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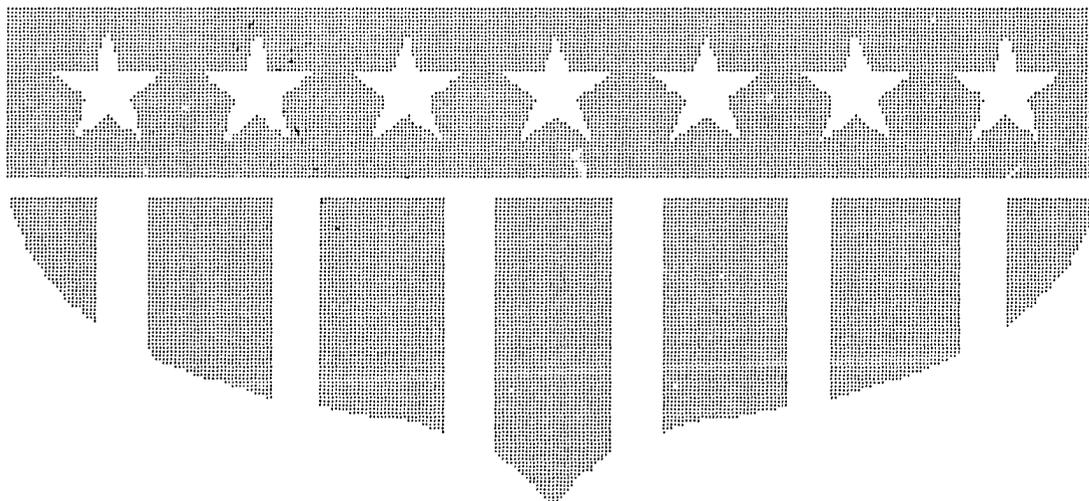
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USAID

MISSION TO PAKISTAN AND AFGHANISTAN

**PROJECT ASSISTANCE COMPLETION
REPORT**

**Private Investment Expansion
(391-0514)**



*Submitted by Private Enterprise and Energy Division
October 1994*

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TABLE OF ACRONYMS

ADB	Asian Development Bank
CDC	Central Depository Company
CLA	Corporate Law Authority
FIAS	Foreign Investment Advisory Service
GOP	Government of Pakistan
IFC	International Finance Corporation
IPB	Investment Promotion Bureau
KESC	Karachi Electric Service Corporation
KSE	Karachi Stock Exchange
LSE	Lahore Stock Exchange
LOP	Life of Program
MIGA	Multilateral Investment Guarantee Agency
MNA	Member of the National Assembly
PACD	Project Assistance Completion Date
PC	Privatization Commission
PIB	Pakistan Investment Board
PIE	Private Investment Expansion
PIP	Private Investment Promotion
PTC	Pakistan Telecommunications Corporation
RFP	Request for Proposal
SGA	Sector Grant Assistance
STT	Special Projects, Technical Cooperation and Training
USAID	United States Agency for International Development
USG	United States Government
WAPDA	Water and Power Development Authority

PROJECT ASSISTANCE COMPLETION REPORT

PRIVATE INVESTMENT EXPANSION (PIE) PROGRAM - (391-0514) November, 1994

I. BASIC PROJECT DATA

Project Title	Private Investment Expansion (PIE) Program
Project Number	391-0514
Project Officer	Hussain Babar
Date of Authorization	September 19, 1990
Original PACD	August 30, 1997
Pressler PACD	December 31, 1993
Amount Authorized	\$ 35.0 million
Amount Obligated	\$ 5.0 million
Amount Expended	\$ 3.3 million
Amount Deobligated	\$ 1.6 million
Implementing Agencies	Corporate Law Authority (CLA), The Karachi Stock Exchange (KSE) (Guarantee) Ltd. Privatization Commission (PC) Pakistan Investment Board (PIB)

II. PROJECT GOAL AND PURPOSE

The PIE Program's sector goal was "to sustain economic growth in Pakistan through increased private sector contribution to social and economic development". The Program's purpose was "to increase the volume and efficiency of private investment through policy reforms, development of services and institutions that encourage private investment, and direct promotion of specific private investment activities".

III. BACKGROUND

The PIE Program was a response to the lack of international and domestic private sector investment and growth in the Pakistan economy. The major factor inhibiting such growth was the absence of a free and open market economy. The PIE Program aimed at liberalizing and deregulating the economy through policy dialog and through financial leverage created by a

sector grant mechanism; at the same time, it provided direct financial assistance and technical support to the private sector.

The absence of a free market had many manifestations. The government's regulatory framework regarding private sector investment and expansion was overly restrictive, particularly in policy implementation at the local level; the public sector controlled the financial system and constrained the free flow of capital based upon market demand; trade policy was cumbersome and restrictive; and state-owned enterprises dominated most industrial and manufacturing sectors, squashing free competition and the efficient use of resources. Faced with these conditions, the local private sector was virtually moribund. Foreign investors were largely attracted elsewhere.

The concept of the PIE Program emerged during discussions of the Sub-Commission of the Pakistan-U.S. Joint Economic/Commercial Commission in January and March of 1990. As a result of these discussions, it was agreed to develop a joint USAID-GOP Program to support private investment. In June 1990, the Government of Pakistan (GOP) formally requested the United States Government (USG) to provide assistance to finance the PIE Program. This program was designed to achieve the following objectives:

- Improve the policy environment for private investment;
- Strengthen and expand financial markets;
- Provide support to foreign and domestic investors;
- Assist the GOP privatization program; and
- Enhance the voice of private sector representatives

The PIE Program was formally authorized in September, 1990. A funding level of \$35 million was authorized, which was conceived as the first tranche of a planned \$180 million life-of-program (LOP) funding level. The Project Assistance Completion Date (PACD) was August 30, 1997. Implementation was planned in two phases over a period of seven years. As discussed hereafter, both the funding level and the project life were significantly curtailed due to the Pressler Amendment.

IV. PROGRAM COMPONENTS

A. Initial Concept

Designed to expand private sector investment, the PIE Program focused in part on strengthening the institutions which would take the lead in policy reform and would promote and support private sector investment. In anticipation of the country's gradual shift to a private sector-led open market economy, PIE focused on the macro-level tasks to achieve that shift.

Originally, the Program comprised of three main components: (1) Sector Grant Assistance (SGA) to provide cash disbursements based upon policy reform performance; (2) Private Investment Promotion (PIP), which was to include a private sector Commodity Import Program as well as an investment fund to support selected private sector activities, private investment banking, and privatization, and (3) Special Projects, Technical Cooperation and Training (STT) to provide intellectual leadership and practical commercial feedback required for the SGA and PIP Components as well as to provide direct support and training for local businesses and institutions. However, due to the Pressler Amendment, the Program's activities were restricted to only the STT component. The five distinct elements of this component are described briefly below:

- (i) **Improvement of Policy Climate for Private Investment** - To develop options for policy action and to provide needed analytical support in the areas of the approval process for foreign investment, privatization, investment promotion, financial instruments and markets, and international trade.
- (ii) **Capital Market Development** - To support the development and implementation of regulatory reforms for the stock market, investment institutions, development finance institutions, foreign and local commercial banks, and such other relevant areas as may be identified.
- (iii) **Private Investment Promotion** - To provide direct assistance to the private sector in Pakistan preferably through private organizations. Under this element, activities included foreign investment promotion, particularly through joint ventures between foreign and Pakistani firms; support to specific businesses through technical assistance on a cost-sharing basis; provision of loan guarantees to financial institutions on behalf of small businesses; and provision of funds on a cost-sharing basis to investors for development of prefeasibility and feasibility studies for investment in Pakistan.
- (iv) **Privatization** - To provide technical assistance for the preparation of a comprehensive privatization policy, for the development of information required prior to privatization, and for implementing and monitoring privatization.
- (v) **Enhancing Private Sector Voice** - Under this element, activities included institution building of selected businesses through technical assistance, training and grants; provision of grants to selected GOP entities to arrange, through local consulting firms, private investment-related policy studies; development of a program to enhance the voice of business women; and initiation of a program for increased awareness and improved industrial environment, health and safety practices in Pakistan.

The Program Assistance Approval Document for the PIE Program was signed on September 19, 1990, authorizing \$35 million for the STT component to implement the first

phase of the Program. The remaining \$145.0 million (\$50.0 million for the SGA and \$95.0 million for PIP Components) was to have been considered for authorization during FY 1991. The Program Grant Agreement was signed on September, 24, 1990, obligating \$5.0 million for the Program. The PIE Program was conceived as a 7-year initiative which proposed an aggressive approach to improve business practices in Pakistan.

B. Subsequent Developments

As a result of the Pressler Amendment, which took effect in 1991, U.S. economic assistance to Pakistan was curtailed substantially. This resulted in reductions in both the size and scope of many USAID projects and programs, including the PIE Program. The Pressler impact on the PIE Program was dramatic. Grant funding was limited to the previously obligated amount of \$5.0 million and the PACD was advanced to December 31, 1993, thereby greatly reducing the scope of the PIE Program.

Fortunately, at the same time the Program was faced with the Pressler-mandated reductions, there was an unprecedented shift in government policies. The new government of Prime Minister Nawaz Sharif announced a major program to liberalize the economy through deregulation and privatization. He presented a 25-point reform package which, among other things, allowed: (a) foreign companies to participate in export trade; (b) encouraged overseas Pakistani and foreign investors to purchase the stock of listed companies and to transfer capital; and (c) allowed Pakistanis to maintain foreign currency accounts and to transfer them to another country. Deregulation was initiated rapidly in the financial, industrial, and commercial sectors.

The government also announced a major commitment to privatize its state-owned corporations. In its first two years, the new government de-nationalized two major banks and sold more than 70 state-owned entities. In addition, the government also laid the foundation for privatizing major, multi-billion dollar utilities, namely, WAPDA, Karachi Electric Service Corporation (KESC), and the Pakistan Telecommunications Corporation (PTC). USAID's technical assistance and training under the PIE Program played an important catalytic role in this privatization process.

On its own initiative, Sharif's private sector-oriented government enacted many of the necessary policy reforms planned for under the original PIE Program design, without the need for USAID's financial leverage, which could no longer be provided because of the Pressler-related reductions in funding. The new government thus provided a fertile policy environment for PIE Program initiatives. A number of these programs and initiatives were beginning to gain momentum and resulted in increased private sector investment in Pakistan. PIE was able to make good progress in strengthening Pakistan's capital markets through its assistance to the Karachi Stock Exchange and the Corporate Law Authority. PIE also made good progress in establishing and strengthening the Pakistan Investment Board (PIB) and attracting foreign

investors to Pakistan. Our efforts in providing financial assistance through pre-investment feasibility loans to local businesses were also quite successful.

Thus, despite the Pressler cuts, PIE continued to be a highly visible and effective private sector support program. It also served as one of USAID's main points of access to the government in regard to conducting private sector policy dialogue and keeping abreast of private sector developments.

Towards the end of the PIE Program, however, Pakistan's confrontational politics began to divert the government's attention away from private sector investment and economic growth. Prime Minister Nawaz Sharif was locked in a power struggle with the President, and Benazir Bhutto, the former Prime Minister, was gaining increasing support in her demand for new elections. The PIE Program momentum seemed to wane, especially at the PIB and the Privatization Commission. Finally, the government changed and Benazir Bhutto became the new Prime Minister. Although her basic policies remained the same as Nawaz Sharif's, the resulting government reorganization and personnel changes prevented the PIE Program from regaining its earlier vigor. The Program ended on December 31, 1993, as scheduled under the Pressler scenario.

V. INPUTS

The originally planned and revised levels of inputs for the PIE Program are summarized below:

I. ORIGINAL PIE PROGRAM	Planned Amount
Line Item	AID Grant (US\$)
A. SECTOR GRANT	<u>50,000,000</u>
B. PAKISTAN INVESTMENT PROMOTION (PIP)	
- Commodity Import Program	65,000,000
- PIE Fund	20,000,000
- Privatization Grants	8,000,000
- TDP Matching	2,000,000
Total (PIP)	<u>95,000,000</u>
C. SPECIAL PROJECTS TECHNICAL COOPERATION AND TRAINING (STT)	
- Technical Cooperation	12,900,000
- Training	5,000,000
- Special Projects and Grants	13,000,000
- Commodities	1,000,000
- Evaluation/Audit	400,000
- Contingency/Inflation	2,700,000
Total (STT)	<u>35,000,000</u>
PROGRAM TOTALS	<u>180,000,000.00</u>

II. ORIGINAL BUDGET FOR STT		
Line Item	Amount Obligated (US\$)	
- Technical Cooperation	1,000,000	
- Training	900,000	
- Special Projects and Grants	2,000,000	
- Commodities	1,000,000	
- Evaluation/Audit	100,000	
TOTAL (STT)	<u>5,000,000</u>	
III. REVISED BUDGET FOR STT (as of 9/30/94)		
Input Category	Amount Obligated	Amount Expended
- Technical Cooperation	1,796,551	1,736,342
- Training	302,516	247,478
- Special Projects and Grants	1,086,269	1,081,767
- Commodities	190,556	190,517
- Evaluation/Audit	0	0
TOTAL (STT)	3,375,892	3,256,104

VI. MAJOR ACCOMPLISHMENTS

As approved under the Pressler wind-down plan, the main emphasis of the Program was on three major areas: Private Sector Investment Promotion, Capital Market Improvement, and Privatization. In spite of implementation and funding constraints, the PIE Program has been highly successful in achieving most of its planned objectives. Significant achievements under the PIE Program are as follows:

A. Private Sector Investment Promotion

In the fall of 1991 USAID contracted with the Foreign Investment Advisory Service (FIAS), an affiliate of the World Bank, to conduct a study on impediments to foreign direct investment in

Pakistan. This study identified several weaknesses in the Investment Promotion Bureau (IPB), the agency responsible for generating foreign direct investment. In order to attract foreign direct investment, the study recommended the following: the adoption of an investment promotion strategy; the establishment of an autonomous investment promotion agency with a full range of investment promotion functions; the creation of an institutional framework to coordinate the delivery of all government permits and clearances; and the provision of essential and routine information to potential investors.

(i) Establishment of Pakistan Investment Board. Based on the recommendations in the FIAS study, a new organization, the Pakistan Investment Board (PIB), was established under the Prime Minister's Secretariat in October 1992, with a three-fold mandate: (1) to improve the image of Pakistan as an investment location; (2) to make policy recommendations on the investment climate and generate new investment; and, (3) to provide efficient services to prospective investors. Later, the GOP requested that USAID provide a strategic framework to attract foreign direct investment. USAID agreed to partially fund the follow-up work by a FIAS Mission to assist the GOP in developing an investment promotion strategy and designing an institutional framework for implementing this strategy. In December, 1993, this FIAS team provided technical assistance to the PIB in finalizing the overall organization of the institution, defining the profiles of the senior management of the institution, defining the profiles of the senior management of the institution, and preparing a detailed work plan and timetable for project execution. In finalizing the overall reorganization of PIB, priority was given to the investor facilitation function whereby investors would be assisted in all aspects of the approval process related to making an investment in Pakistan.

Using joint funding, FIAS also organized a study tour in early December, 1993 to Singapore, Malaysia and Thailand for the senior management of the PIB to gain first hand knowledge about the structure, operating procedures, and activities of the similar investment promotion institutions in these countries and to draw relevant lessons for Pakistan. FIAS also organized two three-day planning workshops for the senior PIB officials in November, 1993. The objective of these workshops was to reach consensus on PIB's legal status, location, organizational structure, etc., to review FIAS proposals on the New Investment Promotion Strategy for Pakistan; and to develop an action plan for PIB to start the corporate planning process.

Essential office equipment, furniture and vehicles were also provided to PIB under PIE funding. PIB offices were established in Islamabad and Karachi. An office in Lahore is expected to be set up shortly. USAID also funded a program of expert technical consulting services, consisting of a total of 23.5 person months of technical assistance, to assist the PIB in the development of an Investment Promotion Strategy and in strengthening the institutional framework to enable the Board to implement the strategy. The composition of the technical assistance team included one Investment Promotion Specialist and Chief of Party and seven Institutional Promotion Specialists in the fields of image building, marketing, investment services, computerization, market information, management, logistics and investment policy.

These USAID consultants assisted and advised the PIB on all aspects of investment promotion, with particular emphasis on building Pakistan's image as an investment opportunity, promoting foreign investment, and providing services to investors already operating in Pakistan. They have assisted PIB in the following areas:

- developing an image building program;
- establishing a set of marketing and promotional strategies to attract increased foreign investment;
- identifying areas where Pakistan has a comparative advantage within the context of the competitive market environment in the region;
- creating an investment approval "road map" to be utilized by the PIB in developing its program of investment facilitation services;
- establishing an efficient and effective logistical and administrative structure to support the day-to-day operations associated with running an investment promotion agency; and
- provided assistance in all facets of computer applications, including computerization of PIB's management information system, its data base of investment information, its services inventory, and other programs and activities for which computerization could improve efficiency and performance.

(ii) **Business Linkages**. The FIAS report also suggested other approaches which could be used to attract private investment. One such approach was to create business-to-business linkages. Under the PIE Program, experts in four industrial sectors - plastics, agribusiness, chemicals, and electronics - were contracted to scout Pakistani manufacturers and to create appropriate linkages, such as licensing arrangements, technology transfer agreements, manufacturing contracts, and joint-ventures, between Pakistani and U.S. companies. This activity was originally planned as a two-year effort, but, due to contractual delays, it was shortened to eight months. Despite this relatively short time frame, significant progress was made. Over 138 companies in the U.S. and a like number of Pakistani firms were approached. Over 50 U.S. companies responded positively to the prospect of potential joint ventures and/or investment in Pakistan. These partnerships have enormous potential for dramatically increasing exports from Pakistan as well as increasing production and employment domestically. By the PIE Program PACD, thirty U.S. companies were in contact with Pakistani companies.

(iii) **Feasibility Study Fund**. Through Interbank, a joint Pakistani-American Investment Bank, a grant of \$731,000 of PIE funds was made to establish up a revolving loan fund to support pre-investment feasibility studies. This fund provided support to investors to

develop bankable investment projects. Interbank manages and provides credit risk evaluation and monitoring for the clients. By the Program PACD, the bank had signed formal loan agreements and started disbursing loans to seven clients of the feasibility fund. The fund was totally drawn down and a number of applications had to be turned down due to the oversubscription of funds. As these loans are repaid, new loans can be made. Further, the success of this program will serve as an example to other financial institutions of both the need for loans for pre-investment feasibility studies and the viability of loans to small and medium sized businesses.

(iv) Investment Conference. PIE also provided local cost financial support to the GOP for holding its First International Private Investment Conference, in November of 1991. This conference was a multi-funded effort. Costs were shared by the World Bank's Multilateral Investment Guarantee Agency (MIGA), USAID, and the GOP. Foreign and local businessmen, entrepreneurs, and investors attended the conference, which served to attract investment and to solidify the rationalization of the GOP's investment code and deregulation policies.

B. Capital Markets Development

The second major area of emphasis under the PIE Program was to assist in restructuring the Karachi Stock Exchange (KSE) to create a more efficient vehicle for capital formation. As a first step, the PIE Program initially supported an Efficiency Enhancement Study of the KSE. This study provided preliminary design and implementation guidelines for the more efficient operation of the exchange.

(i) Modernization of KSE Operations. Based on the recommendations of the Efficiency Enhancement Study, the KSE moved ahead with the computerization of its settlement and clearing process; other improvements in the system were also made as a result of this study. Prior to these changes, daily trading volume in excess of 10 million shares often resulted in a complete breakdown of the system. After the modifications and improvements, KSE can now handle daily trading volumes in excess of 30 million with ease. This has allowed the Exchange to increase its operations and to attract significant increases in the number of foreign investors.

In just one year (1990-91), KSE's market capitalization doubled from Rs. 54 billion to Rs. 104 billion, primarily due to a substantial increase in the inflow of foreign funds by foreign institutional investors. This increase in volume required modernization of the trading regulations under the Securities and Exchange Ordinance. Under the PIE, short term assistance was provided to assist in drafting the legislation necessary to modernize this ordinance.

(ii) Establishment of Depository. The Enhancement Study also suggested ways to proceed with the development of a central depository system, which would eventually result in paperless trading at the Exchange. Later, USAID funded a Price Waterhouse team to prepare preliminary design, implementation, and operating guidelines for a Central Depository Company

(CDC). The CDC has now been incorporated, with KSE, IFC, Citibank and other institutions as the major shareholders. An RFP for a manager of the CDC has been issued and this institution should start operations next year.

(iii) **Skills Development Program.** Four seminars in capital market regulation and skills development of market intermediaries were also conducted at the KSE and at the Corporate Law Authority (CLA) premises under PIE auspices. The original aim of the program was to improve the overall quality of KSE membership by developing their capital market skills and introducing them to new techniques in financial analysis, trading, and portfolio management. Ultimately, the KSE leadership hoped to certify each of its members. The CLA requested that the courses also be given at CLA headquarters, since it was essential that CLA personnel be as familiar with new developments in capital markets as the brokers.

As a part of the skills development program, a formal curriculum was developed for certification of brokers. The KSE, in collaboration with the Institute of Business Administration, is developing course materials and the certification program is expected to begin soon.

Training programs at the U.S. Securities and Exchange Commission in Washington D.C. and at the New York Institute of Finance were also funded under the PIE Program. A visit to Pacific Rim exchanges and regulatory agencies was also organized and funded under the Program. These training and observation programs have helped tremendously in educating key actors in the three Pakistani stock markets and in modernizing stock exchange operations.

C. Privatization

It was initially envisioned that privatization would be the biggest and most important activity supported under the PIE Program. Under this element, USAID funded several staff members of the Privatization Commission, legislators, government officials and private sector people to the advanced Executive Management Program on Privatization and sponsored a series of local privatization seminars to address some of the major issues inherent on privatization. This helped create acceptability for privatization. The present Chairman of the Privatization Commission, Syed Naveed Qamar, Minister of State and MNA was been one of the beneficiaries of this training program.

USAID's major effort planned under the Privatization component was directed toward assisting the Ministry of Communications to privatize the Pakistan Telecommunications Corporation. PIE funded an initial study executed by privatization guru Richard Downer of Price Waterhouse which provided a blueprint for the PTC privatization on an accelerated basis. This study proposed a USAID assistance level of about \$2.0 million for the privatization effort. At the request of the GOP, which was, for political and operational reasons, interested in a rapid schedule for the privatization, the Mission agreed to contract for the technical services of Price Waterhouse and the financial advisory services of Morgan Stanley Bank under a Buy-In Contract

to implement the privatization. However, a competitor raised an objection to the use of the Buy-In because, prior to USAID's involvement, the GOP had issued tender documents to initiate competitive bidding for these services. Notwithstanding the fact that the Buy-In contract itself had been awarded after competitive bidding, and that this same complaining competitor had been an unsuccessful bidder on that contract, USAID/W acquiesced to the complaint and instructed the Mission to cease any assistance to PTC.

Washington's decision was a major setback to the PIE Program, since a good deal of time and effort had been expended on the PTC privatization effort. PIE not only lost all the critical time it had invested, but now had to reprogram quickly more than \$2.0 million set aside for this privatization; there was less than a year-and-a-half of the Program left. Despite our forced withdrawal from the PTC privatization, the Downer report received wide recognition as an effective way to achieve accelerated privatization, not only of PTC but other state-owned corporations, including WAPDA, several banks and other large organizations. Downer was, in fact, requested by other government departments to return to Pakistan to prepare feasibility studies for other privatizations (USAID funded some of these studies under its Private Sector Power Project, which was assisting WAPDA in its privatization).

As for PTC, despite a long delay in progress toward privatization, the effort has regained its momentum. In mid-August, 1994, there was a public sale of vouchers that will be redeemable for shares in a privatized PTC within one year; PTC will be listed on the KSE within one year, and on international markets shortly thereafter (the reason for the initial sale of vouchers rather than stock certificates is that PTC needs to have a full year of audited operations before it can be listed on the KSE or NYSE). Incidentally, Richard Downer was brought back by the World Bank to assist in some of the final planning for this privatization.

VII. LESSONS LEARNED

The PIE Program was in a sense a pioneering venture because almost all of its activities were directed towards the private sector. A number of important lessons were learned, among the most significant are the following:

- GOP and private sector training - The GOP should not have been so involved in selection of private sector candidates and organizations for training. The GOP insisted that all participants be reviewed and cleared by them. This created delays and resulted in the participation by some persons who were not qualified or could not fully utilize their training to achieve the desired objectives. After repeated efforts by USAID, the GOP finally agreed to eliminate this approval requirement.
- Cooperative grants/agreements with profit organizations - Adopting a new approach toward implementation requires a great deal of time and management attention. The

process of setting up a feasibility fund to involve private sector firms as partners in implementing USAID's development objectives took nearly two years due to the protracted process of meeting USAID's contractual, auditing, and legal requirements.

- Adequate time and extensive nurturing are required to cultivate business alliances - During the eight-month period of the RONCO Contract for promoting U.S.-Pakistani Joint Ventures, 275 companies (127 Pakistani and 148 American) were interviewed. A large number of U.S. firms became interested in some form of investment or trade relationship with Pakistani companies. U.S. Companies were interested in penetrating the Pakistani market by joining with Pakistani distributors or manufacturers familiar with the specific market segment applicable to their product. Despite the relative short time over 50 U.S. companies had responded positively to potential joint ventures and investment in Pakistan.

Unfortunately the Program ended at a time when most of these contacts were about to mature and continued USAID support would have been very important to turn the ongoing contacts into meaningful partnerships. Only the surface has been scratched regarding the potential for U.S. Pakistani Joint Ventures. An extended Program could have solidified and made sustainable a large number of ventures from among the interest already generated. The lesson learned here, however, is that it is probably better not to proceed with an effort requiring such intensive follow-up and hand-holding as this activity did.

- Contractual delays - To avoid the loss of momentum, fast-track contracting is required when providing assistance targeting the private sector. Several PIE project activities were excessively delayed due to contracting problems. Some activities had to be aborted at the last moment due to shortage of time left in project completion. One such activity was aimed at preparing a corporate plan for establishing the CLA as an autonomous organization. At present, it is a division of the Ministry of Finance. This activity would have been a fitting conclusion of our efforts to plan the restructuring of the stock exchanges since effective regulation is of primary importance in creating the investor confidence necessary to stimulate greater activity on the exchanges.

VIII. MAJOR CONSTRAINTS

The major constraint facing the PIE Program was the restriction on Program activities due to the "useful units" concept imposed after adoption of the Pressler Amendment, which restricted the range of activities that could be undertaken during the phase-out of the Program. While the intent was to limit project activities to those which would result in useful and viable activities, building a management consensus on the proper interpretation of what activities fell within the scope of the useful unit definitions was difficult. At least one activity which had received the Mission's approval to proceed was stopped at the last minute because the activity was outside

the scope of the definition of the useful unit. As the formulations of the useful units were extremely confining, it would have been difficult to be involved in any meaningful activities unless these definitions were broadly interpreted. Time spent in extricating the PIE Program from these Pressler restrictions, however, could better have been spent in implementing PIE activities. In addition to the issue of interpretation, the lack of flexibility due to the useful units limitation created other problems. For example, two useful units (formulating a privatization strategy and an investment code) were overtaken by events (the Nawaz Sharif government decided to proceed with privatization immediately without a plan; and a new code was formulated before PIE got started) and made largely irrelevant. But the useful units concept restricted the Mission's flexibility to respond to these changed circumstances. In another instance, the useful unit definition was based upon a mistaken substitution of words (import promotion instead of investment promotion--which made all of our assistance to the PIB very difficult to defend). It was extremely difficult to implement a dynamic private sector development program under these limitations.

IX. SUSTAINABILITY

The PIE Program activities resulted in the modernization of capital markets, strengthening of the privatization program and improvement of services for attracting foreign direct investment. The details are set forth below:

- Investment Promotion: Commodities, a corporate plan, and operating manuals have been provided to the PIB. PIB's management is using these in setting up the organization and they are expected to continue utilizing the manuals as the organization is expanded. FIAS has also assured further technical assistance in helping the PIB to further refine its investment promotion strategy. Changes in the top management of PIB has created problems, but if these are resolved soon Pakistan can expect increased foreign investment.

The other part of this Program component was creation of business-to-business contacts between U.S. and Pakistani companies. A reasonable level of interest has been created and those companies which can form profitable business linkages are expected to enter into agreement. The PIB is continuing to provide some of level of assistance in furthering the contacts developed by providing information to and from Pakistani and U.S. businessmen.

The Feasibility Fund is fully committed. Once reflows begin, fresh loans will be given out. The level of interest generated indicates that the demand for these funds will remain fairly active.

- Capital Markets: The sponsors of the Central Depository Company have signed the shareholders' agreements and are now looking for a contractor to provide

services for setting up the CDC on a turnkey basis. A full time CDS coordinator has already been appointed.

The Securities and Exchange Ordinance has been enacted and its acceptance by Parliament is expected soon.

Persons trained under the PIE Program continue to move to more responsible positions and their training is reflected in their efforts to modernize the stock exchanges. One such example is Dr. Yasir Mahmood of the Lahore Stock Exchange (LSE). He has now been appointed Vice President of the LSE and is utilizing his training in automated trading systems to set up an ethernet at LSE. Mr. Javed Panni, another participant, has recently been appointed as a Member of the CLA. He is the first regular staff member of the CLA to occupy this senior post (previously this position was always held by an officer of the Pakistan Civil Service).

The Asian Development Bank (ADB) is providing add-on assistance to the CLA in further improving their regulation and enforcement through technical assistance, training and provision of commodities. Similarly, the International Finance Corporation is playing a major catalytic role in modernizing the stock exchanges by taking an equity stake in the CDC and also through regular meetings between exchange officials and members of IFC Capital Market Development officials.

The impetus for privatization is forcing the pace and recently a list of 31 units has been announced for privatization. This is in addition to 71 units already privatized. A mechanism to privatize the major utilities is also in place. World Bank and Asian Development Bank assistance is expected in privatization of the utilities.