussed;
- (c) the kind of legal entity best suited for the VCIs business mission and scope;
- (d) the size of the initial capital to be subscribed to the fund and identification of possible contributors to this fund;
- (e) a description of the organization structure of the VCI;
- (f) the identification of the end users of this fund and their likely capital requirements;
- (g) the specification of broad guidelines describing the different procedures that a project must pass through;

(f) broad guidelines about the monitoring of VCIs investments must be considered; for example, could the VCIs extension staff, whose primary purpose would be to train the entrepreneurs, also be used to report on the cash flow situation of the enterprises covered and what this would mean for the type of person to be recruited in terms of skills and background;

(g) an exploration of the financial position of the VCI that takes into consideration the following variables: average size of investment, percentage write-offs for failed investments, equity schedule, and the number of new investments; and

(h) the time frame for implementation and the data requirements to be covered in a full scope feasibility study.

### **III. APPROACH**

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The bulk of the work relating to the requirements of a revolving credit fund has already been covered in the assignment thus far. The information collected by us about the type of loan needed, the size of loan, and the collateral available with the Afghan traders will be used to frame recommendations about the operational guidelines of the revolving fund. Some discussions will be undertaken with Orix Leasing about the precise nature of the contractual relationship with DAI as also their fee for entering into a management relationship. Further, relevant regulations issued by the Ministry of Finance and State Bank of Pakistan about the status of non-bank financial institutions who are engaged solely in the business of lending will be reviewed and implications drawn for the 'modus operandi' of the revolving credit fund. Also, ADBP's experience with the personal surety scheme of lending will be drawn on to indicate how loans given to Afghan traders might be fused with guarantees from traders/manufacturers well established on the Pakistan side of the border in case the borrower collateral is not considered acceptable from the fund's viewpoint. Our discussions with Orix as well as our own experience with DFIs and rural sector financial institutions will help us to prepare the documentation and MIS requirements of this new institution.

The VCI to be launched in Afghan soil will obviously have to comply with Afghan conventions on corporate entities for which we intend to talk to members of the Afghan community located in Peshawar. However, the business mission and organization of the VCI will be defined by the experience of countries around the world with such institutions. Obviously our thrust will be on the developing country environment. In particular, the proposed workings of the new venture capital fund to be launched in Pakistan shortly with the aid of the Asian Development Bank will be examined. Lessons will also be drawn from the operational problems faced by the Equity Participation Fund (EPF) in Pakistan -- problems which may be exacerbated in the Afghan rural context because of the inherent risks associated with the agricultural sector.

To address the issue of the funding requirements of the VCI we intend to talk with international agencies including non-profit organizations operating or intending to operate in Afghanistan particularly in the context of the agricultural development of that country. Whether funding the VCI would automatically mean a presence of foreign nationals on the Board or Governing Council of the VCI is an issue that we intend to take up with the different donor organizations willing to invest in this venture.

To cap our discussions and to lay a basis for a more detailed analysis to be conducted after the concept paper has been approved by USAID/DAI, we will undertake financial modelling to indicate the likely cash profile of the Company and the time required for it to become a viable entity.

**IV. STAFFING**

#### IV. STAFFING

The MFA team will be led by Mr. Shahid Khan who has already worked on the earlier aspects of this assignment and has presented the options to USAID/DAI. Mr. Khan will be assisted by Akmal Jameel, Financial Analyst with MFA who has worked on similar concepts in the UAE.

The CVs of both team members is presented in the Appendix.

In addition to the two team members, Mr. Iqbal Hussain, Chief Executive of MFA will be involved in the coordination at this stage of the assignment. However, his time has not been billed separately.

**V. ADDITIONAL COST OF ASSIGNMENT**

## V. ADDITIONAL COST OF ASSIGNMENT

The cost of this component of the on-going assignment is Rs. 98,200 covering a remuneration element of Rs.88,200 and an expenses component estimated at Rs. 10,000. Consequently, the total cost of the assignment, including the amount previously obligated by DAI, is Rs. 338,200.

The additional fee of Rs. 88,200 is based on the following level of effort:

<u>Category</u>	<u>Budget Amount (Rs.)</u>
Salaries and Wages:	
a) Mr. Shahid Khan (Rs.3000/day for 10 days)	30,000
b) Mr. Akmal Jameel (Rs.2000/day @ for 20 days)	40,000
subtotal	70,000
Overhead @ 20%	14,000
Total cost	84,000
Profit @ 5%	04,200
Total fee	88,200
	=====

The expenses component of Rs. 10,000 will cover hotels, per diem, and travel related expenses of the team's visit to Peshawar and Karachi.

Numbers visiting	Total no. of days	Total hotel expenses	Total per diem	Return air fare	Other	Total
.....	.....	.....	.....	.....	.....	.....
2	5	5,000	2,000	1,600	1400	10,000

The date for presentation of our report is June 17, 1991.

**APPENDIX**

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**PROPOSED POSITION: Financial Analyst**

**NAME: Shahid Ahmed Khan**

**DATE OF BIRTH: 1954**

**AREAS OF QUALIFICATION:**

- Carrying out Financial and Economic Analysis and Feasibility Studies.
- Arranging Debt and Equity financing for projects.
- Carrying out Financial Re-structuring of Sick Projects.
- Designing suitable operating mechanisms for Foreign companies to conduct business in Pakistan including Royalty Agreements, Transfer of Technology Agreements, Technical Fees Arrangements and Joint Venture Agreements.
- Undertaking Financial arrangements under Islamic modes of Financing.
- Undertaking Financing arrangements under the Build-Own Operate and Build-Own-Transfer mechanisms.
- Designing and implementing of Management Information Systems.
- Academic Skills and conducting of Seminars on Related subjects.
- Local and foreign company taxation.
- Privatization of financial sector institutions.

**EDUCATION:**

1983	Fellow of the Institute of Chartered Accountants of Pakistan.
1980	Associate of the Institute of Chartered Accountants of England and Wales.
1975	Foundation Course in Accountancy Polytechnic of Sunderland, U.K.
1974	B.Sc. Physics & Mathematics University of Punjab, Pakistan.

**RELATED EXPERIENCE:**

- Member of economic policy committee set up in October 1990 by the GOP. Have served as advisor on privatization of commercial banks as well as deregulation of capital markets.
- Have conducted or supervised over 60 financial or economic feasibility studies in Textiles, Cement, Automobiles, Engineering, Oil & Gas, Energy, Mining, Real Estate and Construction, Electronics, Agriculture and Livestock, Foods, Hotels, Banking and Finance, Hospitals, Pharmaceuticals.
- Acted as lead financial analyst to the Ministry of Water and Power for evaluation of the proposals for setting up power plants in the private sector (US-AID Contract)

- Acted as lead financial consultant on the setting up a 2000 TPD cement plant with ADB and AFIC finance.
- Designed and implemented Management Information Systems for six large organisations including Textiles, Hospital, Construction contractors, Oil Mill.
- Provided investment consultation to various multinational companies for their work in Pakistan. Clients include Mitsubishi Corp. of Japan, Hyundai and Samsung Group of South Korea, Voest Alpine of Austria, Ansaldo Group of Italy, Alstom Group and Sogea of France, Mowlem International of U.K, J & P of Cyprus and many other companies.
- Arranged debt and equity financing for numerous projects through various financial institutions.
- Gained valuable industrial and commercial experience while working for five years as general manager finance of a leading multinational organisation in Pakistan.

**EMPLOYMENT DETAILS:**

1986-Present	Management & Financial Applications (Pvt) Ltd.	Director Services.	Financial
	And		
	Anjum Asim Shahid & Co. Chartered Accountants, Pakistan.	Partner, Financial	Incharge Management.
1984--(Jan) 86	Hameed Chaudhri & Co. Chartered Accountants, Pakistan.	Senior Manager	Incharg Financial Consultation.
1981--(Nov) 84	Glaxo Laboratories (Pakistan) Ltd, Pakistan.	General Manager	Accounting and Finance.
1980--(Oct) 81	Togerson Nicholson, Clark, Pixley & Co. Chartered Accountants, United Kingdom.	Manager Audit and	Corporate Affairs.
1975--(Sep) 80	Grant, Thornton International, Chartered Accountants, United Kingdom.	Senior Audit and	Corporate Affairs Supervisor

### **INTERNATIONAL EXPOSURE:**

- Worked in UK for over 6 years from 1975 to 1980.
- Consultation experience of working on assignments in UK, France, Spain, Austria, Japan, South Korea, Italy, West Germany and Middle East.
- Worked with the following foreign organisations on assignments:-
  - Asian Development Bank - Private Sector Division
  - US-AID
  - Mathtech Inc. of USA
  - Swede Fund of Sweden
  - GTZ of West Germany

### **COURSES & SEMINARS:**

Conducted the following Courses & Seminars:

- Finance for Non Financial Executives.
- Regulations concerning conduct of business by foreign entities in Pakistan.
- Investment Appraisal Techniques.
- Project Financing - Modern Methods and Techniques.
- Accounting for the Non - Accountant.
- Accounting and Finance on the Advanced Training Program.
- Investment Appraisal and Project Finance on the Advanced Training Program.
- Financial Management - A developing phenomenon.
- New Avenues in Project Finance.

### **PAPERS PUBLISHED:**

Published the following Papers/monographs:

- Arbitrage Applications in Developing Countries.
- Project appraisal concepts and the developing economies.
- Project Financing and Analysis.
- Analysis of the Education policy of the Institute of Chartered Accountants of Pakistan.
- Author of various publications relating to conduct of business by foreign entities in Pakistan.

**PROPOSED POSITION : Financial Institutions Analyst**

**NAME** : M. Akmal Jameel

**EDUCATION & TRAINING :**

1986	B.B.A	Institute for Business Administration (IBA) university of Karachi.
1987	M.B.A (Finance Major)	-do-
1989	1- Month Executive Program in Credit Analysis	Manufacturer Hanover Trust Co. New York, USA.

**RELATED EXPERIENCE:**

March 1990 - Present	Management and Financial Applications, Financial Analyst: Conducting financial sector studies relating to privatization of financial institutions.
June 1988 to Sept 1990	National Investment and Securities Corporation  (NISCORP), Abu Dhabi.  NISCORP is a private corporation engaged in Investment Banking activities in UAE. I joined in the Finance Administration and Banking Relations Department, where my duties were :

- \* Accounting including (independently) preparing journal voucher and assisting in end-of-the-month accounting.
- \* Designing accounting systems for subsidiary companies.
- \* Assisting in preparation of budget proposal and post-budget reports.
- \* Formulating, in collaboration with Department Heads, an over-all strategy for NISCORP.
- \* Codesigning and conducting a market research project.

After eight months, I transferred to the Corporate Finance Department as Financial Analyst. Here, my responsibilities included:

- \* Assisting in analysis of private equity placements, mutual funds and other investment proposals.
- \* Carrying out financial analysis of real estate proposals.
- \* Assisting in management analysis of NISCORP accounts.

April-  
May 88      **Experts Advisory Cell (EAC), Ministry of Production, Govt. of Pakistan, Islamabad.**  
EAC undertakes analysis of the performance of Nationalized Industry and sets targets for them. As a management trainee participated in the analysis and target setting exercise for chemical, cement and engineering firms.

Summer  
1987      **Bankers Equity Limited (BEL), Karachi.**  
BEL is a Government managed Development Finance Institution, which raises money from the Nationalized Banks and from issuing debt to the general public, to invest in debt of start-up Companies. My internship lasted 8 weeks during which I was placed in the dealing, marketing and administration departments.

Summer  
1986      **National Investment Trust (NIT), Karachi**  
NIT is a Government managed mutual fund which invests in the Stock Exchange and in debt of "blue-chip" Companies. Did a 6 week Internship during which I was placed in the dealing, marketing and administration departments.