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PAKISTAN : PRIVATE INVESTMENT PROMOTION AND INVESTMENT PROMOTION BUREAU

MTech, Islamabad
May 1990

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PRIVATE INVESTMENT PROMOTION AND INVESTMENT PROMOTION BUREAU

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EXECUTIVE SUMMARY

Pakistan's investment promotion system is comprised of three institutional mechanisms: Investment Promotion Bureau (IPB); overseas trade and commercial offices; and private Chambers of Commerce and Industries. This report is devoted to an examination of the investment promotion role of IPB.

2. A historical examination of the functions of IPB reveal that the Bureau has served as investment facilitator only marginally and has virtually not performed direct investment promotion functions. The Bureau has functioned primarily as an investment sanctioning agency and it is probably because of overwhelming focus on sanctioning that the private sector has often labelled IPB as an "Investment Prevention" rather than an "Investment Promotion" organization.

3. In February 1990, the Government of Pakistan (GOP) transferred the administrative control of IPB from the Ministry of Industries to the newly established Board of Investment (BOI) within the Prime Ministers' Secretariat and is currently in the process of reorganizing and reorienting the role of IPB towards a mix of investment sanctioning, investment information dissemination and investment promotion. The reorganization plan envisage three wings, each headed by a Director General, for appraisal and regulations; monitoring and one-window facility; and, planning, promotion and publicity. The Director General for Planning, Promotion and Publicity will be responsible for identifying new areas for potential investment, preparing project profiles, developing investment related literature, organizing seminars, counselling prospective investors, and opening of investment centers both at home and abroad. The GOP has also established an Advisory Committee, consisting of public and private sector representatives to guide IPB, among others, in developing and implementing promotional programs.

4. The GOP proposed reorganization of IPB, however, suffers from two apparent weaknesses: it is likely to transform IPB into a larger organization with increased budgetary costs; and, it has a peripheral private sector participation. It may accordingly, be appropriate to consider two alternatives to this reorganization: first, delinking IPB from sanctioning and promotion functions; and, second, abolition of IPB. While the first alternative allows the IPB to develop into an expeditor of post-sanction formalities, the second option permits the development of a private sector led promotion system. Both these choices, however, argues for a more vigorous private participation in investment promotion through sub-contracting and through institutional development of business forums like Federation of Pakistan Chambers of Commerce and Industry.

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I. INTRODUCTION

A. Scope of the Study

1. Background

A disincentive regulatory framework; public sector dominated financial system; restrictive trade policy; significant presence of State Operated Enterprises (SOE) in large scale manufacturing; inadequate discipline and stability in the labor-management relationships; and, above all, the limited success of the administrative machinery in maintaining law and order environment congenial to business; are some of the key factors that have inhibited improved private investment in the industrial sector. Traditionally, the Government of Pakistan (GOP) has attempted to minimize these impediments through, generally, marginal adjustments in the relevant fiscal, monetary, trade and institutional parameters. The recent deregulation process, however, has already led to significant reforms in the institutional dimension of investment promotion. The GOP in 1989 established a Board of Investment (BOI), chaired by the Prime Minister, to formulate policy guidelines for industrialization and to evaluate expeditiously investment proposals requiring Federal Government sanction; constituted a Committee on Investment (COI), headed by the Minister of Industries, to facilitate post-sanction formalities; in 1990, transferred the administrative control of the Investment Promotion Bureau (IPB) from the Ministry of Industries to BOI within the Prime Minister Secretariat; and, has initiated the process of reorientation of the role and functions of the IPB. While an assessment of the impact of these recent changes on private investment may have to wait for some time, the investment promotion role of IPB needs to be evaluated at the present to ascertain the value of investment promotion dedicated institutions in a deregulated environment.

It is in the above indicated environment of emerging new institutional arrangements for private industrial investment promotion and the GOP's willingness to consider and implement major changes, that the design process of the forthcoming USAID-assisted Private Investment Expansion (PIE) Program attempts to explore potential reforms in the GOP's private industrial investment promotion system.

2. Objectives

The objectives of this analysis, a part of the design process of the forthcoming PIE Program, are to provide documentation and clarification of issues related to the institutional aspect of investment promotion system in Pakistan; and, to identify improvements in or alternatives to the existing institutional arrangements responsible for promoting private industrial investment.

3. Terms of Reference

This study is expected to include detailed description and analysis of the following:

The history, evolution and existing structure of the IPB;

The investment promotion role of the IPB in relation to its charter of objectives; and,

The nature of IPB's investment promotion activities.

The study is also expected to recommend forms of possible USAID assistance; identify potential USAID management issues; and, develop an implementation plan for any additional design activity.

B. Overview of Private Industrial Investment

1. The Industrial Sector

Value added in the manufacturing sector form about 17 percent of GDP. About 73 percent of this contribution emanates from large scale and the remaining 27 percent from small scale manufacturing. Principal industries include cotton textiles, petroleum refining, food processing, pharmaceutical, chemicals, cement, and iron and steel products.

TABLE I : VALUE ADDED IN MANUFACTURING

Year	GDP	Value Added in Manufacturing			Share in GDP
		Large	Small	Total	
	Million Rupees in 1980/81 Prices				Percent
1980/81	247,831	27,451	9,995	37,446	15.1
1981/82	266,571	31,761	10,835	42,596	16.0
1982/83	284,667	33,847	11,745	45,592	16.0
1983/84	295,977	36,455	12,732	49,187	16.6
1984/85	321,751	39,365	13,801	53,166	16.5
1985/86	342,224	42,220	14,960	57,180	16.7
1986/87	362,110	45,267	16,217	61,484	17.0
1987/88	384,409	50,043	17,579	67,622	17.6
1988/89	404,140	50,639	19,056	69,695	17.2
Percent Growth Rate a/	6.3	7.9	8.4	8.0	

a/ Computed using semi-log regressions.

Source : Government of Pakistan, Economic Survey 1988-89, 1989.

During 1980/81 to 1988/89, value added in manufacturing has grown at an average annual rate of 8 percent which compares favorably with the corresponding rate of 6.3 percent for the GDP. During the same period, value added in small scale manufacturing has witnessed a growth rate of 8.4 percent as against 7.9 percent in large scale manufacturing. The most recent production performance has been disappointing as an increase of only 3.1 percent could be achieved in 1988/89 against a target of 8.1 percent. This decline in growth rate is:

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... attributable mainly to disturbances in the major industrial centers of Karachi and Hyderabad and floods in Punjab and Sind. The performance of large scale manufacturing sector was quite dismal. In fact, the progress of augmentation in this sector had come to a stand still [2, p.139].

2. Industrial Development Policy

a. The 1988 Industrial Policy

The GOP in 1988 formulated a new Industrial Policy in the context of "industrial development efforts in past years, the achievements made and the bottlenecks faced in the implementation of the industrial strategy laid down in the Industrial Policy Statement, 1984 as well as the targets set in the seventh Five Year Plan" [6, p.5]. This new Policy emphasized the following:

Consolidation and strengthening of infrastructural facilities in the industrial estates;

Development of key industries particularly those using at least 70 percent of local raw material, fertilizers, textile, engineering, electronics and other high-tech products;

Creation of employment opportunities by encouraging labor intensive projects as well as small scale industries; and,

Balanced regional growth through dispercal of industries to the less developed areas [6, p.5].

The 1988 Industrial Policy also announced liberalization of industrial investment approval procedures; a package of fiscal and monetary incentives for the industrial investments; and confirmed that "greater reliance will continue to be placed on the private sector to achieve ... goals of the Industrial Policy" [6, p.6].

b. The 1989 Industrial Policy

The objectives of the 1989 Industrial Policy are as follows:

Creation of employment opportunities by encouraging labor intensive projects;

Balanced regional growth through dispersal of industries to the less developed areas;

Giving pivotal role of small-scale industries; and,

Development of key industries (biotechnology, fibre optics, solar energy equipment, computer and software, electronic equipment, and fertilizers) for adding higher value and acquiring sophisticated technology [4, p.3].

The 1989 Industrial Policy deregulated the industrial investment approval system further and expressed the new Government resolve to encourage the private sector, among others, through guarantees against nationalization and gradual privatization.

3. Private Industrial Investment

a Size and Trends

Estimated real Gross Fixed Capital Formation in the manufacturing sector is presented below in Table II. The data indicate consistent increase in private sector share: up from about 49 percent in 1980/81 to about 86 percent in 1988/89. The 12.2 percent annual growth in private investment (against a corresponding negative growth of 12.7 percent for public sector investment) is a reflection of the GOP's deregulation policies.

TABLE II : ESTIMATED GROSS FIXED CAPITAL FORMATION IN MANUFACTURING

Year	Private Sector			Public Sector			Total Investment			Share in Total	
	Large	Small	Total	Large	Small	Total	Large	Small	Total	Private	Public
	Million Rupees in 1980/81 Prices a/									Percent	
1980/81	3,484	1,069	4,553	4,814	21	4,835	8,298	1,090	9,388	48.5	51.5
1981/82	4,110	1,136	5,246	4,458	34	4,492	8,568	1,170	9,738	53.9	46.1
1982/83	5,100	1,236	6,337	4,764	24	4,788	9,864	1,261	11,125	57.0	43.C
1983/84	6,177	1,303	7,480	4,965	13	4,979	11,142	1,316	12,458	60.0	40.0
1984/85	7,138	1,424	8,562	3,265	45	3,311	10,404	1,469	11,873	72.1	27.9
1985/86	8,231	1,551	9,782	3,640	45	3,686	11,871	1,596	13,467	72.6	27.4
1986/87	8,349	1,551	9,900	2,306	20	2,327	10,655	1,572	12,227	81.0	19.0
1987/88	8,985	1,678	10,663	1,954	24	1,977	10,939	1,702	12,641	84.4	15.6
1988/89	9,318	1,936	11,254	1,789	25	1,814	11,107	1,961	13,068	86.1	13.9
Percent Growth Rate b/	13.4	7.2	12.?	-12.8	1.0	-12.7	3.6	7.1	4.0		

a/ Estimated from data in current prices using deflators for national Gross Fixed Capital Formation.
b/ Computed using semi-log regressions.

Source : Based upon data appearing in Government of Pakistan, Economic Survey 1988-89, 1989.

b. Selected Issues and Problems

Private industrial investment is influenced by a wide variety of complex political, economic and social factors. The intent here is not to present a comprehensive listing of the determinants of private investment in Pakistan, but merely to highlight some of the critical structural and institutional weaknesses that deserve GOP's priority attention:

i. Regulatory Framework : Depending upon type, size and credit requirements, private industrial investment is subject to a "primary approval" process involving investment sanction, approval by the concerned financial institution, and location clearance. All investment projects are also required to satisfy criteria of each of the several subsequent "secondary approval" agencies, including authorities that control the scarce utilities [9].

ii. Public Sector Presence : The public sector currently dominates steel, cement, edible oils, machinery, vehicles, petroleum refining, fertilizers, and caustic soda manufacturing. Since public sector industries are often subsidized, private sector is subjected to unfair competi on.

iii. Financial System : The public sector dominates the financial system and seeks heavy bank borrowing which, in the context of an increasingly tight monetary policy, implies limitations on credit availability for the private industry. The private capital market institutions are in a rudimentary development stage.

The investment appraisal system, not always guided by commercial considerations, has not succeeded in controlling the widespread practice of substitution of credit for equity through over-invoicing.

iv. International Trade Policy : The trade policy is not sufficiently geared to efficiently support the demand for capital goods and industrial raw material. The former imposes constraints on realizing investment projects while the latter affects capacity utilization.

v. Structure of Industrial Ownership : As a part of the seventh Five Year Plan preparation exercise, the 1987 Report of the Working Group on Private Investment, highlighted the structure of ownership as a key issue in the industrial sector. The Working Group pointed out that the "industrial sector is dominated by family owned firms or what is known as Private Limited Companies" [8, p.17]. This trend towards Private rather than Public Limited Companies, restrict the flow of investment to traditional activities and discourages professional management.

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While no statistically reliable survey data are available that systematically record and rank private sector perception of each of the several factors that govern private industrial investment, the industrial investment approval system and the screening role of IPB therein, has long been known to be a major irritant for the private sector.

C. Organization of the Report

The following Section II describes the existing organizational structure of the IPB; Section III presents recent IPB reorganization efforts; and, the final Section IV suggests alternative institutional arrangements to promote private industrial investment.

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II. FUNCTIONS AND ORGANIZATION OF INVESTMENT PROMOTION BUREAU

A. Functions

The IPB evolved in its current form as an attached department of the Ministry of Industries in 1978 with the objective of promoting local and foreign private industrial investment. For

TABLE III : PRINCIPAL FUNCTIONS OF INVESTMENT PROMOTION BUREAU		
Functions	1985	1990
Investment Approval		
Sanctioning	Investment sanctioning constituted a very major function of IPB because of the large number of conditions under which projects required GOP sanction: projects covered by 23 industries on the Federal Specified List; involving foreign private investment; costing Rs 300 million and above; requiring cash foreign exchange of more than Rs 50 million for plant and machinery; involving import of machinery, except under NRI; and, projects in which more than 60 percent of the raw material is importable provided that value of such imports exceeds 20 percent of the total investment in fixed assets [1984, p.11].	Deregulation has restricted IPB's investment sanctioning role to projects covered by the Federal Specified List of 7 industries or of size of Rs 1,000 million and above.
Post-sanction Approvals	Limited role as facilitator of post-sanction formalities.	COI has been established to expedite post-sanction formalities for BOI-sanctioned projects.
Information Dissemination		
Industrial Investment Schedules	IPB prepared Industrial Investment Schedule for the sixth Five Year Plan.	No Industrial Investment Schedule has been prepared for the seventh Five Year Plan.
Project Briefs	Since mid-1980s the Ministry of Industries has directly supervised the preparation of project briefs by the IACP.	The function of the supervision of the development of generic project briefs is (temporarily) with the BOI.
Investment Guides	The IPB discontinued publication of investment guides around 1982.	The Ministry of Industries compiled the 1989 investment guide and the BOI is supervising the forthcoming 1990 version.
Foreign Investment Guidance	A limited role in encouraging rapport between the potential foreign investors and local businesses.	Private business groups are more active than IPB in handling foreign investors.

realization of this goal, IPB has relied mainly on participation in

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the industrial investment approval process; dissemination of investment information; and, arranging initial contacts between potential foreign investors and local businesses. The thrust of these three investment approval, information dissemination, and investment guidance roles has varied marginally over time and investment sanctioning has continued to be the principal work feature of IPB. A brief examination of the past and present work pattern of IPB (Table III) indicates that information dissemination and foreign investment liaisoning have historically been very minor elements in IPB's work portfolio and the Bureau has primarily functioned as an investment sanctioning agency.

B. Organization

1. General

The Bureau is organized along rigid vertical lines with very limited formal horizontal linkages. The internal organizational structure and external reporting channels have remained stable over time until very recently. In February 1990, the GOP transferred the administrative control of IPB from the Ministry of Industries to the BOI within the Prime Minister's Secretariat and initiated the process of reorganization of IPB

TABLE IV : OPERATING ORGANIZATION OF INVESTMENT PROMOTION BUREAU

	1985	1990
External Relationships		
Controlling Agency	Ministry of Industries	BOI (Prime Minister's Secretariat)
Internal Organization		
Top Management	Director General Deputy Director General	Chairman (Secretary BOI) Director General (M & OWF) Director General (A & R)
Directorates	Coordination Evaluation and Statistics Foreign Technical Personnel Administration Central Investment Promotion Committee Special Technical Cell Engineering (Technical) Engineering (Electrical) Chemical Food, Agro-based and Miscellaneous	Coordination, Evaluation and Statistics Foreign Technical Personnel Administration Engineering (Mechanical) Engineering (Electrical) Chemical Food, Agro-based and Miscellaneous
Directorate-level Units		Financial Analyst Industrial Economist

through notifying the creation of three independent Director Generals (Monitoring and One Window Facility; Appraisal and Regulation; and, Planning, Promotion and Publicity). Table IV compares IPB's current operating (as opposed to authorized) senior level strength with the 1985 period.

2. Current Functional Units

The basic functional unit in IPB is a Directorate headed (normally) by a Director. The Director is assisted by Deputy Directors, Assistant Directors and other supporting staff. At present there are 7 Directorates each headed by a Director; a Directorate of Foreign Technical Personnel, headed by a Deputy Director; a Director-level Financial Analyst; and, a Director-level Industrial Economist. There are 9 approved positions of Deputy Directors but only 5 incumbents are in place.

The IPB is currently in the process of being reorganized. Implementation of the reorganization plan, discussed in the following Section III, has thus far been to the extent that the position of the Deputy Director General has been redesignated

TABLE V : FUNCTIONS OF DIRECTORATES AND DIRECTORATE LEVEL UNITS IN INVESTMENT PROMOTION BUREAU

Directorates	Principal Functions
Coordination	Coordination within the IPB; advice on investment policies; and, liaison with local and foreign investors.
Evaluation and Statistics	Collection of investment related data and monitoring and evaluation of the sanctioned projects.
Foreign Technical Personnel	Employment of expatriate technical personnel by the local industry and setting of branch offices by foreign companies.
Administration	Provision of support services including budget and accounts.
Engineering (Mechanical)	Examination of projects covering metal products, machinery and transport.
Engineering (Electrical)	Examination of projects related to electric and electronic industry.
Chemical	Examination of projects for the chemical industry.
Food, Agro-based and Miscellaneous	Examination of food and agro-based projects including hotels.
Financial Analyst	Formulation of policies on foreign private investment in Pakistan; joint ventures abroad; and, work relating to economic and trade regulations.
Industrial Economist	Matters relating to royalty and technical fee; and, perspective planning and analysis of regional industrial development trends.

as Director General (Appraisal and Regulation), so that at present 2 Director Generals control 8 Directorates and 2 Directorate level units of Financial Analyst and Industrial Economist. Pending completion of the reorganization, Director General (Monitoring and One Window Facility) heads Financial Analyst; Industrial Economist; and, Directorates of Coordination, Foreign Technical Personnel, and Administration. The Director General (Appraisal and Regulation) supervises the Directorates of Engineering (Mechanical); Engineering (Electrical); Chemical; Food, Agro-based and Miscellaneous; and, Evaluation and Statistics.

III. REORGANIZATION OF INVESTMENT PROMOTION BUREAU

A. Compulsions for Change

The liberalization of sanctioning requirements has restricted IPB's role to 7 industries covered in the Federal Specified List and projects of Rs 1,000 million and above. Since (as pointed out in paragraph II.A.) the IPB has traditionally been a sanctioning agency, the decrease in the sanctioning work load, has been the prime reason for redefining IPB's responsibilities. The planned reorientation in IPB's role, however, is also a (belated) response to the private sector assessment of IPB as being an "Investment Prevention" rather than an "Investment Promotion" Bureau.

B. Reorganization

1. GOP Plans

The GOP proposes to reorient the role of IPB towards a balanced mix of investment approval, information dissemination and investment promotion. The restructuring envisages IPB not only as a technical arm of the BOI in sanctioning process, but also as a facilitator of post-sanction formalities and as an aggressive promoter of investment. The re-organization plan envisages three

TABLE VI : PROPOSED FUNCTIONS OF REORGANIZED DIRECTORATES ON INVESTMENT PROMOTION BUREAU

Directorates	Principal Functions
Project I	Appraisal of projects in the manufacturing sector and formulation of deletion programs.
Project II	Evaluation of non-manufacturing projects.
Regulation	Evaluation of proposal for foreign technical personnel employment.
Implementation	Expedite implementation of BOI-sanctioned projects.
One Window Facility	Monitor One Window Facility and undertake market surveys.
Data Bank	Computerize all IPB operations and develop MIS on industrial investments.
Planning	Identify new areas for potential investment and prepare project profiles.
Promotion	Counselling to prospective investors and opening of investment centers both at home and abroad.
Publicity	Develop and publish investment related literature and organize seminars, conferences, symposia, and workshops on industrial investment.

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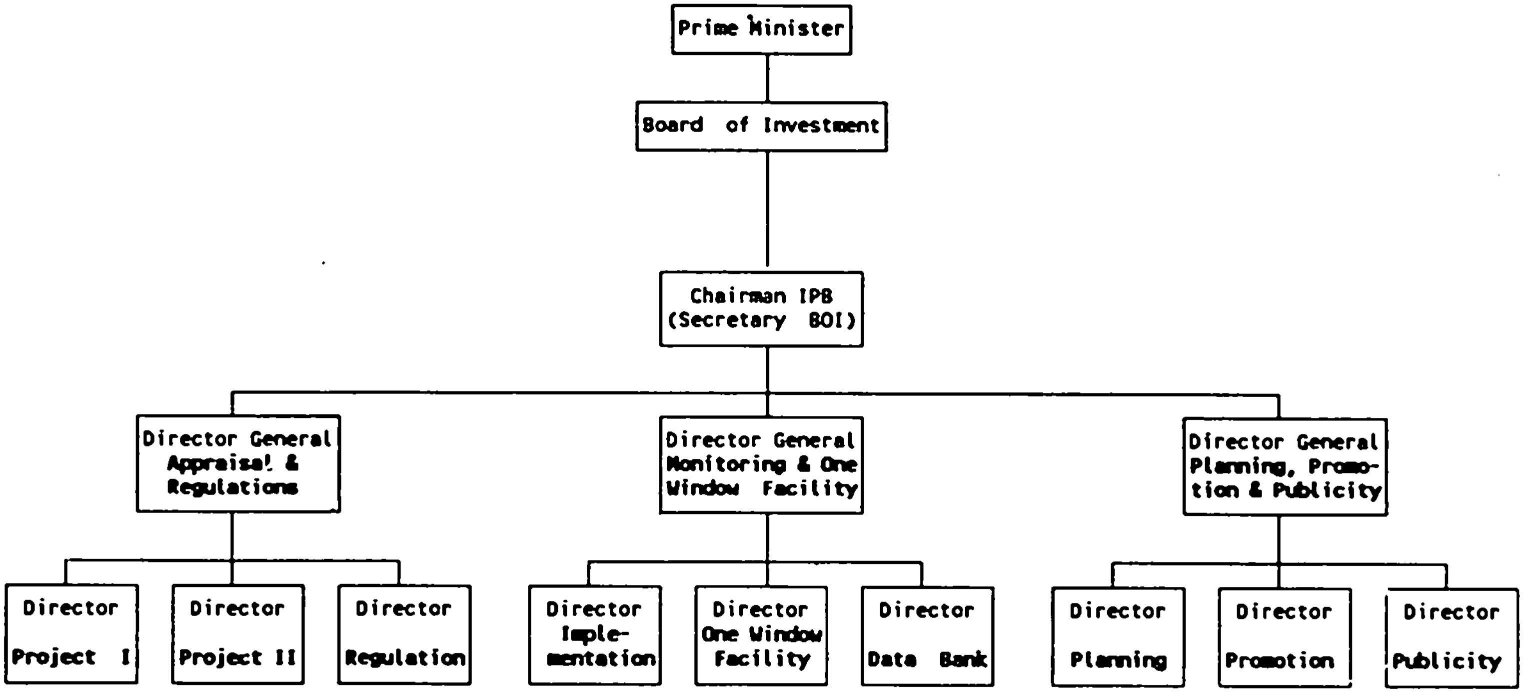
REORGANIZATION PLAN FOR THE INVESTMENT PROMOTION BUREAU



Director Generals, each supervising three Directors for functions specified in the organizational chart.

2. Donors Support

The Asian Development Bank (ADB) has approved $350 thousand as technical assistance grant for restructuring the role and functions of IPB. The ADB's technical assistance will address in the first phase:

> ... review of ... [IPB's] role and functions, development of a new institutional framework, including an Investment Information System, provision of overseas training and study tours for staff, and development of an industrial information data base with data processing equipment.
>
> The second [phase] will review the operations of the Investment Information System including advice on computerization of national data on industrial production, imports and exports, industrial trends, identification of priority investment areas and other related economic activities [1].

The ADB is in the process of finalizing arrangements for the IPB review and the Bank's position on various aspects of IPB's functioning will crystalize only after the study results are available. For the present, however, it appears that there is a considerable degree of harmony between the ADB's initially proposed areas of assistance and some segments of the emerging reorganization being implemented by the GOP.

3. Progress of Reorganization

a. Staffing

It has already been indicated (paragraphs II.B.1. and II.B.2.) that the BOI has notified the 3 positions of Director Generals for IPB and 2 Director Generals (Appraisal and Regulation and Monitoring and One Window Facility) are already in place. No other change has thus far been implemented.

b. Advisory Committee

In April 1990, the BOI established a 25 member Advisory Committee of public and private sector representatives to:

> Advise on the formulation of Bureau's recommendations for various economic policies, like fiscal, industrial, monetary and commercial;
>
> Identify areas of investment opportunities where Bureau should undertake detailed market and economic studies;
>
> Appraise the Bureau of specific problems of industries to facilitate its monitoring functions;
>
> Identify promotional strategies and assist the Bureau in the organization of its promotional programs such as seminars, symposia and publications; and,

Undertake evaluation of Bureau's working on an annual basis and suggest measure for improving its operational efficiency [BOI's Notification of April 8, 1990].

The inclusion of private sector representatives in the Advisory Committee and the wide charter of its functions, is a recognition by the GOP of the need for a close working relationship between the private sector and the industrial promotion bureaucracy and of the desirability of opening the Bureau's functioning to public scrutiny. Only time, however, will reveal the practical utility of this Committee.

IV. CHOICES FOR THE FUTURE

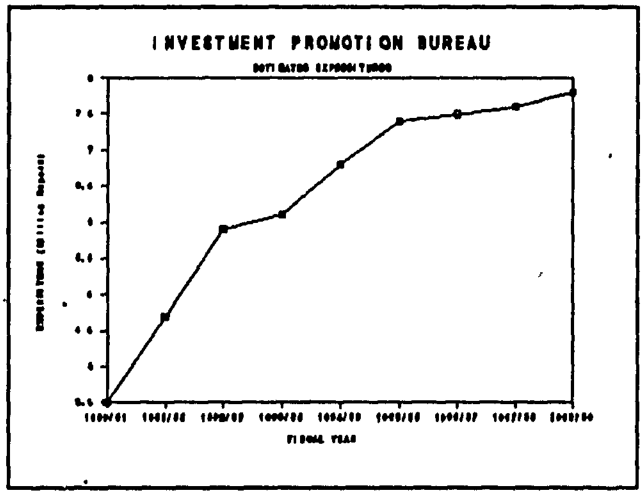
A. Principal Issue

The demise of IPB as it has existed over the years appears reasonably certain. The GOP is in the process of redefining the role of investment promotion related institutional structures and it may not be long before the complete picture emerges. It is highly likely that the roles and functions of BOI, COI, IPB and the Ministry of Industries will change as the new institutional arrangements are installed and subjected to the test of actual operational experience.

The key issue for consideration in the design of the PIE Program is whether to participate in the re-orientation process as broadly outlined by the GOP or to explore both moderately and radically different options.

B. Alternatives for the PIE Program

1. Reform IPB as Conceived by the GOP



While retaining IPB's traditional role in sanctioning, the GOP proposed re-organization seeks to energize, broadly, investment monitoring and information dissemination functions. The primary positive characteristic of this reorganization plan is GOP's backing implying that implementation would be relatively straightforward. The second positive feature is the willingness of the GOP to associate private sector in guiding the operation of IPB as evidenced by the recent constitution of the Advisory Committee for IPB.

Two potential negative aspects of the GOP reorganization plan may, however, be also noted. The first doubt emanates from the well-known tendency of large size public institutions to degenerate over time into self-serving entities divorced from superior objectives: the IPB, after all, came into existence as in investment promotion agency and evolved into an investment sanctioning regiment. The second skepticism on the GOP proposed re-organization is that it may increase the budgetary burden: the reorganization plan is heavy at the top and, given a narrow span of command in the existing Directorates, the possibility of trimming at lower levels is remote. Already, the annual expenditure of IPB is close to Rs 8 million compared to less than half of this figure in the beginning of 1980s.

2. **Relieve IPB of All Functions Except "Secondary Approvals" and Investment Information System**

This alternative implies delinking of IPB from the current sanctioning functions and the proposed role in planning, promotion and publicity or, roughly, eliminating the positions of 2 Director Generals and 6 Directors under the Appraisal and Regulation and Planning, Promotion and Publicity Wings. This line of reorganization requires at least two major conditions: first, further liberalization of the investment sanctioning criteria [9] so that the BOI has to deal with a very few sanctioning cases on which it may, if required, seek technical advice from the concerned Divisions or from contractually hired short-term private consultants; and, second, development of arrangements whereby the private sector is encouraged to pursue aggressively business promotion activities. The latter may take the form of contracting out of promotion and publicity functions to private consulting firm(s) or encouraging selected local business forums, through initial grants, to establish working relationships with businesses Chambers and Associations overseas, arrange reciprocal visits, organize seminars and conferences on investment related subjects, and, develop periodic publications on the problem and prospect of business in Pakistan.

The above reorganization scenario has several advantages: it permits the Bureau to evolve into an entity that could efficiently serve as facilitator of post-sanction formalities for all types of industrial investments; it allows for ADB's efforts to develop an Investment Information System; it permits considerable private sector participation; and, finally, it keeps the Bureau as a small size group with lower budgetary burden. The real disadvantage of this alternative, apart from resistance from the IPB bureaucracy, is that it would necessitate management intensive institution building activities over an extended period.

3. **Abolish IPB**

This option is a step ahead of the second alternative. The distinctive feature of this option is that it contest the value of a Government agency dedicated to sanctioning, monitoring and promotional programs and relies on a mix of market liberalization and private sector leadership in investment promotion.

TABLE VII : REORGANIZATION OF INVESTMENT PROMOTION BUREAU AND POTENTIAL PIE PROGRAM ACTIVITIES			
Alternative	**Minimum Conditions**	**Illustrative PIE Program Focus**	**Form of Assistance**
Reorganize IPB as planned by the GOP		■ In the light of the results of ADB's study evaluate, if necessary, the functioning of IPB to identify targets for assistance.	■ Technical Assistance
Relieve IPB of All Functions Except "Secondary Approvals" and Investment Information System	■ Liberal sanctioning criteria ■ Private sector led investment promotion and publicity	■ Enlarge the charter of COI to provide assistance in "secondary approvals" to all investments.	■ Technical Assistance
		■ Develop efficient networking of IPB with all "secondary approval" related agencies.	■ Technical Assistance and Training
		■ Support establishment of an Investment Information System accessible to the private sector.	■ Technical Assistance, Training and Commodities
		■ Transfer investment promotion and publicity functions to private sector through either: o contracting out of investment promotion and publicity functions to private firm(s); or	■ Grant
		o upgrade capabilities of selected business forums (Federation of Pakistan Chambers of Commerce and Industry, Karachi Chamber of Commerce and Industry, Lahore Chamber of Commerce and Industry and Overseas Investors Chamber of Commerce and Industry) to develop working relationships with corresponding overseas entities; publish investment related information; organize conferences, workshops and business fairs; and, arrange visits of potential foreign investors to Pakistan.	■ Technical Assistance, Training and Grant
Abolish IPB	■ Liberal sanctioning criteria ■ Private sector led promotion and publicity ■ Liberal, clear and consistent policies and investment guidelines	■ Institutionalize a system of periodic formal meetings between BOI and representatives of private industry.	■ Technical Assistance
		■ Enlarge the charter of COI to facilitate "secondary approvals" of all investments with the assistance of Ministry of Industries.	■ Technical Assistance
		■ Transfer investment promotion and publicity functions to private sector through either: o contracting out of investment promotion and publicity functions to private firm(s); or	■ Grant
		o upgrade capabilities of selected business forums (Federation of Pakistan Chambers of Commerce and Industry, Karachi Chamber of Commerce and Industry, Lahore Chamber of Commerce and Industry and Overseas Investors Chamber of Commerce and Industry) to develop working relationships with corresponding overseas entities; publish investment related information; organize conferences, workshops and business fairs; and, arrange visits of potential foreign investors to Pakistan.	■ Technical Assistance, Training and Grant

At least three conditions are necessary for this scenario: liberalization of sanctioning criteria; implementation of firm investment related guidelines so that the need for exemptions/approvals is very occasional; and, "privatization" of investment promotion and publicity functions as indicated above under the second option.

The abolition of IPB would be a major step in developing an incentive regulatory framework for private investment. The main inadequacy of this alternative, however, is the potential danger that until the market orientation of various investment related facets of the economy is achieved to a significant extent, some of the existing and proposed functions of IPB could be transferred to some other GOP entity(s), meaning that IPB could continue to exist though under a different banner.

C. The Suggested Option

Given the presently changing organization of IPB and the forthcoming ADB's review, this report is content with outlining some of the merits and demerits of the above three alternatives. The abolition of IPB is apparently the ideal choice but is accompanied by a herculean implementation agenda; the delinking of IPB from the sanctioning and promotional functions nd converting it into a sort of "one window" for "primary approvals" is conceptually attractive to the extent that it addresses an important weakness in the current investment approval and promotion system but, again, has implementation difficulties; and, the GOP proposed reorganization has the potential of transforming IPB into a still larger organization with the inertia that characterize public sector. For each of the three alternatives, however, illustrative PIE Program activities have been identified and recorded in Table VII.

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ANNEXES

TO BE PUBLISHED IN THE GAZETTE OF PAKISTAN-PART I

PRIME MINISTER'S SECRETARIAT
BOARD OF INVESTMENT
CABINET BLOCK

*****

Islamabad, February 4, 1990.

NOTIFICATION

No. 15(9)/90 - In pursuance of the decision of the Board of Investment, taken in its meeting held on 19-7-1989 regarding re-organisation of Investment Promotion Bureau,(IPB) Karachi.and subsequent approval of revised organogram of IPB by the Prime Minister the following major changes have taken place in the structure of IPB, Karachi :-

1. Administrative control of IPB is transfered to Board of Investment, Prime Minister's Sectt.
2. Secretary, Board of Investment is also the ex-officio Chairman of IPB, Karachi.
3. IPB is to be managed by the three independent Director Generals (BPS-20) viz, (i) Director General (Monitoring and One Window Facility), (ii) Director General (Appraisal & Regulation) and (iii) Director General (Promotion & Publicity).

In compliance of the above changes approved by the competant authority, the existing one post of Dy. Director General (BPS-20) in IPB stands re-designeted as Director General (Appraisal & Regulation), IPB. Accordingly Dr.Fazal Muhammad, (BPS-20)in IPB has been re-designated as Director General (Appraisal & Regulation) IPB, with effect from 17th September, 1989.

(RIAZ-UL-HAQ)
Director

The Manager,
Printing Corporation of Pakistan,
Pakistan Press,
KARACHI.

Contd....P/2.

Copy to :

1. The Secretary,
   Establishment Division,
   Government of Pakistan,
   Islamabad.

2. The Chairman IPB/Secretary BOI,
   Prime Minister's Secretariat,
   State Bank Building,
   Islamabad.

3. The Secretary,
   Ministry of Finance,
   Government of Pakistan,
   Islamabad.

4. The Secretary,
   Ministry of Industries,
   Government of Pakistan,
   Islamabad.

5. F.A's. Organisation,
   (Mr. Raza Ashraf, DFA (Cabinet),
   Finance Division,
   Cabinet Block,
   Islamabad. with reference to their U.O. No. 433 DFA(Cab.)/90, dated 1-2-1990.

6. The Accountant General,
   Pakistan Revenues,
   Karachi.

7. The Accountant General,
   Pakistan Revenues,
   Islamabad.

8. Syed Muzaffar Ali Shah,
   Director General (M),
   Investment Promotion Bureau,
   Kandawala Building,
   M.A. Jinnah Road,
   Karachi.

9. Dr. Fa[illegible]il Muhammad,
   Director General (A&R),
   Investment Promotion Bureau,
   Kandawala Building,
   M.A. Jinnah Road,
   Karachi.

10. Mr. Mukhtar Ahmed,
    Assistant Director (Admn),
    Investment Promotion Bureau,
    Karachi.

11. Personnel Files of the Officers.

PRIME MINISTER'S SECRETARIAT
BOARD OF INVESTMENT
ISLAMABAD

From : Syed Mohibullah Shah,
Secretary,
Board of Investment.

D. O. No. BOI-15(16)/90 Islamabad, the 8th April, 1990

SUBJECT: **ADVISORY COMMITTEE FOR INVESTMENT PROMOTION BUREAU**

My dear,

The Prime Minister has been pleased to reorganise the Investment Promotion Bureau (IPB) so that it can play a more dynamic role in promotion, counselling and monitoring of investment in Pakistan. Accordingly she has been pleased to constitute an Advisory Committee for IPB comprising leading persons from private and public sector - dealing with investment related activities.

2. The composition of the Committee is annexed. The Committee has following charter of functions:-

1. Advise on the formulation of Bureau's recommendations for various economic policies, like fiscal, industrial, monetary and commercial;

2. Identify areas of investment opportunities where Bureau hould undertake detailed market and economic studies;

(Cont'd ... Page/2)

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3. Apprise the Bureau of specific problems of industries to facilitate its monitoring function;

4. Identify promotional strategies and assist the Bureau in the organisation of its promotional programmes such as seminars, symposia and publications and

5. Undertake evaluation of Bureau's working on an annual basis and suggest measures for improving its operational efficiency.

3. I am pleased to convey to you that you have been appointed a member of the Advisory Committee by the Prime Minister to benefit from your knowledge and experience in this field.

4. I hope the Committee would be able to apply itself seriously to its charter and contribute to an accelerated pace of industrialisation in the country.

5. I lookforward to our first meeting soon.

With best wishes,

Yours sincerely,

(SYED MOHIBULLAH SHAH)

Annexure

COMPOSITION OF THE ADIVISORY COMMITTEE

1.	Secreatry, Board of Investment	Chairman
2.	President, FPCCI - Karachi	Member
3.	President, Overseas Investors Chamber of Commerce and Industry, Karachi	Member
4.	President, Islamic Chamber of Commerce and Industry, Karachi	Member
5.	President, Institute of Chartered Accountants of Pakistan, Karachi	Member
6.	President, Pakistan Association of Consultants	Member
7.	Chairman, PCSIR	Member
8.	Chairman, Pak. Agriculture Research Council	Member
9.	President, Management Association of Pakistan	Member
10.	Chairman, CBR - Islamabad	Member
11.	Secretary, Ministry of Industries Islamabad	Member
12.	Secretary, Department of Industries Government of Punjab, Lahore	Member
13.	Secretary, Department of Industries Government of Sind, Karachi	Member
14.	Secretary, Department of Industries Government of N.W.F.P, Peshawar	Member
15.	Secretary, Department of Industries Government of Baluchistan, Quetta	Member
16.	Chairman, Pakistan Banking Council Karachi	Member
17.	Director General, National Centre for Technology Transfer, Islamabad	Member
18.	Chief Controller, Imports & Export Government of Pakistan, Islamabad	Member
19.	4 leading industrialists/ professionals to be nominated by the Federal Govt.	Members
23.	Director General (Monitoring) IPB, Karachi	Member
24.	Director General, (Appraisal & Regulation) IPB, Karachi	Member
25.	Director General (Planning, Promotion & Publicity) IPB, Karachi	Member/ Secretary

FILE
391-0515

INDUSTRIAL INVESTMENT APPROVAL SYSTEM IN PAKISTAN

MTech, Islamabad
May 1990

2

INDUSTRIAL INVESTMENT APPROVAL SYSTEM IN PAKISTAN

Prepared for
United States Agency for International Development
Mission to Pakistan
Contract No. 391-0470-0-0752-00

MTech, Islamabad
May 1990

EXECUTIVE SUMMARY

Pakistan has in place a licensing regime whereby the Government of Pakistan (GOP) regulate the entry of new industrial investment in an attempt to avoid excess capacity; increase indigenization; direct resources to priority areas; and, ration scarce foreign exchange, infrastructure and utilities. This investment approval process may broadly be seen as consisting of "primary" approvals of investment sanctioning, financial package approval and location clearance and "secondary" approvals principally of registration with the Registrar Joint Stock Companies, registration with the Provincial Chief Inspector of Factories, tax and custom exemptions from the Central Board of Revenue, import license from the Chief Controller of Import and Exports, and provision of utilities. This complex system of "primary" and "secondary" approvals require the investors to satisfy approval criteria of each of the concerned public sector agency which cause costly delays. Additionally, available evidence suggest that the approval system has not been successful in realizing the GOP's stated objectives.

2. In recent years, the GOP has moved to streamline the approval system through liberalization of the sanctioning criteria and reform of the institutional mechanism for sanction and post-sanction formalities. Federal Government sanction is now required only for investment of Rs 1,000 million and above and if the investment concerns 7 industries (arms and ammunition; security printing, currency and mint; high explosives; radio-active substances; alcohol and beverages based on imported concentrates; manufacture of automobiles, tractors and farm machinery; and, petroleum blending plants) covered by the Federal Specified List. The institutional changes include the establishment of a Board of Investment (BOI), chaired by the Prime Minister, to evaluate and expedite investment sanctions; creation of a Committee on Investment (COI) to facilitate post-sanction formalities for BOI-sanctioned projects; and initiation of a "one-window" approval facility at the industrial estate level.

3. An assessment of the recent changes can be summarized as follows: progress in liberalization of the sanctioning criteria is encouraging, initiation of "one-window" facility at the industrial estate level is of limited practical value, the impact of creation of BOI and COI is difficult to ascertain at this stage, and in the remaining areas there has been, generally, no notable improvements. In short, the GOP's response thus far has not been commensurate with the size of the problem and significant reforms are needed to overhaul the industrial investment approval system.

4. The reform of the industrial investment approval system must entail movement in the direction of a regulatory framework that relies on minimal direct Government control. With this objective

in view, individual elements of the existing approval process have been examined and an inventory of potential reforms developed. The proposed principal reforms are: (a) restrict Federal Specified List to activities justifiable on considerations of national security and religious sensitivity and, accordingly, remove "Petroleum Blending Plants" and "Manufacture of Automobiles, Tractors and Farm Machinery" from the Federal Specified List and amend "Alcohol and Beverages Based on Imported Concentrates" to permit investment for non-alcoholic beverages based on imported concentrates without sanction; (b) eliminate sanction requirements based on investment size; (c) eliminate Punjab Specified List which mandates provincial sanction for sugar, cotton ginning, and flour milling units in the Punjab province; (d) eliminate licensing requirements for import of capital goods and industrial raw material; and, (d) develop economic criteria for directing industrial location and for rationing scarce utilities.

TABLE OF CONTENTS

I. INTRODUCTION

A. Section Overview

This Section defines the problem of improved industrial investment in a complex investment approval environment; provides a brief history of industrial regulation; argues that the current environment for reforms is favorable; records the scope of work of the present study; and, summarizes organization of this report.

B. Problem Statement

Pakistan has in place a licencing regime which is comprised of a set of procedures whereby the Federal and Provincial Governments regulate the entry of new private industrial investment based largely upon size; location; source of funds; and, demand on foreign exchange so as to promote perceived national development goals. For analytical clarity, this investment approval process may broadly be seen as comprising of "primary approvals" of project sanctioning, financial package approval, and location clearance, and "secondary approvals" r[illegible] to post-primary-approval procedures (roughly analogous to what is commonly labelled as post-sanction formalities) which require the sponsors to satisfy criteria of each of the several public sector agencies before actual initiation of the industrial production process. The private sector has been a persistent critic of the "primary approval" regime with more general complaints being excessive information documentation, limited technical competence of the agencies appraising investment proposals, delays, and a decisive role of political patronage. More importantly, "primary approvals" are not a formal commitment of "secondary approvals" which, especially the provision of utilities, require considerable additional time and effort. This complex combination of "primary" and "secondary" approval system impedes improved industrial investment, both local and foreign. Policy and program interventions are clearly needed to at least minimize time and cost of the private industrial investment approval system.

PRIMARY APPROVALS

Project Sanctioning
Financial Package Approval
Location Clearance

SELECTED SECONDARY APPROVALS

Registration with Registrar, Joint Stock Companies
Registration under Factories Act, 1934
Registration with Income Tax Department
Import Licencing and Letter of Credit
Relevant Exemptions from Central Board of Revenue
Provision of Utilities

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C. Background of GOP's Investment Approval Controls

The first major instrument of GOP control over private investment was the enactment of the Development of Industries Federal (Control) Act, 1949 which empowered the Federal (and since 1963 Provinces) Government to regulate the establishment and development of 27 categories of industries. A more important landmark came in the form of Economic Reform Order, 1972 which nationalized 10 categories of industries (iron and steel; basic metal; heavy engineering; assembly and manufacture of motor vehicles; tractor plants, assembly and manufacture; heavy basic chemicals; petro chemicals; cement; and, public utilities, that is, electricity generation, transmission and distribution, gas and oil refineries). Subsequent nationalization (in addition to insurance, banking, maritime shipping and marketing of petroleum products) targeted hydrogenated vegetable oil industry (Hydrogenated Vegetable Oil Industry (Control and Development) Act, 1973); flour milling (Flour Milling (Control and Development) Act, 1976); rice milling (Rice Milling (Control and Development) Act, 1976; and cotton ginning (Cotton Ginning (Control and Development) Act, 1976).

INDUSTRIES FEDERAL (CONTROL) ACT, 1949 : LIST OF INDUSTRIES SUBJECT TO FEDERAL PLANNING

Arms and Munitions of War
Cement and Cement Products
Edible Oil
Electrical Equipment
Electricity Generation
Electrical Equipment, Appliances and Goods
Glass and Ceramics
Heavy Chemicals
Iron and Steel
Machine Tools
Manufactures of Heavy Engineering Industry
Minerals including Salt and Coal
Non-ferrous metals and Alloy Manufactures
Paper, Cardboard and Pulp
Petroleum and Mineral Oils
Pharmaceutical, Drugs and Light Chemicals
Power and Industrial Alcohol
Preserved and Prepared Foods
Products of Carbonization Industry
Rubber Manufactures
Scientific and Mathematical Instruments
Sea Fish and its Products
Ships, Barges, River Boats and Lighters
Sugar
Tanned Leather and Leather Goods
Textiles, Cotton, Woollen, Jute, Silk and Rayon
Tobacco

The post-1977 swing towards the realization of the need for enhanced private sector role in industrial development reflected in the immediate denationalization of flour, rice and cotton ginning factories (Flour Milling Control and Development (Repeal) Ordinance, 1977; Rice Milling Control and Development (Repeal) Ordinance, 1977; and, Cotton Ginning Control and Development (Repeal) Ordinance; 1977); and, enactment of the Transfer of Managed Establishments Order, 1978. Subsequently, the GOP announced the industrial policy in 1984 which clearly delineated relatively greater private sector role; and, through the industrial policy packages of 1988 and 1989 implemented further deregulation of the investment approval procedures.

3

D. Environment for Reforms

The current environment for addressing the liberalization of private industrial investment approval process is favorable: there is a strongly felt need for deregulation by the private sector; the GOP appears to be receptive to change; and, the donor community is apparently willing to encourage the GOP to minimize controls on private industrial investment approval.

1. Government of Pakistan

Recently the GOP has taken at least three major steps to streamline the investment approval system: liberalization of industrial investment approval criteria; formation of a Board of Investment (BOI) headed by the Prime Minister to expeditiously evaluate investment proposals; and, establishment of a Committee on Investment (COI) chaired by the Minister of Industries to assist sponsors in "secondary approvals" for the BOI-sanctioned projects. These measures, discussed in detail in the following Sections II-IV, are evidences of the GOP's recognition of the problem and its receptivity to consider, adopt and implement positive changes.

2. Private Sector

The private sector, led notably by the Federation of Pakistan Chambers, Overseas Investors Chamber, and regional Chambers of Commerce and Industry, particularly at Karachi and Lahore, has probably been instrumental in persuading the GOP to make the recent alternations in the investment approval process and continue to represent to the GOP to effect a yet higher degree of liberalization.

3. International Donors

In the context of economic deregulation, the donor community has also voiced through analytical reports and seminars the need to minimize governmental controls on the private investment decision process. Principal recent analyses are the 1986 United States Agency for International Development (USAID) study entitled Private Investment in Pakistan : Administrative Barriers to Sanctioning [2], the 1988 World Banks report on Industrial Regulatory Policies [11], and, the 1990 RONCO's Consulting Corporation's Analysis of Corporate Sector Constraints in Agriculture [10]. In May 1989 Asia Foundation in collaboration with the Ministry of Industry sponsored a "Symposium on the Promotion of Foreign Investment in Pakistan" [1] where the restrictive nature of the investment approval process figured prominently. Also, the Asian Development Bank has recently approved a $350,000 technical assistance grant for reorienting the role and functions of the Investment Promotion Bureau (IPB) to support the industrial promotion objectives of BOI.

E. Scope of the Study

1. Objectives

This study, a part of the design process of USAID-supported forthcoming Private Investment Expansion (PIE) Program, is intended to provide documentation and clarification of issues relating to industrial investment approval procedures in Pakistan; to propose Government or, preferably, non-Government assistance to the private sector to promote increased investment (local or foreign); and, to suggest improvements in or alternatives to the current industrial investment approval procedures.

2. Terms of Reference

The study, covering both national and foreign capital, is expected to include description and analysis principally of the following:

The existing industrial investment sanctioning procedures along with a chronology of changes in the last five years;

Specific roles of the various Government of Pakistan agencies involved with the industrial investment approval process; and,

Mandated and actual time frame from initiation of the investment request to final approval.

The study is also expected to recommend form of possible USAID assistance; identify potential management issues; and, develop action plan for implementation of any additional design activities relevant to industrial investment sanctioning regime.

F. Organization of the Report

Section II presents analytical description of "primary approval" system; Section III is devoted to "secondary approvals"; Section IV clarifies the role of various public sector agencies; and, the final Section V highlights potential areas for reforms.

II. PRIVATE INDUSTRIAL INVESTMENT "PRIMARY APPROVAL" CONTROLS

A. Section Overview

GOP "primary approval" controls (investment sanctioning, financial package approval and location clearance) have historically been directed to achieve diverse objectives relating to national security and defence; religious and social concerns; indigenization; price controls; capacity regulation; increased flow of foreign private investment; optimal use of scarce foreign exchange and infrastructural resources; and, regional balancing of industrialization. A comparison of current approval procedure with preceding periods indicate considerable deregulation implying a lesser degree of reliance on direct controls to achieve the stated objectives.

B. GOP's Objectives

1. Investment Sanctioning

The 1988 World Bank study, Pakistan Industrial Regulatory Policies, identifies the following five objectives of GOP's industrial investment sanctioning: restricting demand for foreign exchange; avoidance of excess capacity; discouraging concentration of ownership; rationing of scarce infrastructure; and, promotion of regional dispersal of new investment [11]. The GOP's 1984 Industrial Policy Statement articulates the GOP's position as follows:

> Government sanction for some categories of investment is considered essential to ensure that major projects of national significance or projects in those industries where Government pricing policy and other support measures are necessary, are established with Government knowledge and involvement and the final decision is based on a careful analysis of the implications for the overall economy. Sanction in such cases is not a restriction on investment. It is an essential part of the pre-investment deliberation on investment and analysis to ensure smooth progress of major projects, once the commitment of national resources has been made to such projects [5, p.11].

Historically, as is evident from the list of industries requiring sanction and the actual process of "secondary approvals", the GOP has justified sanctioning process on the basis of a mix of considerations relating to national security and defence; religious and social concerns; economic importance; indigenization; price controls; capacity regulation; foreign private investment; and, optimal use of scarce foreign exchange and infrastructural resources.

2. Financial Package Approval

Commercial principles are not the sole determinants of credit approval: the GOP utilizes its dominant position in the financial sector to establish sectoral credit ration within which private industrial credit is directed to support objectives of successive industrial policies.

3. Location Clearance

Location approval requirements have been justified principally on the need to achieve regional balancing of industrialization; minimize congestion and environmental pollution; and, optimize the use of scarce infrastructure and public utilities.

C. Brief Recent History

1. 1984 Industrial Policy

a. Sanctioning

The 1984 Industrial Policy Statement specified the following criteria for the requirement of approval of private industrial investment from the Federal Government:

> Industries specified for reasons of over-capacity, price regulation, implementation of a program of assembly-cum-manufacture requiring indigenization of the manufacture of components or projects of national importance or for religious, security or socio-economic objectives;
>
> Projects involving foreign private investment;
>
> Projects costing Rs 300 million and above;
>
> Projects requiring cash foreign exchange of more than Rs 50 million for plant and machinery;
>
> Projects involving import of second hand machinery, except under Non-Repatriable Investment (NRI); and,
>
> Projects in which more than 60 percent of the raw material is importable provided that value of such import exceeds 20 percent of the total investment in fixed assets [5, p.11].

LIST OF SPECIFIED INDUSTRIES, 1984

- Arms and Ammunations
- Security Printing, Currency and Mint
- High Explosives
- Defence Oriented Electronics
- Radio-active Substances
- Alcoholic and Foreign Brand/Concentrate Based Synthetic Beverages
- Basic Steel
- Manufacture of Basic Metals and Alloys
- Heavy Mechanical and Heavy Electrical Plants
- Basic Chemicals
- Petro-Chemicals
- Public Utilities
- Ships, Aircraft and Railway Locomotives
- TV, Radio, Tape Recorders, VCR Cassettes and Tapes
- Manufacture of Air-conditioners,,Refrigerators and Deepfreezers
- Motor cycles and Scooters
- Manufacture of Automobiles, Tractors and Farm Machines
- Fertilizer
- Cement
- Drugs and Pharmaceutical
- Vegetable Ghee
- Sugar
- Cotton Spinning

4

In addition to the above, the Government of Punjab, in terms of Punjab Industries (Control on Establishment and Enlargement) Act, 1963, also required provincial sanctioning for flour mills and cotton ginning units not included in the Federal Specified List.

b. Financial Package Approval

The 1984 Industrial Policy recognized the importance of an efficient financial sector to support industrial investments. Specifically, the Policy enunciated the following main elements:

> The banks and financial institutions will provide support on commercial principles within the overall framework of Investment Schedules and fiscal and monetary policies;
>
> Documentation and procedural requirements for the bank will be simplified and orientation program of bank staff for project appraisal and industrial financing will be undertaken;
>
> Industrial lending limits of Pakistan Industrial Credit and Investment Corporation (PICIC), National Development Finance Corporation (NDFC) and Industrial Development Bank of Pakistan (IDBP) will be periodically reviewed and suitably enhanced;
>
> Advisory Committee on Industrial Credit will be established to improve coordination among various financial institutions; and,
>
> Industrial Credit Department will be established in the State Bank of Pakistan ... to provide continuity of study and examination of problems in the field of industrial credit with the objective of providing suggestions for policy improvements [5, pp.14-15].

Both the Industrial Credit Department and the Advisory Committee on Industrial Credit were established within the State Bank in 1985 and are since functional.

c. Location Clearance

The 1984 Industrial Policy reproduced the location policies announced by the Provincial Governments in 1980 whereby the entrepreneurs could establish industries without clearance in areas not included in "negative list" of locations [5, p.16 & Annexure III].

2. **Recent Changes**

a. Sanctioning

i. Industrial Coverage : In recent years the GOP has drastically minimized the coverage of industries requiring investment approval. The 1988 New Industrial Policy Package [6], among others, reduced the coverage of the specified list from 23 to 12 groups of industries and also increased the project size from Rs 300 to Rs 700 millions. The 1989 Industrial Policy

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Package [4] improved the situation by requiring sanction in only four conditions: a specified list of 7 industries; project size of Rs 1,000 million and above; foreign equity participation of 50 percent or more; and, cases involving major policy decisions. Further deregulation was announced in 1990 (Notification No. BOI-Misc.(5)/89 dated April 8, 1990) which mandated sanctions for projects falling in the list of 7 specified industries and costing Rs 1,000 or more. A comparative statement of these changes is available in the following page.

The provincial governments, with the exception of the Government of Punjab, do not require investment approval. The Government of Punjab, however, has implemented rules which require approval based on conditions laid down by the Federal Government plus for cotton ginning, flour mills and sugar units.

ii. Institutional Reforms : Until recently, the investment approval process relied upon initial examination of the proposal by the IPB under the Ministry of Industries; approval consideration by an inter-ministerial Central Investment Promotion Committee (CIPC) headed by the Secretary Industries; and, for projects beyond the jurisdiction of CIPC, final scrutiny by the Economic Coordination Committee (ECC) of the Cabinet chaired by the Finance Minister. Additionally, 4 authorized Development Financial Institutions (DFIs), namely, Pakistan Industrial Credit and Investment Corporation (PICIC), Industrial Development bank of Pakistan (IDBP), National Development Finance Corporation (NDFC) and Bankers Equity Limited (BEL) could receive, examine, approve or arrange sanction from the ECC of investment proposals within the GOP prescribed sphere.

In February 1990, the GOP detached IPB from the Ministry of Industries and placed it under the control of the newly established Board of Investment under the Prime Minister's Secretariat. The BOI now has the authority to sanction industrial investment.

TABLE I : PRIVATE INDUSTRIAL INVESTMENT REQUIRING GOVERNMENT SANCTIONING			
Criteria	1988	1989	1990
Federal			
Specified List	Arms and Ammunations Security Printing, Currency and Mint High Explosives Radio-active Substances Alcohol and Beverage Industry Based on Imported Concentrate TV, Radio, Tape Recorders, VCR, VCR Cassettes and Tapes Manufacture of Air-conditioners, Refrigerators and Deepfreezers Motor-cycle and Scooters Manufacture of Automobiles, Tractors and Farm Machinery Drugs and Pharmaceutical Vegetable Ghee/Cooking Oil Based on Imported Seed Oil Petroleum Refining, Reclamation and Blending Plants including Grease Manufacturing and White Oil Plants	Arms and Ammunations Security Printing, Currency and Mint High Explosives Radio-active Substances Alcohol and Beverage Industry Based on Imported Concentrate Manufacture of Automobiles, Tractors and Farm Machinery Petroleum Blending Plants	Arms and Ammunations Security Printing, Currency and Mint High Explosives Radio-active Substances Alcohol and Beverage Industry Based on Imported Concentrate Manufacture of Automobiles, Tractors and Farm Machinery Petroleum Blending Plants
Project Size	Rs 700 million and above.	Rs 1,000 million and above.	Rs 1,000 million and above.
Raw Material Imports	Industrial units based on imported raw material provided their products are not on the import list and if on the import list, the duty is more than 80 percent.		
Second-hand Machinery Imports	Projects involving import of second-hand machinery, except under NRI scheme.		
Foreign Exchange Requirement	Projects requiring cash foreign exchange of more than Rs 60 million for plant and machinery.		
Repatriable Investment	Projects based on repatriable investment except in key industries.	Foreign equity is 50 percent or more.	
Others		Projects involving major policy decisions.	
Punjab			
Additional Specified List	Cotton Ginning Flour Mills	Cotton Ginning Flour Mills Sugar Mills	Cotton Ginning Flour Mills Sugar Mills

Sources :
(a) Ministry of Industries, New Industrial Policy Package, July 1988.
(b) Ministry of Industries, Industrial Policy Package, July 1989.
(c) Board of Investment, Notification No. BOI-Misc.(5)/89 dated April 8, 1990.
(d) Government of Punjab, Notifications Nos. AEA-III-4-1/85 of October 26, 1986, April 29, 1989, June 21, 1989, and March 7, 1990.

b. <u>Financial Package Approval</u>

No major changes have taken place recently in investment approval process followed by the financial institutions, except that the authorized DFIs are now required to approach IPB for investments requiring BOI sanction.

c. <u>Location Clearance</u>

The location policies of the Provincial Governments have experienced limited recent changes. A comparative statement of "negative" areas requiring location clearance is available at the next page. It may be seen from this statement that the "negative" list has changed marginally in Punjab; in Sind the "negative" list of areas for sugar mills announced in November 1988 was withdrawn after three months; NWFP continue to have a relatively free location policy with clearance requirement restricted to flour mills at the Industrial Estates and flour mills, cold storage, ice factories and poultry farms at the Peshawar Industrial Estate; and, in Baluchistan a "negative" area list has been established comprising of Hub Tehsil, Vinder Sub-Tehsil and the limits of the Quetta Metropolitan Corporation.

D. Current Procedures

1. General

The "primary approval" process varies generally with the type and size of investment, sources and conditions of funds and technology, nationality of investors, and location. For presentation convenience, it is proposed to describe first what may be called as "Standard Approval System" (applicable to investment of resident Pakistan nationals requiring loans from local capital market and seeking neither foreign credit nor technology transfer) and identify later selected deviations from this norm to cover different situations.

2. Standard Approval System

a. <u>Investment Sanctioning</u>

For investment covered by the Federal Specified List or of Rs 1,000 million and above, the sponsors file an application to IPB on Form IPB-1; the IPB passes on the proposal, along with its observations, to the BOI Secretariat; The BOI Secretariat prepares the case for consideration in the normally monthly meetings of the BOI; and, finally, the decision of the BOI is communicated to IPB for issuance of sanction or rejection letter to the sponsors. The following analytical parameters form the basis of this investment approval decision process:

4

TABLE II : INDUSTRIAL LOCATION : NEGATIVE LIST		
1988	**1989**	**1990**
Punjab		
Ten miles of international border: for 20 strategic industries and projects of over Rs 30 million. One mile of either side across the Grand Trunk Road from Shahdara to Muridke. Territorial limits of Municipal Corporations, Municipal Committees and Town Committees with the exception of Industrial Estates, Industrial Zones, 19 service industries and undertakings of fixed assets of upto Rs 500,000. Multan, Bahawalpur and D.G. Khan Divisions and Okara District: for sugar mills.	Ten miles of international border· for 20 strategic industries and projects of over Rs 30 million. One mile of either side across the Grand Trunk Road from Shahdara to Muridke. Territorial limits of Municipal Corporations, Municipal Committees and Town Committees with the exception of Industrial Estates, Industrial Zones, 19 service industries and undertakings of fixed assets of upto Rs 500,000. Multan, Bahawalpur and D.G. Khan Division and Okara District: for sugar mills.	Ten miles of international border: for 20 strategic industries and projects of over Rs 30 million. One mile of either side across the Grand Trunk Road from Shahdara to Muridke. Territorial limits of Municipal Corporations, Municipal Committees and Town Committees with the exception of Industrial Estates, Industrial Zones, 19 service industries and undertakings of fixed assets of upto Rs 500,000. Multan, Bahawalpur (excluding Tehsil Rahimyar Khan), D.G. Khan and the District of Okara: for sugar mills.
Sind		
Karachi, Gharo and Dhabeji with the exception of 36 notified industries; expansion of units within existing amenities provided premises; and, joint ventures and non-repatriable investment based units not requiring potable water supply in production process. Karachi Division; and, Districts of Larkana, Jacobabad, Shikarpur, Khairpur, Sukker (except Taluka Ghotki), Nawabshah (except Talukas Naushero Feroz and Sakrand), Dadu (except Taluka Khairpur Nawabshah), Sanghar, Tharparker (except Taluka Ghulam Mohammad), Hyderabad (except Taluka Tando Allah Yar), Thâtta (except Talukas Shah Buder and Ghorabari), and Badin (except Talukas Golarchi and Matli): for sugar mills.	Karachi, Gharo and Dhabeji with the exception of 36 notified industries; expansion of units within existing amenities provided premises; and, joint ventures and non-repatriable investment based units not requiring potable water supply in production process.	Karachi, Gharo and Dhabeji with the exception of 36 notified industries; expansion of units within existing amenities provided premises; and joint ventu es and non-repatriable investment based units not requiring potable water supply in production process.
NWFP		
	Industrial Estates: for flour mills. Peshawar Industrial Estate: for flour mills, cold storage, ice factories and poultry farms.	Industrial Estates: for flour mills. Peshawar Industrial Estate: for flour mills, cold storage, ice factories and poultry farms.
Baluchistan		
	Hub Tehsil (except Hub Industrial Estate). Municipal limits of Quetta Metropolitan Corporation (except Small and Quetta Industrial Estates). Sub-Tehsil Vinder.	Hub Tehsil (except Hub Industrial Estate). Municipal limits of Quetta Metropolitan Corporation (except Small and Quetta Industrial Estates). Sub-Tehsil Vinder.

Sources : (a) Government of Punjab, Notification Nos. AEA-III-4-1/85 of October 26, 1986; November 3, 1988; June 14, 1989; and, March 4, 1990.
(b) Government of Sind, Notification No. AD(EC)II-I/78(PF.I) date April 20, 1988; and Nos. PA(ECO-13-7-87) dated November 1, 1988 and February 23, 1989.
(c) Government of NWFP, Notification No. SOII(IND)10-342/84.III dated August 22, 1989.
(d) Government of Baluchistan, Notification No. SOI(IND)2-11/81 dated June 28, 1989.

Market Analysis : Past and present consumption, future growth, as well as sources of supply, pricing structure etc;

Technical Appraisal : Selection of product mix, production process, size of plant, requirements of raw materials, utilities and manpower as well as site selection;

Financial Evaluation : Total capital cost; debt-equity ratio; details of raw material; requirement of utilities; cost of product; foreign exchange savings; cost of dollar saved as per modified Bruno Ratio at 15 percent discount rate; and, other economic indicators such as value added, capital-output ratio, and return on equity before tax; and,

Economic Assessment : Contribution to the overall economic development including balance of payments, employment creation, introduction of new technologies etc [4, p.6].

b. Financial Package Approval

Sponsors of sanctioned as well as those projects not requiring Federal sanction (not covered by the Federal Specified List or under Rs 1,000 million in size) may approach any of the several financial institutions in the country for loan approval. On scrutiny of the proposed investment, the financial institution may sanction or reject the proposal.

Each financial institution has different application forms and distinct appraisal procedures. The Seventh Five Year Plan, on the basis of recommendations of the 1988 Industrial Commission, envisaged different financial and economic rates of returns for different industries, balance of payments impact, and labor intensity of the manufacturing process as appropriate loan approval criteria [9]. The extent to which these principles have been actually incorporated in the operational environment of the financial institutions is uncertain and it is believed that financial viability in the context of GOP given broad sectoral priorities continue to be the main appraisal feature.

c. Location Clearance

Industrial location is subject to location policies already described at part II.C.2.c. above. For areas included in the "negative" list, a clearance is required from the concerned provincial Industries Department. For location within the Federal Islamabad territory, Capital Development Authority (CDA) approves the industrial site.

3. Approval Procedures for Investment with Special Characteristics

a. Punjab Specified List

For industries (cotton ginning, flour mills and sugar mills) on the Specified List of the Punjab Province, sanction applications are made to the Industries Department (for flour and sugar mills) or the Agriculture Department (for cotton ginning factories). These Departments process the application and submit the proposal to the Chief Minister who has the sanctioning authority.

b. Non-Repatriable Investment Scheme for Overseas Pakistanis

Non-Repatriable Investment (NRI) is subject to the same "Standard Approval Procedures". Industrial projects under NRI Scheme, however, can also be located at the Karachi Export Processing Zone (KEPZ).

c. Foreign Collaboration

i. Foreign Private Investment : Foreign private investment, governed by The Foreign Private Investment (Promotion and Protection) Act, 1976, is defined as "repatriable foreign investment by a persons who is not a citizen of Pakistan or holds two nationalities including the Pakistanis" [4, p.13]. The "Standard Approval System" also applies to foreign private investment which, like industrial projects under the NRI Scheme, can also be located at KEPZ.

ii. Foreign Private Loans and Technology Transfer Agreements : Foreign loans and technology transfer agreements involving the payment of royalty, technical fees and employment of foreign experts will require prior clearance of the State Bank of Pakistan or the Ministry of Finance only if the terms and conditions are not in conformity with the GOP fixed standards. For agreements conforming to the GOP standards:

> ... the borrower will, however, be required to furnish one copy of the loan agreement to the Exchange Control Department, State Bank of Pakistan, Karachi and the External Finance Wing of the Ministry of Finance, Islamabad for registration. The registration with the State bank will constitute the authority for the authorized dealer to remit the principal, to the creditor. Likewise, the party entering to agreements for transfer of technology involving payment of royalty, technical fees and payments to expatriates will submit one copy of the agreement to Exchange Control Department, State Bank of Pakistan, Karachi for registration. The registration with the State Bank will serve as authority for payments in foreign exchange as admissable under the Foreign Private Investment (Promotion and Protection) Act, 1976 [4, p.26].

The GOP's foreign investment policy is geared towards promoting industries which are "capital intensive, involve sophisticated technology or strengthen the balance of payments position" [4, p.14]. Interestingly, the 1989 Pakistan Investment Guide declared

86 industrial activities as "priority areas" for foreign investment [7, p.29] but simultaneously provided a Positive List of 21 and a Prohibited List of 7 activities [7, p.34]. The Positive List has since been withdrawn implying a much larger sphere for potential foreign investment in the industrial sector. The Prohibited List concerns non-industrial activities.

FOREIGN PRIVATE INVESTMENT PROHIBITED LIST

Agriculture Land
Forestry
Irrigation
Real Estate including Land, Housing and Commercial Office Buildings
Radio-active Minerals
Insurance
Health

E. Time Frame for "Primary Approvals"

The GOP announced maximum time frame for "primary approval" processes are as follows: project sanctioning by BOI 60 days; approval from financial institutions 60 days; and, provincial location clearance 7 days. The reported average actual time for investment sanctioning is within the announced time period; financial approval generally takes more than double the stipulated time; and, location clearance could consume about a month. The delays in financial institutions results as much from the inadequacies of the appraisal system as from the generally sub-standard quality of feasibility studies submitted by the potential investors.

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III. PRIVATE INDUSTRIAL INVESTMENT "SECONDARY APPROVAL" CONTROLS

A. Section Overview

"Secondary Approvals" or (roughly) post-sanction formalities require that the potential investor seek clearance from each of at least more than a dozen agencies. Clearances from these agencies are, in general, relatively straightforward with the exception of approval for power, telephone and telex, gas and water.

B. GOP's Objectives

"Secondary approvals" involve seeking of formal clearances from various investment related agencies which are unwilling to surrender their administrative investment approval responsibilities to a single primary approval agency and are directed towards rationing of scarce industrial infrastructure; monitoring foreign exchange utilization; and, assuring appropriate application of taxes and duties regulations.

INDUSTRIAL COMMISSION, 1988
LIST OF AGENCIES FOR SECONDARY APPROVALS

Controller of Capital Issues (issue of capital);

Registrar of Joint Stock Companies (registration of Memorandum and Articles of Association);

Controller of Import and Exports (issuance of licence for import of machinery and raw materials);

Provincial Chief Inspector of Factories (registration under Factories Act, 1934);

Central Board of Revenue (income tax exemption for the industrial unit and foreign technicians employed, if any);

Excise and Taxation Department (if the products are excisable);

Income Tax Department (issuance of National Tax Number);

Financial Institutions (for letter of credits);

Custom Department (clearance of imported items);

WAPDA/KESC (power connection);

T&T Department (Telephone, Telex and FAX);

Sui Northern (gas connection); and,

Municipal authorities (water connection).

C. Brief Early History

1. The 1984 Industrial Policy

Explicit treatment of "secondary approval" controls is not included in the 1984 Industrial Policy Statement. The procedural difficulties relating to "secondary approvals", however, were considered by the "Secretaries Committee constituted to prepare the 1984 Industrial Policy Statement. It was found difficult to implement [One Window Facility] system because of the absolute physical shortages of key infrastructural inputs and the multiplicity of the Federal and Provincial ministries, departments and agencies involved" [8, p.57].

2. Recent Changes

The difficulties faced by the potential investors in seeking "secondary approvals" found a forceful expression in the 1988 Report of the Industrial Commission :

> The industrial entrepreneur ... faces numerous difficulties at the post-sanction stage ... when he has to approach a whole series of windows catering to registrations, import licensing and provision of infrastructural facilities ... Widespread complaints of delays at this stage due to procedural and non-procedural factors are common place. These harassing and frustrating delays often lead to cost escalations jeopardizing financial viability and not infrequently, aborting investment [8, p.57].

Of the 13 principal areas for which clearance is needed by the investors, the Commission found import licencing and provision of infrastructural facilities as critical problems. This recognition of the problem has found expression in the issuance of instructions to the Chief Controller of Imports Exports to release import permit for machinery and material expeditiously; establishment of One Window Facility at the Industrial Estate level; and, creation of a Committee on Investment (COI) to provide facilities to the BOI-sanctioned projects.

a. One Window Facility

The concept of One Window Facility implies the provision of essential industrial implementation inputs as a part of the investment approval activity by a single agency. A One Window Facility is in operation at the KEPZ where a unified administrative structure under the Authority assures (with the exception of custom clearance) facilities ranging from the provision of utilities to the issuance of import licenses. [8, p.127]. Based on the recommendations of the 1988 Industrial Commission, the GOP in the 1988 New Industrial Package announced the phased introduction of One Window for infrastructural facilities at the Industrial Estate level, and established a One Window Committee, chaired by the Secretary Industries to monitor the system.

b. Committee on Investment

The COI has been established in 1989 to follow up the progress and assures that services and facilities are provided to the BOI-sanctioned projects

D. Current Procedures

The introduction of One Window Facility at the Industrial Estate level, the establishment of the COI, and, the existence of the Provincial Facilities Boards notwithstanding, the current system continue to depend upon the effectiveness of the individual sponsor to approach and expedite clearances from each of the several agencies involved. The sponsor is required to submit request on prescribed forms to each agency separately and pursue the case as appropriate.

E. Time Frame For "Secondary Approvals"

The COI is responsible for arranging facilities for the BOI-sanctioned projects within 60 days. For all other investments no such time frame is available and secondary approvals, particularly those relating to utilities, could consume considerable time.

IV. INDUSTRIAL INVESTMENT APPROVAL INSTITUTIONAL STRUCTURE

A. Section Overview

The public sector institutional arrangements for industrial investment are complex and several Federal and Provincial actors are involved from the initiation of the investment proposal to the start of the manufacturing process. This Section highlights the industrial investment approval roles of principal agencies : Board of Investment; Investment Promotion Bureau, Committee on Investment; Ministry of Industries; Provincial Governments; and, financial institutions.

B. Industrial Investment Approval Roles of Selected Agencies

1. Board of Investment

The Board of Investment was established within the Prime Minister's Secretariat in April 1989 to : sanction projects covered by the Federal Specified List or of Rs 1,000 million and above; monitor progress of sanctioned projects; lay down policy guidelines for industrialization of the country; and, arrange analyses relating to industrialization, improvement of investment climate, procedures and other related matters. The Board is chaired by the Prime Minister and its members include Ministers of Industries, Finance, Commerce, Water and Power, Communications, Natural Resources; Deputy Chairman, Planning Commission; Governor, State Bank of Pakistan; and, Chairman, Pakistan Banking Council. The Additional Secretary Finance in the Prime Minster's Secretariat serves as Secretary to the Board.

2. Investment Promotion Bureau

Investment Promotion Bureau, an attached department of the Ministry of Industries until 1990, is at the present under the administrative control of the BOI. The Bureau serves as the technical arm of the BOI; scrutinizes the investment proposals requiring approval; and acts as the link between potential investor and the GOP's sanctioning apparatus. Proposals are being discussed within the GOP to re-organize the Bureau to make its functions more meaningful in the current comparatively deregulated environment.

3. Committee on Investment

The Committee, under the BOI, is responsible for follow up of the progress and provision of services and facilities for the BOI-sanctioned projects. The COI has also been made responsible for promoting labor intensive rural industries.

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The COI is chaired by the Minister of Industries and its members include Secretaries of Industries, Commerce, Finance, Water and Power, Communications, Petroleum and Natural Resources, Planning; Deputy Governor, State Bank of Pakistan; and, any relevant coopted member. The Secretary Industries is the Secretary of the Committee.

TABLE III : INDUSTRIAL INVESTMENT ROLES OF SELECTED INSTITUTIONS

Actions	Primary Responsible Agency(s)	Supporting Agency(s)
Investment Sanctioning	Board of Investment	Investment Promotion Bureau
Loan Approval		
Small Business	Punjab Small Industries Corporation Sind Small Industries Corporation NWFP Small Industries Development Board Baluchistan Directorate of Small Industries Small Business Finance Corporation	Commercial Banks Development Financial Institutions
Medium and Large Business	Commercial Banks Development Finance Institutions	
Location Clearance	Provincial Governments Capital Development Authority	
Secondary Approval Support		
BOI-Sanctioned Industrial Estate Located Islamabad Located Other Projects	Committee on Investment Ministry of Industries Capital Development Authority Provincial Facility Boards	Ministry of Industry Provincial Facility Boards

3. Ministry of Industries

The investment approval role of the Ministry of Industries has undergone considerable change after the establishment of BOI. At the present the Ministry support the COI in facilitating the establishment of the BOI-sanctioned projects and implements the One Window Facility at the Industrial Estate level.

4. Provincial Governments

The Provincial Governments are responsible primarily for location clearance and for facilitating the provision of industrial infrastructure through the Provincial Facility Boards.

5. Financial Institutions

DEVELOPMENT FINANCIAL INSTITUTIONS
Agriculture Development Bank of Pakistan
Bankers Equity Limited
Industrial Development Bank of Pakistan
Investment Corporation of Pakistan
National Development Finance Corporation
National Investment Trust
Pakistan Industrial Credit and Investment Corporation
Pakistan Kuwait Investment Company
Pak Libya Holding Company
Regional Development Finance Corporation
Saudi Pak Industrial and Agricultural Investment Company

In addition to the development financial institutions, 5 nationalized commercial banks (Allied Bank of Pakistan, Habib Bank Limited, Muslim Commercial Bank Limited, National Bank of Pakistan, and United Bank Limited) and to a lesser degree 15 foreign commercial banks, provide finances for industrial ventures. The four authorized DFIs (BEL, IDBP, NDFC, and PICIC), however, have been prime movers of industrial credit in recent years. The Agriculture Development Bank of Pakistan has also been active recently in agro-industrial loaning.

V. CONCLUSIONS

A. Section Overview

This Section records the conclusions of major past studies; list an inventory of potential reforms in the existing investment approval system; and, suggest a brief assessment of the political economy of industrial investment approval system.

B. Findings of Selected Studies

1. 1988 Report of the Industrial Commission

The Commission explicitly recognized the complexity of post-sanction formalities but "came to the conclusion that in view of the physical shortages and the multiplicity of federal and provincial agencies involved, the introduction of ["one window"] facility at the national level was not practicable" [8, p.19]. The Commission, accordingly, recommended introduction of "one window" facility only at the industrial estate level.

2. 1988 World Bank Study

The Bank points out that the sanctioning system has, by and large, not been successful in efficiently realizing the objectives of avoiding excess capacity; limiting market concentration; increasing indigenization; directing resources to the GOP perceived priority areas; and, rationing of foreign exchange, infrastructure and utilities. The Bank follows on its analysis to recommend specific policy directions: limiting the coverage of Federal Specified List; liberalization of import policy for capital goods and raw material; minimizing uncertainty and discretionary behavior; and, rationing of utilities and infrastructure through tariff rather than through sanctions.

C. Overall Assessment

1. Approval System as an Impediment to Private Investment

Though no data are available to attempt a quantitative measurement of the impact of the approval system on private investment, there are enough pieces of qualitative evidence to state that the "... approval system impedes improved industrial investment, both local and foreign" [paragraph I.B]. The approval system is largely a negative evaluation process created by the GOP to second guess private sector's operational and investment intentions.

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2. GOP's Awareness of the Problem

The progressive liberalization of the sanctioning criteria is an acceptable evidence of the recognition of the existence of the problem by the GOP [paragraph I.D.1]. In so far as the post-sanctioning procedures are concerned, the indictment by the 1988 Industrial Commission is precise, clear, and strong [paragraph III.C.2].

3. Adequacy of GOP's Response

Progress in liberalizing the sanctioning criteria is encouraging; initiation of One Window Facility at the Industrial Estate level is of limited practical value; the impact of the very recent institutional restructuring (creation of BOI and COI) is difficult to ascertain at this stage; and, in the remaining areas, generally, there has been no notable improvements. In summary, the GOP's response thus far has not been commensurate with the size of the problem and significant reforms are needed to overhaul the industrial investment approval regime.

D. Recommendations for the Future

1. General

Though not the direct target of this study, at least three reform areas emerge that needs to be highlighted because of considerable importance from the standpoint of private investment expansion: removal of restriction on foreign investment in agricultural land, forestry, irrigation, real estate, insurance and health; elimination of sectoral credit rationing for the banking system; and, revision in the content of trade and fiscal policies to achieve liberalization, clarity, over time stability and consistency with respect to investors.

2. Industrial Investment Approval System

The reform of the industrial investment approval system must entail movement in the direction of a regulatory framework that relies on minimal Government control. With this objective in view, individual elements of the existing approval process have been examined and an inventory of potential reforms developed. The following Table IV presents potential reforms; brief rationale of the proposed changes; and, a judgement as to whether or not the proposed reform should be addressed through the PIE Program.

E. Pre-PIE-Design Analysis

A brief assessment of the politics of the industrial

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TABLE IV : POTENTIAL REFORMS IN THE INDUSTRIAL INVESTMENT APPROVAL SYSTEM THROUGH THE PIE PROGRAM		
Potential Reform	**Background and Rationale**	**PIEP Focus**
Investment Sanctioning		
Amend relevant notifications of the Government of Punjab to conform to the recent Federal sanctioning policy.	The desired amendment is being processed within the Government of Punjab for issuance.	Yes
Remove "Petroleum Blending Plants" and "Manufacture of Automobiles, Tractors and Farm Machinery" from the Federal Specified List.	The inclusion of "Petroleum Blending Plants" and "Manufacture of Automobiles, Tractors and Farm Machinery" is explained on the basis of "National Importance" and "Indigenization", respectively. While "National Importance" is not easy to define, indigenization objectives can be achieved through an appropriate mix of trade and taxation policies.	Yes
Amend "Alcohol and Beverage Industry based on Imported Concentrates" in the Federal Specified List to eliminate sanction requirements for non-alcoholic beverages based on imported concentrates.	Non-alcoholic beverages based on imported concentrates are unlikely to upset known religious and social norms.	Yes
Eliminate sanctioning requirements based on project size of Rs 1,000 million and above.	Investment size considerations should not figure in GOP's calculus of investment controls and appraisal should be left to financial institutions.	Yes
Eliminate Punjab Specified List.	Cotton ginning, flour mills and sugar units are included in the Punjab Specified List to regulate industry capacities. Capacity regulations through direct investment sanction controls penalizes efficient firms.	Yes
Financial Appraisal		
Simplify procedures and improve staff capabilities for efficient investment appraisal in financial institutions.	Limited direct GOP controls on investment sanctioning should increase the importance of commercially sound appraisal systems.	No
Location Policies		
Minimize restrictions on location within one mile of either side across the Grand Trunk Road from Shahdara to Muridke and in municipal areas in Punjab.	The location restrictions should be reduced at least for joint ventures and non-repatriable investment based units to encourage foreign capital inflow.	Yes
Increase reliance on prices to direct industrial location.	Existing location policies may be complemented with policies reflecting economic prices of industrial infrastructure.	Yes
Secondary Approvals		
Eliminate licensing requirements for import of machinery and industrial raw material.	Improved access to capital goods and industrial raw material will encourage new investment and improved capacity utilization.	Yes
Institutional Engineering		
Energize Provincial Facility Boards.	Vigorous Provincial Facility Boards could serve as useful expediters of "secondary approvals".	Yes

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investment approval system in the context of Federal-Provincial relationships should provide a realistic perspective to PIE design.

The nature and the extent of disagreements between the Federal Government on the one hand and the Governments of Punjab and Baluchistan on the other, cover broad dimensions of economic management. The conflict at the present is not confined to the Federal-Provincial financial relationships and include heretofore settled traditional systems like industrial investment promotion. While the Federal Government monopolizes key areas of industrial finance, utilities, and imports, the Provincial Governments influence, among others, land acquisition, location and provision of physical infrastructure. This distribution of authority, while reasonably clear in the formal system, may not necessarily correspond with reality and it is possible to visualize informalities for industrial investment promotion in general and investment approval (or disapproval) system in particular.

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ANNEXES

REGISTERED No. M-302

The Gazette of Pakistan

EXTRAORDINARY

PUBLISHED BY AUTHORITY

KARACHI, SATURDAY, APRIL 21, 1990

PART III

Other Notifications and Orders, etc., issued by the Government of Pakistan

GOVERNMENT OF PAKISTAN

PRIME MINISTER'S SECRETARIAT

(Board of Investment)

[CABINET BLOCK]

NOTIFICATION

Islamabad, the 8th April, 1990

No. BOI-Misc. (5)|89.—In pursuance of the Board of Investment decision taken in its meeting held on 28th February, 1990, the investment sanctioning procedures have been further liberalised The projects will now be sanctioned, depending on their size or type irrespective of the share of foreign equity by the Board of Investment, headed by the Prime Minister. Under the new investment policy the Government sanction will be required in the following cases :

(i) Projects costing over Rs 1000 million.

(ii) The following seven of the Specified List :—

—Arms and Ammunition

—Security Printing, Currency & Mint.

—High Explosive

—Radio-active substances.

Price : Rs. 20

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- Alcohol and beverage industry based on imported concentrates
- Manufacturers of Automobiles, Tractors and Farm Machinery
- Petroleum Blending Plants

2 In all cases where investment sanction is required, applications would be addressed to Director General (A&R), Investment Promotion Bureau, Kandawala Building, M A Jinnah Road Karachi

RIAZ-UL-HAQ
Director

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APPLICATION FORM IPB-I.

New Projects
Expansion
BMR.

Cable Address *IPEEBEE*
Telex. 23137—SUPLS—PK
Telephone. 718819—718820 *and* 719914—719916
Office Address *Investment Promotion Bureau,*
Government of Pakistan,
Godrej Kandawala Building,
M A Jinnah Road,
Post Box No 7277,
Karachi-3

PROJECT APPLICATION

NOTES.

(a) This form is applicable for the following —
   (i) Foreign investment on repatriable and non-repatriable basis.
   (ii) Foreign Private Loans/Supplier's Credits

(b) 25 copies of this Application Form duly filled in by the foreign or local participants, alongwith copies of Feasibility Study should be submitted

(c) In case of foreign participation for technical management/ know-how, royalty arrangements and/or foreign private loan, 10 copies of the proposed agreement should be attached

(d) The machinery and equipment proposed to be imported should be new and modern based on competitive quotations Special permission would be required in case used machinery and equipment is to be imported

(e) Information given should be concise and to the point Delete columns which are not applicable

(f) All values should be given in thousand rupees at the current official rate of exchange

(g) If the present application relates to expansion and/or BMR of an existing unit, please indicate existing position, proposed change, and overall position after expansion and/or BMR in respect of various questions wherever applicable

---

A. GENERAL.

1. (a) Name under which the project would be operated
   (b) Whether it would be a Proprietorship/Partnership concern or a Private Limited/Public Limited Company under the Capital Issue Rules and Regulations

2. **Foreign Participants**
   (a) Name an Address
   (b) Nature of present business(es)
   (c) Name of Chairman
   (d) Interest in other industrial undertakings

3. **Pakistani Participants.**
   (a) Names and Addresses of sponsoring Directors/Partners showing present business, percentages of shares and interest in the proposed venture
   (b) In the event of the promotors having any interest in other companies, names of such companies and the interest of promotors in these companies may be indicated

4. **Repatriation and Remittances**
   (a) Is repatriation of foreign capital intended ?
   (b) Are profits on foreign capital to be remitted ?

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B THE PROJECT

1. **Industry :**

   (*a*) Industrial Investment Schedule's classification

   (*b*) Brief introduction of the project alongwith end-use of the proposed products.

2. **Location of the proposed undertaking**

   City Province

   (*a*) Do you plan to locate the factory in a planned Industiral Estate or outside ?

   (*b*) What would be the estimated area of land required ?

   (*c*) Is land available ? (If so please indicate exact location and Provincial Government's clearance for the same)

   (*d*) Please indicate details of arrangements for removal of effluent and steps taken to control environmental hazards

3. **Salient Features of the Project**

   (*a*) Please describe the manufacturing process and measures for quality control

   (*b*) Please provide details of land and building as per Anenx-I

   (*c*) Please provide details of machinery and equipment as per Annexure-II

   (Proforma Invoices and documentary evidence in support of the country of origin, capacities and C&F Prices of machinery and equipment must be attached)

   (*d*) Please indicate the raw material requirements as per Annexure III (The quantities, C&F prices duties/taxes, etc must be indicated correctly supported by documentary evidence)

4. **Technical know-how**

   (*i*) Please indicate the technical know-how arrangements, if any, proposed to be made

   (*ii*) In case of foreign technical know how/royalty arrangement please provide the following information .

   (*a*) Rate of technical know-how fee and royalty, if any

   (*b*) Period of royalty/technical know how agreement

   (*c*) Justification for royalty/technical know how fee

   (*d*) Does the agreement cover the use of trade mark or patent rights

   (*e*) Export Franchise, if any

   (*f*) When and where was the patent registered and when it would expire ?

   (*g*) In case of substantial foreign share holding why payment of royalty technical know-how fee is considered necessary ?

5. **Deletion :**

   If your proposal relates to the assembly-*cum*-progressive manufacture of any product in Pakistan, please provide the details of Deletion as per Annexure-IV

   Schedule of completion of the Project

   Please give the time schedule for the implementation of the project and probable time of commencement of operations (Please provide details as per Proforma at Annexure-V)

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C. COST OF PROJECT/CAPITAL COST

Please furnish a summary of the estimated cost of the project in the following manner

In case of expansion and/or BMR, please indicate the investment in the existing and proposed project

(Rs in '000')

	Local Currency	Foreign Currency	Total	%age to fixed cost
(i) Land				
(ii) Building				
(iii) Imported Machinery and equipment (C&F) ..				
(iv) Custom duty and import surcharge on imported machinery (rate of duty/surcharge should be given)				
(v) L/C charges, Licence fee, insurance, Octroi, clearing & forwarding charges, etc ..				
(vi) In land Freight				
(vii) Local machinery & equipment				
(viii) Installation and erection charges etc				
(ix) Furniture & Fixtures				
(x) Vehicles				
(xi) Capitalization of return on borrowings during construction period (Rate of return and period be indicated)				
(xii) Contingencies/Start up expenses (i) building (ii) machinery, (iii) others				
Total Fixed Cost				
(xiii) Working Capital				
(a) Owner Contribution				
(b) Bank Borrowings				
Total cost of the Project				

D. FINANCING PLAN

(Rs in '000')

	Local Currency	Foreign Currency	Total	Percentage of total cost
(a) Equity Investment (Paid-up Capital)				
(i) Sponsors contribution				
(ii) Public subscription				
(iii) Institutional contributions				
(iv) Other sources				
Total .				
(b) Loan				
(i) From Foreign sources/ supplier's credit ..				
(ii) From Local Financing Institutions				
(iii) Customs Debentures				
(iv) Director(s) Loan				
(v) Rupee Debentures				
(vi) Other Sources (Please specify) .				
Total				
Total Financing requirement $(a+b)$.				

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(*c*) Debt/Equity Ratio .. .. , ...

(*d*) Foreign/Pakistani equity ratio ... ...

(*e*) Nature of proposed Foreign equity investment ...

	Repatriable	Non-Repatriable
(*i*) In shape of plant and machinery		
(*ii*) By transfer of cash		

(*f*) Nature of Foreign Loan
(Private Foreign Loan/Suppliers Credit).

(*i*) Source .. ..

(*ii*) Country ... . ..

(*iii*) Rate of return . ...

(*iv*) Period or repayment and number of instalments with amount .

(*v*) Date of Commencement of repayment .

(*vi*) Repayment guarantee to foreign lending Organization .

(Please provide details in respect of interest on foreign and local loans including complete repayment schedule) Also indicate if any financial institution has shown its willingness to accept the project.

E PRODUCTION

1 Production Programme (100% capacity operation)

	No of Shifts per day (Single/Double Triple)	No of Operating days per annum	Rated Capacity	Effective Production Capacity	Total Annual Production Capacity	
					Quantity	Ex-Factory Cost
Items to be manufactured :						
(*a*)						
(*b*)						
(*c*)						
(*d*)						
etc.						

2. Cost of production :

	Per unit of Production	As per Total Production capacity	Percentage to Total
	(Rs.)	(Rs. in 000)	
(A) Foreign Exchange Cost :			
(*i*) Imported · (Source of Supply and C&F Prices documentary evidence should be attached)			
(*a*) Raw Materials			
(*b*) Components ...			
(*c*) Packing material			
(*d*) Spare parts			

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(*ii*) Depreciation of imported machinery and equipment

(*iii*) Amount of royalty and/or technical fee, if any

(*iv*) Wages & Salaries of Foreign personnel, if any

(*v*) Return etc , on foreign loan, if any

(B) Local Currency Cost

(*i*) Custom duty, Sales tax, surcharge on Imported material . .

(*ii*) Expenses on imported material such as licence fee, clearing charges, L/C Charges, insurance etc

(*iii*) Inland Transportation Charges .

(*iv*) Cost of local raw materials, components, spare parts and Packaging materials .

(*v*) Depreciation of local fixed assets (building, fixtures and local machinery)

(*vi*) Labour, wages and other factory staff salaries

(*vii*) Manufacturing overhead (Power, Fuel, Water, repair, Maintenance etc) .

(*viii*) Return on local loans

(*ix*) Administration expenses . .

(*x*) Other expenses (to be specified by the sponsors) .

(C) Ex-Factory cost per unit (A&B) ... .

(D) Excise duty and other taxes . ...

(E) Total cost of production (C+D) ... ...

3. Prices (Item-wise) :

(*i*) Ex-factory price per unit .. ...

(*ii*) F O B export price per unit . ...

(*iii*) C&F price per unit (if it were to be imported) ...

(*iv*) Landed price (inclusive of duties) . ...

(*v*) Total sales revenue ... ...

N.B.—Please provide details of :

(*a*) Depreciation on local fixed assets and

(*b*) Landed price of the end products.

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F. FOREIGN EXCHANGE SAVINGS

(*i*) C&F cost of the proposed product, if imported ... ...

(*ii*) Foreign exchange cost in local production .. ...

(*iii*) Foreign exchange saving (*i-ii*) . .

Please provide information on —

(*a*) The basis of C&F price of the end-product assumed and comparison with C&F prices of the end-product being imported form different countries . . ..

(*b*) Foreign exchange rate assumed . .. ...

G COST OF DOLLAR SAVED

(*i*) C&F cost per unit of the product imported .. ...

(*ii*) Foreign exchange cost in local production (per unit) .

(*iii*) Local currency cost excluding duties (per unit) . ..

(*iv*) Cost of $ saved $= \dfrac{(iii)}{(i)-(ii)}$

$= \dfrac{\text{Rs.}}{\$}$

$=$ Rs.

H. OTHER ECONOMIC INDICATORS :

(*i*) Value added .. . .

(*ii*) Capital output ratio ... ...

(*iii*) Number of employees .. ..

(*iv*) Fixed cost per employee .. ..

(*v*) Break even point in capacity utilization ... ..

(*vi*) Return on equity before or after tax ... .

N.B —Calculation sheets to be attached in respect of value added (on the basis of out-put minus in-pu and on the basis of value added items), break even point, and return on equity.

I. MARKET s per proforma at Annexure VI)

(*a*) Please give—

—Demand/supply position of the proposed product with export, potential if any.

—Existing sanctioned and installed capacity with actual production during last three years.

—Your assessment of local demand during the next 5 years

—Import figures of the last 3 years

(*b*) Installed Capacity and its year-wise progressive utilization

Item	1st year	2nd year	3rd year	4th year	5th year

(c) **Production in the 3rd year :**

Item	Unit	Quantity	Value

(d) In case of exports, please indicate—

(i) Item to be exported with quantity and value

(ii) Year by which export would commence

(iii) Markets of export

(iv) Is export franchise being offered by the foreign participants ? If so, please give details

(v) Please furnish a reasonable proof of your ability to export State your export contacts Can a Bank guarantee be given ? What will be the exports in the 3rd year of operation and in a normal year of operation ?

J. FOR EXPANSION AND BMR PROPOSALS

If the application is for expansion and/ or BMR of an existing industrial undertaking, the following additional information may also be provided

(i) Present production

(ii) Present cost per unit of output

(iii) Cost after proposed expansion /BMR

(iv) Cost if an entirely new unit is installed

(v) Profits/dividends declared during the last three years (attach copy of the latest profit and loss Account and Balance sheet)

K UTILITIES/MISCELLANEOUS

	Qty.	Rate per Unit	Total price/cost.
(1) Power requirement of the project			
(i) Source			
(ii) Connected load (Kw)			
(iii) Maximum demand (kw)			
(iv) Annual consumption (KWH)			
(v) Voltage at which supply is required (HT, LT) ...			
(2) Water requirements of the Projects .			
(i) Source			
(ii) Gallons per annum			
(3) Fuel requirements			
(i) Oil (Tons per annum)			
(ii) Gas (Mcft) per year			
(iii) Other (please specify)			

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(4) **Personnel requirements of the project:**

	No. of Technical Staff	No. of Administrative Staff	No. of Workers
(i) Pakistani			
(ii) Foreign			
Total			

(5) Exact location of the site Sketch or layout plan should be attached

(6) Special consideration if any, which you think should be taken into account in considering your proposal

(7) Please certify that machinery which can be manufactured locally (of the required specification) is not included in the list of machinery proposed to be imported

(8) Please indicate details of loans taken from financing institutions by any Sponsor/Director/Partner

(9) Please indicate the arrangements you have made for Utilities (Power, gas water, telephone etc) alongwith commitment from the concerned Government agency

(10) Please indicate you have obtained confirmation about the availability of local raw materials according to proposed requirements

(11) Please file a report from your Bankers with regard to financial soundness of the sponsors of the project

(12) Please furnish Proforma Invoices of imported machinery from 2 different sources

(13) Please furnish 2 quotations for imported raw materials/ components

SIGNATURE ____________

NAME IN BLOCK LETTERS ____________

STATUS ____________

MAILING ADDRESS ____________

____

____

TELEPHONE NO. ____________

TELEX NO. ____________

DATE ____________

ANNEXURE-I

11. **Building : Give details of the projects building as follows :**

Description	Type const. ..on	Size	Covered Area in S/meters	Average rate of construction per S.M.	Total cost (Rs. 000)	
					Cost already met	Cost to be met
Machinery Hall						
No. 1						
No. 2						
Boiler Room						
Finished goods Godowns						
Raw Material Godowns						
Workshop						
Offices						
Canteen						
Overhead Water Tank						
Labour Quarters						
Boundary Wall						
Other items (Specify)						
TOTAL						

*State whether the construction will be R.C.C./R.B.C. Steel trusses roofing etc

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ANNEXURE-II

LIST OF MACHINERY AND AUXILLARY EQUIPMENT

(*a*) IMPORTED · (Please attach invoices from two different sources)

Date of quotation

Item No	Description of machinery and equipment (including testing machinery and equipment)	Source of procurement, country, place manufacturing Firm or Suppliers address	Annual rated capacity per shift	No of units	Unit price in foreign currency C&F	Total cost in foreign currency C&F.
1	2	3	4	5	6	7
1.						
2.						
3.						
4.						
5.						
6.						
7.						

Total .

Equivalent Rs.

(*b*) DOMESTICALLY FABRICATED.

Date of Quotation

Item No	Description of machinery and equipment (including testing machinery and equipment)	Manufacturing firm or supplier address	Annual rated capacity per shift	No. of Units	Unit price (Rs.)	Total Cost (Rs.)
1	2	3	4	5	6	7
1.						
2.						
3.						
4.						
5.						
6.						

Total ..

Total (a+b)

ANNEXURE III

DETAILS OF PRINCIPAL RAW MATERIALS/COMPONENTS AND PACKAGING MATERIAL, ETC.

(I) Annual Requirements :

	Imported (Rs. C&F)	Indigenous (Rs.)	Total (Rs.)
(a) Raw materials			
(b) Components (If any required)			
(c) Packaging materials			
(d) Spare Parts			
Total ..			

(II) Description of imported raw and packaging materials and components to be used (Please attach quotations from two different sources)

Items	Quantity	Value (Rs.)
(a)		
(b)		
(c)		
(d)		
	Total	

(III) Landed cost of imported items (raw materials, etc.). (Please specify details)

Sl No	Item	Quantity	C& F price	Custom duty	Sales tax	Sur charges	Other expenses (to be specified)	Total factory landed cost
(a)								
(b)								
(c)								
(d)								

(IV) Description of indigenous raw and packaging materials and components to be used :

Items	Quantity	Value	Transportation cost	Total factory landed cost
(a)				
(b)				
(c)				
(d)				
(e)				
		Total		

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ANNEXURE IV

YEAR-WISE DELETION PROGRAMME SHOULD BE FURNISHED AS PER TABLE GIVEN BELOW -

Year (after installation of plant)	Percentage Content			
	In Plant	Sub Contracting/Vendors	Total	To be Imported
1	2	3	4	5
1.				
2.				
3.				
4.				

Note —

(*i*) Please spell out 100% components/parts in the light of parts catalogue of the item proposed to be manufactured and indicate percentage of each component based on foreign ex factory value of the completely knocked down (CKD) item proposed to be manufactured.

(*ii*) Year wise local integration/indigenization programme in terms of components to be manufactured both in plant and under vending arrangement with percentage of each component in order to achieve maximum local content in the shortest period of time based on foreign *ex* factory value of the C.K.D item (to be manufactured) should be indicated.

(*iii*) List of the remaining components which will continue to be imported with percentage of each component after maximum local integration achieved in the shortest time should be attached.

(*iv*) Year wise recurring import liability on account of components/parts, linking with the level of local content proposed to be attained each year should be indicated.

ANNEXURE-V.

PROJECT COMPLETION SCHEDULE

(MONTHS)

1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21 22 23 24 25 26 27

Acquisation of land————————X

Opening of L/C for imported machinery————————X

Development of land started————————————X

Building construction started————————————X

Placement of local Machinery order————————————X

Arrival of imported and local machinery at Site————————X————————X

Installation started————————————————X

Building construction completed————————————————X

Installation of machinery completed————————————————X

Trial runs————————————————X

Unforeseen delays————————————————X

Commercial production started————————————————X

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ANNEXURE-VI

PRODUCT MARKETING

1. Specify major consumers of products *i.e.* industrial units/service utility organisations/ general public/ others.

2. Mode of sale of products in local market *i.e.*, directly, through retailers/wholesellers/dealers/agents

3 Demand and Supply position of the product indicating basis of calculation thereof.

4 Local existing prices of the products, proposed prices, imported prices of similar product FOB/C&F, export prices (FOB), international prices

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EXTRAORDINARY ISSUE

REGISTERED No. L-864

The Punjab Gazette

PUBLISHED BY AUTHORITY

LAHORE SATURDAY, NOVEMBER 1, 1986

GOVERNMENT OF THE PUNJAB
INDUSTRIES AND MINRAL DEVELOPMENT DEPARTMENT

NOTIFICATION

The 26th October, 1986

No. AEA-III-4-1/85—In exercise of the powers conferred upon him under Section 11 of the Punjab Industries (Control on Establishment and Enlargement) Act, 1963 and in supersession of the Punjab Government notification No. AEA-III-4-28/80(Pt-II) dated 23rd August 1984, the Governor of the Punjab is pleased to exempt all industries and areas from the provisions of Section 3 of the said Act except as notified hereunder:-

1. No industrial unit mentioned in Schedule 'A' of this Notification or industrial unit exceeding a total cost of thirty million rupees shall be set up within 10 miles of the International Border.

2. No industrial unit shall be set up in areas affected by flood flowing transversely in the strip of one mile of either side across the Grand Trunk Road from Shahdara Town to Muridke Town, without prior permission of the Provincial Government.

3. No industrial unit shall be set up within the territorial limits of Municipal Corporations, Municipal Commitees and Town Committees.

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provided that the following industrial units/areas shall be exempted from the restrictions, namely:-

(i) Industrial Estates developed by Government or any other authority, agency, company or firm authorised in this behalf.

(ii) Industrial Zones and Areas to be earmarked by a Town Committee, Municipal Committee, Municipal Corporation, Development Authority, Industries and Mineral Development Department or any authority empowered in this behalf within or outside the Municipal Limits.

(iii) Industries mentioned in Schedule 'B' of this Notification, and as may from time to time be notified by the Government.

4. No industrial unit shall be set up outside the territorial limits of Municipal Corporation, Municipal Committees and Town Committees if-

(i) there is no effluent disposal arrangements to the satisfaction of the Government available at the site; and

(ii) the proposed industrial site is located at such an unreasonable distance as may cause nuisance to the nearby residential localities.

5. No industrial unit, with a total cost of more than Rs. 100 million including the cost of imported machinery exceeding Rs. 50 million, or one mentioned in Schedule 'C' or for which the machinery to be imported is banned by Federal Government or for which imported raw-material exceeds 60% of the total raw-material requirements provided the value of such imports exceeds 20% of the total investment in fixed assets, shall be set up any where in the Province of the Punjab without prior approval of the Government.

6. The Government reserves the right to refuse establishment/enlargement of any industrial undertaking which is in contravention of the public interest, ecology or any other law/rules for the time being in force.

7. The Government may relax any of the provisions of this notificatin in case of a particular unit or industry or class of units or industries.

By Order of the Governor of the Punjab

HAFEEZULLAH ISHAQ
SECRETARY TO GOVERNMENT OF THE PUNJAB,
INDUSTRIES & MINERAL DEVELOPMENT DEPARTMENT.

Dated Lahore, the
26th October, 1986.

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SCHEDULE 'A'

LIST OF STRATEGIC INDUSTRIES

1. Basic Metal Industry.
Petro-Chemical Industries (Excluding Products Industries).
2. Large size Machine Tool Factories (Limit of Investment to be determined).
3.
4. Heavy Foundry Works.
5. Heavy Electric Complexes.
6. Heavy Mechanical Complexes.
7. Electronics Industries.
8. Major Vehicle Assembly Plants.
9. Ordnance Factories.
10. Explosives, Nitric acid and Sulphuric acid plants.
11. Vehicular Tyres and Tubes Industries.
12. Locomotives and Railway Carriage manufacturing plants.
13. Government Mint.
14. Security Printing Press involved in whole time printing of sensitive documents/currency notes.
15. Manufacture of optical glass and optics.
16. Nickle cadmium battery industries.
17. Nuclear/Separation Plants.
18. Large Power Generating Stations.
19. Large Oil Storage Units.
20. Oil refineries.

SCHEDULE 'B'

LIST OF SERVICE INDUSTRIES

1. Furniture (excluding Band Saw) and also excluding storing of Timber/Wood.
2. Tailoring/Ready made garments.
3. Laundry/Dry Cleaning.
4. Bakery (excluding confectionery).
5. Syrups (excluding squashes).
6. Cosmetics (excluding all sorts of soap).
7. Service workshops.
8. Cereal Products like vermicilles.
9. Candles making.
10. Packaging.
11. Hand loom carpet weaving.
12. Hotels.
13. Bidi manufacturing.
14. Hand made shoes/shoe repairing workshop.
15. Spooling and thread balls.
16. Small Hosiery units equipped with hand operated machines.
17. Atta chakkies.
18. Installation of Chaff cutters.
19. Cotton Grading.
20. Other small undertakings which do not fall under the First Schedule of Punjab Local Government Act, 1979.

*"Other small industrial undertakings" would mean an industrial undertaking in which the total fixed assets (including the cost of land) do not exceed Rs. 0.2 million.

THE FIRST SCHEDULE OF PUNJAB LOCAL GOVERNMENT ACT, 1979

DANGEROUS AND OFFENSIVE ARTICLES AND TRADE

(See Section 73)

1. The business of storing or selling timber, firewood, coal, charcoal and coke, hay, straw, grass and bamboo, jute, shrub, hemp, munj and their products, matches., explosives, petrol, oil and lubricants, paper, ghee and other dangerously inflammable materials.

2. Sugar refining and sugar refineries.

3. Preparation of aerated water.

4. Operating or running bake houses.

5. Electroplating.

6. Welding

7. Storing, packing, pressing, cleaning, preparing or manufacturing by any process whatever blasting powder, ammunition fire-works, gun powder, sulpher, mercury, gases, gun cotton, saltpeter, nitrocompounds, nitromixtures, phosphorous or dynamite.

8. Cleaning, dyeing, preparing or manufacturing by any process whatever cloth or yarn in indigo and other colours.

9. Storing, processing, cleaning, crushing, melting, preparing or manufacturing by any process whatever or dealing in bones, tallow, offal, fatblood, soap, raw hides and skins, candles, manure, catgut and oil cloth.

10. Manufaturing oils.

11. Washing or drying wool or hair.

12. Making or manufacturing bricks, surkhi, tiles or earthenware pots, clay pipes or other earthenware by any process of baking of burning.

13. Burning or grinding of limestone or metalstone or storing of lime for sale.

14. Cleaning or grinding of grain or chillies by any kind or class of machinery.

15. Keeping animals likely to create nuisances.

16. Fellmongering.

17. Casting of heavy metal such as iron, lead, copper and brass.

18. Dealing in chemicals, liquid or otherwise.

19. Wholesale storing, cleaning, pounding and selling of tobacco except the storing of tobacco required for the preparation of biddis, cigars or cigarettes.

20. Operating or running tin factories.

21. Manufacture of safes, trunks and boxes.

22. marble cutting and polishing.

23. Glass levelling and polishing.

24. Manufacture of cement and hume pipes.

25. Storing, packing, pressing, cleaning, preparing or manufacturing by any process whatever, rags, pitch, tar, turpentine demmar, coconut, flax, fibre, hemp, rosin or spirit.

26. Tanning, pressing or packing, hide or skins whatever raw or dry.

27. Trade or operation of a ferrier.

28. Working of powerlooms, rice husking plants, steam whistle, steam trumpet or electric or hand operated sirens beyond hours fixed for their operation by a local council.

29. Discharging fire-arms and letting off fire-works, fire baloons or detonators or any game dangerous to life, dwelling and other property.

30. Any other article or trade declared by Government or the urban local council to be dangerous to life-health, or property or likely to cause nuisance either from its nature or by reason of the manner in which or the conditions under which, the same may be processed or carried on.

SCHEDULE 'C'

LIST OF INDUSTRIES WHICH CANNOT BE SET UP WITHOUT PRIOR APPROVAL OF THE GOVERNMENT

1. Arms and Ammunitions.
2. Security Printing, Currency and Mints.
3. High explosives.
4. Defence oriented electronics.
5. Radio Active Substances.
6. Alcohol & Foreign Brand/Concentrate based synthetic Beverages.
7. Basic Steel.
8. Basic Metals and Alloys.
9. Heavy Mechanical & Electrical Plants.
10. Basic chemicals
11. Petro-chemicals.
12. Public Utilities.
13. Ships, Aircrafts & Railway locomotives.
14. T.V. Radio, Tape recorders, V.C.R. Cassettes & Tapes.
15. Air Conditioner, Refrigerators & Deep Freezers.
16. Motor Cycles & Scooters & Three Wheelers
17. Automobiles Tractors & Farm Machinery.
18. Fertilizers.
19. Cement.
20. Drugs & Pharmaceuticals.
21. Vegetable Ghee.
22. Sugar.
23. Cotton Spinning & Ginning.
24. Flour Milling.
25. Projects with Foreign Private Investment.
26. Projects based on second hand machinery except under N.R.I. Scheme.

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EXTRAORDINARY ISSUE REGISTERED NO.L.7532

THE PUNJAB GAZETTE
PUBLISHED BY AUTHORITY

LAHORE SATURDAY, April 29, 1989

GOVERNMENT OF THE PUNJAB
INDUSTRIES & MINERAL DEVELOPMENT
DEPARTMENT

Dated Lahore, the 29th April, 1989.

NOTIFICATION

NO.AEA-III-4-1/85. In exercise of the powers conferred upon him under Section 11 read with Section 3 of the Punjab Industries (Control on Establishment & Enlargement) Act, 1963 (IV of 1963), the Governor of the Punjab is pleased to order that the following further amendments shall be made in the Government of the Punjab, Indistries & Mineral Development Departments notification No.AEA-III-4-1/85 dated 26th October, 1986 with immediate effect; namely:-

AMENDMENTS

1. For para 5, the following shall be substituted:-
"5 No industrial Unit, with a total cost of more than Rs.700 million, or a unit requiring cash foreign exchange of more than Rs.60 million ofor the import of plants and machinery, or a unit mentioned in Schedule 'C' or a unit based on imported raw material the products of which are not on the import list or the duty on such products is more than 80% shall be set-up any where in the Province of the Punjab without prior approval of the Government."

2. For Schedule 'C' the following shall be substituted:-

'SCHEDULE 'C''

"LIST OF INDUSTRIES WHICH CANNOT BE SET-UP WITHOUT PRIOR APPROVAL OF THE GOVERNMENT

1. Arms and Ammunitions.
2. Security Printing, Currency and Mints.
3. High Explosives.
4. Radio Active Substances.
5. Alcohol, Alcoholic Beverage and Beverages based on imported concentrates.
6. T.V. Radio, Tape-Recorders, VCR Cassettes and Tapes.
7. Air-conditioners, Refrigerators and Deep Freezers.
8. Motor-Cycles and Scooters & Three Wheelers.
9. Auto-mobiles, Tractors and Farm Machinery.
10. Drugs and Pharmaceuticals.
11. Vegetable Ghee/Cooking Oil based on imported seed oil.
12. Petroleum, Refining, Reclamation and Blending Plants including Grease Manufacturing and White-Oil Plants.
13. Cotton Ginning.
14. Flour Mills."

ALI KAZIM
SECRETARY OT GOVERNMENT
OF THE PUNJAB
INDUSTRIES & MINERAL DEVELOPMENT
DEPARTMENT.

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EXTRAORDINARY ISSUE REGISTERED NO.L-7532

THE PUNJAB GAZETTE
PUBLICHED BY AUTHORITY

LAHORE THURSDAY, NOVEMBER 3, 1988

GOVERNMENT OF THE PUNJAB
INDUSTRIES & MINERAL DEVELOPMENT
DEPARTMENT

NOTIFICATION

The 3rd November, 1988

No.AEA-III-4-1/85-In exercise of the powers conferred upon him under section 11 read with section 3 of the Punjab Industries (Control on Establishment & Enlargment) Act, 1963 (IV of 1963), the Governor of the Punjab is pleased to order that the following amendments shall be made in the Government of the Punjab, Industries & Mineral Development Department's Notification No.AEA-III-4-1/85 dated 26th October, 1986, with immediate effect; namely:-

AMENDMENTS

After parp 2 the following new para 2(a) shall be added;

"2(a) No sugar mill shall be set up the the divisions Multan, Bahawalpur and D.G. Khan Division and the District of Okara."

2. In schedule B:-

(i) for the existing item NO.10, the following shall be substituted:-
"10 Printing and Packaging;"

(ii) for item No.16 the following shall be substitued:-
"16 Small Hosiery Units employing not more than 10 workers";and

3. For the Figure "0,2" the figure "0.5" shall be substituted.

ALI KAZIM
SECRETARY TO GOVERNMENT OF THE PUNJAB
INDUSTRIES & MINERAL DEVELOPMENT DEPARTMENT.

Dated Lahore, the
3rd November, 1988

EXTRAORDINARY ISSUE

REGISTERED NO.L.7532

THE PUNJAB GAZETTE

PUBLISHED BY AUTHORITY

LAHORE WEDNESDAY, JUNE 21, 1989

GOVERNMENT OF THE PUNJAB
INDUSTRIES & MINERAL DEVELOPMENT
DEPARTMENT

NOTIFICATION

The 21st June, 1989

No.AEA-III-4-1/85___In exercise of the powers conferred upon him under Section II read with Section 3 of the Punjab Industries (Control on Establishment & Enlargement) Act, 1963(IV of 1963), the Governor of the Punjab is pleased to order, with immediate effect, the following amendment in the Government of Punjab, Industries and Mineral Development Department's Notification No. AEA-III-4-1/85, dated the 25th October, 1986, as amended by Government of the Punjab, Industries & Mineral Development Department's Notification of even number, dated the 29th April, 1989, namely:-

AMENDMENT

In Schedule 'C' after serial No.14
the following shall be added :-
" 15 Sugar Industry".

BY ORDER OF THE GOVERNOR OF THE PUNJAB

TANWIR AHMAD
SECRETARY TO GOVERNMENT OF THE PUNJAB
Industries and Mineral Development Department

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REGISTERED

No. IEA-III-4-1/88
GOVERNMENT OF THE PUNJAB
INDUSTRIES & MINERAL DEVELOPMENT
DEPARTMENT

Dated Lahore, the 24th June, 1989.

1) The Managing Director,
National Development Finance Corporation,
NSC Building, 4th Floor,
Maulvi Tamizudding Khan Road,
Karachi.

2. The Managing Director,
Bankers Equity Limited,
1st Floor, State Life Building No.3,
Dr. Ziauddin Ahmad Road,
Karachi.

3. The Managing Director,
Industrial Development Bank of Pakistan,
State Life Building No.2,
Wallace Road, Off: I.I.Chundrigar Road,
Karachi-2.

4. The Managing Director,
Pakistan Industrial Credit and Investment
Corporation,
State Life Building No.1,
I.I.Chundrigar Road,
Karachi.

5. The Managing Director,
Investment Corporation of Pakistan,
5th Floor, National Bank of Pakistan Build.
I.I.Chundrigar Road,
Karachi.

6. The Chairman,
Pakistan Banking Council,
8-Habib Bank Plaza,
I.I.Chundrigar Road,
Karachi.

7. The Managing Director,
Regional Development Finance Corporation,
Ghousia Plaza Blue Area,
Post Box: 1893,
Islamabad.

Subject: POLICY REGARDING ESTABLISHMENT OF SUGAR MILLS IN THE PUNJAB.

Dear Sir,

I am directed to say that the existing policy with regard to setting up of Sugar Mills in the Punjab has been revised and necessary amendment in the Punjab Gazette Notification dated 26th October, 1986 has been issued vide Punjab Gazette Notification dated 21st June, 1989 (copy enclosed).

D

2. According to the revised policy, no Sugar Mill shall be set up in the Punjab without prior approval and clearance by the Provincial Government in respect of sponsor and location. Any advice/ clearance issued earlier by Punjab Government in respect of setting-up of sugar mills will also required a fresh clearance and approval by the Punjab Government of the sponsor and location.

3. In view of the above, I am further directed to say that no case of sugar mill to be established in Punjab may be processed by your Organization without prior approval of sponsors and location by the Punjab Government. You are also requested to direct the sponsors of all pending applications and applications already approved by your Organization that any advice/clearance issued earlier by the Punjab Government in respect of setting up a sugar mill will require a fresh clearance and approval of the sponsors and location by the Punjab Government.

4. You are requested to kindly further note that approval of any sugar mill without clearance/approval of sponsors-ship and location by the Punjab Government in respect of already cleared, pending and future applications for sugar mills will be in violation of Punjab Government's policy on sugar mill. It may also be noted that the Divisions of D.G.Khan, Multan and Bahawalpur and District of Okara, as notified by Punjab Government Gazette Notification dated 3.11.1988 will continue to be negative areas for establishment of new sugar mills.

Yours faithfully,

Sd/-
Assistant Economic Adviser-III

A copy is forwarded for information and necessary action to:-

1. Secretary, Ministry of Industries, Govt.of Pakistan, Islamabad.
2. Secretary, M/o.Finance, Government of Pakistan, Islamabad.
3. The Director, I[illegible]ries & Mineral Development Deptt., Lahore.
4. Managing Directo[illegible] Punjab Small Industries Corp., Lahore.
5. Managing Director, Punjab Industrial Development Board, Lahore.

Assistant Economic Adviser-III

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EXTRAORDINARY ISSUE REGISTERED No. L-7532

The Punjab Gazette

PUBLISHED BY AUTHORITY

LAHORE, MONDAY, MARCH, 5, 1990.

GOVERNMENT OF THE PUNJAB
INDUSTRIES & MINERAL DEVELOPMENT
DEPARTMENT

Dated Lahore, the 4th March, 1990.

NOTIFICATION.

No. [illegible]-III-4-1/85. In exercise of the powers conferred upon him under section 11 read with section 3 of the Punjab Industries (Control on Establishment & Enlargement) Act, [illegible] (IV of 1963), the Governor of the Punjab is pleased to order that in the Government of the Punjab, Industries & Mineral Development Department's notification No. [illegible]-III-4-1/85, dated the 26th October, 1986, the following further amendments shall be made with immediate effect; namely:-

AMENDMENT.

In the Government of the Punjab, Industries & Mineral Development Department's Notification No. [illegible]-III-4-1/85, dated the 26th October, 1986, as amended by Notification of even number dated 3rd November, 1986, for the existing para 2(a) the following shall be substituted :-

"2(a)- A sugar mill shall be set-up in the Divisions of Multan, Bahawalpur (excluding Tehsil Rahimyar Khan), D.G.Khan and the District of Okara."

[illegible]
SECRETARY TO GOVERNMENT OF THE PUNJAB
INDUSTRIES & MINERAL DEVELOPMENT DEPARTMENT

Price Rs.1.30

BEST AVAILABLE DOCUMENT

EXTRAORDINARY ISSUE REGISTERED No. L-7532

The Punjab Gazette

PUBLISHED BY AUTHORITY

LAHORE, WEDNESDAY, MARCH, 7, 1990.

GOVERNMENT OF THE PUNJAB
INDUSTRIES & MINERAL DEVELOPMENT
DEPARTMENT

Dated Lahore, the 7th March, 1990

NOTIFICATION

No. AEA-III-4-1/85: In exercise of the powers conferred upon Him under section 11 read with section [illegible] of the Punjab Industries (Control on Establishment & Enlargement) Act, 1963 (IV of 1963), the Governor of the Punjab is pleased to order that in the Government of the Punjab, Industries & Mineral Development Department's Notification No AEA-III-4-1/85, dated 26th October, 1986 as amended by Notifications of even number dated 29th April, 1989, and 21st June, 1989, the following further amendments shall be made with immediate effect: namely :-

AMENDMENDS

For para 5 the following shall be substituted :-

"5- No industrial unit, with a total cost of more than Rs 1000 million, or a unit mentioned in Schedule 'C', or a unit having foreign equity of 50% or more, shall be set up any where in the Province of Punjab without prior approval of the Government."

2. For Schedule "C", the following shall be substituted :-

BEST AVAILABLE DOCUMENT

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SCHEDULE 'C'

LIST OF INDUSTRIES WHICH CANNOT BE SET-UP WITHOUT PRIOR APPROVAL OF THE GOVERNMENT

1 Arms and Ammuniti

2 Security Printing, Currency and Mints.

3. High Explosives

4. Radio Active Substances.

5. Alcoholic, Beverage Industry based on imported concentrates

6 Automobiles, Tractors and Farm Machinery.

7 Petroleum Blending Plants

8. Cotton Ginning.

9. Flour Mills.

10. Sugar Industry.

(TANWIR AHMAD)
SECRETARY TO GOVERNMENT OF THE PUNJ
INDUSTRIES & MINERAL DEVELOPMENT DEP

BEST AVAILABLE DOCUMENT

No.AD(EC)II-I/78(PF.I)
GOVERNMENT OF SIND
INDUSTRIES & MINERAL DEVELOPMENT
DEPARTMENT.

KARACHI, DATED THE 20TH APRIL,88.

CONSOLIDATED NOTIFICATION ON LOCATION OF
INDUSTRY IN KARACHI.

In partial modification of this Department's notification No.AD(EC)II-I/78(PF.I) dated 7th March,1980 in Karachi, Gharo and Dhabeji notified by the Government of Sind from time to time are listed below:-

1. Coasters and Barges.
2. Ship building and repairs
3. Ship breaking
4. Sea Salt.
5. Canning and preservation of sea food.
6. Boiler making.
7. Arc and induction furances rolling and re-rolling mills.
8. Pre-fabricated houses, wooden doors and windows.
9. Plywood doors.
10. Petro-chemicals.
11. Industrial gases.
12. Ice and Cold Storage.
13. Beverages.
14. Bakeries.
15. Poultry farming and feed.
16. Cinema houses and studies.
17. Hotels.
18. Packaging.
19. Printing Press.
20. Industries based on saulghter house waste.
21. Dry Cleaning.
22. Gas appliances like cookers, stoves, burners and geysers.
23. Bus-body-building.
24. Hand-knotted carpets.
25. Furniture.
26. Industries based on industrial waste.
27. Building components.
28. Fish meal.
29. Cottage industry in which total investment does not exceed Rs.50,000/- and is not primarily import based.
30. Readymade Garment industry (Textile) with total investment not exceeding Rs.7 million(I.I.S 1983-88 No.2.5)

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31. Leather Garments industry with total investment not exceeding Rs.7.00 million (IIS.1983-88 No.3.5)

32. Textile Hoisery and other knitted goods (Knitting only) with total investment not exceeding Rs.7.00 million (IIS.1983-88 No.2.5)

33. Cassette manufacturing (I.I.S. 1983-88 No.13.3.2)

34. Computer manufacturing and assembling.

35. Pharmaceuticals, where required infrastructure, such as, land and other utilities are already available with the sponsors. The sponsors would require prior certification from the Department.

36. Miscellaneous fabricated metal products N.E.S. including building hardwares, crown croks, exponded metal brass buttons, rigid biocapsules, shoe cyclets, steel beltaca metal venetia bliuds, sip fastenerss, collapsible tubes, industrial chains, watches, cloks, and part o including me hanical toys, fire fighting equi, light engineering workshops, hurricane lanterns, lamps, stoves, blow lamps, etc. and miscellaneous other fabricated metal products not elesewhere specified (IIS.1983-88 No.10.13).

2. The industries falling in the following three categories may also be allowed to be set up in Karachi, Gharo and Dhabeji:-

i) Expansion of an industrial unit within its existing premises where the amenities like water and power are provided.

ii) Industries financed through non-repatriable investment in which no potable water is required in the manufacturing process.

iii) Industries set up in collaboration with foreign investors in which no potable water is used in processing.

Sd/-
(M.B. ABBASI)
SECRETARY

C.c. to:-

The Secretary, Ministry of Industries,
Government of Pakistan, Islamabad.

BEST AVAILABLE DOCUMENT

GOVERNMENT OF SIND
INDUSTRIES & MINERAL DEVELOPMENT
DEPARTMENT.

Karachi, the 1st November, 1988.

NOTIFICATION

No.PA(ECO-13-7-87). The Government of Sind is pleased to declear the following areas as negative areas in the Province of Sind, in which Sugar Mills cannot be set up:-

S.No.	NEGATIVE AREA
1.	District Larkana
2.	District Javobabad
3.	District Shikarpur
4.	District Khairpur
5.	Kistrict Sukkur except Taluka Ghotki.
6.	District Nawabshah except Taluka Naushero Feroz and Sakrand.
7.	District Dadu except Taluka Khairpur Nawabshah.
8.	District Sanghar.
9.	District Tharparkar except Taluka Kot Ghulam Mohammad.
10.	District Hyderabad except Taluka Tando Allah Yar.
11.	District Thatta except Taluka Shah Bundar and Ghorabari.
12.	District Badin except Talukas Golarchi and Matli.
13.	Karachi Division.

M.B.ABBASI
Secretary
to Government of Sind

Copy forwarded to the Controller-Cum-Superintendent Government of Sind Press, Karachi with the request that the above Notification may please be published in next issue of the Government of Sind Gazette, and 50 copies of the same be to this Deptt.

(AHMED UD DIN HANJRAH)
ECONOMIST
FOR SECRETARY, GOVERNMENT OF SIND

c.c.to:-

Secretary, M/o.Industries,
Government of Pakistan, Islamabad.

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GOVERNMENT OF SIND
INDUSTRIES & MINERAL DEVELOPMENT
DEPARTMENT

Karachi, 23rd February, 1989.

NOTIFICATION

PA(ECO)13-7-87. Government of Sind are pleased to direct that Industries & Minoral Development Department Notification No.PA(EC)-13-7/87 dated the 1st November, 1988 containing the list of negative areas in Sind, where Sugar Mills cannot be set up, shall stand withdrawn with immediate effect.

M.B. ABBASI
SECRETARY TO GOVERNMENT OF SIND.

Copy forwarded to the Controller-cum-Superintendent, Government Printing & Stationery Press, Sind, Karachi with the request that the above Notification may please be published in next issue of the Government of Sind Gazette, and 50 copies of the same be supplied to this Department.

(AHMEDUDDIN HANJRAH)
Economist
for Secretary to Government of Sind.

Copy forwarded for information to:-

1. The Cabinet Secretary, Cabinet Division, Government of Pakistan, Islamabad.
2. Secretary, Ministry of Finance, Government of Pakistan, Islamabad.
3. Secretary, Planning & Development Division, Government of Pakistan, Islamabad.
4. Secretary, Ministry of Industries, Government of Pakistan, Islamabad.
5. Governor, State Bank of Pakistan, Karachi.
6. All Administrative Secretaries to Government of Sind, (including Member, Board of Revenue).

GOVERNMENT OF NWFP
INDUSTRIES COMMERCE MINERAL DEVELOPMENT
LABOUR & TRANSPORT DEPARTMENT, PESHAWAR.

DATED; 22.8.1989.

NOTIFICATION

NO.SOII(IND)10-342/84.III. In pursuance of the Provisions contained in section 3 of the West Pakistan Industries (Control on Establishment and Enlargement) Ordinance, 1963, the Government of the North-West Frontier Province is pleased to notify for general information that there is no negative list of location for the establishment of industries in the North-West Frontier Province and the investors are free to set up their industrial units subject to the aforesaid section 3 and the existing industrial policy, except that the flour mills, cold storages, ICE Factories and poultry farms shall not be allowed to be set up in the Industrial Estate, Peshawar, and the flour mills shall also be not allowed to be set up in any Government sponsored industrial estate.

Secretary to Government North-
West Frontier Province, Industries, Commerce
Mineral Development, Laboru & Transport
Department Peshawar.

Copy forwarded to:-

1. The Chief Research Officer, Ministry of Industries Government of Pakistan, Islamabad with reference to his letter No.6(29)/88-S.3, dated 5.1.1989.

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TO BE PUBLISHED IN THE NEXT
ISSUE OF BALUCHISTAN GAZETTE

GOVERNMENT OF BALUCHISTAN
INDUSTRIES, COMMERCE AND MINERAL RESOURCES
DEPARTMENT.

Dated Quetta, the 28th Jun ,1989.

NOTIFICATION

No.SOI(IND)2-11/81.____________/ In pursuance of the decision taken by the Ministry of Industries, Government of Pakistan, and conveyed to this Department through letter No.4(4)/88-P.I dated 30th June,1988, the Government of Baluchistan is pleased to notify that the following areas where setting up Industries shall not be allowed without prior approval of the Provincial Government, are included in the negative list of areas:-

1. The whole Hub Tehsil except Hub Industrial Trading Estate at Hub.
2. Municipal limits of Quetta Metropolitan Corporation except (i) Small Industries Estate Sirki Road, Quetta and (ii) Quetta Industrial Trading Sariab Road, Quetta.
3. Sub-Tehsil Vinder District Lasbella.

DR.D.K.RIAZ BALOCH
SECRETARY INDUSTRIES

To

The Manager,
Government Printing Press,
Baluchistan,Quetta.

NO.SOI(IND)2-11/81.4120-24 dated Quetta, the 28th June,1989.

Copy is forwarded to:-

1. The Director Industries Baluchistan, Quetta.
2. The Director Small Industries Baluchistan,Quetta.
3. The Managing Director, Lasbela Industrial Estates Development Authority,Hub Industrial Trading Estate,Hub.
4. The Chief Research Officer,Ministry of Industries, Government of Pakistan, Islamabad.

(ABDUL RAHIM KASI)
Under Secretary - I

COPY.

DECISION OF THE BOI TAKEN AT ITS MEETING HELD ON 9TH AUGUST, 1989.

Item No. 2. **ROLE OF COMMITTEE ON INVESTMENT.**

The Board of Investment took note of the Summary submitted by its Secretariat and decided as follows:

DECISION

The Ministry of Industries will issue instructions making it clear that:-

1. Only those industrial projects require Government sanction which:-

   i) cost more than Rs. 1 billion ; or

   ii) are covered by the revised specified list; or

   iii) have foreign equity of 50% or more;

   Government sanction in such cases will be given by the Board of Investment.

P. T. O.

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from overleaf:-

2. All other projects do not require any Government approval;

3. In all cases where industrial sanction is required, applications would be addressed to the Investment Promotion Bureau.

The Committee on Investment, will follow up the progress of the projects sanctioned by the Board and will ensure that they get the service/facilities. COI will also have the responsibility of promoting labour intensive rural industries.

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FILE

391-0515

Small Scale Industry in Pakistan. With Special Reference to their Regulatory Framework.

STUDY FOR

USAID, ISLAMABAD
UNDERTAKEN BY

epru

Economic Policy Research Unit
Lahore, Pakistan

SMALL SCALE INDUSTRY IN PAKISTAN, WITH SPECIAL REFERENCE TO THEIR REGULATORY FRAMEWORK.

This report was prepared by a team consisting of OMAR NOMAN, MUHAMMAD ZAFAR, MAHIR AHMED and ERUM BUTT. The director of the project was OMAR NOMAN.

Composing and Designing : MUHAMMAD ZAFAR.

STUDY FOR

USAID, ISLAMABAD
UNDERTAKEN BY

epru

ECONOMIC POLICY RESEARCH UNIT.
60, THE MALL, LAHORE, PAKISTAN.
TEL: 301044 / 301055

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CONTENTS

EXECUTIVE SUMMARY.

i The importance of small scale industry lies in its capacity to absorb workers, to efficiently produce a variety of goods for the domestic market with a frugal use of scare capital and to successfully carve a niche in selected export markets The Government of Pakistan's industrial policy has traditionally been biased towards large capital intensive industry The focus on import substituting consumer good units led to a neglect of small industries Targeted programmes for SSI development have had a low priority However, a number of developments -- such as an accelerating population growth rate, nationalisation of big industry and migration to the middle east -- have contributed to a dynamic growth of SSI in Pakistan

ii The impact of the regulatory framework on small scale industry is analysed in this study This assessment is based on a small survey of 18 units, interviews with officials and private sector representatives The regulatory framework has not seriously constrained the growth of SSI in Pakistan It is however responsible for a number of distortions and adversely affects efficiency and profitability by preventing the vertical growth of enterprises Managerial and production economics of scale are not encouraged

iii The major issues emerging from our survey and analysis are summarised below A review of the impact of the regulatory framework is followed by recommendations aimed at reducing the distortions caused by the system

iv The first point to emerge is that the regulatory framework causes little distortion to the functioning of enterprises situated at extreme ends of the size distribution The bias towards very small size is particularly pronounced in the case of the much dreaded labour legislation Enterprises employing less than 10 workers are exempt from the wide variety of legislative measures Very small firms do not have to provide a range of facilities prescribed for relatively larger units, nor are they constrained by law as far as dismissing workers is concerned The last mentioned provision is a source of considerable dissatisfaction among affected entrepreneurs who have been exerting pressure on the government to restore the right to 'hire and fire' At the other end of the size spectrum, very large enterprises are well placed to absorb the provisions emanating from the regulatory framework The effective increase in labour costs, due to regulations, typically represent a small fraction of total costs in large capital intensive industrial units These establishments also have legal assistance and the administrative capacity to handle government functionaries In addition, the owners of such firms usually have good personal relations with senior members of the bureaucracy Government policies are frequently subsidising their activities through credit and fiscal measures which encourage investment and increase profitability In such a favourable environment, costs associated with the regulatory framework are hardly prohibitive Large enterprises suffer a degree of harassment from officials but their burden in this sphere is also minor compared with smaller units The large enterprise sector also contains multinationals, who often actively collaborate with agencies such as the International Labour Office (ILO) in enforcing required measures for their work force

v The implication of the above is that the regulatory framework bears down must heavily on enterprises which do not fall into the two extremes of scale There is no precise upper limit, but enterprises which employ more than 10 workers but less than 100 are in the range which bears the brunt of regulations Unlike large enterprises, they are usually engaged in more labour intensive production This involves a plethora of regulations which must be enforced in highly competitive market structures Quite often these SSI are in export sectors which do not involve protection often given to import substituting units SSI operating under these conditions are least able to withstand the implicit reduction in profitability, imposed by labour and tax regulations The personal characteristics of these entrepreneurs are also not favourable towards dealing with regulatory bodies SSI owners are often illiterate and ill-informed about regulations They are thus open to greater harassment from government functionaries

vi. A second conclusion to emerge from our analysis is that the regulatory framework is often prohibiting the development of efficient economic units Potential economies of scale are being distorted through regulations which prevent firms from developing in certain desired directions Two examples from our survey illustrate the point First, in the packaging industry tax relief is given on a particular <u>sub process</u> of production In order to derive benefit from this distortionary incentive, units are sub-divided within artificial boundaries Second, labour laws favouring very small size have led to a horizontal sub-division of enterprises Rather than benefit from the economies of scale in aggregating functions, this horizontal sub division increases the strain on administrative capacity Whenever an artificial sub-division of enterprise occurs - for example, by dividing a firm of 38 workers into four firms employing less than 10 each to evade labour legislation -- the firm's relationship with the regulatory bodies is weakened Aware of artificial distortions, government officials are more relaxed at implementing the law only if adequate compensation is made Thus, instead of developing a more efficient business enterprise the entrepreneur is involved in horizontal growth, reproducing small units to avoid regulations

vii. A third point to emerge from the survey is that the regulatory framework does not meet the objectives it was designed for For example, labour legislation was framed in the 1970's to protect workers by improving the quality of their working conditions and increasing their security of tenure In principle, these regulations involved a transfer of income from the owners to the workers, with the state acting as an enforcing intermediary In practice, the regulations appear to be used frequently to transfer income from owners to government functionaries, rather than to workers Because the implementation machinery is easily distorted, the government neither receives the necessary tax revenue nor do workers receive their share of benefits If the small entrepreneur is able to successfully bend the rules, his business growth is unaffected by regulations Thus, the regulations are often not successful in meeting their objectives Indeed, the net effect of some of the labour legislation may have been to <u>increase</u> insecurity of labour, since owners are willing to go to substantial lengths to avoid giving permanent employment

viii Related to the above, the regulatory framework tends to reward those small entrepreneurs who can successfully manipulate the system and handle officials from the regulatory bodies Thus an important component of success for some SSI is not related to efficiency or market responsiveness A substantial part of the entrepreneur's time is spent in achieving successful manipulation, rather than in concentrating on efficient business development

ix. The growth of sub-contracting due to the regulatory framework was confirmed by our survey There are two legal categories of subcontracting First, the entrepreneur can hire workers on a temporary basis, on a particular job for which he is sub-contracted to the firm Such workers are counted as part of the work force for labour regulations A second category of workers are those who are employed by sub-contractors to the firm In all the sectors surveyed, there has been an exponential growth in sub-contracted labour These sub-contractors in turn divide their labour into units of less than 10 The growth of sub-contracting reinforces our earlier point that 1970's labour regulations may have had the perverse effect of increasing insecurity of employment for a large proportion of the workforce At present the sub contracting process is under review as part of forthcoming legislation on bonded labour and sub contracting However, negotiations leading up to the legislation revealed deep divisions on the issue within the labour movement itself [1]

x The nature of the relationship between SSI and regulatory bodies that emerges from our survey unfortunately has implications far beyond the micro manipulative level The nature of the distorted relationship that has developed between entrepreneurs and government officials is one which does little to inculcate respect for the state Government regulations are seen to e as good as the next 'baksheesh point' Some of the entrepreneurs interviewe gave great details of the amount of bribes given to a variety of officials Civil servants that EPRU spoke to acknowledged the distortions but had little to say about reforming or minimising such leakages Such a relationship is one which contributes to an ethos of suspicion and contempt for government The principal language of communication is bribery At the macro economic level, when the government tries to engage in greater domestic resource mobilisation it has to encounter substantial institutional barriers from within Individual officers have developed a personal interest in distorting the regulatory framework The higher the number of regulations, the greater the proliferation of official agencies and the larger the opportunity to give and receive bribes At a superficial level, such graft lubricates the system in a manner which overcomes bottlenecks The most serious damage inflicted in the process is respect for law, regulations and authority This environment helps create entrepreneurial attitudes which exhibit a penchant for devising ways to commit fraud, bribe officials and distort regulations Thus a vicious circle is established People have little faith in the government machinery which they know can be distorted Officials view regulations as an opportunity for increasing personal incomes from eager bribers Regulations are often bypassed but at substantive micro and macro costs to the economy and society As one of the entrepreneurs put it, "A person would rather join the government and become a tax or a labour officer than work in my factory The official wage I give may be higher but it is the 'chae-pani ka kharcha'[2] which makes the difference "

xi. So used have participants become to distorting regulations that a legal approach is avoided even when it is better for the actor concerned According to one entrepreneur, he discovered that his cost of bribing tax officials was greater than his tax liability He alleged that he tried to rectify this by making a declaration under the self assessment scheme However, a punitive scrutiny by ITOs followed and he has subsequently reverted to former methods

xii The lack of an effective legal machinery means that entrepreneurs are keen to settle matters through bribes rather than go through cumbersome procedures If an entrepreneur gets caught in the legal labyrinth, he could spend a great deal of time, money and energy embroiled in a lengthy dispute Both parties - officials and entrepreneurs - are well aware of this and act accordingly But the lack of an effective legal system to back the regulations is a bias against the entrepreneur not the scrutinizing official The latter can pass a judgement which embroils the former in legal procedures This aids private settlements

1. These divisions were evident in EPRU interviews with union leaders There are wide differences of opinion regarding the magnitude and pace of needed reform

2 Literally translated this means cost of buying tea This colloquial saying refers to extraction of bribes to meet living expenses

xiii. Our survey indicates the emergence of a possible trend which has implications for future SSI growth Those enterprises who have access to formal credit appear to be keen to move away from labour intensive methods The move to higher capital intensity was due not only because of higher anticipated productivity but also due to labour legislation which penalises increases in labour force by raising the effective wage rate Thus to avoid this scaling effect, SSI firms are likely to move towards greater capital intensity To the extent that current SSI units are undercapitalised, the provision of greater formal credit would lead to such a result It is however important to prevent labour legislation from acting as a further impetus to capital intensity, as access to credit markets increases

RECOMMENDATIONS

xiv Ten recommendations for the rationalisation of the regulatory framework for SSI appear to merit attention First, the limit for exemption from a number of labour laws and components of factory act provisions ought to be raised from 10 workers to possibly 50 workers This would release a substantial section of SSI from a maze of current regulations which are not enforced but provide avenues for corruption A detailed review would need to be made to pinpoint the regulations which are not effective at present Their removal would ease the functioning of SSI without substantially adverse effects on tax collection or labour conditions Indeed these objectives could be better met through the suggestion which follows Second, in order to contribute to better labour - management relations, and in view of equity considerations, entrepreneurs should be encouraged to contribute to the building of schools and medical clinics These welfare provisions should be industry based The surgical goods manufacturers association, for example, could collect revenues from member enterprises to build schools and clinics for the workers of the industry Industry specific NGOs could be established to promote and mobilise such development In this manner, the objective of a number of current regulations would be met without involving government regulatory agencies Entrepreneurs would feel happier contributing directly to schools and clinics Workers would be able to see tangible benefits Initially, experiments should be tried on a pilot basis For example, 3 year welfare provision targets could be set for industrial groups in return for exemption form certain regulations If entrepreneurs do not meet these targets, the cumbersome regulatory framework would be re-introduced

xv Perhaps the strongest criticism coming from small entrepreneurs relates to the maze of regulatory bodies and officers that they have to contend with The reform proposals in this regard lead us to the familiar request for a simplified one-window operation, wherein small enterprises only have to deal with a single government body All regulatory measures should be dealt with by a single department This would make the system more efficient and manageable A separate cell for small industries would be desirable Similar to the concept of the self assessment income tax scheme, small enterprises could make a simple return regarding the number of workers they employ, the state of working conditions and the regulations they have to comply with Entrepreneurs should be encouraged to give proposals on the duration and the manner in which they intend to rectify shortcomings Instead of a purely punitive approach, the government could consider encouraging the adoption of certain regulations by providing credit to small industries to comply with certain measures of the Factories Act Similarly, environmental regulations which require an enterprise's resources could be encouraged through credit lines for the purpose

xvi. A fourth recommendation relates to the low literacy level of small entrepreneurs Entrepreneurs noted that they often found it difficult to deal with complicated regulations and to verify whether particular regulations do apply to him or whether they are arbitrarily set by the official visiting them To strengthen the capacity of small entrepreneurs to deal with the regulatory framework, collective legal bodies could be established Law advisory centres could be set up through contributions from members of particular SSI sub-groups Such centres would not be expensive and would strengthen the capacity of small entrepreneurs to deal with the regulatory framework Such legal centres would contribute to the development of formal management practices amongst small entrepreneurs

xvii. A fifth suggestion relates to the elimination, or substantial reduction, of discretionary powers given to regulatory officials Such powers cultivate an ethos of arbitrary authority which imposes a degree of fear among small entrepreneurs Tax regulations in particular should not be subject to individual interpretation To reduce awe of government, it is vital to remove the substantial discretionary powers enjoyed by scrutinizing officers

xviii. A sixth area of reform are municipal regulations At present, any SSI setting up business within municipal limits has to get a No Objection Certificate (NOC) from the local authority This is a cumbersome procedure, which can involve a great deal of time, resources and patience For this reason, a number of units do not get themselves registered and operate in a clandestine manner Consequently, there appears to be a need to devise a list of SSI sectors which do not require an NOC Obviously appropriate criteria such as pollution effects and noise have to be borne in mind Only those sectors not on the list would require an NOC from the local authority

xix Seven, a systematic application of regulations requires a consistent definition of small scale industry At present there are variations, such as some agencies excluding land from value of fixed assets, whereas other excludes land and buildings for the classification limits of SSI Financial institutions, small industries corporations and the Government of Pakistan's other agencies need to evolve a consistent definition

xx Eight, sub contracting could be limited to a proportion of the work force A regulation which limits the scale of sub-contracting could contribute to better labour-management relations

xxi. Nine, a number of environmental laws have been promulgated recently These are likely to be added to when the National Conservation Strategy is completed later this year A number of SSI are affected, particularly in areas such as leather processing and shoe manufacture The efficacy of these desirable regulations may be limited if additional officials visit SSI for their monitoring This reinforces our earlier suggestion for a single window facility There is a danger that the forthcoming spate of environmental regulations would add to the number of officials visiting SSI This opportunity could be utilised to press the case for a one window operation

xxii Finally, it must be emphasised that reforms of the regulatory framework ought to concentrate more on the institutional mechanism rather than the regulations per se The latter could be rationalised and simplified If all the current regulations were rigidly applied, most SSI would find it difficult to function But the key issue is to reduce the number of monitoring officials visiting SSI and to strengthen the legal capacity of small entrepreneurs to handle the maze of regulations A purely punitive approach has to be replaced by one which combines incentives with regulations

CHAPTER 1

POLICY ENVIRONMENT FOR SMALL SCALE INDUSTRIES IN PAKISTAN.

1.01 The Government of Pakistan has had a compensatory framework towards small scale industry (SSI) The policy structure implicity suggested that the mechanisms targeted towards the development of SSI were, in part, a compensation for a bias in the industrialization strategy Policies which discriminate in favour of large units, and accommodate lower priority programmes for small industries, are not uncommon in developing countries

1.02 Three features of Pakistan's industrial strategy have discriminated against SSI Industrialization was encouraged through

i Investment incentives which directed credit to particular sectors, often at a subsidized rate of interest

ii Trade regulation

iii. Public sector investment programmes

1.03 First, credit controls, and regulated interest rates, biased bank lending towards larger enterprises In the aggregate the bank's lending portfolio could not bear the burden of lending to higher risk and more widely dispersed small enterprises The structure of interest rates did not permit a more market oriented framework which may have directed more credit towards SSI, but at a higher rate than that permitted Investment incentives tended to be directed towards tax concessions related to size of investment or included those which involved administrative work, which the larger units were better placed to take advantage of Second, the trade regime has been biased towards large enterprises since they were better placed to obtain import permits for raw materials and machinery These import permits and export bonus vouchers were important features of the early industrialization strategy in Pakistan Finally, direct public investment in industry involved large capital intensive projects such as the Steel Mill Public intervention has typically set up large units in the capital goods sector and neglected SSI development

1 04 As far as the regulatory framework is concerned, our analysis suggests that its impact varies with size of enterprise However, there is no simple inverse or linear relationship between size of business and impact of the regulatory framework There is a relative bias at both extremes of unit size The complex maze of rules and regulations do not typically apply to units which employ less than 10 workers Thus, very small enterprises are beneficiaries through exemption At the other end of the scale, large enterprises having more than 150 workers are usually operating in a sufficiently secure financial environment to absorb the regulations They also have a management structure and legal advisors who minimize the impact of these regulations on enterprise performance For example, labour laws become effective on a graduated scale However, in large enterprises the proportion of costs incurred due to labour law regulations are rather low, when compared with small enterprises In other words, the additional cost imposed through labour regulations are relatively small in relation to the firm's turnover Thus, the brunt of the regulatory framework appears to be borne by small and medium enterprises which do no fall into either of the extreme categories As our survey shows, the enterprises in the middle range are most vulnerable to the pressures imposed by regulatory bodies This issue is dealt with in detail later in the report The sections below contain an analytical summary review of industrial policies and environment in Pakistan, particularly as it relates to the development of SSI

Early Industrialization Strategy and its effect on SSI

1 05 The initial phase of industrialization in Pakistan involved, as mentioned earlier, capital intensive import substitution The underlying rationale for the chosen strategy had three implications First, industrial policies were to transfer income towards the emerging class of large entrepreneurs This was on the assumption that the trader-turned-industrialist class would have an above average marginal propensity to save Thus, policies which raised their incomes proportionately more than others would lead to a higher aggregate savings rate, yielding, in principle, a faster GNP growth rate based on an

expanded investable surplus The policy bias towards large size and high capital intensity was reinforced by the location of industry and the social relationship between the bureaucracy and the entrepreneurs Most of the pre-partition traders -- the emerging industrialists of the fifties -- were migrants from Indian territory who had shifted to the new capital and port city, Karachi Their intimate links with the bureaucracy were critical for success in a highly regulated and state controlled sanctioning process Small entrepreneurs were neither the object of policy interest nor did they have easy access to government officials, a factor which would be extremely important for the growth of small industrial units Thus the two key factors, policy instruments and institutional access, militated against SSI development Further, it is worth mentioning that SSI were put at a disadvantage by low or negative effective rates of protection since large units paid low prices for imported capital goods and materials Large industries also received higher prices for their products as a result of selective tariffs, exemptions from import duties and export incentives The plant size bias in the structure of effective incentive rates tended to be even more pronounced because of tax incentives and preferential treatment of large units with respect to provision of public utilities Such discrimination not only had direct effects on the economic performance of SSI, but also had indirect effects by depressing demand for SSI products and limiting the ability of SSI to become more active in intermediate products and export markets It may also be worth noting that, unlike India, there was no serious debate about the desirable scale of industrial units In India, the development of a capital goods sector emphasized heavy industry This preference was symbolic of the difference in outlook between Nehru and Gandhi The latter's concern for small traditional enterprises was considered outdated by the framers of the First Five Year Plan, particularly its architect Mahanabolis Nonetheless, the Gandhian interest ensured that size issues in industry were of concern to policymakers and this pressure was reflected in early debates In Pakistan, on the other hand, there was no important advocate of small industry, traditional or modern Perfunctory references were made to the need for developing SSI but inevitably there was a lack of serious intent Industrialization essentially meant capital intensive import substitution

1.06 The second feature of the initial industrialization phase was the implicit transfer of resources from agriculture to industry Consequently, the main focus of subsequent policy debate was the intersectoral resource transfer In the mid sixties, measures were taken to address the relative neglect of agriculture Issues within the industrial sector, such as greater emphasis on SSI, were not a subject of attention The third feature of industrial development was its association with increased regional income inequalities The concentration of economic and financial assets in the famous 'top 22 families' contributed to regional resentment in East Pakistan and class antagonism within the western wing Instead of demands for a wider dispersal of private assets, in which the development of SSI may have played a role, the reaction was directed towards utilizing the public sector to acquire private monopolies and to enter directly into the productive process Inspite of its concern with employment generation, subsequent development under the public sector tended to be concentrated in long gestating and large capital goods sector projects Even during the seventies, the focus of policy was on nationalization and the expansion of the public sector SSI continued to receive marginal attention from policymakers A measure of such neglect is provided by the fact that rather arbitrary assumptions were made regarding the growth of SSI During the fifties, they were assumed to be growing at the same pace as population growth Later the growth rate of SSI was revised to 7% annual

1.07 Inspite of an adverse policy environment, a number of developments provided a stimulus to the growth of small scale industries in Pakistan The reasons for this impetus can be divided into two categories

i The failure of import substitution industrialization to tackle pressing economic problems

ii. Developments in the socio-economic environment which were favourable for the growth of SSI

1.08 An overvalued currency, artificially low interest rates, fiscal concessions and heavy protection led to the growth of an industrial structure which was not only inefficient but

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also was a poor absorber of labour. It was estimated that between one-half to two-thirds of value added was due to the protection given to the domestic industry Thus, when measured at international or world prices, most of the large industrial units could be classified as inefficient [1] Another shortcoming was that the high capital intensities of these large units led to slow growth of employment in large scale manufacturing (LSM) The inability of the LSM sector to absorb an adequate share of the labour force has been largely responsible for the greater attention being paid to SSI

1 09 Five features of Pakistan's socio-economic environment in the seventies contributed to the growth of SSI First, the nationalization programme was directed towards large enterprises Private investment in LSM came to an abrupt halt The fear of being nationalized paralyzed the development of LSM Subsequently private investors tended to favour medium and small scale units, which would remain outside the fold of public take over Further, the labour legislation coming in the wake of nationalization gave greater protection to workers than had ever been the case in Pakistan The benefits introduced through such legislation raised the price of labour particularly for larger enterprises, since benefits were related to scale Such legislation has tended to favour establishment of very small units and sub-division of existing ones in order to circumvent prescribed measures This is a matter that we return to later in the report The second factor promoting SSI was the 130% devaluation of the Pakistani rupee in 1972 This reduced the bias towards capital intensive import substitution

1 10 The third factor favouring growth of SSI was the accelerating population growth rate Pakistan's population has been growing at a higher rate every decade since the country's inception A country of approximately 110 million is growing by 3 2% every year, making it the highest population growth rate in the world for a major country It is quite evident from the factor proportions embodied in imported LSM units that this sector will be peripheral to employment generation Even a 7% growth in LSM is likely to absorb only a fraction of the over 3 million people who are added annually to the Pakistani workforce Incessant population pressure is the undercurrent which is feeding the growth of employment in the informal as well as the formal small scale sector It is increasingly clear to policymakers that employment creation in Pakistan necessarily involved greater attention to the growth of SSI

1 11 The fourth factor promoting SSI has been the large scale migration of Pakistani workers to the Middle East, beginning from the mid-seventies These workers have been sending remittances[2] and accumulating small surpluses for investing in micro enterprises With the slowdown in the world economy, migrants have been returning to Pakistan Typically they are engaged in efforts to establish their own small enterprise, rather than go back as wage earners in LSM This process is promoting a diverse growth of small enterprises Finally, a factor responsible for greater attention to small scale production is political uncertainty Pakistan has been in a continuous state of political insecurity since the seventies People's perceptions regarding changes in government and policies tend to lead to caution regarding large scale investment Private, as well as public decisionmakers tend to operate on a short term horizon in such circumstances Long gestating investments in large enterprises tend to be replaced by smaller investments with quicker returns The economics of uncertainty favours SSI

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1. The degree of inefficiency and effective protection extended by the policy framework is a subject of controversy. A detailed examination is beyond the scope of this paper.

2 At their peak, these exceeded $3 billion annually, which was equal to 8% of GDP in 1982-83.

CHAPTER 2

BASIC DATA ON SMALL SCALE INDUSTRIES AND DIRECTIONS FOR FUTURE GROWTH.

2 01 The future role of SSI is central to the current debate on Pakistan's economic strategy. Strong statements and initiatives by GOP in support of private enterprise has raised fears that some of the mistakes of the Ayub era will be repeated In particular, concern is often expressed at possible adverse distributional consequences In this context, it may be extremely important to encourage and promote small entrepreneurs so that government policy is seen to have a favourable asset and entrepreneurial creation impact across society Factor efficiency and distributional concerns are important considerations for the growth of the SSI sector in Pakistan

2.02 Small scale industry however runs into a number of definitional grey areas There is no consistent categorisation for the amorphous mass of enterprises which constitute the small scale sector Some government departments define size by value of fixed assets, excluding land Others use the number of workers employed, excluding subcontractor's workers Some institutions use a combined definition of capital and labour employment The small industries corporations define an SSI as an enterprise with a value of original fixed assets upto Rs 10 million, excluding land Some credit lines of commercial banks have a similar fixed assets value limit, but exclude buildings as well as land (1) This clause enables enterprises with substantial buildings and large subcontracted labour to take advantage of credit lines targeted at SSI These lines often have a leakage to medium scale industry, as well as biases towards the larger side of the SSI spectrum The Labour Department does not have a three level definition structure of small, medium and large Different labour regulations come into effect in relation to size of workforce Typically, the exemption limit is 10 Above this figure, numerous labour regulations come into force at different scale of employment Income tax laws also do not correspond to a three scale definition of industry The main classification regarding scale is the self assessment scheme, wherein income declaration of less than Rs 200,000 can be accepted, by and large, without scrutiny Precise categorisation is compounded by three additional factors

i The legality of enterprise Many enterprises in the informal sector conform to established, diverse definitions of SSI Some enterprises conform to basic legal requirements whereas others try and avoid regularisation Indeed, in practice, the term informal sector itself runs into considerable operational difficulties

ii The difference between cottage and small scale industry is not always clear

iii. Small industries embody different technological levels Categorisation by scale often involves institutions been given a mandate to stimulate both modern SSI as well as traditional crafts

2 03 An industrial unit in Pakistan faces a large number of regulations and regulatory bodies, once it starts operations These include ,

i. The social welfare department which collects social security at 7.5% of wage bill for units above certain size
ii. Old age employments benefits organization collects its dues separately.
iii State Life Insurance collects compulsory group insurance for industries of a certain size
iv. Municipal corporations give permission & levy taxes.
v. Sanitation & food departments have environmental concerns
vi. Labour department has labour laws to implement

1. This was noted by officials of the Punjab Small Industries Corporation, interviewed by EPRU.

Table 1

Employment Generation in Pakistan's Manufacturing Sector

	1963-64 to 1969-70			1969-70 to 1980-81		
	Total	Large	Small	Total	Large	Small
Change in Employment (000 Nos)	550	152	398	720	60	660
Change in Output at Constant Prices of 1959-60 (Million Rs)	1,991	1,810	181	4,026	2,584	1,442
Investment at Constant Prices of 1959-60 (Million Rs)	6,271	5,507	764	12,650	11,114	1,536
Incremental Capital/Labour Ratio	11,402	36,230	1,920	17,569	185,233	2,327
Percentage Change in Employment	24.9	37.8	22.0	20.7	10.8	29.9
Percentage Change in Output	62.3	81.0	18.8	77.6	63.9	126.0
Employment Elasticity	0.40	0.47	1.17	0.27	0.17	0.24
Incremental Capital/Output Ratio	3.15	2.04	4.22	3.14	4.30	1.07

BEST AVAILABLE DOCUMENT

Our assessment of the impact of the regulatory framework on small enterprises is largely based on a survey of five sectors and interviews with government officials as well as private sector representatives Our review of regulations notes the confusion and definitional ambiguities However, a resolution towards clarify and consistency is not sought in this paper The need for rationalisation is important to eliminate current confusion The context to our subsequent analysis is provided by some basic data on small scale manufacturing in Pakistan in this chapter This is followed by a summary of Government of Pakistan's policy and institutional framework for the promotion of SSI The chapter also contains suggestions for the broader development of SSI, within which a rationalisation of the regulatory framework can play a role

2.04 The share of the manufacturing sector in GDP has risen from barely 7% at the time of partition to nearly 19% in 1989-90 Officially, the small scale manufacturing sector produces 4 7% of the Gross Domestic Product Approximately 27% of total manufacturing output comes from SSI, whereas 80% of the total industrial labour force is employed by small scale industries (2) About 2 million workers are employed in over 100,000 establishments The high labour intensity and capital efficiency of SSI is further substantiated by the fact that the average investment cost per job is merely $1,800, whereas the average capital output ratio is about 0 8 The last quoted figure is indicative of the significance of SSI to employment absorption 30% of Pakistan's manufactured exports are produced by SSI Sialkot is a major centre for the export of goods produced by SSI Traditionally, SSI in Pakistan have concentrated on processing raw materials, such as cotton, food and construction materials Another important area has been exports oriented SSI such as those found in the surgical, sports goods, cutlery and carpet sectors Leather processing and products has emerged as another important avenue for SSI based exports

2.05 Light engineering, textile products and agriculture related industry are likely to remain the principal growth areas in the short and medium term Agro-based industry typically accounts for a third of total investment in SSI This sector's share is expected to grow, particularly in the areas of rice and flour milling, oil extraction and in the processing of fruits and vegetables for export and the domestic market Although the current incentive structure for exports does not discriminate against small producers, it has led, in some circumstances, to a harmful proliferation of small exporters undercutting each other to a point where the country's market reputation has suffered As a consequence, fiscal reforms have been suggested which would encourage formation of export houses, whose intermediation is intended to act partly as a quality control measure

2.06 As mentioned earlier, data on SSI is not very reliable Initially assumed to be growing as fast as the country's population, national accounts have subsequently become more realistic if not more refined The growth rate was assumed to be 7 3% between 1972-77 and 9 4% thereafter However, an ILO-ARTEP study has noted that the rate of growth of SSI is higher than that assumed by national income accounts For example, the study shows a growth rate of 13 5% in SSI for the 1970-77 period (3) The precision of growth rate measurement may be elusive but the general direction is clear SSI have been growing rapidly and the pace has been accelerating over the last two decades (4)

2. Pakistan Economic Survey, 1989 90

3. ILO-ARTEP Employment and Structural change in Pakistan - issues for the eighties Bangkok 1983.

4. It is worth noting that the World Bank's third sector loan to SSI, currently being disbursed, contains an allocation for strengthening statistical information on the small scale sector Prior to this, the Federal Bureau of Statistics has published 3 data compilations on SSI At present the World Bank is carrying out a major household living standards survey which should shed more light on the SSI sector

2.07 The employment generating capacity of SSI is illustrated by the following Even during the heyday of LSM (1963-1970), the brunt of employment generation in manufacturing was borne by SSI The sector created 550,000 jobs, out of which 398,000 were in SSI Thus SSI were creating over 250% the number of jobs as LSM during a period when the latter was the primary target of policy attention The situation worsened in the seventies During 1970-80, SSI generated 660,000 jobs which compares with 60,000 for the large scale sector In other words, the small scale sector generated 11 times as many jobs as the large-scale sector The differences between the two sub-sectors are summarised in table 1, which appears after page 6

TABLE 2 . PROVINCIAL DISTRIBUTION OF SSI RECEIVING CREDIT ASSISTANCE.

PUNJAB	62%
SIND	31%
NWFP	5%
BALUCHISTAN	2%

2.08 One of the reasons for the difference in factor proportions, between the large and small scale sectors, is access to credit Less than 2% of SSI in Pakistan have access to bank credit [5] Small industries receive approximately 3% of the credit extended to the industrial sector Bank credit is not available on the required scale for SSI on account of a number of inter-related factors, there is an institutional bias in favour of large industries, officially determined credit policies do not allow sufficient interest rate spreads to reflect higher risk to dispersed small borrowers, small entrepreneurs are daunted by collateral and procedural demands

2.09 Although its attention may have been concentrated on large scale industry, the Government of Pakistan has periodically acknowledged the importance of SSI The GOP has undertaken targeted assistance programmes, which have essentially constituted compensatory elements within a broad framework of large scale bias As far as the 5 year plan documents are concerned, government's pronouncements have moved from being obvious and almost banal to those which call for a more realistic and concerted approach to develop SSI The first five year plan (1955-60) stated that

'Small industry has specific contributions to make to economic development In the first place, it can contribute to the output of needed goods without requiring the organisation of large new enterprises or the use of much foreign exchange to finance the import of new equipment Secondly, it can provide opportunities for employment beyond the narrow boundaries of urban centres Finally, as history shows, it can perform an important function in promoting growth, providing a training ground for management and labour and spreading industrial knowledge over wide areas'

2.10 The plan's recommendations resulted in the establishment of state owned Small Industries Corporations, with the diverse mandate of providing credit assistance, technical

5. Study on Small Scale Industries in Pakistan UNIDO Vienna 1981 GOPA Consultants.

training and assistance with marketing and production of the small scale sector. At present, these corporations are divided on a provincial basis As can be seen from table 2, over 90% of SSI are in Punjab and Sind As is generally the case with SSI data, the provincial distribution should be treated as approximate indicators of dispersion, since the figures relate to formal credit assistance to SSI The distribution of enterprises seems to be biased against NWFP, a province with a thriving small business sector The workload of the provincial small industries corporations generally reflects the geographic dispersion given in table 2 The Punjab Small Industries Corporation (PSIC) is the most active of the provincial bodies, followed by Sind In general, the SICs have concentrated on the provision of physical facilities, development of SSI industrial estates, the building and equipping of service centres and establishing production centres for handicrafts There are, however, substantial deficiencies in the efficacy of SIC's delivery system as well as in the quality of service provided Currently efforts are being made, supported by aid donors such as the Netherlands Government to reform SICs by increasing their direct involvement with the private enterprises as well as developing alternative institutional channels in the private sector for SSI development The World Bank, for example, is aiming to increase private sector involvement in areas of export marketing and technology transfer for SSI, under its present credit programme for the small sector They have operated in an unhelpful policy environment

2.11 The Second Five Year Plan (1960-65) noted the failure to meet the objectives of SSI development, set out in the First Plan but went on to state more general objectives These intentions, summarised below, were repeated verbatim in the Third (1965-70) and Fourth (1970-75) Five Year Plans

i. to adapt small industries to changing technological, economic, and social conditions,
ii. to stimulate production of implements and equipment required for agriculture,
iii to encourage the processing of indigenous raw materials,
iv. to create additional employment opportunities,
v to modernize such existing units as have sound economic prospects,
vi. to promote modernization by encouraging growth of small industries in rural areas in general and wherever resources and markets are available in particular,
vii to bring about a closer relationship between the small and large industries through, for example, the production of spares and accessories or components for large-scale industry or through providing facilities for the maintenance and repair of equipment in use either by large-scale industries or in other sectors of the economy, and
viii. to preserve and promote traditional arts and crafts

2.12 A less mechanical and more pragmatic approach was evident in the Fifth Five Year Plan (1978-83)

'the small industries sector has considerable potential for growth but it suffers from a number of problems relating to organization, financing, technology, and marketing To facilitate the development of this sector, there is need to have a closer look at the constraints under which this sector operates and to remove the hurdles which inhibit its healthy growth There is also need to provide some special incentives and assistance to small entrepreneurs who have the resources or skill that can be profitably exploited Fiscal and commercial policies will give due recognition to these factors during the plan period '

2.13 Both the Sixth and Seventh Plans acknowledge the growing significance of small scale industry But the broad policy pronouncements have yet to be matched by sufficiently serious attention to the financial, institutional and policy measures required to support SSI development in Pakistan Inadequate access to investment funds, markets and technology remain major obstacles to the development of SSI The informal credit market continues to provide financing at rates of interest which may reflect risk but also act as a hindrance to dynamic capital formation As far as the formal sector is concerned, the five nationalised commercial banks are primarily responsible for lending to SSI [6] The State Bank sets annual aggregate targets, which are divided among the NCB's in relation to their deposit ranking Because of a scarcity of long term finance and, until 1988, a lower lending rate for SSI term loans, the commercial banks were more inclined to lend for working capital - loans which carried a higher rate of return Since the provision of long term funds for SSI, through credit lines extended by IDA since 1982, fixed investment loans to SSI appear to have increased It is estimated that the formal sector's share in SSI lending has increased from 30% to 40% of credit requirements [7] Nonetheless, SSI development requires a concerted supportive effort by the Government of Pakistan The issues which need systematic attention include

i The government could consider establishing a high powered body for formulating, implementing and monitoring SSI development policies and programmes The representation on this body is vital for its success It ought to contain senior officials, relevant political figures, entrepreneurs, science and technology institutions This high powered body could collaborate with sectoral associations of small entrepreneurs to develop policies and institutions in support of SSI

ii A number of public sector technology and marketing assistance centres, such as the Metal Industries Development Centre (MIDC), Sialkot and the Institute of Leather Technology (ILT), Gujranwala, could be more effectively integrated with the private sector's needs Small entrepreneurs could have more direct representation on these bodies These centres could also arrange consultancy services of use to SSI For example, institutions such as the Lahore University of Management Sciences could be asked by MIDC to run courses for management training relevant to the development of SSI

iii. A number of small scale industries are in urgent need for modernisation Technical assistance programmes from aid donors could be targeted specially at SSI Again institutions such as MIDC and ILT could be re-organised so that they can become effective instruments for raising SSI productivity through such technical assistance programmes The modernisation programme should be selective Some sub-sectors should be chosen for priority assistance, in view of their potential contribution to output and employment generation Once these sub-sectors of SSI have been chosen, an intensive and broad modernisation programme should be launched

iv. The promotion of rural SSI could be more systematic than the recently announced rural industrialisation programme Infrastructure provision and support could concentrate on chosen sectors and areas The government does not have the resources to support a broad strategy, since tax incentives are not sufficient to tempt industry to rural areas A more concentrated infrastructure provision for rural SSI may be required

6 Some of the development finance institutions also have a mandate to assist SSI Principal among these are the Small Business Finance Corporation and the Industrial Development Bank of Pakistan

7. The World Bank The Third Sector Loan to SSI in Pakistan
It is perhaps worth noting that World Bank figures regarding the proportion of SSI credit requirements serviced by the formal sector are much higher than estimates published by Small Industries Corporations.

v. The government could consider giving preference to products of SSI in its purchases However, care needs to be taken that such reservation does not subsidise inefficient small producers Price and quality criteria could also be incorporated

vi. Sub-contracting arrangements between large scale enterprises and SSI could be encouraged through the formation of subcontracting exchanges

vii. Support programmes could be initiated for the development of associations for women entrepreneurs Credit lines and management training could be targeted at female entrepreneurs wishing to set up small businesses

viii Development finance institutions could open specia windows for small entrepreneurs, which provide a range of services consistent with a low literacy rate of small entrepreneurs Simplified procedures, easier access and technical assistance could be more useful than subsidised credit Currently only 5% of credit going to the industrial sector is received by SSI The allocations to SSI should rise to atleast 15%

ix. Some of the more innovative credit guarantee schemes and group collateral procedures adopted by institutions such as the Grameen Bank in Bangladesh could be promoted for the development of SSI

x. The primary constraint to the growth of SSI units tend to be internal The combination of technical, managerial and productivity limitations could be addressed by associations of small entrepreneurs in collaboration with research institutions, government bodies and aid donors The results of such discourse should lead to comprehensive sub-sectoral interventions

xi Targeted credit lines for SSI, from aid donors, based upon systematic sub-sectoral analysis emerging from the above

xii. Finally, the macro-policy framework needs to be consistent with targeted assistance for SSI The move from a compensatory to a supportive regime would require rationalisation of macroeconomic instruments

2.14 This selective list of SSI supportive measures are ofcourse merely indicative of the kind of changes required for a more systematic development of SSI A comprehensive framework of policies, programmes and institutions is beyond the scope of this paper The following chapters concentrate on the effect of the regulatory framework on small establishments and suggest measures to reduce some of the glaring burdens emerging from our analysis The effect of regulations is assessed in the context of micro level observations of the financial, technical and working environment of 18 small enterprises in Lahore, Gujranwala and Sialkot It must be emphasised that an overhaul of the regulatory framework would require more detailed analysis than that permitted by the time frame of our enquiries In any case, the pattern that is emerging from this initial study suggests areas of fruitful reform It is also worth emphasising that our study concentrates on small scale industry Medium sized enterprises were visited but it was felt that the paper's purpose would be better served by concentrating on SSI As is evident from our subsequent analysis, the size bias of the regulatory framework has a complex pattern Its mechanics are better understood by examining SSI and looking at the implications for larger enterprises

2.15 The areas of concern to the private sector, particularly the impediments to industrial development, are reproduced in Appendix 1. These comments were submitted to the Government of Pakistan in 1989 They include references to the regulatory framev ork The typed comments in the right hand column were made by the Punjab Small Industries Corporation

CHAPTER 3

EXISTING LEGAL AND REGULATORY FRAMEWORK REGARDING SMALL SCALE INDUSTRY.

SECTION I : LAWS

3.01 The legal and regulatory framework pertaining to manufacturing industries is comprised of various components including direct and indirect taxation and labour laws Out of these, the system of direct taxation and labour laws are discriminatory to the scale of the industry while the indirect taxes, like import duties, excise and sales tax, vary across industrial sub-sectors The incidence of indirect taxation depends on the nature of commodity produced and the targeted market Therefore, for the purpose of this study, only the direct taxation system and labour laws are focussed and their impact on the growth and development of medium and small scale industries assessed

3 02 In order to comment on the efficiency or inefficiency of the regulatory framework and its implementation mechanism, it is imperative to first have an idea of the policy structure and the implementation procedures The basic regulatory framework regarding income tax and labour laws is described below For details of the legislations, refer to annexure 2

Regulations Regarding Assessment and Collection of Income Tax

3 03 According to the regulations of the income tax ordinance 1979, every businessman should get himself registered with the Income Tax Department A National Tax number will be issued to him by the area income tax officer Every businessman is required to file his income tax returns after the closing of his books of accounts Under the present taxation laws, income tax returns should be filed by closing the books of accounts by the 30th of June every year The government has given options to close the books of accounts on 30th December also, as may be desired by the businessman

3 04 The system of income tax collection starts with the assessment of tax against the businessman by the income tax assessing officer (ITO) Based on that the assessing officer passes the assessment order The calculation is made on the basis of returns filed by the businessman If unsatisfied with the assessment, the assessee (businessman) can file an appeal before the commissioner of income tax appeals Such appeals are disposed off by the income tax commissioner and opportunity is given to the assessee to explain his complaints If still unsatisfied with the appeal decision, the appellate assessee has the right to file a further appeal before the income tax appellate tribunal of Pakistan The income tax appellate tribunal is the final deciding authority However, the assessee can still file reference before the high court on law matters The tax department usually starts demanding the tax after passing assessment orders In case of appeals, immediate remedial measures should be undertaken to obtain stay from the commissioner of income tax

3 05 It can be seen from the procedure described above that income tax assessment appeal decisions can be very cumbersome and lengthy Once a wrong assessment is made by the assessing officer, the businessman can get trapped in a long and complicated system of procedural details Entrepreneurs interviewed by EPRU emphasised the significance of the absence of an effective legal machinery The efficiency of the legal system does not conform to the extensive regulations prescribed This gap leads to implementation difficulties and is a major cause for distortions since every effort is made to avoid litigation

3 06 To simplify procedures and widen the tax net to include small businessmen, the GOP decided to introduce a system of self assessment in 1979-80 This was based on a system of trust and confidence which the state placed on the tax payers The upper limit for the self assessment system was placed at a taxable income upto Rs 100,000. The

objective was to provide some relief to the small scale businessmen and firms from the interface with the income tax assessing officers Only 5% cases were picked out through random computer balloting, for audit checking purposes This was a measure to maintain some checks and balances in the system The persons picked out for audit once were provided immunity from checking for the next assessment year The taxpayers, according to the system, were only required to show their sales receipts, cost of sales, and other expenses incurred in order to arrive at the total taxable income From this, the total tax payable was assessed by the assessee himself after deducting the basic exemption The basic exemption has been set at Rs 40,000 for salaried persons and Rs 30,000 in other cases[1] On the remaining income, tax is charged in a progressive manner Exemptions from income tax are provided for certain industries including agro-services, storage of food grains, poultry farming, fish farming, manufacturing and renting of agricultural implements[2]

3 07 Self assessment system continued till 1988-89, albeit with slight modification for showing a progressive increase in the income assessed every year In 1988-89, it was replaced by an even simpler system called the Simplified Assessment Procedure (SAP) According to this system, the tax payer just had to fill in a SAP assessment form[3] It differed from the self assessment system in that for SAP, no documents had to be attached with the tax return form, providing maximum relief to the small scale tax payers This system has, however, been recently withdrawn and replaced once again by self assessment system under the premise that people had started misusing it grossly There was a growing tendency amongst businessmen to evade income tax by showing extremely low amount of taxable income

3 08 The self assessment system that has been introduced in the 1990-91 budget has an upper limit of Rs 200,000 Provisions for computer determined random audit assessment have been reintroduced It can be seen that over the years, there have been quite significant changes in the legislation regarding the assessment of income tax However, no significant improvement has been achieved in the implementation process in order to improve the efficiency and honesty of the collection system In 1987-88 the assessment system was changed from a single assessing officer to a panel of three assessing officers to make the tax assessment It was hoped that with three persons making the assessment instead of one, the level of corruption in the department would be reduced However, this change did not work out the way it was intended to It has, therefore, been replaced again with the former system Measures such as the self assessment scheme are steps in the right direction as far as broadening the direct tax base and reducing the role of the income tax officers is concerned Some abuse is inevitable but the government would be well advised to pursue along this path and try to reduce rather than reintroduce greater contact of taxpayers with officials

3 09 It has been claimed by the business community that the income tax assessing officers are provided with discretionary powers to make the assessments This, alongwith a poor system of accountability, low pay scales and weak judicial system, gives further impetus for corruption to these officials Income tax department officials, although they do not deny the charges of corruption in the system,[4] claim that the initiative and incentive to corruption comes from the tax payers side The debate of 'who corrupts who?' is infinitely long and perhaps one without a conclusive answer However, one thing is for sure , the system of revenue collection is highly corrupt and little has been achieved to improve its

1 ref appendix 2 First Schedule of Income Tax Ordinance, part 1 Rates of Income Tax

2 Second Schedule of Income Tax Ordinance, section 95 103

3 ref appendix 4

4 Officials were quite candid in interviews with EPRU

efficiency So far, most of the reforms have been made to simplify and reduce the complexity of the assessment of income tax at the lower end of the tax paying sector Consequently, this has translated as an incentive for the industry owners to be classified as a small scale sector enterprise As soon as the entrepreneur crosses the self assessment barrier, it falls prey to the clutches of the revenue department In order to reverse this trend, it is imperative that reforms are made in the whole system of revenue assessment and collection In other words, the tax procedures for higher income earners also need simplification In the absence of this upward rationalisation, assesses have a strong incentive to understate their income, far beyond the 'natural' tendency to do so

Regulations Regarding Labour Laws

3 10 The labour laws relating to industrial establishments are basically laid out in the Factories Act, 1934 Other regulations include the Industrial and Commercial (Standing Orders) Ordinance, 1968 The National Industrial Relations Commission (NIRC) Regulation 1973 and the Punjab Industrial Relations Rules, 1977 These regulations cover issues such as the payment of wages, minimum wages, employees' old age benefits, sharing of companies' profits, employees' social security payment benefits, employment of children and control of employment

3 11 It is out of the scope of this report to give a comprehensive account of each of these laws and regulations However, the mere fact that so many rules and regulations exist in connection with the employment of industrial labour is suggestive of the impracticality and redundancy of a great many of these laws Virtually no SSI establishment in Pakistan is complying with the host of labour regulations There is an urgent need to rationalise and reduce these to a set of practical implementable measures Nevertheless, it is worthwhile to take a cursory view of the basic rules and regulations in order to get a handle on these A brief summary of the clauses given in the Factories Act 1934, Industrial and Commercial Establishments (Standing Order) Ordinance and the National Industrial Reforms Commission (NIRC) Regulations is presented below

(A) The Factories Act, 1934.

3.12 This Act describes the basic working conditions which have to be complied with by all the industrial establishments in Pakistan A 'factory', according to this Act, is defined as 'any premises, including the precincts therein, wherein ten or more workers are working, or were working on the preceding twelve months, and in any part of which a manufacturing process is being carried on or is ordinarily carried on with or without the aid of power but does not include a mine' Here it is worth mentioning that the number of workers was originally stated as twenty or more, but was later changed to ten or more workers by the Factories Amendment Act of 1973

3.13 The Act can be applied, by notification in the official gazette by the Provincial Government, to any place wherein a manufacturing process is carried on or is ordinarily carried on, whether with or without the use of power, wherever five or more workers are working therein or have worked therein on any one day of the twelve months immediately preceding' This shows how narrow and sharp can be the cutting edge of this Act

3.14 Before the commencement of work in any factory, the owner (occupier) has to notify the area labour inspector about the following details of the factory

1. Name of the factory and its situation
2. The address to which communications should be sent
3. Nature of the manufacturing process to be carried on in the factory
4. The nature and amount of power to be used

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5. The name of the manager.
6. Other such particulars as may be prescribed for the purposes of the Act

3.15 After the above notification, a factory is granted a registration certificate. No factory is permitted to work without this document The registration certificate has to be renewed every year after the payment of the prescribed fee Penalty for failure to register and get a registration certificate is punishable upto Rs 500 and upto Rs 1000 if convicted for a second time on the same offence

3.16 The inspecting staff consists of various persons appointed by the provincial Government These include Chief Inspector, Inspectors (including every district magistrate in the area), Additional Inspectors and Certifying Surgeons (refer to chapter II of the Factories Act) The powers of these inspectors are extremely discretionary in nature and they have the right to enter and inspect any place, premises and plant, and examine any prescribed registers as they may deem necessary for the purposes of the Act It is interesting to note that a separate inspector is appointed for the inspection of the various sections (health and sanitation, minimum wages, social security, etc) of the department of labour According to one estimate, given in our survey, there are about thirty to thirty-five officials with whom a businessman has to deal with in order to carry out his normal routine business The figure may be exaggerated but the point is well taken This indicates the consumption of a tremendous amount of time which the owner or manager has to spend with these officials at the expense of the business concern If these inspection procedures are simplified to some extent, much of this time could be saved and spent on the development activities of the establishment

3 17 Under the provisions of the Act, the following aspects are subject to inspection by a labour inspector or certifying surgeon [5]

3 18 <u>1. Health and Sanitation</u>

Under this chapter (refer to chapter III of the Factories Act), the following clauses are included which pertain to the health and sanitation regulations applicable to all factories

1 1 Cleanliness
1 2 Ventilation and Temperature
1 3 Dust and Fumes
1 4 Artificial Humidification
1 5 Overcrowding According to this at least 350 cubic feet of space should be provided per worker in case of factories established at the time of the enactment of the labour law ordinance of 1972 and 500 cubic feet per worker in case of factories established after the ordinance
1.6 Lighting
1 7 Drinking water
1.8 Latrines and Urinals
1.9 Spittoons
1.10 Precautions against contagious or infectious disease and compulsory vaccination
1.11 Provision of canteens in case of factories employing more than 250 workers.
1 12 Employment of welfare officers in case of factories employing more than 500 workers.
1 13 Arrangements for fire-fighting and emergency exits
1 14 Fencing of machinery
1 15 Work on or near machinery in motion
1 16 Employment of young persons on dangerous machines

5 For details on the legislation, refer to appendix 4 The Factories Act, 1934.

1.17 Striking gear and devices for cutting off power
1 18 Self acting machines (automatic machines)
1 19 Casing of new machinery
1 20 Prohibition of employment of women and children near cotton openers.
1 21 Cranes and other lifting machinery
1 22 Hoists and Lifts
1.23 Revolving machinery
1.24 Pressure plant
1 25 Floors, stairs and means of access
1 26 Pits, sumps, opening in floors, etc
1 27 Lifting of excessive weights
1 28 Protection of eyes in case of excessive exposure to heat and light
1 29 Powers to require specifications of defective parts or tests of stability
1 30 Safety of building, machinery and manufacturing process
1 31 Powers to make further rules to supplement the rules already laid out relating to:
- a) Precautions against dangerous fumes
- b) Explosive or inflammable gas, etc
- c) Power to exclude children
- d) Notice of certain accidents

3 18 2 Restrictions on Working Hours of Adults

This chapter (refer to chapter IV of the Factories Act) deals with the working hours of the adult employees of the factory The maximum number of working hours for adults in a factory has been set at 48 hours per week and 50 hours per week for a seasonal factory If an adult worker is engaged in work which for technical reasons must be continuous throughout the day, he may work for 56 hours per week Other provisions of the Act include

2 1 Weekly holidays for adult workers on Fridays
2 2 Compensatory holidays
2 3 Daily working hours should not be more than nine hours on any day
2 4 Intervals for rest
2 5 Spreadover of intervals for rest should not be more than ten and a half hours
2 6 Notice of periods of work for adult workers should be correctly maintained and displayed in every factory
2.7 Copy of notice of periods of work to be sent to the labour inspector
2 8 Register of adult workers
2.9 Powers to make rules exempting from restrictions
2 10 Powers to make orders exempting from rastications
2.11 Further restrictions on employment of women
2 12 Special provision for night shift
2 13 Extra pay for overtime
2.14 Obligation to work overtime
2 15 Restriction on double employment
2 16 Control of overlapping shifts

It can be seen from the above mentioned rules and powers of the labour inspector that a considerable room for corruption and bribery exists as regards the working of overtime, exemptions and special provisions for extra shifts It is claimed by the business community that the labour inspectors make full use or misuse of these powers It is said that they seldom keep proper records or maintain documentation

3.18 3 Holidays with pay

This chapter of the Act deals (refer to Chapter IV-A of the Factories Act) with the regulations regarding paid holidays to which a regular worker is entitled

3 1 Annual Holidays Every worker who has completed a period of twelve months' continuous service shall be allowed paid holidays for a period of fourteen days. The pay for these holidays shall be paid before his holidays begin

3 2 Casual leave and sick leave

3 3 Festival holidays

An interesting clause of this chapter is Section 49-G which reads as follows
"Exemption of factories from the provisions of this Chapter Where the Provincial Government is satisfied that the leave rules applicable to workers in a factory provide benefits substantially similar to those for which this chapter makes provision, it may, by written order exempt the factory from the provisions of this chapter "
It can be well imagined as to what means the factory owners may resort to in order to make the Provincial Government 'satisfied' that the leave rules provided by the factory are similar to the ones laid out in the chapter

3.18 4 Special Provision for Adolescents and Children

This chapter (refer to chapter V of the Factories Act) safeguards the rights and the working conditions for any adolescents and children working in the factories The following are the salient features of this chapter,

4 1 Children under four years of age are not allowed to work

4 2 Certificate of fitness to be given by the certifying surgeon in case of adolescents

4 3 Restrictions on working hours of a child No child or adolescent should be allowed to work in a factory for more than seven and a half hours in any day

4 4 Notice of periods of work to be correctly maintained and displayed in the factory

4 5 Register of children workers should be maintained

4 6 Hours of work to correspond with the Notice and Register

4 7 Power to require medical examination

4.8 Power to make rules to rest with the Provincial Government regarding the following,

i) Prescription forms of certificate of fitness
ii) Physical forms to be attained by the children and adolescents
iii) Procedure of certifying surgeons

Contravention of these clauses laid out in the Factories Act is punishable with a fine which may extend upto Rs 500 However, the labour inspector has the authority to make one Challan (penalty order) for an offence concerning (say) 100 persons or he can make separate challans for every three workers working in the factory Powers like these add to the general misuse of authority by these officials and the degree of mistrust and harassment which the business community feels towards them

(B) The Industrial and Commercial (Standing Orders) Ordinance, 1968.

3.19 This is another important legislation concerning the service conditions and other benefits which should be given to industrial labour (for the details of the Ordinance refer to appendix 6) It extends to the whole of Pakistan and is applicable to every industrial establishment or commercial establishment wherein twenty or more workmen are employed, directly or through any other person whether on behalf of himself or any other person, or were employed on any day during the preceding twelve months

3.20 The Inspectors of Mines appointed under section 4 of the Mines Act, 1923, the Inspectors appointed under section 10 of the Factories Act 1934, and other such persons not being conciliators appointed under the Industrial Relations Ordinance 1969 as Government Inspectors by notification in the Official Gazette, shall be inspectors for the purposes of the ordinance within the local limits assigned to each

3.21 *An inspector may at all reasonable hours enter on any premises and make such examination of any register or document relating to the maintenance or enforcement of the Standing Orders and take on the spot or otherwise such evidence of any person, and exercise such other powers of inspection, as he may deem necessary for carrying out the purposes of this Ordinance There is a familiar discretionary ring to these regulations It can be seen from this piece of legislation regarding the powers of the inspector, how excessively discretionary these are and how easily these can be distorted*

3.22 An employer who modifies the Standing Orders applicable to his industrial or commercial establishment, otherwise than in accordance with Section 4, shall be punishable with fine which may extend to five thousand rupees, and in case of a continuing offence, with a further fine which may extend to twenty-five rupees for every day after the first day during which the offence continues

3 23 Whoever contravenes any of the provisions of this Ordinance shall, if no other penalty is elsewhere provided by or under this Ordinance for such contravention, be punishable with fine which may extend to one hundred rupees Whoever, having been convicted of any offence punishable under sub-section 1, 2 and 3, again commits such offence shall, on conviction be liable to double the punishment prescribed for such offence under the aforesaid sub sections No prosecution to an offence punishable under this Ordinance shall be instituted except by or with the previous permission in writing of the Inspector No court other than a Labour Court established under the Industrial Relations Ordinance, 1969 shall try any offence under this Ordinance

The salient features of the rules and regulations laid out in the Standing Orders are as follows

1. **Classification of workmen.** The Standing Orders classify the workmen as:
   1) permanent
   2) probationers
   3) badlis (one working in place of a permanent workman or probationer),
   4) temporary
   5) apprentices

2. **Tickets.** Every workman shall be given a permanent ticket, badli card, apprentice ticket or temporary ticket depending on the nature of his employment Every workman at the time of his appointment , transfer or promotion shall be provided with an order in writing, showing the terms and conditions of his service

3 **Publication of working time.** The periods and hours of work for all classes of workmen in each shift shall be exhibited in Urdu and in the principal language of workmen employed in the industrial or commercial establishment

4. **Publication of holidays and pay days**

5. **Publication of wage rates** ,

6. **Shift working.** Working of more than one shift is discretionary of the employer If more than one shift is worked, the workmen shall be liable to be transferred from one shift to another No shift working shall be discontinued without one month's prior notice to such discontinuance, provided that no such notice shall be necessary if, as a result of the discontinuance of the shift working, no permanent employee will be discharged

It is important to note that the above mentioned clause of the Ordinance applies only to 'permanent workers' and thus if an employer is hiring workers on a temporary basis, this clause will not be applicable to him This and other such regulations which exist with regard to the employment conditions of the permanent workers have been instrumental in creating a tendency amongst the employers to hire temporary or contract labour

7. **Attendance and late** coming.

8. **Leave.** Holidays and leave with pay shall be allowed for annual holidays, festival holidays, casual leave and sick leave and other holidays in accordance with the law , contract, custom and usage

9 **Casual leave.**

10 **Payment of wages.**

10 1 **Group Incentive scheme.** In every industrial establishment which is a factory and in which fifty or more workers are employed there shall be introduced from such date as may be specified by the Provincial Government, by notification in the Gazette, a group incentive scheme to provide incentive for greater production to groups of workers employed in the factory The scheme shall provide the manner in which the performance of different groups of workmen, whether in the same section, shops, departments or shifts shall be evaluated The incentive shall be in the form of additional wages or additional leave with wages or in both such forms to the members of the other group of workers whose production exceeds that of the other group of workers

10.2 **Compulsory Group Insurance** The employer shall have all the permanent workers employed insured against natural death and disability and death and disability arising out of contingencies not covered by the Workmen's Compensation Act, 1923 or the Provincial Employees Social Security Ordinance, 1965 The amount for which each workman shall be insured shall not be less than the amount of compensation specified in Schedule IV of the Workmen's Compensation Act, 1923

10.3 **Payment of Bonus** Every employer making profit in any year shall pay for that year within the three months of the closing of that year to the workmen, who have been in his employment in that year for a continuous period of not less than ninety days, a bonus in addition to the wages payable to such workmen The amount of the bonus payable shall, if the amount of the profit is not more than the aggregate of one month's wages of the workmen employed, be not less than the amount of such aggregate, subject to the maximum of thirty percent of such profit

11. **Stoppage of work** The employer may, at any time of a natural calamity or other cause beyond his control, stop any section of the establishment, wholly or partially for any period or periods or without notice If after stoppage, the workers are detained for a period of more than one hour, they shall be paid for the whole of the time, for which they are detained as a result of stoppage In cases where workmen are laid off on account of failure of the plant, a temporary curtailment of production or any stoppage of work, they shall be paid by the employer an amount equal to one half of their daily wages during the first

fourteen days of lay-off as compensation. When, however, the workmen have to be laid-off for an indefinite period beyond the above mentioned fourteen days, their services may be terminated after giving them due notice or pay in lieu thereof

12. **Closure of establishment.** No employer shall terminate the employment of more than 50% of the workmen or close down the whole of the establishment without prior permission of the Labour court in this behalf, except in the event of fire, catastrophe, stoppage of power supply, epidemics or civil commotion

13 **Termination of employment.** For terminating the employment of a permanent workman, for any reason other than misconduct, one month's notice shall be given either by the employer or the workman One month's wages calculated on the basis of average wages earned by the workman during the last three months shall be paid in lieu of notice Temporary workmen, probationers or badlis shall not be entitled to a notice or payment of wages if his services are terminated by the employer

14. **Procedure for retrenchment.**

15 **Re-employment of retrenched workmen.**

16 **Punishments.** A workman may be fined or reprimanded in the manner prescribed in the payment of wages act, 1936, upto three paisa in a rupee of the wages payable to him in a month, for disregard or disobedience, improper behavior, making false or misleading statements, inefficient, dilatory, careless, wasteful or malingering behaviour A workman found guilty of misconduct shall be liable to fine, withholding of increment, reduction to a lower post or dismissal without pay

17 **Eviction from residential accommodation.**

18. **Provident Fund.** (Omitted by labour laws (amdt)act, 1972.)

19 **Grievance procedure.**

20 **Certificate of termination of service**

21. **Liability of employer.**

3 24 *It can be seen from the above mentioned sections and clauses of the Standing Orders that a permanent worker is given a great degree of protection in these laws as compared to temporary workers, especially in case of termination of employment This is one of the reasons why there is a growing trend in the industry to hire contract labour and the employers can avoid a number of laws in that way*

3 25 *Moreover, since these Standing Orders are applicable only to industrial and commercial establishments hiring twenty or more workers, a trend to break up larger units into smaller ones, each employing less than twenty workers, has become quite popular especially in case of small scale sector enterprises This is harmful to the process of industrialization in the long run as it*

i) Hampers the productivity and efficiency gains which could be achieved through economies of scale

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ii) *Due to perpetually small (less than twenty workers) scale of the enterprise, the management potential never really grows*

3 26 *The excessively stringent nature of these regulations are, therefore, doing more harm than good for the industry, as the real benefits of these rules seldom accrue to the workers.*

(C) National Industrial Relations Commission (procedure and functions) Regulation, 1973.

3 27 The NIRC basically deals with the registration procedures and activities of industry wise trade unions (refer to appendix 7). The maximum number of the executive of an industry wise trade union is specified as below.

Where the number of workers employed in the establishment is not more than:	Max. no. of persons forming the executive of the trade union shall be:
50	5
100	8
200	10
300	12
400	14
[illegible]	16
[illegible]	18
[illegible]	20
[illegible]	25

3 28 The commission maintains a register of the industry wise trade unions in form 'I' and a register of federations of such trade unions and federations at the national level in form 'J'. The annual returns are to be furnished by a registered industry wise trade union, a registered federation of such trade unions at the national level, submitted to the Registrar by the 30th day of April each year This would be in form 'K'

3 29 The commission also set the procedures for the determination of a collective bargaining agent, settling of industrial disputes and trials of offences

SECTION II · INSTITUTIONAL MATTERS

Formal and Informal Credit Systems

3 30 Formal credit system include the various nationalized commercial banks, co-operative societies, Small Business Development Corporation(SBFC), International Development Association (IDA), Agricultural Development Bank of Pakistan (ADBP) and the Provincial Small Industries Corporations Through these formal lines of credit short, medium and long term loans can be obtained However, the average small scale businessman is seldom able to secure credit through these sources due to two main reasons Firstly, in order to secure a loan from these formal sources, the businessman is required to provide a collateral Small scale, especially micro-level enterprises usually do not have enough collateral to qualify for credit Secondly, even if collateral is available, the procedures of loan sanctioning at these institutions are so long and heavily bureaucratic

that the businessman is often too daunted to apply Moreover, small scale enterprises are usually set up as either sole proprietorships or partnerships Securing a loan is extremely difficult for these enterprises as banks prefer to deal with registered companies as compared to individuals This should lead to giving incentive to the small scale entrepreneurs to establish limited companies However, it is actually acting as a disincentive as access to formal credit is not guaranteed even if limited companies are set up Therefore, it eventually translates into a general disappointment from formal credit sources leading the businessmen to seek informal sources of credit The informal credit system is more efficient but at times abnormally high interest rates are charged for the amount lent This interest rate can be as high as 50% Informal credit is also sometimes provided by the buyer in the form of an advance payment However, this form of credit also carries an undefined interest cost to it as, invariably, the customer who pays in advance demands some sort of discount in the total price of the product

3 31 In addition to the above export oriented industries are provided credit through the Export Refinance Scheme Under this, an exporter can obtain credit upto 66% of the value of the export order This scheme has generally helped the small and medium scale exporters in providing prompt and timely credit A concessionary rate of interest (6%) is charged for refinance credit However, a few businessmen interviewed by EPRU expressed the opinion that this scheme is also being excessively misused by some exporters Nevertheless, exporters are generally satisfied by this arrangement

Promotional Institutions

3.32 Promotional institutions set up by the government to patronize small scale industry include the Provincial Small Industries Corporation and their subsidiaries These corporations were established with a view to providing training, advice, credit and common facilities to the small scale industry The objective is to introduce new production techniques and improve the quality as well as the quantity of the output of small scale industries The industries to which the Punjab Small Industries Corporation is providing assistance include ceramics and pottery, leather, metallurgy, light engineering, cutlery and surgical instruments, carpet weaving and sports goods The assistance is provided at the various training centres and subsidiaries of PSIC which include

i) Institute of Ceramics, Gujrat
ii) Institute of Leather Technology, Gujranwala
iii) Institute of Pottery Development, Shahdara, Lahore
iv) Metal Industries Development Centre, Sialkot
v) Cutlery and Small Tools Industries Service Centre, Wazirabad.
vi) Sports Goods Service Centre, Sialkot
vii) Wood Working Service Centre, Gujrat
viii) Light Engineering Service Centre, Gujranwala
ix) Carpet Weaving Training Centres, 58 centres in the various small cities in Punjab

3.33 *The training provided at these centres is highly questionable and leaves a lot to be desired Indeed a sweeping reform of these centres could play an important role in stimulating SSI development These centres provide a useful physical infrastructural base for promoting SSI Their limited utility is largely due to organisational shortcomings and lack of resources If the private sector and technical assistance programmes of aid donors could be integrated with these centres, the effect on selective SSI sub-sectors could be considerable*

3 34 In addition to these, the Punjab Small Industries Corporation is controlling about 16 industrial estates, half of which are almost fully colonized while the remaining are in the

process of development The Industrial estates scheme provides industrial plots which are equipped with all the basic infrastructural facilities These plots are allotted to businessmen on easy terms and financial assistance is also provided in the form of purchase of machinery and cash, both in foreign as well as local currencies These loans are arranged through the commercial banks and the Industrial Development Bank of Pakistan (IDBP). It was frequently alleged that these sanctions are not made on the merits of the project but determined by the contacts and resources of the businessman

Impact of the Various Regulatory Policies on Different Stages of Business Growth

3 35 Small scale business enterprises pass through various stages of development as they grow and expand their operations One such model of the growth of small business concerns has been presented by Churchill and Lewis[6] in which they have identified five stages of small business development, namely, Existence, Survival, Success, Take-off and Maturity The factors which distinguish one stage from the other include size, diversity and complexity of the operations Consequently, different types of skills, management style, organization structure and extent of formal systems is also needed at each of these stages of growth According to this theoretical framework, the owner's involvement in the business should be reduced as the enterprise develops into a profitable business concern [7] Professional management should be hired so as to guide the business along more profitable lines and optimize the resources of the enterprise

3 36 Pakistani businessmen have been blamed for their unwillingness to delegate control to the professional managers and the lack of development of formal systems at their business concerns Many explanations have been given in this regard relating to the inavailability of good professional managers and the lack of training and formal education of most of the business owners However, one aspect has always been neglected while considering the various aspects of business growth and that is the impact of the regulatory framework on the various stages of business growth Initial analysis of the above mentioned aspects of the regulatory framework and its implemention procedures indicates that as the business grows, the scope of profitable operations is narrowed by the imposition of these laws, i e, income tax and labour laws Therefore, after the survival phase[8], the horizontal growth of the business becomes less profitable, due to the increased degree of regulations and controls, as compared to vertical growth As a result, at that stage, instead of expansion most business enterprises split into smaller units and thus evade the regulatory controls associated with expansion This trend is detrimental to the longer run development of the industry as it curtails the opportunity to

i) Hire and develop professional management which could run the business along more profitable lines
ii) Invest in fixed assets, modern machinery and technical training of the workers
iii) Failure of the establishment to grow and reap the benefits of economies of scale

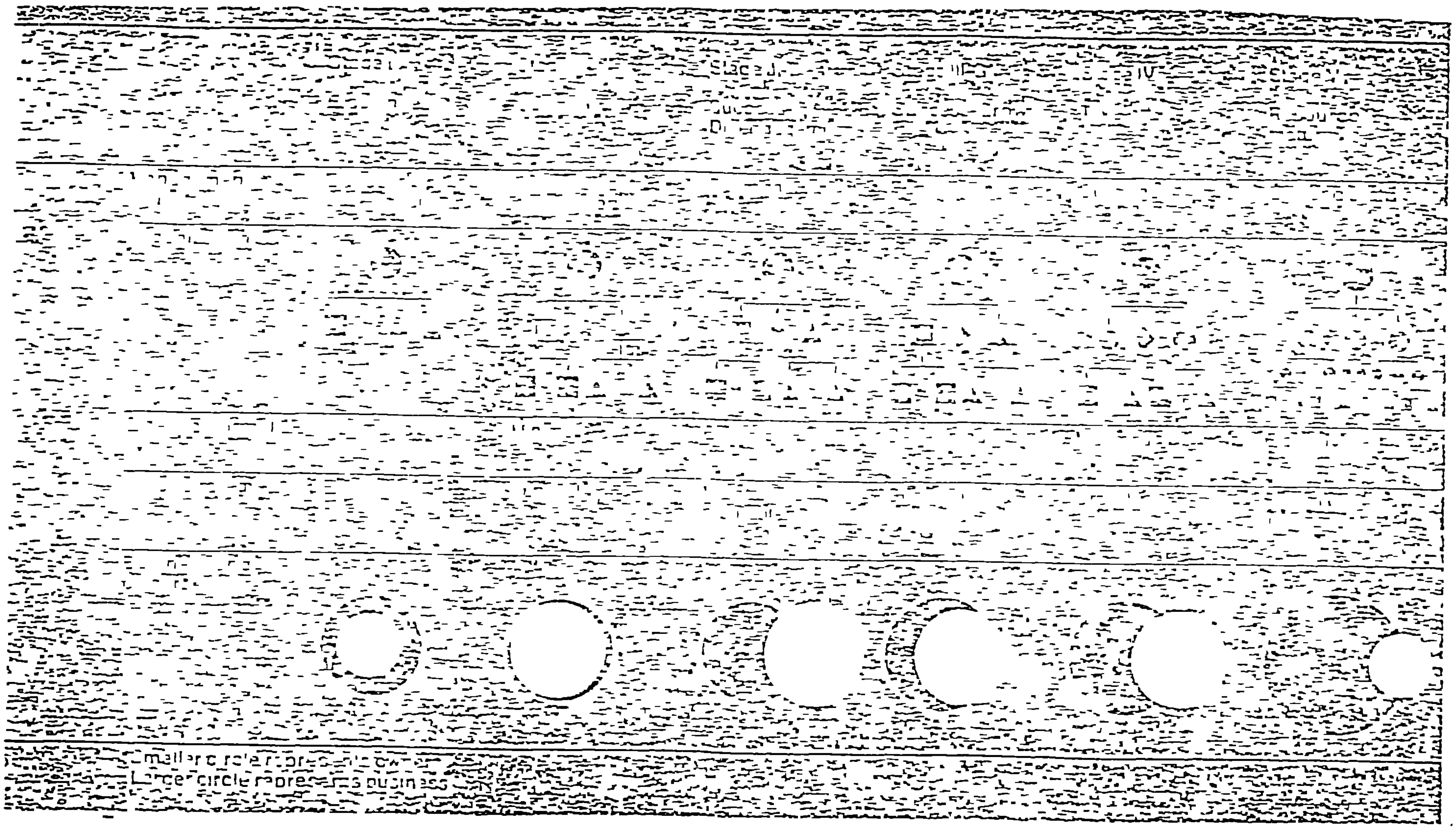
6. Churchill, Neil C, and Lewis, Virginia L, The five stages of small business growth Harvard Business Review (May-June 1989), PP 30 51

7 See figure Characteristics Of Small Business At Each Stage Of Development

8 Ibid

Figure 1

CHARACTERISTICS OF SMALL BUSINESS
AT EACH STAGE OF DEVELOPMENT



4.01 The scope of the study was limited to medium and small scale business enterprises located in the urban areas of the Punjab province As mentioned earlier, the principal focus is on SSI Areas covered included important industrial centers like Lahore, Sialkot and Gujranwala The survey encompassed five industry sub-sectors A total of eighteen enterprises were covered in the survey Thus results should be treated with the caution duly reserved for small sample size

Industry Sub-Sectors Considered

4.02 Five sub-sectors were considered while doing the survey in order to make a diverse and multi-variate sample While selecting the sub-sectors, an attempt was made to focus on those industries in which medium and small scale units account for a significant portion of the total production Most of these industries are based on highly labour intensive processes and indigenous technologies The industry sub-sectors considered were as follows

1 Surgical Instruments Industry
2 Carpets (Hand Knotted) Industry
3 Electric Fans Industry
4. Furniture Industry
5. Packaging Industry

Surgical Instruments Industry

4 03 Basically concentrated in the Sialkot district, the surgical instruments industry has existed since the time of united India After partition, this industry made great progress and emerged as a significant export earning industry for Pakistan The industry is comprised of various large, medium and small scale units located in and around the city of Sialkot The industry consists predominantly of small scale producers Main concentration is seen in the Industrial Estate (SIE) established by the Punjab Small Industries Corporation (PSIC) The Industrial Estate in Sialkot is spread over an area of 98 acres and is supplied with all the basic infra-structural facilities like water, power and telecommunications PSIC is now setting up another industrial estate in Sialkot over an area of about 100 acres In addition to providing infrastructural support, the industry is also supplied technical assistance in the form of technical advice and use of common facilities at the Metal Industries Development Centre (MIDC), a subsidiary of PSIC [1]

1. An evaluation of the role of MIDC in promoting SSI in Sialkot is made in EPRU : Assessment Of MIDC Performance (Lahore, 1990) Netherlands Government.

CHAPTER 4

BASIC INFORMATION ON SSI SUB-SECTORS SURVEYED.

4 04 The export performance of the industry over the past few years can be seen in Table 1.

TABLE 1 EXPORT OF SURGICAL INSTRUMENTS BY VALUE	
Year	Value (Rs in million)
1969-70	15
1970-71	18
1971-72	23
1972-73	45
1973-74	85
1974-75	129
1975-76	131
1976-77	134
1977-78	161
1978-79	211
1979-80	240
1980-81	264
1981-82	252
1982-83	287
1983-84	430
1984-85	774
1985-86	842
1986-87	956
1987-88	998
Jul-Mar	
1987-88	624
1988-89	662

Source Pakistan Economic Survey 1989-90

4.05 As can be seen from table 1, the surgical goods industry has been booming since 1982. In the next six years, export revenues increased by over 300% Given that the annual inflation rate has averaged around 12% over the period, the growth rate in revenues is substantial SSI in Sialkot's surgical goods industry have been doing extremely well during this boom It may, however, be quite significant that most of the small units have adjusted to the favourable market conditions by increasing sub-contracted labour, rather than enlarging plant size This appears to be due to a combination of entrepreneur's expectation regarding duration of boom and penalties imposed by the regulatory framework

4.06 A significant decline in the unit value of the exports has been seen in the past five years According to one estimate, the decrease in the prices is in the vicinity of 50 percent, in nominal terms Many reasons are cited for this deterioration in prices, the major ones being

i) The price deterioration is a universal phenomenon which is due to the increased competition in the international market Low cost producers like China, South Korea and Taiwan have almost driven countries like Britain and West Germany out of the general surgical goods industry These countries have now resorted to an upward segmentation strategy, that is, making only specialized instruments which are of very high precision and quality This leaves behind the low quality/low price "disposable kit" end of the market available for the low cost producers Most of the surgical instruments exported from Pakistan are comprised of these low quality/low price products Since price is the key variable, therefore, in order to be competitive in the international market, the quality aspect is often compromised with

ii) Price deterioration is a direct consequence of the declining quality of the output High import duties are levied on stainless steel, the basic raw material for the industry, which makes it unfeasible for the average producer to use it, despite the compensatory rebate given to the industry Local raw material supplied by the steel mills (steel re-rolling units) is cheap and of a sub-standard quality which makes for the low quality of the final product However, since these low quality product are ideal for the "disposable kit" market, the producers find it more economical and profitable to produce them and sell at low prices

iii) It is claimed that some exporters are misusing the Export Refinance Scheme introduced by the Government According to the scheme, an exporter can get refinance upto 66% of the value of the exports In case an exporter fails to export goods worth the same amount as that of the previous year, he has to remit the credit Therefore, in order to keep their export figures at par with those of the previous year's, the producers tend to quote very low prices and make up for it by reducing the product quality The impact of this pressure is amplified as other sources of credit are few and difficult to attain Consequently, a strong trend of price reduction and quality deterioration is seen in the industry

Carpets Industry

4 07 The Carpets Industry is another important export oriented industry which is based on the traditional craft of carpet weaving Pakistani hand-knotted carpets are renowned the world over for their intricate oriental designs and fine craftsmanship The exports of carpets and rugs from Pakistan have shown a mixed trend over the years However, the unit value alongwith the total value of exports has shown an overall increasing trend during the last few years The export figures for the year 1975-76 to 1988-89 are given in Table 2 Since 1987 there has been a substantial decline in the number of woolen carpets exported Concern over this trend was expressed in the Trade Policy statement issued by the Commerce Minister on 29-06-90 A Rs 2 million donation has been made towards a carpets training institute -- a grant which appears somewhat peripheral to the structural problems faced by this industry

TABLE 2
EXPORTS OF CARPETS AND RUGS

Years	Value (Rs in millions)	Quantity (mil sq metre)	Unit Value (Rs/sq metre)
1975-76	719	2.0	359.5
1976-77	912	2.1	434 3
1977-78	1171	1.9	616.3
1978-79	1765	2.5	706 0
1979-80	2198	2 7	814 1
1980-81	2243	2.5	897 2
1981-82	1679	1 9	883 7
1982-83	1913	2.2	869 5
1983-84	2323	4.7	494 3
1984-85	2031	2 1	967 1
1985-86	2693	2 7	997 4
1986-87	3439	2 8	1228 0
1987-88	4445	3 1	1434 0
Jul-Mar			
1987-88	3212	2 2	1460 0
1988-89	3051	2 1	1453.0

Source Pakistan Economic Survey 1989-90

4.08 The process of making hand-knotted carpets is extremely labour intensive and time consuming The industry exists largely as very small scale cottage enterprises which are usually family owned and rural based These micro-level producers act as sub-contractors for larger scale producers, dealers or exporters As such they are eternally dependent on these dealers and exporters due to lack of capital and access to urban and export markets The dealers provide these cottage sector producers the essential raw materials needed, i e woolen yarn of the desired colors and quality, and some cash in advance to equip themselves with the carpet weaving looms As such, the dealers have greater bargaining power over the manufacturers due to their financial resources A few of the dealers were asked as to why they do not set up small carpet weaving factories in these rural areas since this would definitely lead not only to productivity gains but also to better quality control In response, they gave 'excessive interference from the labour department' as the main reason impeding the establishment of organized production units Other reasons cited included lack of availability of permanent labour since the rural manufacturers are usually associated with agriculture also Therefore, during plantation and harvest time, they devote all their efforts to these activities which result in critical seasonal shortages of labour However, if given proper incentives in the form of better income generation prospects, this va t pool of rural labour could be better utilized

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Electric Fans Industry

4.09 The electric fans industry is mainly concentrated in the Gujranwala and Gujrat districts It is comprised of many cottage and small scale units with only a few medium and large scale ones Cottage sector is basically engaged in the production of components like blades, motors, and transformers These components are then sold to small and medium scale producers who assemble these parts to make the complete fan These assemblers sell their output either through dealers with their own brand name or act as subcontractors for larger manufacturers

4.10 Electric fans have wide ranging application both in the consumer as well as in the industrial markets Apart from being used as ceiling or pedestal fans, these are also used for making exhaust fans, air conditioners and dessert coolers Due to this diversity of application, the electric fans industry has shown tremendous growth during the last few years However, this has given rise to a lot of fierce competition also This, coupled with the general lack of quality consciousness, has led to deterioration of the quality of fans produced High rate of duty on imported raw material (electric sheets) is another factor pushing the industry towards substituting it with low quality local raw material which makes for the poor quality The production of fans has been stagnating with no significant increase over the years The production figures are given in Table 3 The output in 1987-88 was the same as 1975-76, a figure indicative of the problems faced by this sector

TABLE 3
PRODUCTION OF TOTAL FANS

Years	Total Fans ('000 Nos)
1965-66	186 4
1966-67	208 9
1967-68	210 2
1968-69	166 3
1969-70	161 9
1970-71	215 7
1971-72	201.1
1972-73	233.0
1973-74	191 0
1974-75	193.2
1975-76	143 2
1976-77	175.8
1977-78	207.2
1978-79	207.4
1979-80	288 5
1980-81	245 3
1981-82	215.6
1982-83	132 2
1983-84	200 8
1984-85	178 8
1985-86	190 1
1986-87	208 2
1987-88	146.1

Source Pakistan Economic Survey 1989-90

Furniture Industry

4.11 The furniture industry, basically a crafts industry, has shown considerable growth over the years This has been due to the general improvement in the standard of living of the people One of the key problems currently being faced by the industry relates to raw material Pakistan's high quality forest wood is being used for fuel There is large scale deforestation Wood is likely to become increasingly expensive, a trend which has already affected producers in recent years The local supply of wood is stated to be insufficient in quantity and inferior in quality Import of wood for furniture making is not allowed by the government The production statistics of the industry for the years 1969-70 to 1984-85 are given in Table 4

TABLE 4
VALUE OF PRODUCTION OF FURNITURE AND FIXTURES

Years	(Rs in Millions)
1969-70	18
1975-76	33
1976-77	23
1977-78	32
1978-79	35
1979-80	64
1980-81	85
1981-82	79
1982-83	148
1983-84	130
1984-85	238

Source Pakistan Economic Survey 1989-90

4.12 From the data presented above, it can be seen that the growth in this industry has not been very steady and there have been quite frequent fluctuations in the value of the output This has led to dissatisfaction amongst the producers who claim that government policies regarding the import of raw material for this industry are largely to be blamed for this uneven trend

Packaging Industry

4.13 Packaging has become a necessary part of all marketing activities Consequently, the packaging industry has shown sizable growth during the past few years However, most of the growth in the industry has been in the informal sector while very few establishments exist in the formal sector In the informal sector, these establishments operate as micro-level enterprises which are set up by making use of manually driven indigenous cutting and pressing dies and machines Fluting paper, the basic raw material needed for making the packages, is either imported or made locally by a few paper mills in the country A strong oligopolistic market mechanism controlling the import and manufacture of fluting paper makes these small scale producers vulnerable to price fluctuations and market instability At times the mills refuse to supply the raw material on credit which puts the squeeze on the small scale sector enterprises since they have little access to formal credit sources. They, therefore, have to resort to informal sources of credit which command abnormally high interest rates

Constraints in Gathering Data.

4.14 Many constraints were encountered in gathering primary data for the survey. Respondents were, often wary of expressing their opinion openly. Major constraints in data collection were as follows

Hesitation From the Small Scale Businessmen

4 15 As mentioned above, some of the small scale businessmen were rather reluctant to answer the questions as they were afraid that any information which they divulge might be reported to the concerned government departments and used as evidence against them Moreover, since most of them were availing the simplified assessment procedure (SAP) for filing their income tax returns, they had understated their income, hence were hesitant to quote the actual production and capacity figures Similarly, quite a few respondents also gave lower than actual figures for the employees working in their establishments This was out of fear of the labour laws which are enforced on firms hiring ten or more employees

Vague Idea of Actual Capacity

4.16 Due to the high labour intensity of the industries and availability of contract labour, many entrepreneurs did not have a clear idea of their actual production capacities Especially in the carpet industry, since most of the work is done by sub-contracting to cottage sector, the capacity figures quoted were quite vague Moreover, in other sub-sectors, as the production technologies were basically indigenous and manually driven, they did not have any proper rated capacities as the rate of production varied according to the dexterity of the operator

Small Scale of the Sample

4.17 While carrying out the study, it was strongly felt that the sample size for the survey was very small for the findings to be statistically significant upto a reasonable degree of certainty It was, therefore, attempted to increase the sample size from a minimum of twelve enterprises, as given in the terms of reference, to eighteen The number of industry sub-sectors were also increased from four to five This increase in the sample size helped in making the findings slightly more representative However, for individual sub-sectors, the number of enterprises was still quite small to make it representative of the total population Nevertheless, the study helped in highlighting some of the problems and difficulties being faced by the medium and small scale entrepreneurs with regard to the legal and regulatory framework It also aided in indicating the trends in hiring labour and the usefulness of the assistance given by PSIC and its subsidiaries

Location and Reach to Distant Areas

4.18 Cottage and small scale industries located in the rural and less developed areas were difficult to be reached by the survey team due to long distances and sporadic location of these enterprises Therefore, although it was desired that some of these enterprises should be covered, the survey was largely limited to the urban based enterprises

Time Constraint

4.19 Time constraint was another factor in limiting the scope of the survey which had to be confined to a narrow spectrum of the medium and small scale enterprises operating in the country It is felt that with a bigger and more representative sample covering other industry sub-sectors also, more specific recommendations could be made applicable to most of the small and medium scale enterprises

CHAPTER 5

SURVEY RESULTS.

Methodology of the Survey.

5.01 Primary data for the study was sought with the help of a survey covering five industry sub-sectors and a total of eighteen enterprises The survey was based on a standard set of questions which were asked from all the respondents The questions asked were intended to get the basic information on respondent regarding his scale of operations, the mode of employment and the major problems faced by them regarding the legal and regulatory framework The enterprises were selected on a random basis taking care that the sample should contain atleast one medium scale enterprise in each sub-sector

5.02 Secondary data relating to the legal and regulatory framework concerning medium and small scale enterprises was collected by visiting the various government departments responsible for implementing these policies and procedures High ranking officials were interviewed and their opinions taken These departments included the Central Excise and Taxation Department, Labour and Industrial Relations Department and The Industrial Relations Institute

Designing of the Questionniare

5.03 The questionnaire was designed to provide basic data on the enterprises with regard to their, capital base, production capacity, scale of operations, number of employees and the usual mode of employment The entrepreneurs were also asked about their relationship with the various government departments like income tax department, labour department, excise and sales tax and the Punjab Small Industries Corporation (PSIC)

5.04 Both open and close ended questions were asked in order to get qualitative as well as quantitative data Entrepreneurs were asked about their satisfaction or dissatisfaction with the various government departments responsible for the implemention of the regulatory policies They were also asked about the major impediments to the growth of that particular industry and any suggestions they could make to improve the existing policy framework and its implementation

Survey Findings

5.05 The survey results are analysed (i) generally to include all industry sectors and (ii) particularly for each sub-sector considered The objective of this approach is to first have a cross-sectional view to see the over all industry trends and identify problem areas which are common to all small scale sector enterprises After that, data pertaining to particular sub-sectors is analysed to focus on problems which are specific to these sub-sectors

Overall and Sectoral Trends Observed

The following trends were observed from the survey regarding all sectors and for each industry sub-sector In the data relating to all sectors, responses which were unique to a particular sub-sector are not included

Capital base

5 07 The average capital base of the enterprises was computed to be around Rs 89,33,333 This includes the value of fixed assets as well as the working capital However, the actual capital base is believed to be much more as there was a general tendency

amongst the entrepreneurs to understate their investment in the business This was partly due to the fear of the income tax department and partly due to lack of proper documentation and cost control systems The average capital base for the sub-sectors is as follows.

TABLE 1
AVERAGE CAPITAL BASE

Sector	No of Respondents	Average Capital Base
Surgical Instruments	4	29,50,000
Carpets	3	3,19,33,333
Electric Fans	4	77,75,000
Furniture	4	52,25,000
Packaging	3	4,00,000
All Sectors	18	89,33,333

5.08 It can be seen from the table above that the carpets industry has the largest capital base out of all the industries This is because these enterpreneurs were basically dealers who act as money lenders to the system Packaging industry has the lowest capital base because all the enterprises surveyed were micro-level establishments which were operating mostly in the informal sector

Access to Credit

5 09 Out of the eighteen enterprises surveyed, nine (50%) were availing credit of some sort Of these, six (33 33%) had access to formal credit from banks as export refinance, working capital or machinery loans For these loans, the interest rate varied from concessionary credit of 6% for machinery loans and export refinance to 16% for regular working capital loans The remaining three (16 67%) were using informal credit from friends or relatives for which the interest rate varied from 0%, in case of advances from customers, to 50% in certain cases Only two out of the eighteen (11 1%) had taken long term loans while the rest (38 9%) were utilizing short term loans basically for their working capital requirements This trend was partly due to lack of access to long term finance and partly because of the greater need of working capital, in small scale enterprises, as compared to investment in fixed assets A sectoral analysis of access to credit is given in Table 2

TABLE 2 ACCESS TO CREDIT						
Sector	Availing Credit		Type of Credit		Source of Credit	
	No	% age	*LT	*ST	Formal	Informal
All Sectors	9	50%	2 11.1%	7 38 9%	6 33 3%	3 16.7%
Surgical Instruments	3	75%	1	2	3	0
Carpets	2	67%	0	2	1	1
Electric Fans	1	25%	0	1	1	0
Furniture	2	50%	1	1	1	1
Packaging	1	33%	0	1	0	1

* LT Long Term Credit
* ST Short Term Credit

Employment Generation and Mode of Employment

5 10 The carpet industry was excluded from the computation of average number of workers per unit Their information was unreliable due to the high degree of subcontracting arrangements Disregarding the carpet industry, the average for the remaining enterprises came to around 39 workers per enterprise The average number of employees for each sub-sector is presented in Table 3

TABLE 3 AVERAGE NUMBER OF EMPLOYEES	
Sector	Average no of Employees*
All Sectors	39
Surgical Instruments	34
Carpets	.N A.
Electric Fans	64
Furniture	42
Packaging	10

* These figures include indirect labour also.

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5.11 The carpets Industry is an exception because of its unique characteristics Firstly, the Industry is rural based and manufacturing is done through contractor system Since the producers are mostly in the cottage sector, therefore it is easy for the dealers to sub-contract to them and hoodwink the labour department Secondly, the industry is inherently very labour intensive and time consuming Apart from the carpets industry, the number of employees in the remaining sub-sectors ranges from 10-64 with the overall average of 39 Mostly the number of employees was less than 20 for small scale enterprises whereas it was more than 20 for medium scale enterprises The tendency to keep less than 20 workers was basically due to evasion of rules and regulations laid out in the Industrial and Commercial Employment (Standing Orders) Ordinance, 1968 which is applicable to all industrial and commercial establishments employing twenty or more workers For micro-level enterprises, like in the packaging industry, the number of employees was never quoted higher than ten, including the owner This was usually an understated figure so as to remain out of the range of the Factories Act 1934 which applies to all industrial establishments employing ten or more workers

5 12 The modes of employment being used by the medium and small scale sector enterprises surveyed are given in Table 4 The figures do not tally because of multiple modes of employment being used at some enterprises It can be seen that the most common mode of employment is through informal contract system in which the labour is either employed through a contractor or labour is employed on a monthly pay basis but no formal record or documentation is maintained In either case, the employer can manage to evade interference from the labour department inspectors Sector wise breakdown of the modes of employment also show more or less the same pattern

TABLE 4
MODE OF EMPLOYMENT

Sector	Total No	Informal Contract	Daily Wages	Piece Rate	Formal Contract
All Sectors	18 100.0%	14 77.78%	8 44 44%	7 38.89%	1 5 56%
Surgical Instruments	4	3	1	3	0
Carpets	3	3	1	1	0
Electric Fans	4	4	0	1	1
Furniture	4	2	4	2	0
Packaging	3	2	2	0	0

Production and Capacity Utilization

5 13 Estimating the production capacity of the small scale enterprises is at times not only difficult but also quite erroneous as the owners themselves do not have an exact idea of the actual capacity As mentioned earlier, since most of the processes are manually driven and a lot of work is done through sub-contracting, there exists a great deal of flexibility in the volume of production for these micro- level enterprises Sector wise

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production and capacity utilization figures are given in Table 5. Most of the enterprises interviewed noted that they viewed production capacity in terms of ability to sub-contract. Thus their estimates were clearly unrealistic and we have not used them Average production figures for the sub-sector are given in the table below

TABLE 5
PRODUCTION AND CAPACITY UTILIZATION

Sector	Production Capacity	(Unit)	Average Production	Capacity Utilization
Surgical Instruments	N A	Pcs	38100	N A.
Carpets	N.A	Sq ft.	71400	N.A.
Electric Fans	N.A.	Pcs.	24750	N.A.
Furniture	N.A.	Pcs.	722	N.A.
Packaging	33000	Boxes	23000	69.7%

N A · Not Available

Future Plans.

5.14 The owners were also asked about their future plans regarding growth and expansion Since it was felt that there was a growing trend in the industry to establish multiple small scale units instead of expansion of the original one, this aspect was especially probed into The industry wide and sectoral trends indicated are as follows,

TABLE 6
FUTURE PLANS

Sector	No of Resp.	Expansion	Set up other Unit	Quit	N.R.
All Sectors	18	5 27 8%	3 16.7%	3 16 7%	7 38 9%
Surgical Inst.	4	1	2	1	0
Carpets	3	0	0	0	3
Electric Fans	4	2	0	1	1
Furniture	4	2	0	0	2
Packaging	3	0	1	1	1

N R : No response

5.15 It can be seen from the data that collectively about 33% of the small scale entrepreneurs either want to establish another similar set up or are desirous of getting out of that sub-sector Most of the people who wished to set up similar units wanted to because of evasions from taxation and labour laws, which is possible for a small scale enterprise as compared to a bigger one However, 27 8% of the respondents wanted to expand their existing establishments which is a welcome sign

5.16 Sectorally, in the surgical instrument sub-sector greater inclination was seen towards setting up new units This was probably because the industry has become very price sensitive and smaller units are not only easier to manage for the owner but are also economical because of fewer liabilities towards the workers No response was seen from the carpet sub-sector as the enterprises covered were basically dealers and exporter who sub-contracted to the cottage sector and were not into direct manufacturing themselves Furniture makers were desirous of expanding their existing set ups as they were basically hiring labour on piece rate(contract) or on daily wages Therefore, although they were generally wary of the labour department, they were not directly affected by the service laws laid out in the standing orders ordinance

Distribution Channels

5 17 The distributution channels used by these small sector enterprises varied from direct retailing in the local market to exports to foreign countries Some of these manufacturers were sub-contracting for other producers and manufacturers while a few were selling their output through dealers The channels used by the sub-sectors were as follows;

TABLE 7
DISTRIBUTION CHANNELS

Sector	No of Resps.	Direct Retail	Through Dealer	Sub-contracting	Any Other (Exports)
All Sectors	18 61 1%	11 27 8%	5 27 8%	5 27 8%	5 27 8%
Surgical Inst	4	4	0	2	3
Carpets	3	2	2	0	2
Electric Fans	4	1	3	0	0
Furniture	4	4	0	0	0
Packaging	3	0	0	3	0

N R : No response

5 18 It can be seen that most of the producers are using multiple means of selling their output All the surgical instruments producers were into direct retailing and sub-contracting, mostly to the export markets This also correlates well with the greater access to credit by these producers A similar trend can be seen for the carpet dealers Electric fan producers were mostly selling their output through dealers due to the fact that the

Industry is concentrated in a less developed area and the production can not be totally absorbed in the local (regional) market The furniture makers were retailing directly through their own outlets while packaging producers were basically sub-contracting for the other producers It can, therefore, be observed that the product and the markets also, to some extent, determine the credit availability and the production operations of the business concern Marketing channels affect access to suppliers credit, particularly for working capital

Views About Income Tax Laws and Implemention Procedures

5.19 In the survey, the small entrepreneurs were asked about their opinion with respect to the various aspects of the regulatory framework and its implementing departments The business community was generally dissatisfied with the income tax department The following responses were given by the businessmen when asked whether they were satisfied with the income tax laws and their implementation procedures

TABLE 8
Q ARE YOU SATISFIED WITH INCOME TAX LAWS?

	No of Resps	Yes	No
All Sectors	18	7 38 9%	11 61.1%
Surgical Inst	4	2	2
Carpets	3	2	1
Electric Fans	4	2	2
Furniture	4	0	4
Packaging	3	1	2

5.20 From table 8, it can be seen that the majority of people (61 1%) are dissatisfied with the income tax laws (and implementation procedures) It should however be noted that nearly 40% of the respondents expressed satisfaction with the tax machinery They were pleased with the self assessment scheme and, in the relevant sub-sectors, satisfied with the rebate system Some entrepreneurs were also somewhat apprehensive of criticising tax authorities Those who expressed dissatisfaction, gave the following as the main reasons for dissatisfaction

TABLE 9
REASONS FOR DISSATISFACTION

Reason	No of Resps	%age
Discretionary powers of the ITOs	8	72 72%
Tax rates are too high	3	27 27%
There is no accountability of the ITOs	1	9 09%

5.21 It can be seen from the data presented above that the main reason for dissatisfaction for medium and small scale businessmen is the discretionary powers which rest with the income tax officers responsible for assessing the tax Some businessmen protested that the ITOs did not accept the cost and expense receipts shown by them They claimed that those were the only receipts that the raw material suppliers gave them Since they were small businessmen, they could not afford to argue with them and, therefore, had to comply with their whims and wishes It was suggested to them that they should form associations in order to increase their bargaining power with the suppliers The association could then demand that the suppliers should provide them proper receipts of the transactions which take palce To that they responded that they had even tried that but the suppliers agreed to give them proper receipts only on cash payment This was even worse as without the 15-20 days credit, which the suppliers normally extend to them, they would be unable to survive since their buyers also paid after 15-30 days Upsetting of this credit cycle could be very detrimental to the survival of their business These small scale entrepreneurs claimed that they were being exploited from both sides, that is

i) By the suppliers who did not give them proper receipts, and
ii) By the ITOs who refused to accept these receipts

Views about Labour Laws and Implementation Procedures

5 22 In the survey, medium and small scale entrepreneurs expressed their views most vehemently about the functioning of the labour department The response regarding their satisfaction with the department was as follows

Table 10 Q ARE YOU SATISFIED WITH THE LABOUR LAWS?			
Sectors	No. of Resps.	Yes	No
All Sectors	18	5 27%	13 73%
Surgical Inst	4	1	3
Carpets	3	2	1
Electric Fans	4	3	1
Furniture	4	0	4
Packaging	3	1	2

3 23 It can be seen that the majority (73%) of the businessmen were dissatisfied with the labour laws and the implementation system A few micro-level entrepreneurs even claimed that they were afraid to hire more workers out of fear of the labour laws and labour department A few had even divided their establishments into two sections, each having less than twenty workers, in order to evade the labour laws Moreover, the more stringent application of these laws in case of permanent workers as compared to contract labour has also led to the growing trend amongst the businessmen to hire contract labour This provides an easy refuge for them to hoodwink the labour laws but harms the development and growth of the enterprise in the long run

5 24 The main reasons for dissatisfaction with the labour department were mentioned as follows

TABLE 11 REASONS FOR DISSATISFACTION		
Reason	No of Resps.	%age
Corruption and faulty record keeping by the Inspectors	6	.54.5%
Discretionary Powers of the labour inspectors	4	36.4%
Procedures are ill-defined and complicated	2	18.2%
Labour laws and policies are too strict and biased in favour of the workers	3	27.3%

5.25 It can be seen from the reasons mentioned above that small entrepreneurs are dissatisfied with the implementation of the labour laws The labour inspectors are said to have discretionary powers and do not maintain proper records and paper work The procedures are also claimed to be too lengthy, involving various departments, each with its own inspectors, policies and procedures A few businessmen were also of the view that the labour laws are unreasonably protective towards the workers and this has been the main reason for the owners to develop a preference to hire contract labour for which the laws are not that strict

Views about the Availability of Credit

5 26 Credit availability is an important aspect in the growth and development of business, especially in the start-up and growth phase Therefore, it was deemed pertinent to enquire the views of the entrepreneurs regarding the availability of credit (formal) It includes both long term as well as short term credit Long term machinery loans are given at a concessionary rate of 6%, by the various financial institutions established by the Government to promote industry (e g PICIC and IDBP) Therefore, the demand for these loans is very high Consequently, the large scale sector, due to its greater resources, ends up securing most of these loans while the small scale sector gets crowded out The response observed in the survey was as follows

Table 12
Q. ARE YOU SATISFIED WITH THE AVAILABILITY OF CREDIT ?

Sectors	No of Resps	Yes	No
All Sectors	18	5 27%	13 73%
Surgical Inst.	4	2	2
Carpets	3	1	2
Electric Fans	4	3	1
Furniture	4	1	3
Packaging	3	1	2

5 27 It can be seen that the majority (73%) of the business community seemed dissatisfied with the credit availability situation This is not a surprising result in view of prevailing credit markets This result is also consistent with surveys on SSI across the world, where shortage of capital has been signalled out consistently as the key constraint to SSI development The main reasons given for the dissatisfaction were as follows

TABLE 13 REASONS FOR DISSATISFACTION		
Reason	No. of Resps.	%age
Credit is not readily available	13	100 0%
Banks do not extend credit without collateral appropriate for SSI.	8	61.0%

5.28 It can be seen that a common cause of dissatisfaction regarding the access to formal credit is the lack of credit lines for SSI and resulting capital scarcity This was cited unanimously by all the respondents who expressed their dissatisfaction Complicated credit sanctioning procedures, the over-reliance on collateral and bureaucracy in the system, all lead to the inefficient and inadequate availability of credit to medium and small scale entrepreneurs Due to the inaccessability of long-term loans, there has been a generally low level of investment in the installation of modern machinery and equipment This has,in turn, resulted in the deterioration of the quality of production Moreover, this has also given impetus to the development of informal credit systems which often have a very high cost of capital Availability of working capital loans is also very important for small scale industries as these are basically less capital intensive and, therefore, the bulk of the investment is in the form of working capital Due to the fact that these are less capital intensive, there is little investment in fixed assets and hence the problem of inadequate collateral also intensifies This is a serious problem faced by the medium and small scale sector and one which has traditionally been hampering its development

Views about Excise Laws

5 29 In the survey, the following responses were recorded about the central excise laws It is worth mentioning that most exports are exempt from the levy of excise and sales tax Excise and Sales Tax are levied on all goods manufactured, produced or imported in Pakistan, whichever event takes place first, unless exempted by special notification The excise rate is currently fixed at 5% of the value of the product

Table 14 Q. ARE YOU SATISFIED WITH THE EXCISE LAWS?			
Sectors	No of Resps	Yes	No
All Sectors	18	12 66 7%	6 33 3%
Surgical Inst	4	3	1
Carpets	3	2	1
Electric Fans	4	3	1
Furniture	4	2	2
Packaging	3	2	1

5 30 It can be seen that the business community seems generally satisfied with the excise taxes levied by the government The ones who were dissatisfied were so mainly because of the high prices of inputs (raw materials) which they have to bear because of the excise duties Since the exporters get compensated for these cost disadvantages by the compensatory rebate which is given to most export based industries, they were generally satisfied However, a few debated that there should be a free market system deviod of these regulatory controls

5 31 The main reasons cited for dissatisfaction were as follows

TABLE 15 REASONS FOR DISSATISFACTION		
Reason	No. of Resps.	%age
The rate of excise duty is too high	2	33 3%
The raw material cost gets very high	1	16 7%
Certain exemption policies are lop-sided	1	16.7%
Excise rate is not fixed (flat rate)	1	16.7%

5 32 It can be seen that the main source of discontentment is the excise duty rate and the ensuing increase in the cost of production However, this does not effect the medium and small scale industries in particular but has industry wide application In case of the packaging industry it was mentioned that there were certain exemption and licencing laws associated with certain manufacturing processes which were creating discontent in the industry These excise policies were reported to be the major cause of the break up of

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larger units (of packaging) into smaller ones Thus in the case of packaging the excise taxes appear to be causing a break up of units, similar to those which were due to labour laws There is an obvious need to rationalise such anomalies

Views about Sales Tax

5 33 Similar to the excise duty, sales tax is also levied on all goods manufactured, produced or imported in Pakistan, except exempted by notification, at a rate of 12 5% of the value of the goods Previously, this used to be a single point tax while in the recent finance bill (1990-91) a multiple stage concept of sales tax collection is proposed Under this system, sales tax would be collected at each stage of value addition and wherever the sale takes place Exports and cottage industry is exempt from the levy of sales tax

5 34 The following views were expressed by the medium and small scale businessmen about the sales tax system

Table 16
Q ARE YOU SATISFIED WITH THE SALES TAX SYSTEM?

Sectors	No of Resps	Yes	No
All Sectors	18	14 77.8%	4 22 2%
Surgical Inst	4	3	1
Carpets	3	3	0
Electric Fans	4	2	2
Furniture	4	3	1
Packaging	3	3	0

5 35 It can be seen that the majority of the business community seemed satisfied with the sales tax This was particularly so because the surgical instruments and carpets industries are basically export oriented industries which are exempted, while the packaging industry units were operating basically as cottage sector enterprises Some dissatisfaction was seen in the fans and furniture industries which are supplying mainly to the domestic market

Any other cause/reason for Dissatisfaction

5 36 Other general responses which emerged from the survey included the following The main reason given was the low rate of compensatory rebate which is given to the exporters The surgical instruments and carpets were the sub-sectors which expressed this concern In their view, the existing rebate structure was not acting as an appropriate incentive for the exporter Although mentioned in the questionnaire, patent protection laws were not cited as a cause for concern in any sub-sector

Impediments to Growth of the Industry

5 37 When asked about their views regarding the major impediments to the growth of the industry in their particular sub-sector, the medium and small scale entrepreneurs gave the following response Factors common to more than one sub-sector are enumerated below

Table 17
Impediments to Growth of Industry

All sectors	No of Resps	%age
Availability of credit	8	44.4%
Availability/Quality of raw materials	6	33.3%
High import duties	6	33 3%
High income tax rates	2	11 1%

5 38 It was perhaps significant that the regulatory framework did not appear among the high priority constraints to the development of respective SSI sectors This is largely because businessmen felt that the regulatory bodies and government officials could be handled through informal cash transactions Frequently, entrepreneurs mentioned how on paper the regulations were prohibitive but in practice these were circumvented through devices such as sub-division of units or through old fashioned graft

Assistance from PSIC

5 39 The Punjab Small Industries Corporation (PSIC) provides assistance to the small scale industries in a variety of ways ranging from technical training to credit facilities In the survey, the business community was asked about the assistance they were getting from PSIC and its subsidiaries (if any) and its impact on their business growth The following response was observed for the various sub-sectors

Table 18
Assistance from PSIC

Sectors	No of Resps	Yes	No
All Sectors	18	5 27.8%	13 72.2%
Surgical Inst	4	4	0
Carpets	3	0	3
Electric Fans	4	1	3
Furniture	4	0	4
Packaging	3	0	3

5 40 It can be seen that only the surgical instruments and the electric fans industry was getting assistance from PSIC in some form while the remaining sub-sectors denied having assistance of any sort from PSIC This was surprising since PSIC claims to be operating 58 training centres for carpet weaving yet none of the carpet dealers was hiring any craftsman trained from these centres A number of entrepreneurs in the furniture and carpets industry expressed disappointment at PSIC's efforts to promote the craft industries PSIC was accussed of being too bureaucratic, lacking in innovation and unable to stimulate creative processes which are a key to sustainable development of these traditional industries

5 41 Assistance from PSIC was being availed in the following forms

Table 19
Type of Assistance

	No. of Resps.	%age
Technical Training	3	60.0%
Technical Advice	2	40.0%
Use of Common Facilities	3	60.0%

5 42 The surgical instruments industry was getting the most benefit from PSIC through its subsidiary, MIDC Especially, the use of common facilities like vaccum heat treatment, laboratory testing and copy milling has helped the industry in improving its export performance None of the enterprises surveyed were availing any form of credit from PSIC

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<u>Suggestions for Improvement.</u>

5.43 The following suggestions were made in order to improve the regulatory framework pertaining to medium and small scale industries

Table 20 Suggestions for Improvement.		
All sectors	No of Resps	%age
Improve Labour policy and its implementation	15	83 3%
Income Tax should be simplified	2	11.1%
Reduce regulations	16	88 3%
One window facility for dealing with Government Department	14	77.0%

5.41 The two clear suggestions regarding reform of the regulatory framework are rationalisation of labour laws and the establishment of a 'one window' facility for dealings with the government departments Although businessmen noted that they frequently 'got around' the difficulties which arise, they expressed strong desire for reforms which would reduce their exposure to numerous officials It was pointed out that there were too many and unrealistic regulations for SSI to comply with A reduction in these regulations, easing of labour laws and less contact with officials are desired by entrepreneurs

CASE STUDY 1.

FEMALE ENTREPRENEUR. SMALL SCALE UNIT, LAHORE.

I. The owner has unusual characteristics for an entrepreneur in Pakistan An educated female, she has built up a very successful business since its establishment in 1980 The principal investment came through family assistance, both in terms of financial savings as well as land for the rather small premises

II The owner spoke somewhat vehemently of continous harassment by officials She estimated that 12 different functionaries had visited her establishment during the past year She alleged that her refusal to give bribes has involved the following difficulties

a A court notice has been issued against her regarding the financial year 1981-82 Details of transactions are being requested even though her business had just started She claimes that an arbitrary profit figure has been calculated by the income tax officer

b Her company's bank account was frozen last year and a compulsory withdrawal of tax liability was made She subsequently keeps very little in the bank

c. The labour department has sent 6 different wings to monitor her unit for regulation compliance They have imposed a penalty on her which she thinks is illegal but wishes not to be embroiled in court proceedings

d The owner claims that she is willing to comply with all regulations and meet her tax obligations but feels that the officials are more interested in private gain rather than in ensuring welfare provision implementations

e The owner suggested the need for a single window operation to deal with the government

f. With regard to future growth, the owner indicated a preference to break up her unit unto small sub-categories. These sub-units would be separate firms and have a different owner, atleast on paper

CASE STUDY 2 :

MALE ENTREPRENEUR, SMALL SCALE UNIT, SIALKOT.

i The owner has a thriving export business in the surgical goods sector His father had established this enterprise in 1974 They are mainly producing surgical goods for disposable kits in the U S

ii The owner responded to the labour legislation of 1973 by resorting to large scale sub-contracting In fact, his brothers own the units which are sub contracting to his firm His permanent labour force used to be 30 It is now 8 This has happened over a period when his firm has grown rapidly He could not quote a precise figure for the amount of sub-contracted labour, but noted that it varies with orders The highest number of sub-contracted workers he could recall was 110, early in 1990 At present, there were 50

iii. The owner was not unduly perturbed by regulations or regulatory bodies He has a good working relationship with the officials His enterprise runs smoothly and without hassle by the authorities

iv. The owner viewed officials as practical and experienced people "They are more strict about enforcing legislation in large industrial units With smaller units, such as mine, they are more pragmatic" This realism seemed to involve a private transfer of resources "We are all practical men here There is work to be done and we can not let every little regulation bother us"

v. The owner was very pleased with the export incentives given by the government, particularly the export re-financing scheme

vi. The owner felt that the direct taxation system was least cumbersome because the self assessment scheme made his task simple

CHAPTER 6

CONCLUSIONS AND RECOMMENDATIONS.

6 01 The importance of small scale industry lies in its capacity to absorb workers, to efficiently produce a variety of goods for the domestic market with a frugal use of scare capital and to successfully carve a niche in selected export markets The Government of Pakistan's industrial policy has traditionally been biased towards large capital intensive industry The focus on import substituting consumer good units led to a neglect of small industries Targeted programmes for SSI development have had a low priority However, a number of developments -- such as an accelerating population growth rate, nationalisation of big industry and migration to the middle east -- have contributed to a dynamic growth of SSI in Pakistan

6 02 The impact of the regulatory framework on small scale industry is analysed in this study This assessment is based on a small survey of 18 units, interviews with officials and private sector representatives The regulatory framework has not seriously constrained the growth of SSI in Pakistan It is however responsible for a number of distortions and adversely affects efficiency and profitability by preventing the vertical growth of enterprises Managerial and production economics of scale are not encouraged

6 03 The major issues emerging from our survey and analysis are summarised below A review of the impact of the regulatory framework is followed by recommendations aimed at reducing the distortions caused by the system

6 04 The first point to emerge is that the regulatory framework causes little distortion to the functioning of enterprises situated at extreme ends of the size distribution The bias towards very small size is particularly pronounced in the case of the much dreaded labour legislation Enterprises employing less than 10 workers are exempt from the wide variety of legislative measures Very small firms do not have to provide a range of facilities prescribed for relatively larger units, nor are they constrained by law as far as dismissing workers is concerned The last mentioned provision is a source of considerable dissatisfaction among affected entrepreneurs who have been exerting pressure on the government to restore the right to 'hire and fire' At the other end of the size spectrum, very large enterprises are well placed to absorb the provisions emanating from the regulatory framework The effective increase in labour costs, due to regulations, typically represent a small fraction of total costs in large capital intensive industrial units These establishments also have legal assistance and the administrative capacity to handle government functionaries In addition, the owners of such firms usually have good personal relations with senior members of the bureaucracy Government policies are frequently subsidising their activities through credit and fiscal measures which encourage investment and increase profitability In such a favourable environment, costs associated with the regulatory framework are hardly prohibitive Large enterprises suffer a degree of harassment from officials but their burden in this sphere is also minor compared with smaller units The large enterprise sector also contains multinationals, who often actively collaborate with agencies such as the International Labour Office (ILO) in enforcing required measures for their work force

6 05 The implication of the above is that the regulatory framework bears down must heavily on enterprises which do not fall into the two extremes of scale There is no precise upper limit, but enterprises which employ more than 10 workers but less than 100 are in the range which bears the brunt of regulations Unlike large enterprises, they are usually engaged in more labour intensive production This involves a plethora of regulations which must be enforced in highly competitive market structures Quite often these SSI are in export sectors which do not involve protection often given to import substituting units SSI operating under these conditions are least able to withstand the implicit reduction in profitability, imposed by labour and tax regulations The personal characteristics of these entrepreneurs are also not favourable towards dealing with regulatory bodies SSI owners

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are often illiterate and ill-informed about regulations. They are thus open to greater harassment from government functionaries

6 06 A second conclusion to emerge from our analysis is that the regulatory framework is often prohibiting the development of efficient economic units Potential economies of scale are being distorted through regulations which prevent firms from developing in certain desired directions Two examples from our survey illustrate the point First, in the packaging industry tax relief is given on a particular <u>sub-process</u> of production In order to derive benefit from this discretionary incentive, units are sub divided within artificial boundaries Second, labour laws favouring very small size have led to a horizontal sub-division of enterprises Rather than benefit from the economies of scale in aggregating functions, this horizontal sub division increases the strain on administrative capacity Whenever an artificial sub-division of enterprise occurs - for example, by dividing a firm of 38 workers into four firms employing less than 10 each to evade labour legislation -- the firm's relationship with the regulatory bodies is weakened Aware of artificial distortions, government officials are more relaxed at implementing the law only if adequate compensation is made Thus, instead of developing a more efficient business enterprise the entrepreneur is involved in horizontal growth, reproducing small units to avoid regulations

6 07 A third point to emerge from the survey is that the regulatory framework does not meet the objectives it was designed for For example, labour legislation was framed in the 1970's to protect workers by improving the quality of their working conditions and increasing their security of tenure In principle, these regulations involved a transfer of income from the owners to the workers, with the state acting as an enforcing intermediary In practice, the regulations appear to be used frequently to transfer income from owners to government functionaries, rather than to workers Because the implementation machinery is easily distorted, the government neither receives the necessary tax revenue nor do workers receive their share of benefits If the small entrepreneur is able to successfully bend the rules, his business growth is unaffected by regulations Thus, the regulations are often not successful in meeting their objectives Indeed, the net effect of some of the labour legislation may have been to <u>increase</u> insecurity of labour, since owners are willing to go to substantial lengths to avoid giving permanent employment

6 08 Related to the above, the regulatory framework tends to reward those small entrepreneurs who can successfully manipulate the system and handle officials from the regulatory bodies Thus an important component of success for some SSI is not related to efficiency or market responsiveness A substantial part of the entrepreneur's time is spent in achieving successful manipulation, rather than in concentrating on efficient business development

6.09 The growth of sub-contracting due to the regulatory framework was confirmed by our survey There are two legal categories of subcontracting First, the entrepreneur can hire workers on a temporary basis, on a particular job for which he is sub-contracted to the firm Such workers are counted as part of the work force for labour regulations A second category of workers are those who are employed by sub contractors to the firm In all the sectors surveyed, there has been an exponential growth in sub-contracted labour These sub-contractors in turn divide their labour into units of less than 10 The growth of sub-contracting reinforces our earlier point that 1970's labour regulations may have had the perverse effect of increasing insecurity of employment for a large proportion of the workforce At present the sub-contracting process is under review as part of forthcoming

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legislation on bonded labour and sub-contracting However, negotiations leading up to the legislation revealed deep divisions on the issue within the labour movement itself [1]

6 10 The nature of the relationship between SSI and regulatory bodies that emerges from our survey unfortunately has implications far beyond the micro manipulative level The nature of the distorted relationship that has developed between entrepreneurs and government officials is one which does little to inculcate respect for the state Government regulations are seen to be as good as the next 'baksheesh point' Some of the entrepreneurs interviewed gave great details of the amount of bribes given to a variety of officials Civil servants that EPRU spoke to acknowledged the distortions but had little to say about reforming or minimising such leakages Such a relationship is one which contributes to an ethos of suspicion and contempt for government The principal language of communication is bribery At the macro economic level, when the government tries to engage in greater domestic resource mobilisation it has to encounter substantial institutional barriers from within Individual officers have developed a personal interest in distorting the regulatory framework The higher the number of regulations, the greater the proliferation of official agencies and the larger the opportunity to give and receive bribes At a superficial level, such graft lubricates the system in a manner which overcomes bottlenecks The most serious damage inflicted in the process is respect for law, regulations and authority This environment helps create entrepreneurial attitudes which exhibit a penchant for devising ways to commit fraud, bribe officials and distort regulations Thus a vicious circle is established People have little faith in the government machinery which they know can be distorted Officials view regulations as an opportunity for increasing personal incomes from eager bribers Regulations are often bypassed but at substantive micro and macro costs to the economy and society As one of the entrepreneurs put it, "A person would rather join the government and become a tax or a labour officer than work in my factory The official wage I give may be higher but it is the 'chae-pani ka kharcha'[2] which makes the difference "

6 11 So used have participants become to distorting regulations that a legal approach is avoided even when it is better for the actor concerned According to one entrepreneur, he discovered that his cost of bribing tax officials was greater than his tax liability He alleged that he tried to rectify this by making a declaration under the self assessment scheme However, a punitive scrutiny by ITOs followed and he has subsequently reverted to former methods

6.12 The lack of an effective legal machinery means that entrepreneurs are keen to settle matters through bribes rather than go through cumbersome procedures If an entrepreneur gets caught in the legal labyrinth, he could spend a great deal of time, money and energy embroiled in a lengthy dispute Both parties - officials and entrepreneurs - are well aware of this and act accordingly But the lack of an effective legal system to back the regulations is a bias against the entrepreneur not the scrutinizing official The latter can pass a judgement which embroils the former in legal procedures This aids private settlements

6.13 Our survey indicates the emergence of a possible trend which has implications for future SSI growth Those enterprises who have access to formal credit appear to be keen to move away from labour intensive methods The move to higher capital intensity was due not only because of higher anticipated productivity but also due to labour legislation which

1. These divisions were evident in EPRU interviews with union leaders There are wide differences of opinion regarding the magnitude and pace of needed reform

2. Literally translated this means cost of buying tea This colloquial saying refers to extraction of bribes to meet living expenses

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penalises increases in labour force by raising the effective wage rate Thus to avoid this scaling effect, SSI firms are likely to move towards greater capital intensity To the extent that current SSI units are undercapitalised, the provision of greater formal credit would lead to such a result It is however important to prevent labour legislation from acting as a further impetus to capital intensity, as access to credit markets increases

RECOMMENDATIONS

6 14 Ten recommendations for the rationalisation of the regulatory framework for SSI appear to merit attention First, the limit for exemption from a number of labour laws and components of factory act provisions ought to be raised from 10 workers to possibly 50 workers This would release a substantial section of SSI from a maze of current regulations which are not enforced but provide avenues for corruption A detailed review would need to be made to pinpoint the regulations which are not effective at present Their removal would ease the functioning of SSI without substantially adverse effects on tax collection or labour conditions Indeed these objectives could be better met through the suggestion which follows Second, in order to contribute to better labour - management relations, and in view of equity considerations, entrepreneurs should be encouraged to contribute to the building of schools and medical clinics These welfare provisions should be industry based The surgical goods manufacturers association, for example, could collect revenues from member enterprises to build schools and clinics for the workers of the industry Industry specific NGOs could be established to promote and mobilise such development In this manner, the <u>objective</u> of a number of current regulations would be met without involving government regulatory agencies Entrepreneurs would feel happier contributing directly to schools and clinics Workers would be able to see tangible benefits Initially, experiments should be tried on a pilot basis For example, 3 year welfare provision targets could be set for industrial groups in return for exemption form certain regulations If entrepreneurs do not meet these targets, the cumbersome regulatory framework would be re-introduced

6 15 Perhaps the strongest criticism coming from small entrepreneurs relates to the maze of regulatory bodies and officers that they have to contend with The reform proposals in this regard lead us to the familiar request for a simplified one-window operation, wherein small enterprises only have to deal with a single government body All regulatory measures should be dealt with by a single department This would make the system more efficient and manageable A separate cell for small industries would be desirable Similar to the concept of the self assessment income tax scheme, small enterprises could make a simple return regarding the number of workers they employ, the state of working conditions and the regulations they have to comply with Entrepreneurs should be encouraged to give proposals on the duration and the manner in which they intend to rectify shortcomings Instead of a purely punitive approach, the government could consider encouraging the adoption of certain regulations by providing credit to small industries to comply with certain measures of the Factories Act Similarly, environmental regulations which require an enterprise's resources could be encouraged through credit lines for the purpose

6.16 A fourth recommendation relates to the low literacy level of small entrepreneurs Entrepreneurs noted that they often found it difficult to deal with complicated regulations and to verify whether particular regulations do apply to him or whether they are arbitrarily set by the official visiting them To strengthen the capacity of small entrepreneurs to deal with the regulatory framework, collective legal bodies could be established Law advisory centres could be set up through contributions from members of particular SSI sub-groups Such centres would not be expensive and would strengthen the capacity of small entrepreneurs to deal with the regulatory framework Such legal centres would contribute to the development of formal management practices amongst small entrepreneurs

6.17 A fifth suggestion relates to the elimination, or substantial reduction, of discretionary powers given to regulatory officials Such powers cultivate an ethos of arbitrary authority which imposes a degree of fear among small entrepreneurs Tax regulations in particular should not be subject to individual interpretation To reduce awe of government, it is vital to remove the substantial discretionary powers enjoyed by scrutinizing officers

6 18 A sixth area of reform are municipal regulations At present, any SSI setting up business within municipal limits has to get a No Objection Certificate (NOC) from the local authority This is a cumbersome procedure, which can involve a great deal of time, resources and patience For this reason, a number of units do not get themselves registered and operate in a clandestine manner Consequently, there appears to be a need to devise a list of SSI sectors which do not require an NOC Obviously appropriate criteria such as pollution effects and noise have to be borne in mind Only those sectors not on the list would require an NOC from the local authority

6 19 Seven, a systematic application of regulations requires a consistent definition of small scale industry At present there are variations, such as some agencies excluding land from value of fixed assets, whereas other excludes land and buildings for the classification limits of SSI Financial institutions, small industries corporations and the Government of Pakistan's other agencies need to evolve a consistent definition

6 20 Eight, sub-contracting could be limited to a proportion of the work force A regulation which limits the scale of sub-contracting could contribute to better labour-management relations

6.21 Nine, a number of environmental laws have been promulgated recently These are likely to be added to when the National Conservation Strategy is completed later this year A number of SSI are affected, particularly in areas such as leather processing and shoe manufacture The efficacy of these desirable regulations may be limited if additional officials visit SSI for their monitoring This reinforces our earlier suggestion for a single window facility There is a danger that the forthcoming spate of environmental regulations would add to the number of officials visiting SSI This opportunity could be utilised to press the case for a one window operation

6 22 Finally, it must be emphasised that reforms of the regulatory framework ought to concentrate more on the institutional mechanism rather than the regulations per se The latter could be rationalised and simplified If all the current regulations were rigidly applied, most SSI would find it difficult to function But the key issue is to reduce the number of monitoring officials visiting SSI and to strengthen the legal capacity of small entrepreneurs to handle the maze of regulations A purely punitive approach has to be replaced by one which combines incentives with regulations

APPENDIX 1

Comments submitted by private sector representatives to the GOP, regarding constraints to industrial development including the regulatory framework. Comments in the right hand column are made by the Punjab Small Industries Corporation.

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IMPEDIMENTS	SOLUTION
4. F.E.B.	
Federal Export Board has stopped meeting. It used to resolve many problems when it met under the Chairmanship of the President.	Federal export board may be revived to provide a high-forum to reslove the problems of industrialists expeditously.
5. Existing Units at Karachi.	
The existing units at Karachi should be allowed BMR facilities.	No comments.
6. Minerals.	
Develop mining through private sector.	The mining is a very vast sector and it should be developed by the joint efforts of private and public sector.

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IMPEDIMENTS	SOLUTION
Social Issues.	
The situation in Karachi needs immediate attention with a view to restoring law and order. The following points are brought to notice:-	No comments.
i. Student coming from Punjab are maltreated by Karachi schools.	
ii. Government policy has been oriented to Sindhis, which has adversely affected settlement of mohajirs.	
iii. Mohajirs have taken most of the posts in Karachi	
iv. Mohajirs are creating a rift between Sindhis and Punjabis.	
v. The practice of domicile certificates may be abolished. All citizens are Pakistanis and should have equal rights	
vi. Do not let people from India come to Pakistan and settle here.	
vii. Government should bring about social integration in Karachi as early as possible.	
Specific Issues.	
1. Steel Mill and Electric Furnaces.	
Steel Mill production is being unnecessarily protected. If this policy is to be continued steps be taken to also protect small units making similar steel items.	For the growth of industries, healthy competition should be encouraged.
2. Cellophane Paper Unit.	
Machinery for the unit is lying packed and undergoing heavy demurrage. This cannot be set up at a place other than Karachi. The case is pending with Facilitation Board.	No comments.
3. EPZ	
• Not operating satisfactorily.	No comments.

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IMPEDIMENTS	SOLUTION
h. Private Sector be allowed to export cotton directly.	No comments.
i. Loadshedding of electricity should be stopped	We endorse the view point of the Chamber.
j. Export Duty on cotton Yarn be abolished.	No comments.
k. Infrastructure should be provided.	We endorse the suggestion.
l. Social Security Taxes should be lumped	We endorse the suggestion.
m. Petroleum dealers should be given higher commission (3%)	No comments.
Separate Chamber of Industries	
At present the joint Chambers of Commerce and Industry cannot effectively represent the interest of industry, as majority of members in the Chambers are traders. In the interest of industrial development, separate Chambers of Industry should be allowed to be set up	We endorse the establishment of separate Chamber of Industries in the country.
Recommendations on Industrial Policy	
a. Disinvestment and Deregulation process be accelerated.	We endorse the views.
b. Relief in taxes given to encourage reinvestment.	-do-
c. Allow private banks.	-do-
d. Abolish Sanctioning procedures.	The sanctioning procedure in majority of the cases already stands abolished.
e. Provide infrastructure on EPZ lines.	We endorse the views.
f. Labour Laws should give right to replace workers.	This point already stands discussed
g. The present 55% rate for private limited Companies be brought at par with those of Cooperative Companies and the cost of borrowing reduced.	No comments.

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IMPEDIMENTS	SOLUTION
<u>Mazda Project.</u>	
Submitted to Government in March 1982 for assembly of progressive manufacturing of Morris, but approval was inordinatey delayed by Government. Now they have submitted a proposal for Mazda Car, but this has also been delayed.	No comments.
The party has spent millions of rupees in running about, negotiating abroad and completing procedural formalities	
The foreign participants have wanted too long Would come forward only if a proper sanction was accorded by the Government.	
<u>Other parties.</u>	
Other parties interested in car projects are 'Mr. Yuusaf Shirazi, Ittefaq Foundary and Gandhara Industries.	
<u>Specific Points of Bahawalpur Champer of Commerce and Industry:-</u>	
a. Tehsil Bahawalpur may be declared "Zero" duty area and given tax holiday for a long time.	Tehsil Bahawalpur being a less developed area, needs encouragements for the establishment of industries.
b. Small industrial plants lying closed be re-opened.	We support the suggestion.
c. Branches of DFIs opened at Bahawalpur.	-do-
d. A display centre of EPB installed.	-do-
e. HQ of at least two banks be changed to Bahawalpur.	No comments.
f. An industrial estate for large and medium industries may be set up.	No comments as it does not pertain to us.
g. Develop dairy and livestock industry.	We support the suggestion as B/pur is a suitable area for Dairy Farming.

2-11

IMPEDIMENTS	SOLUTION
All components must be imported at the normal custom duty.	
Allow two additional plants for assembling.	No comments.
After two years, the import of completely built up cars be stopped.	No comments.
After 3 years of allowing two [illegible], the import duty on [illegible] may be increased @10% per year for 5th years [illegible] ultimately at 120%.	No comments.
[illegible] should be made then completion of 8 years.	No comments.
A Board should be set up to assess the progress of assemblies and vendors. (Mr. Rafiq Habib is interested in getting sanction for a car plant).	No comments.

Other projects for Cars.

i. Raja Abdur Rehman - Diahatsu would provide interchange-ability of assemblies and components in the range of 800-1000 C.C.	No comments.
ii. 80% deletion within 7 years.	
iii. Export commitment to neighbouring market in line with international standards.	
iv. 40% equity by foreign collaborations.	
v. Have already developed ground facilities for assembling and manufacturing autoparts.	
vi. Track record of 50% indigenization.	
vii. Peformance Award given to Raja Abdur Rehman by the President of Pakistan and at International level.	

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IMPEDIMENTS	SOLUTION
production of bank draft in foreign exchange or bearers certificate.	
c. Training of manpower and labour laws. The units of engineering industry should be encouraged to train apprentices who should be kept out of the purview of labour laws	Under Manpower Division the apprenticeship training programme for big industrial units is already in operation and the apprentices appointed under that scheme are exempted from labour laws. In case the units which are not already covered under Apprenticeship Scheme may approach the Manpower Division for the inclusion of their units under Apprenticeship to avail exemption from Labour Laws.
d. Small engineering industries. Small engineering industries should be kept outside the purview of labour laws as long as the total strength does not exceed 50 workers and cost of machinery is around Rs. one million.	The exemption from labour laws may be provided to all small industrial units upto 50 workers.
Labour	
Labour productivity is too low. Labour policies are over-protective. Govt to keep up discipline, performance and productivity; employers may be allowed the right of doing away with the services of workers who tend to create law and order situation.	Protection to labour is essential but the employers should have the right to do away with the services of workers who create law and order situation after it is proved to the satisfaction of competent authority in the Govt.
Smuggling. The possession of smuggled goods should attract deterrent punishment.	No comments.
Import of automotive industry.	
1. Proposed policy (Mr. Rafiq Habib). A new automotive policy should encompass the following:- a. Abolish concessional custom duty for assembling trucks (15%) and passengers cars (10%). The current levels of duty are counter productive and no deletion can take place under these conditions.	No comments.

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IMPEDIMENTS	SOLUTIONS
the monitoring authority should have powers to make such adjustment as may be necessary from time to time.	
b. Demand. Defence factories, Railway, WAPDA, Shipyard etc. may be approached to make greater use of plants as produced under progressive manufacturing programmes. This would help modernization of vending shops as well as their expansion.	No comments.
c. Finance. Low cost financing is, at present, available to industries producing locally fabricated machines. The industries producing machines for aforementioned industries cannot avail themselves of this concession. It should also be extended to them under a proper mechanisum.	We support this view point.
d. Supply of materials. Arrangements should be made whereby steel can be procured from the Pakistan Steel Mills without delay, on demand and according to specifications.	The demand needs sympathetic consideration only in case the demand is for steel products of standard specifications.
All materials which have to be imported for Engineering Industry should be allowed duty free. For this purpose all factories engaged in hot/cold forming, heat and surface treatment should be considered at par for the purpose of above mentioned concession.	As most of the materials imported for engineering industry also frequently find use in other sector, it may not be possible to accede this request.
e. Import of Machinery. Import of machinery for making machines should be allowed duty free. NRI scheme has proved very effective for this purpose. It is proposed that the users of such machinery whether in Pakistan or outside should be allowed to import such machinery directly on	Most of the machinery used for making machines is the same which is used for producing different metal products, hence it would be difficul to segregate the machinery to allow the same free of custom duty for machinery making units.

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IMPEDIMENTS	SOLUTION
Deregulation and disinvestment.	
a. Sind Alkali should be disinvested.	No comments.
b. **Obstacles in Disinvestment.** Raja Abdur Rehman an industraist of Azad Kashmir and manufacturer of Vespa Scooter has requested for an audience with the President. He wishes to bring his notice the irregularities and manipulations of the last Government in disinvestment cases. By way of example, he quoted the case of of re-organization of National Motors Ltd Karachi on which a summary was prepared for ECC. In this summary it was said that as the National Motors were losing, its management should be handed to a private party by transfer of 41.2% of shares (total capital Rs.65.6 million) held by HII & ICP. Transfer was to be made at a negotiated value. The case was till under process when the Government of Mr. Junejo collapsed. Raja Abdur Rehman also asked for expediting the case for the manufacturing of a small car lying pending for years. He wants to set up a Diahatsu plant.	No comments.
Indigenisation/Deletion	
Engineering industry has not achieved the desired level of development because of the indifferent approach of government and businessman. A proper programme should be developed for attaining progressive manufacturing in engineering. The programme should be implemented by a Monitoring Authority. The following specific suggestions may be considered:-	
a. Monitoring should be done at the time of issuing programme/schedule of deletion and during its implementation.	The suggestion is supported.

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PROBLEMS	SOLUTION
as one of the criteria for quota allocation.	
...ion in Textile Industry	
...e of Production ... to enforce locally ... d spinning plants on ... industry and decision of ... Ministry (Beg ... to first revive the ... hampered installation ... textile mills etween ... these decisions have done an irreparale damage to textile industry and Pakistan lost the opportunity of availing herself of the sharp increase in textile yarn during 1986-88.	
The Cost Evaluation Committee of Pakistan Banking Council was further responsible in delaying the settingup of textile mills based even on local mechinery. Unnecessary objections were raised on cost and other items.	
Nationalized Banks are not favourably inclined to textile industry. Permission may be granted to setup private banks.	Opening of banks may be allowed in the private sector under Government control.
It is realized that the main hurdle in textile expansion came from insistence on the use of locally fabicated equipment, which failed. The private sector should be allowed to set up its own units for making textile machinery.	This item is not in the list of specified industries.
4. Openness in textile quota Distribution.	
TPB are too secretive. Daily quota list should be issued, transfers approved, names of persons involved in transferring displayed and copies supplied to textile associations.	No comments.

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2-16.

IMPEDIMENTS	SOLUTION
reasons beyond his control. In such a situation, the 4% fee charged from him should be refunded, if he fails to utilize the licence within 180 days.	
e. Opening of L/C against RMP Import Licences.	
State Bank of Pakistan has directed commercial banks to open L/C for the advance PMR against nil margin, but they want 10% to 20%.	No comments.
f. Refund of Security Deposits.	
Security Deposit is liable to be confiscated for deficiency in export performance. Where this happens for reasons beyond one's control the Security Deposit should be refunded	No comments.
g. Russian Refrigerators	
Russian refrigerators can be imported against import of ready made garments. The C&F price of a 260 - litre Russian refrigerator is Rs.6795 as against Rs.11,017 for a Japanese refrigerator. Duty base should be changed from value to capacity.	We endorse this suggestion.
h. Classification of Kemp.	
Kemp should be classified as wool under ITC Classification.	No comments.
(Haji Dost Muhammad who made this request at the meeting held on 26-6-88 died on 29-6-88 of heart failure)	
i. Textile Exports.	
The existing quota jagirs should be abolished and quota made available on the basis of value added. Besides, export to non-quota countries be treated	No comments.

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IMPEDIMENT	SOLUTION
o. Plastics	
Pharmaceutical industry are allowed to import their materials including plastics for extruding vials etc for packaging free of duty. This is adversely affecting small plastic units of the country.	To ensure the availability of medicines at reasonable prices, this policy may not be changed.
p. Fax.	
Fax machines should be allowed to be imported duty free	This demand needs to be accepted.
q. Import of Materials.	
Import of materials by industry should be allowed on performances basis.	In order to ensure fair competition we do not endorse this suggestion.
r. Management of Bonded Warehouses	
Management of bonded warehouses is not satisfactory. Reconciliations are not done in time. Renewal of licences is unduly delayed. Staff attendance is not regular. At Sialkot there is no staff available for the management of warehouses.	No comments.
s. Sports Goods Industry, Sialkot.	
Costs of Raw Materials for Sport Goods Industries have gone up. Consequently, exemption from duty be given on all items which are 124 in number.	Duty on industrial raw materials may be rationalized.
During periods of low business the operating industries, particulary small industries(sports goods) may be allowed tax relief.	No comments.
t. Income Tax Officers.	
ITOs are generally dishonest and discriminative. They need to go through a process of re-education that should induct in them the values of honesty, proper living, and goodbehaviour.	No comments.

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IMPEDIMENTS	SOLUTION
u. Social Security Taxes. System is ridden with ad hocism. All social security charges be lumped and allowed to be deposited voluntarily, subject to post-audit.	We endorse this suggestion.
v. Octroi on Transit Goods. No Octroi should be charged on goods passing through Karachi for processing in factories outside Karachi	No comments.
x. Tax Limit Cottage Industries. For tax purposes, the limit of cottage industry be raised to Rs.3 lac. Similarly, the limit of small industries be enhanced	No comments.
y Shortage of Imported Materials. Imported materials in bonded houses should be allowed to be stored for 3 years instead of 1 year and the present practice of charging 2% penal interest may be waived.	No comments.
Industrial Licensing.	
a. Licensing for New Units. A new unit faces hardship in getting its first import licence. A certificate of assessment of raw materials is obtained from the Provincial Directorate of Industries. The Directorate asks for bill of lading which means action is initiated only after shipment of machinery. This leaves little time for obtaining the first consignment of imported materials and commencement of plant is delayed. The procedure should be improved.	There is sufficient time lag between the shipment of the machinery and its ultimate installtion for trial production, for arranging import of raw materials. However, licence should be issued immediately on the receipt of bill of lading of machinery.

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IMPEDIMENTS	SOLUTION
k. Audit	
Customs Procedure should be subject to a continuous audit and brought in line with industrialized countries.	We endorse this view point.
l. Re-organization of CBR	
CBR, shoud be made into a Revenue Ministry and divided into two divisions, namely (i) Customs and Excise and (ii) Income Tax and other taxes. This would enable the Government to exercise greater control over functionaries, eliminate delays and improve performance. The Ministry should be staffed with professionals.	We endorse this view point.
m. Protective Duty on Import of H.S Diesel Engines upto 20 HP	
Government has extended protection to 12 H.P. diesel engines being manufactured only by PICO. While a complete built up imported unit is available at $705, PICO are spending $329 on CKD KIT. Besides, PICO are not producing H.S. Diesel engines of other ranges (e.g. 3,5,7,16 and 20 H.P.) Industrialists and others may be allowed to import these for industrial and agricultural uses. Import ban on other diesel engines (200 KVA etc) may also be lifted.	No comments.
n. Cycle Industry.	
Import of cycle parts being manufactured in the country is adversely affecting the industry. Appropriate change may be made in S.No.495 of the positive list of industry.	Those cycle parts which are being manufactured of desired quality in sufficient quantity in the country must be protected.

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IMPEDIMENT	SOLUTION
e) Valuation of Customs. Interpretation of Sections 24 and 30 of the Customs Act leads to loading beyond proportion. A [illegible] rule be framed.	No comments.
f) Duty Rates Duty rate are very high and should be rationalized. The following suggestions may be considered:- Industrial Raw Materials. 20% Spare Parts 10% Raw Materials & Goods manufactured locally. 80% Plant & Machinery 0% Sales Tax. 5%	We support the suggestions except that spare parts, plants and machinery which are locally manufactured of the desired quality should not be allowed on zero duty
Sales Tax should be levied with a positive attitude.	We endorse this suggestion.
Excise duty should be levied on those industries which yield significant profits.	-do-
g) Duties on Materials imported for commercial or industrial use should be the same.	-do-
h) Flat Rate of Duty be charged on each article.	-do-
i) A Unified system of duties and taxes collection be developed.	-do-
j) Consolidation of Duties and Taxes. There are, at present, several agencies and functionaries responsible for collecting taxes and duties. It is proving too costly for the industrialists. A system be evolved whereby the No. of tax collectors is reduced to the minimum and use of their personal discretion eliminated completely.	We endorse this suggestion.

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IMPEDIMENTS	SOLUTION
iv) One window system is good but you cannot get ticket from that window. Connections of electricity, water, power and telephone are not available when needed.	One window system needs improvement. All concerned agencies should hold a fortnightly joint meeting of such representatives who can decide the issues then and there.
5. Taxes, Tariffs and Fiscal Anomalies.	
The following obstacles were identified:-	
a) Fiscal Anomalies abound in every industry using imported materials Present method of resolving them is not satisfactory. A Tariff Commission may be established. Better still, a Tariff Committee with Minister of Industries as Chairman and Finance and Commerce Ministers as Members be set up to give award on applications within 30 days.	A good proposal, which may be implemented.
b) Clarity. SRO and Notifications should be clearly expressed leaving little room for ambiguity. It should convey what Government intentions are.	We support this demand.
c) Custom Tariff. Custom Tariff should be simplified in matters of classification. Items described under a generic head and attracting duties with little variations may be consolidated under an appropriate caption.	A reasonable demand, which we do support.
d) Raw materials or intermediate goods drawn from the same materials should have uniform rates. (Example: Plastic granules carry a duty of Rs.13 per Kg. but plastic sheet is charged Rs.110 Kg.	1. We do not support this proposal, as there is a need to protect the local industries. As in the given example, the duty on plastic sheets needs to be on the higher side as compared to that on plastic granules in order to protect the ~~local~~-plastic sheets manufacturing industry. However, differential should not be as high as given in this example.

BEST AVAILABLE DOCUMENT

IMPEDIMENTS	SOLUTION
Of late, the skill factor is gaining greater importance. As such ready made garment, electronic, technical and small component making industries which require less room and less power may be allowed to be setup in Karachi and other big cities. These industries would increase outlets for employment of women-folk.	We endorse the views that the Readymade Garments and Electronics Industries may be allowed to be set up in Karachi and other big cities of the country.
b Once concessions are announced for an area these may not be denied. Nooriabad Estate is the case in point. For all intents and purposes, this Estate falling in the Dadu District was free from duties and taxes. Suddenly, by virtue of a CBR Circular of March, 1988 it has been excluded from the list of approved industrial estates. This has caused disappointment to industrialists who moved into the Estate five years ago to set up their units.	We support this view point. With-drawn fiscal incentives in case of Districts of D.G.Khan, Rajanpur and Industrial Estates at Mianwali, Khushab, Bhakkar and Chunian may be restored.
2. Provision of Infrastructure	
The following points were raised:-	
i) Acquisition of land or procurement of infrastructure are virtually impossible without palmgreasing.	No comments.
ii) Electricity rates are exorbitant.	It is a fact and need amendments
iii) Lower priority is given by Railways for allocating wagons for transporting industrial materials for Karachi. In a specific case, 1,000 tonnes of Scrap is lying at the port and incurring demurrage.	No comments.

BEST AVAILABLE DOCUMENT 224

IMPEDIMENTS	SOLUTION
bureaucratic than the Government departments. Though the Cost Evaluation Committee (CEC) has been abolished, the behaviour of banks has not changed.	
It is proposed that all DFIs and banks be privatised except one or two which Government may wish to retain. Permission may liberally be given for opening private banks/development finance companies subject to a prescribed Code of conduct	Opening of new banks/Development Finance Institutions in private sector with Govt. controls may be encouraged.
Specific measures may be taken to ensure that (i) DFIs clear the projects in time, (ii) do not make exhorbitant charges for evaluating projects, (iii) avoid raising frivolous objections and (iv) do not prescribe imposible conditions e.g. personal guarantees.	We support these measures. At present Small Industries Sector gets 5% of the total credit made available to the industrial sector whereas its total share in production is arround 30% and it employs over 80% of the industrial labour force. It is, therefore, strongly recommended that at-least 20% of the total long term loan is reserved for the Small Industries Sector.
Besides, banks should develop better safeguards against leakages through violent or underhand means. Favouritism in clientele should be avoided.	We support it.
Banks are a little too inclined towards lending to import - based industries as these yield large profits to banks by way of L/C charges and foreign exchange commission.	Industries based on local machinery should be encouraged
Financing Institutions should be distributed over the Provincial/Divisional Headquarters.	We support this proposal.

3. Location

Apart from regional dispersion, location of industries should be oriented to market, materials and skills.

BEST AVAILABLE DOCUMENT 225

IMPEDIMENTS IN INDUSTRY AS POINTED OUT BY THE PRIVATE SECTOR AND SOLUTIONS PROPOSED.

IMPEDIMENTS	SOLUTIONS
1. Sanctioning Procedures	
a. Though Government have allowed industrial promoters to take their proposals directly to financing institutions, there are still many projects which require prior approval of CIPC/ECC	No comments.
b. Central Investment Promotion Committee of IPB may be abolished. Specific projects should not also be referred to ECC or Industries Ministry. This is necessary to avoid delay as sanctions issued by CIPC/ECC are not taken seriously by agencies which are consequently approached for financing or capital structuring.	No comments.
c. The Investment Promotion Bureau should be re-organized to handle matters in which assistance is really needed. The reorganized IPB should collect and supply correct data to investors and assist them in expediting their projects through financing agencies and securing infrastructure	We support this demand.
2. Financing of Industrial Projects.	
Financing Institution now hold control over sanctioning as well as financing of a project; they have become more	

APPENDIX 2

THE FIRST SCHEDULE

(See Section 9, 10 and 50)

PART I

RATES OF INCOME TAX

[1][A. In the case of every individual unregistered firm, an association of persons, Hindu undivided family and every artificial juridical person referred to in clause (32) of Section 2, not being a case to which paragraph B of this Part applies,—

(1) Where the total income is less than Rs 100,000, the income tax shall be charged at the rate of ten *per cent* of the total income:—

Provided that,—

(*a*) no income tax shall be payable by an assessee where his total income (being less than Rs 100,000) does not exceed .

(*i*) Rs 40 000 in case the total income consists of, or includes any income chargeable under the head 'Salary', and such income constitutes more than fifty per cent of his total income ; and

(*ii*) Rs. 30,000, in other cases ;

(*b*) the income tax payable shall be reduced by,—

(*i*) Rs 4 000, in case the total income consists of, or includes any income chargeable under the head 'Salary', and such income constitutes more than fifty per cent of his total income ; and

(*ii*) Rs. 3,000, in other cases ;

(*c*) notwithstanding anything in this Schedule, no reduction in income tax and super tax, under sub-paragraph (2) of paragraph A of Part IV, shall be admissible ; and

(*d*) notwithstanding anything contained in this Ordinance, no rebate for any allowance under Sections 39, 40, 41, 42, 43, 44, 44-A, 46 or 47 shall be admissible

(2) Where the total income is Rs 100,000, or more, the income tax shall be chargeable at the following rates, namely,—

	Rate
(1) Where the taxable income is Rs. 76 000 ...	Rs. 11,500.
(2) Where the taxable income exceeds Rs. 76,000 but does not exceed Rs. 100,000.	Rs. 11,500 *plus* 25 per cent of the amount exceeding Rs. 76,000.

1. Subs. by the Finance Ordinance, 1988.

	Rate
(3) Where the taxable income exceeds Rs 100,000 but does not exceed Rs. 200 000	Rs. 17 500 *plus* 35 per cent of the amount exceeding Rs. 100 000.
(4) Where the taxable income exceeds Rs. 200.000	Rs 52,500 *plus* 45 per cent of the amount exceeding Rs. 200 000]

Provided that notwithstanding anything contained in this Ordinance, the rebate for any allowance under Section 39 40, 41, 42, 43, 44, 44-A, 46 or 47 shall be computed at the average rate of tax and allowed accordingly]

B. In the case of every local authority ...	30 per cent of the total income.
C. In the cases of every company [including a foreign association declared to be a company by the Central Board of Revenue under clause (16) of Section 2] on the total income excluding such part of the total income as consists of any dividends or bonus or bouns shares to which sub-paragraph (2) or sub-paragraph (3) of paragraph A of Part II applies and income to which Chapter V applies.	30 per cent of such income.

D. Rate of income tax for purposes of deduction under sub-section (2) of Section 50.—

On the whole of income chargeable under the head Interest on securities (not being interest payable on debentures issued by or on behalf of a local authority or a company).	30 per cent of such income.

[1][DD. Rate of income tax for purposes of deduction under sub-section (2-A) of Section 50.—

(a) where the sum does not exceed Rs. 1,000	*Nil.*
(b) where sum exceeds Rs. 1,000 ...	10 per cent of the amount exceeding Rs. 1000]
DDD. Rate of income tax for purposes of deduction under sub-section (3) of Section 50.	30 per cent of the sum chargeable or the rate applicable to a resident person, whichever is the greater.

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1. Paragraph DD subs. by the Finance Ordinance, XXVIII of 1984 This Paragraph DD was earlier ins. by the Finance Ordinance ... of 1980. This paragraph was ...

[1][DDDD Rate of income tax for purposes of deduction under sub-section (3-A) of Section 50.	20 per cent of the sum]
E. Rate for collection of income tax under sub-section (4) of Section 50	There per cent of the amount of payment.

[2][F Rate for collection of income tax under sub-section (5) of Section 50.—

(a) where the assessee is liable to pay advance tax under Section 53 during the financial year in which goods are imported.	One and one-half per cent.
(b) in other cases ...	Two per cent]

G. Rates for collection of income tax under sub-section (6) of Section 50,—

(1) goods transport vehicles with registered laden weight of 2030 Kilograms or more	One thousand rupee per annum.

[3][(2) Passenger transport vehicles with registered seating capacity of not less than twenty persons—

(a) in case such vehicles ply within the city limits	Fifteen rupees per seat per annum.
(b) In other cases	Twenty rupees per seat per annum.]
[4][H. Rate for collection of income tax under sub-section (7-A) of Section 50.	Three per cent of the sale price.]

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1. Added by the Finance Act, VI of 1987.
2. Subs. by the Finance Ordinance, XXIV of 1981 (*w.e.f.* 1-7-1981). It was earlier subs. by the Finance Ordinance, XXV of 1980.
3. Subs by the Finance Ordinance, XXV of 1980.
4. Paragraph H added by the Finance Ordinance, XXIV of 1981 (*w.e.f.* 1-7-1981).

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PART II
RATES OF SUPER TAX

A. In the case of a company,—

	Rates
(1) on the total income excluding such part of the total income as consists of dividends or bonus or bonus shares to which sub-paragraph (2) or sub-paragraph (3) applies	35 per cent of such income in the case of a banking company and 25 per cent of such income in the case of a company other than a banking company :

Provided that in the case of a domestic company, rebate shall be allowed as follows :—

(*i*) a rebate of 5 per cent to such company not being a banking company if it is a public company :

[1][Provided that, for any assessment year commencing on or after the first day of July, 1986, this clause shall have effect as if for the figure and words "5 per cent" the figure and words "15 per cent" were substituted ;]

(*ii*) a rebate of 5 per cent to such company not being a banking company if it is a public company to which clause (*iii*) does not apply, if its paid-up capital plus free reserves as on the last day of the income year does not exceed Rs. 500,000 .

[2][Provided that where such public company is listed on a registered stock exchange in Pakistan, between the first day of July, 1984, and the thirtieth day of June, 1986, this clause shall have effect as if for the figure "500 000" the figure "5 000,000" were substituted .]

[3][Provided further that the aggregate of rebates admissible to the assessee under the foregoing provisos shall not exceed the super tax payable by him under this paragraph ;]

(*iii*) a rebate of 5 per cent on so much of the income, profits and gains of such company, being a public company, as are derived by it from an industrial undertaking if its paid-up capital plus free reserves as on the last day of the income year does not exceed Rs 1,000,000 .

1. Proviso added by the Finance Act of 1985. Effective from July, 1986.
2. Proviso added by the Finance Ordinance, XXVIII of 1984.
3. Proviso added by the Finance Act, I of 1985. Effective from July, 1986.

[1][Provided that, where such public company is listed on a registered stock exchange in Pakistan, between the first day of July, 1984, and the thirtieth day of June 1986, this clause shall have effect as if for the figure "1,000,000" the figure "10 000,000" were substituted .]

(*iv*) a rebate of 5 per cent on so much of the income, profits and gains of such company, as are derived by it from an industrial undertaking commencing commercial production at any time between the first day of July 1975, and the thirtieth day of June [2][1988] (both dates inclusive) if the original cost of fixed assets (excluding the cost of land) owned by the company and used by the undertaking does not exceed Rs. [3][5,000 000] so however, that no rebate under clauses (*ii*) and (*iii*) shall be allowed to such company ;

(*v*) a rebate of 10 per cent to such company in respect of its income, profits and gains to which clause (*c*) of Section 26 applies or which are derived by it in Pakistan from processing freezing, preserving and canning of food, vegetable, fruit, grain, meat, fish and poultry ; and

(*vi*) a rebate of 15 per cent to such company on so much of the income, profits and gains accruing or arising outside Pakistan to which clause (2) of paragraph A of Part IV does not apply as are brought by it into Pakistan :

Provided further that where the total income of a company includes any profit and gains from the life insurance business, super tax payable by the company shall be reduced by an amount equal to 12.5 per cent of that part of its total income which consists of such inclusion ,

(2) to which paragraph C of Part I applies, on the amount representing income from dividends from a Pakistani Company ,—

	Rates
(*a*) where such dividends are received by a public company and are declared and paid by a Pakistani Company in respect of the share-capital issued, subscribed and paid after the fourteenth day of August, 1947.	[4][5] per cent of such amount.
(*b*) where such dividends are received by [5][a body corporate referred to in sub-clause	15 per cent of such amount ;

1. Proviso added by the Finance Ordinance, XXVIII of 1984.
2. Subs for the figure '1983' by the Finance Ordinance, XIV of 1983. This figure was earlier subs. for '1980' by the Finance Ordinance, XXV of 1980.
3. Subs for the figure "3,000 000" by the Finance Ordinance, XXV of 1980 (*w. e. f.* assessment year 1981-82).
4. Subs. for the figures '10' by the Finance Ordinance, XII of 1982.
5. Ins by the Finance Ordinance, XXIV of 1981. It was earlier deemed to have been ins. by S. R. O. 1162 (I)/80, dated 20th November,

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(c) of clause (16) of Section 2 or] a foreign association declared to be a company by the Central Board of Revenue under clause (16) of Section 2.

(c) in other cases ... [1][20] per cent of such amount.

(3) On the whole of the amount representing [2][the face value of any bonus shares or] the amount of any bonus issued by the company, with a view to increasing its paid-up capital —

	Rates
(a) where a company which issued [3][bonus shares or] the bonus in a public company.	10 per cent of such amount ;
(b) in other cases ...	15 per cent of such amount
B. In the case of every local authority, on the whole of the total income ...	12 5 per cent of the amount.

[4][C. In the case of every registered firm,—

where the total income does not exceed Rs. 24 000	*Nil.*
where the total income exceeds Rs. 24,000 but does not exceed Rs. 50,000	5 per cent of the amount exceeding Rs. 24,000 ;
where the total income exceeds Rs. 50,000 but not exceed Rs. 100 000	Rs 1,300 *plus* 10 per cent of the amount exceeding Rs 50 000
where the total income exceeds Rs. 1,000,000 but does not exceed Rs. 150,000.	Rs. 6,300 *plus* 20 per cent of the amount exceeding Rs 100 000 ;
where the total income exceeds Rs. 150,000	Rs. 16 300 *plus* 35 per cent of the amount exceeding Rs. 150 000].

D. Rate of super tax for the purposes of deduction under sub-section (2) of Section 50—

On the whole of the income chargeable under the head "Interest on securities" paid to a non-resident—

(*i*) where such person is a company ... the rate applicable to a company ;

(*ii*) where such person is not a company ... the rate applicable to a resident person, not being a company

1. Subs. for the figure '30' by the Finance Ordinance, XII of 1982.
2. Words inst. by the Finance Ordinance, 1983
3. Words inst. by the Finance Ordinance

[1][E. Rate of super tax for the purposes of deduction under sub-section (3) of Section 50 —

(*i*) in the case of a company ... the rate applicable to a company on the sum chargeable ;

(*ii*) in other cases ... the rate applicable to a resident person, not being a company, on the sum chargeable]

[2][PART III

RATE OF SURCHARGE

Where the total income of any person for the income year, relevant to the assessment year commencing on or after the first day of July, 1988, is two hundred thousand rupees or more, the surcharge shall be payable at the rate of ten per cent of the income tax and super tax, if any, payable for the year]

1. Added by the Finance Ordinance, XXV of 1980.
2. Part III inst. by the Finance Ordinance, 1988.

PART IV

A. Notwithstanding anything contained in this Schedule, [1][except clause (c) of the proviso to sub-paragraph (1) of paragraph A of Part I thereof]—

(1) where the assessee is a co-operative society, the tax shall be payable at the rates specified in paragraph A of Part I, or paragraph C of Part I and paragraph A of Part II of this Schedule as if the assessee were a company to which the first proviso to paragraph A of the said Part II applied, whichever treatment is more beneficial to the assessee ;

(2) where the total income of an assessee includes any profits and gains derived from export of goods manufactured in Pakistan ,—

(a) income tax and super tax, if any, payable in respect of such profits and gains shall, subject to the other provisions of this clause, be reduced by an amount equal to [3][fifty] per cent of the amount of income tax and super tax, if any attributable to the sale proceeds of such goods [2][or, in respect of any good specified] [3][in the eighth Schedule] by an amount equal to such percentage of the amount of the income tax and super tax, if any, attributable to the sale proceeds of such goods, as [4][are specified in that Schedule .]

Provided that in the case of a registered firm, super tax payable by it under paragragh C of Part II of this Schedule shall be reduced under this clause by so much of such amount calculated on the basis of the income tax payable on its total income under paragraph A of Part I as if it were the total income of an unregistered firm as does not exceed the said super tax :

[5][Provided further that the provision of this clause shall apply to profits and gains derived from the—

(a) export of vegetable, fresh fruits and cut flowers ; or

(b) sale, in Pakistan, of goods manufactured in Pakistan against an international tender, where the contract under which such sale is made is approved by the Commissioner,

as are applicable to profits and gains derived from the export of goods manufactured in Pakistan ,]

(b) nothing in sub-clause (a) shall apply to a company which is not a domestic company ; and

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1. Words inst. by the Finance Ordinance, 1988.
2. Ins. by the Finance Act, VI of 1987.
3. Words subs. by the Finance Ordinance, 1988.
4. Words subs. by the Finance Ordinance, 1988.
5. Proviso inst. by the Finance Ordinance, 1988.

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(c) nothing in sub-clauses (a) and (b) shall apply in respect of the following goods or class of goods, namely :—

[1][(i) raw cotton ;

(ii) rice ;

(iii) rice bran ;

(iv) wheat bran ;

(v) lamb skin ;

(vi) such other goods as may be notified by the Central Board of Revenue]

The Central Board of Revenue may make rules providing for the computation of profits and the tax attributable to export sales for the purposes of sub-clause (a) and for such matters as may be necessary to give effect to the provisions of this clause .

[2][(2-A) where an assessee,—

(a) being a company registered under the Companies Ordinance, 1984 (XLVII of 1984), and having its registered office in Pakistan, repatriates to Pakistan any income chargeable to tax under the head Income from business or profession' in any income year which has been derived by it from a construction work executed by it outside Pakistan, no super tax shall be payable by it on such income ;

(b) not being a company who is resident in Pakistan, repatriates in any income year any income earned abroad by way of fees for any technical or consultancy services rendered outside Pakistan, he shall be entitled to a rebate equal to thirty per cent of income tax or super tax payable on the income so repatriated :

Provided that—

(i) such income is received in Pakistan in accordance with the law for the time being in force for regulating payments and dealings in foreign exchange , and

(ii) where the assessee is a registered firm, super tax payable by it shall be reduced by an amount calculated on the basis of the income tax payable on its total income if it were the total income of an unregistered firm as does not exceed the said super tax.

(2-B) No super tax shall be payable by a registered firm in respect of the income, profits and gains derived by it from the exercise of a profession if such income, profits and gains depend wholly or mainly on the professional qualifications of its partners who are prevented by any law for time being in force or by convention or rules or regulations of the professional association, society or similar body of which they are members to constitute themselves into a corporate body with a limited liability which can be registered as a company under the Companies Ordinance, 1984 (XLVII of 1984), unless such profession consists wholly or mainly in the making of contracts on behalf of other persons or the

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1. Subs by the Finance Ordinance, 1988.
2. Clauses (2-A) and (2-B) ins. by the Finance Ordinance, XXV of 1980 (w.e.f. assessment year 1981-82).

giving to other persons of advice of a commercial nature in connection with the making of contracts ;]

(3) where a person, not being a company, is not resident in Pakistan, the tax including super tax payable by him or on his behalf on his total income shall be an amount equal to—

(a) the income tax which would be payable on his total income at the rate of thirty per cent or the income tax which would be payable on his total income if it were the total income of the person resident in Pakistan whichever is the greater, plus

(b) the super tax which would be payable on his total income if it were the total income of the person resident in Pakistan :

Provided that any such person may, on the first occasion subsequent to the thirty-first day of March 1956 on which he is under this Ordinance or the repealed Act assessable for any year by notice in writing given to the Income Tax Officer before the thirtieth day of September in the year of assessment declare (such declaration being final and being applicable to all assessments thereafter) that the tax, payable by him or on his behalf on his total income shall be determined with reference to his total world income, and thereupon such tax shall be an amount bearing to the total amount of tax which would have been payable on his total world income had it been his total income, the same proportion as his total income bears to his total world income :

Provided further that where any such person satisfies the Income Tax Officer that he was prevented by sufficient cause from making such declaration on the first occasion on which he became assessable and his failure to make such declaration has not resulted in reducing his liability to tax for any year the Income Tax Officer may with the previous approval of the Inspecting Assistant Commissioner allow such person to make the declaration at any time on or after the expiry of the period specified, and such declaration shall have effect in relation to the assessment for the year in which the declaration is made (if such assessment has not been completed before such declaration) and all assessment thereafter ; and

(4) where the total income of an assessee includes any income chargeable under the head Capital gains' (hereinafter referred to as the said income) the tax including super tax payable by him on his total income shall be—

(a) where the said income has arisen as a result of disposal by the assessee of his capital assets after not more than twelve months from the date of their acquisition by him—

income tax and super tax payable on the total income (including the said income) ,

(b) where the said income consists of capital gains which have arisen on account of the disposal by the assessee of his capital assets after twelve months from the date of their acquisition by him—

(i) in the case of a company or a firm registered under Section 68 (including a firm treated as a registered firm under sub-clause (ii) of clause (b) of sub-section (1) of Section 69—

(1) income tax and super tax payable on the total income, as reduced by the said income had such reduced income been the total income, *plus*

(2) income tax at the rate of twenty-five per cent on the whole amount of the said income ,

(ii) in the case of other assessees income tax payable on—

(1) the total income as reduced by the said income had such reduced income been the total income, *plus*

(2) the amount of the said income as reduced by—

(i) an amount equal to sixty per cent of the amount of the said income or

(ii) five thousand rupees, whichever is the greater :

Providid that as respects the assessments for the years ending on the thirtieth day of June 1981 income tax and super tax shall subject to the other provisions of this Ordinance, be payable on the total income as reduced by the said income

B As used in this Schedule —

(1) "industrial undertaking" means an undertaking which is set up or commenced in Pakistan on or after the 14th day of August 1947 and which employs (i) ten or more persons in Pakistan and involves the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal agency , or (ii) the use of electrical energy or any other form of energy which is mechanically transmitted and is not generated by human or animal agency and which is—

(i) engaged in—

(a) the manufacture of goods or materials or the subjection of goods or materials to any process, which substantially changes their original condition ,

(b) ship-building ;

(c) generation transformation, conversion, transmission or distribution of electrical energy, or the supply of hydraulic power , or

(d) the working of any mine, oil-well or other source of mineral deposits not being an undertaking to which the Fifth Schedule applies or ;

(ii) any other industrial undertaking which may be approved by the Central Board of Revenue for the purposes of this clause ,

[1][(2) Public company" means—

(a) a company in which not less than fifty per cent of the shares are held by the Government ,

(b) a company whose shares were the subject of dealing in a registered stock exchange in Pakistan at any time during the income year and remained listed on the stock exchange till the close of that year ; or

(c) a trust formed by or under any law for the time being in force ,

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1 Sub-paragraph (2) subs by the Finance Ordinance XI ...

(3) "registered firm" means a firm registered under Section 68 or a firm treated as a registered firm under sub-clause (*ii*) of clause (*b*) of sub-section (1) of Section 69 ;

(4) "taxable income" means the total income of the assessee as diminished by an allowance of Rs. [1][24,000] ; and

(5) "total world income" includes all income, profits and gains wherever accruing or arising except any income which is not includible in the total income of an assessee.

1. Subs. for figure '13,000' by the Finance Ordinance, XIV of 1982.

[1][THE SECOND SCHEDULE

[*See Section 14(1)*]

PART I

[2][EXEMPTIONS] FROM TOTAL INCOME

Incomes, or classes of income, or persons or classes of persons, enumerated below shall be exempt from tax, subject to the condition and to the extent specified hereunder :—

Agricultural income :

(1) Agricultural income :

[3][Provided that, in case an assessee has, in any income year, any income (other than the agricultural income) which is chargeable to tax (hereinafter called "chargeable income"), the agricultural income shall be included in the total income, so however that the tax payable on the chargeable income shall be an amount which bears that same proportion to the chargeable income as the tax on the total income bears to the total income]

Salary income :

(2) Any income chargeable under the head "Salary" derived by any employee of a foreign Government (including a consular or other officer or a non-diplomatic representative) as remuneration for services to such Government, if—

(*a*) such employee is a citizen of the foreign country and not a citizen of Pakistan ; and

(*b*) the services performed by him are of a character similar to those performed by employees of the Government of Pakistan in foreign countries ; and

(*c*) the foreign Government grants a similar exemption to employees of the Government of Pakistan performing similar services in such foreign country.

(3) Any income chargeable under the head "Salary" received by or due to any person (whose contract of service is approved by the Commissioner and who is neither a citizen of Pakistan nor was resident in Pakistan in any of the four years immediately preceding the year in which he arrived in Pakistan) for a period of two years from the date of his arrival in Pakistan as remuneration for services rendered by him during such period as a professor or a teacher at a recognised university, college, school or other educational institution in Pakistan :

1. The Second Scheduld subs. by the Finance Ordinance, XXIV of 1981.
2. Subs. for 'Exclusions' by the Finance Ordinance, 1988.
3. Proviso added by the Finance Ordinance, 1988.

APPENDIX 3

For Non-Salaried Persons

I.T. 11-1
TAX ADJUSTMENT / REFUND CLAIM

FORM OF RETURN OF TOTAL INCOME UNDER THE INCOME TAX ORDINANCE, 1979.

(For Resident Non-Salaried Individuals, Unregistered Firms (URFs), Associations of Persons (AOPs) and Hindu Undivided Families (HUFs) whose Total Income chargeable to tax is less than Rs 100,000 derived 50% or more from sources other than salary)

National Tax Number

Assessment Year [redacted] 1989-90

Name ______________________
(IN BLOCK LETTERS)

Address ______________________
(IN BLOCK LETTERS)

____

Name of Business ______________________
(IN BLOCK LETTERS)

Nature of Business ______________ Business Code ______________
(IN BLOCK LETTERS) (for office use only)

1 I certify that my total income chargeable to income tax during the income year relevant to the assessment year [redacted] after making legally admissible deductions was Rs.________and my tax computation is as follows

		for computer only	
i)	From business/profession...	Code 211	Rs ______
ii)	From property	Code 231	Rs ______
iii)	From salary where applicable	Code 261	Rs. ______
iv)	From other sources	Code 257	Rs ______
	Total:	Code 999	Rs ______
a)	Tax due @ 10% of Total income	Code 511	Rs ______
minus b)	Statutory Tax credit		Rs 3,000
c)	Tax payable (a) - (b)	Code 528	Rs ______
d)	Less. Tax deducted at source	Code 531	Rs ______
e)	Net Tax Payable/Refundable	Code 559	Rs ______

2. I also certify that I have no income chargeable to tax other than the amounts shown above.

3 I further certify that my last assessed income for the assessment year ________was Rs.________

4 I attach herewith the required particulars, details and documents, specified overleaf, in support of the tax deducted or collected under section 50 of the Income Tax Ordinance, 1979.

5. I request that credit for the tax of Rs __________ deducted at source may be given against the tax of Rs __________ payable by me, and

For Adjustment: Net tax of Rs __________ paid as per Treasury Challan No. ________ dated __________ enclosed herewith may be accepted in full discharge of my tax liability.

OR

For Refund: Refund of Rs. __________ being in excess of my tax liability of Rs. ________ may be allowed to me.

(cross out what is not applicable)

Signature ______________

Identity Card Number

ACKNOWLEDGEMENT *(For office use only)*

The above return has been accepted and this photo copy shall constitute your assessment order for the assessment year [redacted] 1989-90

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DIRECTIONS

"Total Income chargeable to tax" does not include the following;

a) receipts during the income year relevant to the assessment year 1988-89, which are generally or specifically tax exempt per se e g return on investments in the national savings schemes; and

b) expenses legally admissible

PARTICULARS / DETAILS AND DOCUMENTS REQUIRED FOR ADJUSTMENT / REFUND OF TAXES DEDUCTED AT SOURCE UNDER SECTION 50 OF THE INCOME TAX ORDINANCE, 1979

1. Interest on securities u/s 50 (2): Description, serial number and amount of securities held, date-wise amounts of interest received, and attested photocopies of the documents showing deduction of tax at source

2. Payment for supply of goods or rendering services u/s 50(4). Details of supplies made or services rendered with photocopies of bills issued, Bank branch with account numbers where cheques for payment were deposited, and attested photocopies of the documents showing deduction of tax at source

3. Payment for execution of contracts u/s 50 (4). Details of contracts executed and amounts received with photocopies of bills issued, Bank branch with account numbers where cheques for payment were deposited and attested photocopies of the documents showing deduction of tax at source

4. Import of goods u/s 50 (5). Details of bills of entry with description and value of goods imported, Bank branch with account number through which L C was opened and import documents were retired, attested photocopies of challans showing deduction of tax at source and photocopies of Import Licences obtained

5. Motor vehicles u/s 50 (6). Description of motor vehicles (with make, model and seating capacity), attested photocopies of ownership entries in registration book and attested photocopies of documents showing deduction of tax at source.

6. Public auction of property u/s 50 (7A). Description and details of property acquired by public auction, total amount paid for the property, and attested photocopies of documents showing deduction of tax at source

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APPENDIX 4

Sections

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The Factories Act, 1934

[1](XXV OF 1934)

[*20th August, 1934*]

An act to consolidate and amend the law regulating labour in factories

Preamble: Whereas it is expedient to consolidate and amend the law regulating labour in factories, it is hereby enacted as follows:

CHAPTER 1

PRELIMINARY

1. **Short title, extent and commencement:** (1) This Act may be called the Factories Act, 1934

(2) It extends to the whole of Pakistan

(3) It shall come into force on the 1st day of January, 1935.

2 **Definitions:** In this Act, unless there is anything repugnant in the subject or context—

(*a*) "adolescent" means a person who has completed his fifteenth but has not completed his seventeenth year,

(*b*) "adult" means a person who has completed his seventeenth year;

(*c*) "child" means a person who has not completed his fifteenth year;

(*d*) "day" means a period of twenty-four hours beginning at mid-night;

(*e*) "week" means a period of seven days beginning at mid night on Saturday night;

(*f*) "power" means electric energy, and any other form of energy which is mechanically transmitted and is not generated by human nor animal agency;

(*g*) "manufacturing process' means any process—

(*i*) for making, altering, repairing, ornamenting, finishing or packing, or otherwise treating any article or substance with a view to its use, sale, transport, delivery or disposal, or

(*ii*) for pumping oil, water or sewage, or

(*iii*) for generating, transforming or transmitting power.

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1. For Statement of Objects and Reasons, see Gazette of India 1933, Pt. v. pp. 175. I or Report of Select Committee see *ibid*, 1934, Pt. v. pp. 44 and 45.

(h) "worker" means a person employed, [2][directly or through ... agency] whether for wages or not, in any manufacturing process, or in cleaning any part of the machinery or premises used for a manufacturing process, or in any other kind of work whatsoever, incidental to or connected with the subject of the manufacturing process, but does not include any person solely employed in a clerical capacity in any room or place where no manufacturing process is being carried on ;

(j) "factory" means any premises, including the precincts thereof, wherein [3][ten] or more workers are working, or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on [4][or is ordinarily carried on with or without the aid of power] but does not include a mine, subject to the operation of the Mines Act, 1923 (IV of 1923) ,

(k) "machinery" includes all plant whereby power is generated, transformed, transmitted or applied ,

(l) "occupier" of a factory means the person who has ultimate control over the affairs of the factory ,

Provided that where the affairs of a factory are entrusted to a managing agent, such agent shall be deemed to be the occupier of the factory ,

(m) whether work of the same kind is carried out by two or more sets of workers working during different periods of the day, each of such sets is called a "relay" and the period or periods for which it works is called a "shift" , and

(n) "prescribed" means prescribed by rules made by the Provincial Government under this Act

3. Reference to time of day · Reference to time of day in this Act are references to Standard Time which is five [5][xxx] hours ahead of Greenwich Mean Time :

Provided that for any area, in which Standard Time is ordinarily observed the Provincial Government may make rules—

(i) specifying the area,

(ii) defining the local mean time ordinarily observed therein, and

(iii) permitting such time to be observed in all or any of the factories situated in the area

4 Seasonal factories : (1) For the purposes of this Act, a factory, which is exclusively engaged in one or more of the following manufacturing processes, namely, cotton ginning, cotton or cotton jute pressing, the decortication of groundnuts, the manufacture of coffee, indigo, lac, rubber, sugar (including gur) or tea or any of the aforesaid processes, is a seasonal factory :

Provided that Provincial Government may by notification in the official Gazette, declare any specified factory in which manufacturing processes are ordinarily carried on for more than one hundred and eighty

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2 Ins by the Factories (Amendment) Act, XVI of 1973, S 2.
3 Subs for "twenty" by the Factories (Amendment) Act, XVI of 1973, S 2
4 Subs by the Factories (Amendment) Act, XVI of 1973 S 2
5 The words "and-a-half" omitted by the Factories (Amendment) Act, XVI of 1973, S 3

working days in the year, not to be a seasonal factory for the purposes of this Act

(2) The Provincial Government may by notification in the official Gazette, declare any specified factory in which manufacturing processes are ordinarily carried on for more than one hundred and eighty working days in the year and cannot be carried on except during particular season or at times dependent on the irregular action of natural forces, to be a seasonal factory for the purposes of this Act

5 Power to apply to provisions applicable to factories to certain other places · (1) The Provincial Government may by notification in the official Gazette, declare that all or any of the provisions of the Act applicable to factories shall apply to any place wherein a manufacturing process is being carried on or is ordinarily carried on whether with or without the use of power whenever [6][five] or more workers are working therein or have worked therein on any one day of the twelve months immediately preceding

(2) A notification under sub section (1) may be made in respect of any one such place or in respect of any class of such places or generally in respect of all places

(3) Notwithstanding anything contained in clause (1) of Section 2, a place to which all or any of the provisions of the Act applicable to factories are for the time being applicable in pursuance of a declaration under sub section (1) shall, to the extent to which such provisions are so made applicable but not otherwise, be deemed to be a factory

THE FACTORIES (PUNJAB AMENDMENT) ACT, 1940

After section 5 of the Factories Act, 1934 (XXV of 1934), (hereinafter referred to as the said Act), the following section shall be deemed to be inserted, namely—

"5-A *Establishment or extension of certain factories* —(1) No factory shall be established or extended for the purpose of carrying on one or more of the manufacturing processes mentioned in the schedule to this Act, or for purposes incidental thereto, save with permission in writing of the Provincial Government or such persons as it may direct :

Provided that if an application for such permission has been despatched to the prescribed authority by registered post acknowledgment due and the decision of Government or the prescribed authority has not been communicated to the applicant for six months after the date of its receipt, the applicant shall be regarded as having obtained that permission , and provided further that a factory shall not be considered as extended within the meaning of this section merely because of any renewal of or addition to existing machinery or appliances within the limits prescribed

(2) Where an order rejecting an application for the establishment or extension of a factory has been made by an authority other than the Provincial Government an appeal by the applicant shall lie to the Provincial Government within fifteen days of the date on which such order has been communicated to him.

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6. Subs for "ten" by the Factories (Amendment) Act, XVI of 1973, S. 4.

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(3) The Provincial Government may, by notification in the official Gazette, add to or exclude from the schedule the name of any manufacturing process it may deem fit, and such addition or exclusion shall take effect as if it had been made by this Act.

(4) Any person who contravenes the provisions of sub-section (1) shall be punishable with fine which may extend to 1,000 rupees and in addition, with fine which may extend to 100 rupees for each day, the period during which the contravention continues"

Schedule mentioned in section 5-A (1) of Factories Act as applicable to Punjab

1. Textile:
   (a) Cotton.
   (b) Woollen.
2. Glass.
3. Cement and allied products.
4. Chemicals including medicines.
5. Hydrogenated oils—edible and others.

[7][* * * *]

7. Hosiery manufacture.
8. Flour mills.
9. Steel-rolling mills.

THE FACTORIES (NORTH-WEST FRONTIER PROVINCE AMENDMENT) ACT, 1964

After section 5 of the Factories Act, 1934 (Act XXV of 1934) (hereinafter referred to as the said Act), the following sections shall be deemed to be inserted namely:

"5-A. *Establishment or extension of certain factories*.—(1) No factory shall be established or extended for the purpose of carrying on one or more of the manufacturing possesses mentioned in the schedule to this Act, or for purposes incidental thereto save with the permission in writing of the Provincial Government or such person or persons as it may direct

Provided that if an application for such permission has been despatched to the prescribed authority by registered post acknowledgement due and the decision of Government or the prescribed authority has not been communicated to the applicant for six months after the date of its receipt, the applicant shall be regarded as having obtained that permission, and provided further that a factory shall not be considered as extended within the meaning of this section merely because of any renewal of or addition to existing machinery or appliances within the limits prescribed

(2) Where an order rejecting an application for the establishment or extension of a factory has been made by an authority other than the

7. Entry No 6 "Cotton Ginning and Pressing" omitted in exercise of powers under sub-section (3) of section 5-A, Notn No 1314-52/604-Dev, 10 June 1962, PunjabGaz, Pt. I, 20 June 1962, p 484.

Provincial Government an appeal by the applicant shall lie to the Provincial Government within fifteen days of the date on which such order has been communicated to him

(3) The Provincial Government may, by notification in the official Gazette, add to or exclude from the schedule the name of any manufacturing process it may deem fit, and such addition or exclusion shall take effect as if it had been made by this Act

(4) Any person who contravenes the provisions of sub section (1) above shall on conviction be punishable with fine which may extend to 5 000 rupees and in addition, with fine which may extend to 100 rupees for each day of the period during which the contravention continues"

Schedule mentioned in Section 5-A (1) of Factories Act as applicable to N.-W F.P.

1. Textile.
2. Chemical.
3. Cotton ginning and pressing.
4. Flour milling
5. Sugar manufacturing.
6. Tanning
7. Match making
8. Fruit and vegetable processing.

6. Power to declare department to be separate factories: The Provincial Government may, by order in writing, direct that the different departments or branches of a specified factory shall be treated as separate factories for all or any of the purposes of this Act

7. Power to exempt on a change in the factory. When the Provincial Government is satisfied that following upon a change of occupier of a factory or in the manufacturing process carried on therein, the number of workers for the time being working in the factory is less than twenty and is not likely to be twenty or more on any day during the ensuing twelve months, it may by order in writing exempt such factory from operation of this Act

Provided that any exemption so granted shall cease to have effect on and after any day on which twenty or more workers work in the factory

[8][7-A. Exemption from certain provisions of the Act: The provisions of Section 14, clause (b) of sub-section (1) of Section 15, Sections 16, 17, 18, 21, 22, 23, 25 and sub-section (3) of Section 33-Q shall not apply in the first instance to any factory wherein not more than nineteen workers are working or were working on any one day of the twelve months immediately preceding:

Provided that the Provincial Government may, by notification in the official Gazette, apply all or any of the said provision to any such factory or any class of such factories]

8. Sec 7-A Ins by the Factories (Amendment) Act, XVI of 1973. S. 5.

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8. **Power to exempt during public emergency**. In any case of public emergency the Provincial Government may by notification in the official Gazette, exempt any factory from any or all of the provisions of this Act for such period as it may think fit.

9. **Notice to Inspector before commencement of work**: (1) Before work is begun in any factory after commencement of this Act or before work is begun in any seasonal factory each season, the occupier shall send to the Inspector a written notice containing—

(a) the name of the factory and its situation,

(b) the address to which communications relating to the factory should be sent,

(c) the nature of the manufacturing processes to be carried on in the factory,

(d) the nature and amount of the power to be used,

(e) the name of the person who shall be the manager of the factory for the purposes of this Act, and

(f) such other particulars as may be prescribed for the purposes of this Act.

[9][(1-A) In respect of all factories which come within the scope of this Act for the first time on the commencement of the Factories (Amendment) Ordinance, 1972 (XLII of 1972), the occupier shall send a written notice to the Inspector containing particulars specified in sub section (1) within thirty days of such commencement]

(2) Whenever another person is Appointed as manager the occupier shall send to the Inspector a written notice of the change, within seven days from the date on which the new manager assumes charge

(3) During any period for which no person has been designated as manager of a factory under this section, or during which the person designated does not manage the factory, any person found acting as manager, or if no such person is found, the occupier himself, shall be deemed to be the manager of the factory for the purpose of this Act.

THE FACTORIES (PUNJAB AMDT) T, 1940

After section 9 of the said Act, the following sections shall be deemed to be inserted, namely :—

"9-A. *Registration certificate for working factory*—(1) No factory carrying on one or more of the manufacturing processes mentioned in the [10]schedule to this Act or for purposes incidental thereto shall be worked or permitted to be worked by a manager or an occupier unless a registration certificate has been granted in respect thereof; and if the factory has been extended after the grant of a registration certificate, unless such certificate has been endorsed in such manner and subject to such conditions as may be prescribed for the grant of such a certificate or for an endorsement thereon.

(2) A registration certificate granted under sub-section (1) shall remain in force for one year from the date of the grant or endorsement and shall be renewable automatically on payment of the prescribed fee"

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9 Sub-sec (1-A) Ins by the Factories (Amendment) Act, XVI of 1973, S 6

10. For Schedule See S 5-A, on p. 720, ante.

"9-B *Rules*. (1) The Provincial Government may, after previous publication, make rules—

(a) as to the authority by which, the form in which and the conditions subject to which a registration certificate may be granted or an endorsement made under sub-section (1) of section 9 A ;

(b) prescribing the fee on payment of which a registration certificate may be granted or renewed or an endorsement made under section 9-A ,

(c) specifying the lines within which any renewal of or addition to existing machinery or appliances in a factory shall not be regarded as extension of a factory within the meaning of section 5 A(1), and

(d) specifying the person or persons to whom authority may be delegated under section 5-A(1)

(2) In making rules the Provincial Government may prescribe different rates of fees for factories classified according to the number of workers employed in them and the nature of goods produced by them"

THE FACTORIES (N-W F P AMDT) ACT, 1946

After section 9 of the said Act the following sections shall be deemed to be inserted, namely —

"9-A. *Registration Certificate for working factory* (1) No factory carrying on one or more of the manufacturing processes mentioned in the schedule to this Act or for purposes incidental thereto shall be worked or permitted to be worked by a manager or an occupier unless a registration certificate has been granted in respect thereof; and if the factory has been extended after the grant of a registration certificate unless such certificate has been endorsed in such manner and subject to such conditions as may be prescribed for the grant of such a certificate or for an endorsement thereon

(2) A registration certificate granted under sub section (1) shall remain in force for one year from the date of the grant for endorsement and shall be renewable automatically on payment of the prescribed fee

9-B *Rules* (1) The Provincial Government may, after previous publication in the Official Gazette, make rules relating to all or any of the matters mentioned below .

(a) as to the authority by whom, the form in which and the conditions subject to which, a registration certificate may be granted or an endorsement made under sub-section (1) of section 9-A ;

(b) prescribing the fee on payment of which a registration certificate may be granted or renewed or an endorsement made under section 9-A ,

(c) specifying the limit within which any renewal of or addition to existing machinery or appliance in a factory shall not be regarded as extension of a factory within the meaning of section 5-A(1) , and

(d) specifying the person or persons to whom authority may be delegated under section 5-A(1).

(2) In making rules the Provincial Government may prescribe different rates of fees for factories classified according to the number of workers employed in them and the nature of goods produced by them"

CHAPTER II

THE INSPECTING STAFF

10. Inspector : (1) The Provincial Government may by notification in the official Gazette, appoint such persons as it thinks fit to be Inspectors for the purposes of this Act within such local limits as it may assign to them respectively.

(2) The Provincial Government may, by notification as aforesaid, appoint any person to be a Chief Inspector, who shall, in addition to the powers conferred on a Chief Inspector under this Act, exercise the powers of an Inspector throughout the Provinces

(3) No person shall be appointed to be Inspector under sub-section (1) or a Chief Inspector under sub-section (2) or, having been so appointed, shall continue to hold office, who is or becomes directly or indirectly interested in a factory or in any process or business carried on therein or in any patent or machinery connected therewith

(4) Every District Magistrate shall be an Inspector for his district

(5) The Provincial Government may also, by notification as aforesaid appoint such public officers as it thinks fit to be additional Inspectors for all or any of the purposes of the Act, within such local limits as it may assign to them respectively.

(6) In any area where there are more Inspectors than one the Provincial Government may, by notification as aforesaid declare the powers which such Inspectors shall respectively execise, and the Inspector to whom the prescribed notices are to be sent.

(7) Every Chief Inspector and Inspectors shall be deemed to be a public servant within the meaning of the Pakistan Penal Code (XLV of 1860) and shall be officially subordinate to such authority as the Provincial Government may specify in this behalf

11. Powers of Inspector : Subject to any rules made by the Provincial Government in this behalf, an Inspector may, within the local limits for which he is appointed,—

(a) enter with such assistants (if any), being persons in the service of the State or of any municipal or other public authority, as he thinks fit, any place which is, or which he has reason to believe to be, used as a factory or capable of being declared to be a factory under provisions of Section 5,

(*b*) make such examination of the premises and plant and of any prescribed registers, and take on the spot or such evidence of persons as he may deem otherwise necessary for carrying out the purposes of this Act ; and

(*c*) exercise such other powers as may be necessary for carrying out the purposes of this Act :

Provided that no one shall be required under this section to answer any question or give any evidence tending to criminate himself

12. Certifying surgeons (1) The Provincial Government may appoint such registered medical practitioners as it thinks fit to be certifying surgeons for the purposes of this Act within such local limits as it may assign to them respectively.

(2) A certifying surgeon may authorise any registered medical practitioner to exercise any of his powers under this Act .

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Provided that a certificate of fitness for employment granted by such authorised practitioner shall be valid for a period of three months only, unless it is confirmed by the certifying surgeon himself after examination of the person concerned.

Explanation : In this section a "registered medical practitioner" means any person registered [12][xxx] under any Act of the Central Legislature or any Provincial Legislature providing for the maintenance of a register of medical practitioners, and includes, in any area where no such register is maintained, any person declared by the Provincial Government by notification in the official Gazette to be a registered medical practitioner for the purpose of this section.

[13]CHAPTER III

HEALTH AND SAFETY

13. Cleanliness : (1) Every factory shall be kept clean and free from effluvia arising from any drain, privy or other nuisance, and in particular,—

(*a*) accumulation of dirt and refuse shall be removed daily by sweeping or by any other effective method from the floors and benches of work-rooms and from stair cases and disposed of in a suitable manner ,

(*b*) the floor of every work room shall be cleaned at least once in every week by washing, using disinfectant where necessary or by some other effective method.

(*c*) where the floor is liable to become wet in the course of any manufacturing process to such extent as is capable of being drained, effective means of drainage shall be provided and maintained ;

(*d*) all inside walls and partitions, all ceilings, or tops of rooms, and walls, sides and tops or passages and stair-cases shall—

(*i*) where they are painted or varnished, by repainted or revarnished at least once in every five years

(*ii*) where they are painted or varnished and have smooth impervious surfaces, be cleaned at least once in every fourteen months, by such methods as may be prescribed ,

(*iii*) in any other case, kept white-washed or colour-washed and the white-washing or colour washing shall be carried out at least once in every fourteen months , and

(*e*) the dates on which the processes required by clause (*d*) are carried out shall be entered in the prescribed register

(2) If, in view of the nature of the operations carried on in a factory is not possible for the occupier to comply with all or any of the provisions of sub section (1), the Provincial Government may, by an order, exempt such factory or class or description of factories from any of the provisions of that sub-section and specify alternative methods for keeping the factory in a clean state.

14 Disposal of wastes and effluents (1) Effective arrangements shall made in every factory for the disposal of wastes and effluents due to the manufacturing process carried on therein.

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[12] Certain Words omitted by the Federal Laws (Revision and Declaration) Ordinance, XXVII of 1981

[13] Chapter III Subs by the Labour Laws (Amendment) Ordinance, IX of 1972, s 2 w e f 13-4-1972

(2) The Provincial Government may make rules prescribing the arrangements to be made under sub-section (1) or requiring that the arrangements made in accordance with that sub-section shall be subject to the approval of such authority as may be prescribed.

15 Ventilation and temperature: (1) Effective and suitable provisions shall be made in every factory for securing and maintaining in every work-room—

(a) adequate ventilation by the circulation of fresh air, and

(b) such temperature as will secure to workers therein reasonable conditions of comfort and prevent injury to health, and in particular—

(i) the walls and roofs shall be of such material and so designed that such temperature shall not be exceeded but kept as low as practicable,

(ii) where the nature of the work carried on in the factory involves or is likely to involve, the production of excessively high temperature, such adequate measures as are practicable shall be taken to protect the workers therefrom by separating the process which produces such temperature from the work-room by insulating the hot parts or by other effective means

(2) The Provincial Government may prescribe a standard of adequate ventilation and reasonable temperature for any factory or class or description of factories or parts thereof and direct that a thermometer shall be provided and maintained in such place and position as may be specified.

(3) If it appears to the Provincial Government that in any factory or class or description of factories excessively high temperature can be reduced by such methods as white-washing, spraying or insulting and screening outside walls or roofs or windows, or by raising the level of the roof, or by insulating the roof either by an air space and double roof or by the use of insulating roof materials, by other method, it may prescribe such of these or other methods to be adopted in the factory

16. Dust and fume (1) In every factory which, by reason of the manufacturing process carried on, there is given off any dust or fume or other impurity of such a nature and to such extent as is likely to be injurious or offensive to the workers employed therein, effective measures shall be taken to prevent its accumulation in any work-room and its inhalation by workers and if any exhaust appliance is necessary for this purpose, it shall be applied as near as possible to the point of origin of the dust, fume or other impurity, and such point shall be enclosed so far as possible

(2) In any factory no stationary internal combustion engine shall be operated unless the exhaust is conducted into open air and exhaust pipes are insulated to prevent scalding and radiation heat and no internal combustion engine shall be operated in any room unless effective measures have been taken to prevent such accumulation of fumes therefrom as are likely to be injurious to the workers employed in the work room

17. Artificial humidification · (1) The Provincial Government may in respect of all factories in which humidity of the air is artificially increased, make rules

(a) prescribing standards of humidification,

(b) regulating the methods used for artificially increasing the humidity of the air.

(c) directing prescribed test for determining the humidity of the air to be correctly carried out and recorded, and

(d) prescribing methods to be adopted for securing adequate ventilation and cooling of the air in the work-rooms

(2) In any factory in which the humidity of the air is artificially increased, the water used for the purpose shall be taken from a public supply, or other source of drinking water, or shall be effectively purified before it is so used

(3) If it appears to an Inspector that the water used in a factory for increasing humidity which is required to be effectively purified under sub-section (2) is not effectively purified, he may serve on the Manager of the factory an order in writing specifying the measures which, in his opinion, should be adopted, and requiring them to be carried out before a specified date.

18 Overcrowding (1) No work-room in any factory shall be overcrowding to an extent injurious to the health of the workers employed therein

(2) Without prejudice to the generality of the provisions of sub-section (1) there shall be provided for every worker employed in a workroom—

(a) at least three hundred and fifty cubic feet of space in the case of a factory in existence on the date of the commencement of the Labour Laws (Amendment) Ordinance, 1972, and

(b) at least five hundred cubic feet of space in the case of a factory built after the commencement of the Labour Laws (Amendment) Ordinance, 1972

Explanation For the purpose of this sub-section no account shall be taken of a space which is more than fourteen feet above the level of the floor of the room

(3) If the Chief Inspector by order in writing so requires, there shall be posted in each work room of a factory a notice specifying the maximum number of workers who may in compliance with the provisions of this section be employed in the room.

(4) The Chief Inspector may, by order in writing, exempt, subject to such conditions as he may think fit to impose, any work room from the provisions of this section if he is satisfied that compliance therewith in respect of such room is not necessary for the purpose of health of the workers employed therein

19 Lighting (1) In every part of a factory where workers are working or passing, there shall be provided and maintained—

(a) sufficient and suitable lighting, natural or artificial or both, and

(b) emergency lighting of special points in work-room and passages to function automatically in case of a failure of the ordinary electric system

(2) In every factory all glazed windows and sky-lights used for the lighting of the work-room shall be kept clean on both the outer and inner surfaces and free from observation as far as possible under the rules framed under sub-section (3) of Section 15

(3) In every factory effective provisions shall, so far as is practicable, be made for the prevention of—

(*a*) glare either directly from any source of light or by reflection fro a smooth or polished surface; and

(*b*) the formation of shadows to such an extent as to cause eye stra or risk of accident to any worker.

(4) The Provincial Government may prescribe standards of sufficie and suitable lighting for factories or for any class or description of fa tories or for any manufacturing process.

20 Drinking Water: (1) In every factory effective arrangement shall be made to provide and maintain at suitable points convenientl situated for all workers employed therein a sufficient supply of wholesom drinking water.

(2) All such points shall be legibly marked "Drinking Water" in language understood by the majority of the workers and no such point shal be situated within twenty feet of any washing place, urinal or latrine unless a shorter distance is approved in writing by the Chief Inspector

(3) In every factory wherein more than two hundred and fifty worker are ordinarily employed, provision shall be made for cooling the drinking water during the hot weather by effective means and for distribution there of and arrangements shall also be made for—

(*a*) the daily renewal of water if not laid on, and

(*b*) a sufficient number of cups or other drinking vessels, unless the water is being delivered in an upward jet.

(4) The Provincial Government may, in respect of all factories or any class or description of factories, make rules for securing compliance with the provisions of this section.

21 Latrines and urinals: (1) In every factory—

(*a*) sufficient latrines and urinals of prescribed types shall be provid conveniently situated and accessible to workers at all times whi they are in the factory;

(*b*) enclosed latrines and urinals shall be provided separately for ma and female workers;

(*c*) such latrines and urinals shall be adequately lighted and ventila ted and no latrine and urinal shall, unless specially exempted i writing by the Chief Inspector, communicate with any work room except through an intervening open space or ventilate passage;

(*d*) all such latrines and urinals shall be maintained in a clean an sanitary condition at all times with suitable detergents or disin fectants or with both;

(*e*) the floors and internal walls of the latrines and urinals and th sanitary blocks shall, up to a height of three feet, be finished t provide a smooth polished impervious surface, and

(*f*) washing facilities shall be provided near every sanitary con venience.

(2) The Provincial Government may prescribe the number of latrine and urinals to be provided in any factory in proportion to the number o male and female workers ordinarily employed therein and such furthe matters in respect of sanitation in the factories as it may deem fit.

22. Spittoons: (1) In every factory there shall be provided, at con venient places, a sufficient number of spittoons which shall be maintaine in a clean and hygienic condition.

(2) The Provincial Government may make rules prescribing the type and the number of spitoons to be provided and their location in any factory and such further matters as may be deemed necessary relating to their maintenance in a clean and hygienic condition

(3) No person shall spit within the premises of a factory except in the spitoons provided for the purpose A notice containing this provision and the penalty for its violation shall be prominently displayed at suitable places in the premises.

(4) Whosoever spits in contravention of sub-section (3) shall be punishable with a fine not exceeding two rupees

23 Precautions against contagious or infectious disease: (1) Each worker in a factory shall be provided with a 'Hygiene Card' in which during the [13][months of January and July every year entries] shall be recorded after examination by appointed factory doctor to the effect that the worker is not suffering from any contagious or infectious disease. The fee of such an examination shall be fixed by the Provincial Government and will be borne by the occupier or manager of the factory

(2) If a worker is found to be suffering from any contagious or infectious disease on an examination under sub-section (1), he shall not be appointed on work till he is declared free of such a disease

[14][23 A Compulsory vaccination and inoculation Each worker in a factory shall be vaccinated and inoculated against such diseases and at such intervals as may be prescribed. The expenses, if any, of such vaccination and inoculation shall be borne by the occupier or manager of the factory]

24 Power to make rules for the provision of canteens (1) The rovincial Government may make rules requiring that in any specified actory wherein more than two hundred and fifty workers are ordinarily mployed, an adequate canteen shall be provided for the use of he workers

(2) Without prejudice to the generality of the foregoing power, such ules may provide for—

(*a*) the date by which such canteen shall be provided;

(*b*) the standards in respect of construction, accommodation, furniture and other equipment of the canteen,

(*c*) the foodstuffs to be served therein and the charges which may be made therefor,

(*d*) representation of the workmen in the management of the canteens,

(*e*) enabling, subject to such conditions, if any, as may be specified, the power to make rules under clause (c) to be exercised also by the Chief Inspector.

[15][24 A Welfare Officers. In every factory wherein not less than ve hundred workers are ordinarily employed, the occupier or manager shall mploy such number of welfare officers, having such qualifications, to perform such duties and on such terms and conditions as may be prescribed]

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13 Subs by the Factories (Amendment) Act, X..I of 197? S 7

14 Sec 23-A Ins by the Factories (Amendment) Act, XVI of 1973, Sec. 8.

15 Sec 24 A Ins by the Factories (Amendment) Act, XVI of 1973, S 9.

25. Precautions in case of fire: (1) Every factory shall be provided with such means of escape in case of fire as may be prescribed

(2) If it appears to the Inspector that any factory is not provided with the means of escape prescribed under sub section (1) he may serve on the manager of the factory an order in writing specifying the measure which should be adopted before a date specified in the order.

(3) In every factory the doors affording exit from any room shall not be locked or fastened so that they can be easily and immediately opened from inside while any person is within the room, and all such doors, unless they are of the sliding type, shall be constructed to open outwards or where the door is between two rooms, in the direction of the nearest exit from the building and such door shall not be locked or obstructed while work is being carried on in the room and shall at all times be kept free from any obstruction.

(4) In every factory every window, door or other exit affording means of escape in case of fire, other than means of exit in ordinary use, shall be distinctively marked in a language understood by the majority of the workers and in red letters of adequate size or by some other effective and clearly understood sign.

(5) In every factory there shall be provided effective and clearly audible means of giving warning in case of fire to every person employed therein

(6) A free passage-way giving access to each means of escape in case of fire shall be maintained for the use of all workers in every room of the factory.

(7) In every factory wherein more than ten workers are ordinarily employed in any place above the ground floor, or explosive or highly inflammable materials are used or stored, effective measures shall be taken to ensure that all the workers are familiar with the means of escape in case of fire and have been adequately trained in the routine to be followed in such case

(8) The Provincial Government may make rules prescribing in respect of any factory, or class or description of factories, the means of escape to be provided in case of fire and the nature and amount of fire-fighting apparatus to be provided and maintained.

26. Fencing of machinery: (1) In every factory the following shall be securely fenced by the safeguards of substantial construction which shall be kept in position while the parts of machinery required to be fenced are in motion or in use, namely—

(a) every moving part of a prime mover, and every fly-wheel connected to a prime mover;

(b) the headrace and tailrace of every water wheel and water turbine,

(c) any part of a stock-bar which projects beyond head stock of a lathe, and

(d) unless they are in such position or of such construction as to be as safe to every person employed in the factory as they would be if they were securely fenced—

(i) every part of an electric generator, a motor or rotary convertor,

(ii) every part of transmission machinery, and

(iii) every dangerous part of any machinery

Provided that, in the case of dangerous parts of machinery that cannot be securely fenced by reason of the nature of operation, such fencing may be substituted by other adequate measures, such as—

( ) devices automatically preventing the operation from coming into contact with the dangerous parts, and

(ii) automatic stopping devices

Provided further that, for the purpose of determining whether any part of machinery is in such position or is of such construction as to be safe as aforesaid, account shall not be taken of any occasion when it being necessary to make an examination of the machinery while it is in motion or, as a result of such examination, to carry out any mounting or shipping of belts lubrication or other adjusting operation while the machinery is in motion, such examination or operation is made or carried out in accordance with the provisions of Section 27

(2) Without prejudice to any other provisions of this Act relating to the fencing of machinery, every set screw, bolt and key on any revolving shaft, spindle wheel or pinion and all spur, worm and other toothed or friction gearing in motion with which such worker should otherwise be liable to come into contract, shall be securely fenced to prevent such contact

(3) The Provincial Government may exempt, subject to such conditions as may be imposed, for securing the safety of the workers, any particular machinery or part from the provisions of this section

(4) The Provincial Government may, by rules, prescribe such further precautions as it may consider necessary in respect of any particular machinery or part thereof

27. Work on or near machinery in motion: (1) Where in any factory it becomes necessary to examine any part of machinery referred to in Section 26 while the machinery is in motion, or as a result of such examination to carry out any mounting or shipping of belts, lubrication or other adjusting operation while the machinery is in motion, such examination or operation shall be made or carried out only by a specially trained adult male worker wearing tight fitting clothing whose name has been recorded in the register prescribed in this behalf and while he is so engaged, such worker shall not handle belt at a moving pulley unless the belt is less than six inches in width and unless the belt joint is either laced or flush with the belt

(2) No woman or child shall be allowed in any factory to clean, lubricate or adjust any part of machinery while that part is in motion, or to work between moving parts or between fixed and moving parts of any machinery which is in motion

(3) The Provincial Government may, by notification in the official Gazette, prohibit in any specified factory or class or description of factories the cleaning, lubricating or adjusting by any person, of specified parts of machinery when those parts are in motion

28. Employment of young persons on dangerous machines: (1) No [1][child or adolescent] shall work at any machine unless he has been fully

1. Subs. for "no ... person" by the Factories (Amendment) Act, XVI of 1973, S 10.

instructed as to the dangers arising in connection with the machine and the precautions to be observed and—

(a) has received sufficient training in work at the machine, or

(b) is under adequate supervision by the person who has thorough knowledge and experience of the machine.

(2) This section shall apply to such machines as may be notified by the Provincial Government to be of such a dangerous character that [17](children or adolescents] ought not to work at them unless the foregoing requirements are complied with

29. Striking gear and devices for cutting off power: (1) In every factory—

(a) suitable striking gear or other sufficient mechanical appliances shall be provided and maintained and used to move driving belts to and from fast and loose pulleys which form part of the transmission machinery, and such gear or appliances shall be so constructed, placed and maintained as to prevent the belt from creeping back on the fast pulleys;

(b) driving belts when not in use shall not be allowed to rest or ride upon shafting in motion;

(2) In every factory suitable devices for cutting off power in emergencies from running machinery shall be provided and maintained in every work-room

(3) In respect of factories in operation before the commencement of this Ordinance [18]the provisions of the sub-section (2) shall apply only to work-rooms in which electricity is used for power

30. Self acting machines No traversing part of self-acting machine in any factory and no material carried thereon shall, if the space over which it runs is a space over which any person is liable to pass whether in the course of his employment or otherwise be allowed to run on its outward or inward traverse within a distance of eighteen inches from any fixed structure which is not part of the machine:

Provided that the Chief Inspector may permit the continued use of a machine installed before the commencement of the Labour Laws (Amendment) Ordinance, 1972, which does not comply with the requirements of this section on such conditions for ensuring safety as he may think fit to impose.

31. Casing of new machinery: (1) In all machinery driven by power and installed in any factory after the commencement of the Labour Laws (Amendment) Ordinance, 1972—

(a) every set screw, belt or key on any revolving shaft, spindle, wheel or pinion shall be so sunk, encased or otherwise effectively guarded as to prevent danger; and

(b) all spur, worm and other toothed or friction gearing which does not require frequent adjustment while in motion shall be completely encased unless it is so situated as to be as safe as it would be if it were completely encased.

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17. Subs for "young persons" by the Factories (Amendment) Act XVI of 1973, S 10
18. subs by the Labour Laws (Amendment) Ordinance, IX of 1972, which come into force on April 13, 1972.

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(2) Whoever sells or lets on hire or as agent of a seller or hirer, causes or procures to be sold or let on hire, for use in a factory any machinery driven by power which does not comply with the provisions of sub-section (1) shall be punishable with imprisonment, for a term which may extend to three months, or with fine which may extend to five hundred rupees, or with both

(3) The Provincial Government may make rules specifying further safeguards to be provided in respect of any other dangerous part of any particular machine or glass or description of machines

32 Prohibition of employment of women and children near cotton openers · No woman or child shall be employed in any part of a factory for pressing cotton in which a cotton opener is at work:

Provided that if the feed end of a cotton opener is in a room separated from the delivery end by a partition extending to the roof or to such height as the Inspector may in any particular case specify in writing, women and children may be employed on the side of the partition where the feed end is situated

33 Cranes and other lifting machinery (1) The following provisions shall apply in respect of cranes and all other lifting machinery, other than hoists and lifts in any factory—

(a) every part thereof, including the working gear, whether fixed or movable, ropes and chains and anchoring and fixing appliances shall be—

(i) of good construction, sound material and adequate strength,

(ii) properly maintained,

(iii) thoroughly examined by a competent person at least once in every period of twelve months, and a register shall be kept containing the prescribed particulars of every such examination;

(b) no such machinery shall be loaded beyond the safe working load which shall be plainly marked thereon,

(c) while any person is employed or working on or near the wheel track of a travelling crane in any place where he would be liable to be struck by the crane, effective measures shall be taken to ensure that the crane does not approach within twenty feet of that place or come into accidental contact with live electrical lines,

(d) limit switches shall be provided to prevent over-running, and

(e) jib cranes, permitting the rising or lowering of the jib shall be provided with an automatic safe load indicator or have attached to them a table indicating the safe working load at corresponding inclinations of the jib

(2) The Provincial Government may make rules in respect of any lifting machinery or class or description of lifting machinery in factories—

(a) prescribing requirements to be complied with in addition to those set out in this section, or

(b) exempting from compliance with all or any of the requirements of this section, where in its opinion such compliance is unnecessary or impracticable

[19][33-A. **Hoists and lifts :** (1) In every factory—

(*a*) every hoist and lift shall be—

(*i*) of good mechanical construction, sound material and adequate strength ,

(*ii*) properly maintained, and shall be thoroughly examined by a competent person authorised by the Chief Inspector in this behalf at least once in every period of six months, and a register shall be kept containing the prescribed particulars of every such examination of which a copy shall be forwarded to the Chief Inspector ,

(*b*) every hoistway and liftway shall be sufficiently protected by an enclosure fitted with gates, and the hoist or lift and every such enclosure shall be so constructed as to prevent any person or thing from being trapped between any part of the hoist or lift and any fixed structure or moving part ,

(*c*) the maximum safe working load shall be plainly marked on every hoist or lift, and no load greater than such load shall be carried thereon ,

(*d*) the cage of every hoist or lift, used for carrying persons shall be fitted with a gate on each side from which access is afforded to a landing ,

(*e*) every gate referred to in clause (*b*) or clause (*d*) shall be fitted with interlocking or other sufficient device to secure that the gate cannot be opened except when the cage is at the landing and that the cage cannot be moved unless the gate is closed

(2) The following additional requirements shall apply to hoists a lifts used for carrying persons and installed or reconstructed in a factc after the commencement of the Labour Laws (Amendment) Ordinan 1972, namely —

(*a*) Where the cage is supported by rope or chain there shall be least two ropes or chains separately connected with the cage a balance weight, and each rope or chain with its attachments sh be capable of carrying the whole weight of the cage together w its minimum load ,

(b) efficient devices shall be provided and maintained capable of su porting the cage together with its maximum load in the event breakage of the ropes, chains or attachments ;

(c) an efficient automatic device shall be provided and maintained prevent the cage from over-running

(3) The Chief Inspector may permit the continued use of a hoist lift installed in a factory before the commencement of this Ordinan which does not fully comply with the provisions of sub-section (1) up such conditions for ensuring safety as he may think fit to impose

(4) The Provincial Government may, if in respect of class or descri tion of hoist or lift, it is of opinion that it would be unreasonable to enf rce any requirement of sub-sections (1) and (2), by order direct that su requirement shall not apply to such class or description of hoist or lift

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19 S. 33-A Ins. by the Factories (Amendment) Act V of 1937

33 B Revolving machinery . (1) In every room in a factory in which the process of grinding is carried on there shall be premanently affixed to or placed near, each machine in use a notice indicating the maximum safe working peripheral speed of every grind stone or abrasive wheel, the speed of the shaft or spindle upon which the wheel is mounted and the diameter of the pulley upon such shaft or spindle necessary to secure such safe working peripheral speed

(2) The speeds indicated in the notice under sub-sec (1) shall not be exceeded

(3) Effective measures shall be taken in every factory to ensure that the safe working peripheral speed of every revolving vessel, cage basket, fly-wheel, pulley, disc or similar appliance driven by power is not exceeded

33 C Pressure Plant · (1) If in any factory any part of the plant or machinery used in a manufacturing process is operated at a pressure above atmospheric pressure, effective measure shall be taken to ensure that safe working pressure of such part is not exceeded

(2) The Provincial Government may make rules providing for examination and testing of any plant or machinery such as is referred to in sub-section (1) and prescribing such other safety measures in relation thereto as may, in its opinion, be necessary in any factory or class or description of factories

33-D Floors, stairs and means of access · In every factory—

(a) all floors, stairs, passages and gangways shall be of sound construction and properly maintained and where it is necessary to ensure safety, steps, ladders, passages and gangways shall be provided with substantial handrails ,

(b) there shall so far as is reasonably practicable be provided and maintained safe means of access to every place at which any person is at any time required to work ,

(c) all places of work from which a worker may be liable to fall a distance exceeding three feet and six inches shall be provided with fencing or other suitable safeguards , and

(d) adequate provision shall be made for the drainage of floors in wet processes and for the use of slatted stands and platforms

33-E Pits, sumps, opening in floors, etc In every factory, every fixed vessel, sump, tank pit or opening in the ground or in a floor which by reason of its depth, situation, construction or contents, is or may be a source of danger, shall be either securely covered or securely fenced.

(2) The Provincial Government may, by order in writing exempt, subject to such conditions as may be imposed, any factory or class or description of factories in respect of any vessel sump, tank pit or opening from compliance with the provisions of this section.

33-F Excessive weights . (1) No person shall be employed in any factory to lift, carry or move any load so heavy as to be likely to cause him injury.

(2) The Provincial Government may make rules prescribing the maximum weights which may be lifted, carried or moved by adult men, adult women, adolescents and children employed in factories or in carrying on any specified process

33-G. Protection of eyes : The Provincial Government may, in respec of any manufacturing process carried on in any factory, by rules requir that effective screens or suitable goggles shall be provided for the protec tion of persons employed on, or in the immediate vicinity of, a proces which involves—

(a) risk of injury to the eyes from particles or fragments thrown of in the course of the process, or

(b) risk to the eyes by reason of exposure to excessive light or heat

33-H. Powers to require specifications of defective parts or tests of stability : If it appears to the Inspector that any building or any part of the ways, machinery or plant in a factory, is in such a condition that it may be dangerous to human life or safety, he may serve on the Manager of the factory an order in writing, requiring him before a specified date—

(*a*) to furnish such drawings, specifications and other particulars as may be necessary to determine whether such building, ways, machinery or plant can be used with safety, or

(*b*) to carry out such tests as may be necessary to determine the strength or quality of any specified parts and to inform the Inspector of the results thereof.

33-I. Safety of building, machinery and manufacturing process (1) If it appears to the Inspector that any building or part of a build ing or any part of the ways, machinery or plant or manufacturing process in a factory is in such a condition that it is dangerous to human health or safety, he may serve on the Manager of the factory an order in writing specifying the measures which, in his opinion, should be adopted, and requiring them to be carried out before a specified date

(2) If it appears to the Chief Inspector that the requisitions made under sub-section (1) are not satisfactorily fulfilled thereby involving ex posure of workers to serious hazards, he may serve on the Manager of the factory an order in writing, containing a statement of the grounds of his opinion, prohibiting until the danger is removed, the employment, in or about the factory or part thereof, of any person whose employment is not in his opinion reasonably necessary for the purpose of removing the danger.

(3) If it appears to the Inspector that the use of any building or p of a building or of any part of the ways, machinery or plant or manuf turing process in a factory involves imminent danger to human health safety he may serve on the Manager of factory an order in writing prol biting, until the danger is removed, the employment, in or about t factory or part thereof, of any person whose employment is not in l opinion reasonably necessasy for the purpose of removing the danger.

(4) Nothing in sub-section (2) or (3) shall be deemed to effect t continuous in the employment of the factory of a person whose emplc ment in or about the factory or part thereof is prohibited under that su section.

33-J. Powers to make rules to supplement this Chapter The Pr vincial Government may make rules requiring that—

(1) In any factory or in any class or description of factories, su further devices and measures for securing the safety of the persons em loyed therein as it may deem necessary shall be adopted ; and

(2) Work on a manufacturing process carried on with the aid of power shall not begin in any building or part of a building erected or taken into use as a factory until a certificate of stability in the prescribed form and signed by a person possessing the prescribed qualifications has been sent to the Chief Inspector.

33 K Precautions against dangerous fumes : (1) In any factory no person shall enter or be permitted to enter any chamber, tank, vat, pit, pipe, flue or other confined space in which dangerous fumes are likely to be present to such an extent as to involve risk of persons being overcome thereby, unless it is provided with a manhole of adequate size or other effective means of egress

(2) No portable electric light of voltage exceeding twenty-four volts shall be permitted in any factory for use inside any confined space such as is referred to in sub-section (1) and, where the fumes present are likely to be inflammable, a lamp or light other than of flame proof construction shall be permitted to be used in such confined space.

(3) No person in any factory shall enter or be permitted to enter any confined space such as is referred to in sub-section (1) until all practicable measures have been taken to remove any fumes which may be present and to prevent ingress of fumes and unless either—

(*a*) a certificate in writing has been given by a competent person, based on a test carried out by himself, that the space is free from dangerous fumes and fit for persons to enter , or

(*b*) the worker is wearing suitable breathing apparatus and a belt securely attached to a rope, the free end of which held by a person standing outside the confined space.

(4) Suitable breathing apparatus, reviving apparatus and belts and ropes shall in every factory be kept ready for instant use beside any such confined space as aforesaid which any person has entered, and all such apparatus shall be periodically examined and certified by a competent person to be fit for use and a sufficient number of persons employed in every factory shall be trained and practised in the use of all such apparatus and in the method of restoring respiration.

(5) No person shall be permitted to enter in any factory, any boiler furnace, boiler, flue, chamber tank, vat, pipe or other confined space for the purpose of working or making any examination therein until it has been sufficiently cooled by ventilation or otherwise to be safe for persons to enter.

(6) The Provincial Government may make rules prescribing the maximum dimensions of the manholes referred to in sub-section (1) and may, by order in writing, exempt, subject to such conditions as it may think fit to impose, any factory or class or description of factories from compliance with any of the provisions of this section

33 L Explosive of inflammable dust, gas, etc · (1) Where in any factory any manufacturing process produces dust, gas, fumes or vapour of such character and to such extent as to be likely to explode an ignition, all practicable measures shall be taken to prevent any such explosion by—

(*a*) effective enclosure of the plant or machinery used in the process ,

(*b*) removal or prevention of the accumulation of such dust, gas, fume or vapour ;

(*c*) exclusion or effective enclosure of all possible sources of ignition.

(2) Where in any factory the plant or machinery used in a process such as is referred to in sub-section (1) is not so constructed as to withstand the probable pressure which such an explosion as aforesaid would produce, all practicable measures shall be taken to restrict the spread and effects of the explosion by the provision in the plant or machinery of chokes, baffles, vents or other effective appliances.

(3) Where any part of the plant or machinery in a factory contains any explosive or inflammable gas or vapour under pressure greater than atmospheric pressure, that part shall not be opened except in accordance with the following provisions, namely —

(a) before the fastening of any joint of any pipe connected with the part of the fastening of the cover of any opening into the part is loosened, any flow of the gas or vapour into the part or any such pipe shall be effectively stopped by a stop-valve or other means ;

(b) before any such fastening as aforesaid is removed all practicable measures shall be taken to reduce the pressure of the gas or vapour in the part or pipe to atmospheric pressure ;

(c) where any such fastening as aforesaid has been loosened or removed effective measures shall be taken to prevent any explosive or inflammable gas or vapour from entering the part or pipe until the fastening has been secured, or, as the case may be, securely replaced

Provided that the provisions of the sub-section shall not apply in the case of plant or machinery installed in the open air.

(4) No plant, tank or vessel which contains or has contained any explosive or inflammable substance shall be subjected in any factory to any welding, brazing, soldering or cutting operation which involves the application of heat or to any drilling or other operation which is likely to create heat or sparks, unless adequate measures have first been taken to remove such substance and any fumes arising therefrom or to render such substance and fumes non-inflammable, and no such substance shall be allowed to enter such plant, tank or vessel after any such operation until the metal has cooled sufficiently to prevent any risk of igniting the substance.

(5) The Provincial Government may by rules exempt, subject to such conditions as may be prescribed, any factory or class or description of factories from compliance with all or any of the provisions of this section

33-M. Power to exclude children : (1) The Provincial Government may make rules prohibiting the admission to any specified class of factories, or to specified parts thereof, of children who cannot be lawfully employed therein.

(2) If it appears to the Inspector that the presence in any factory or part of a factory of children who cannot be lawfully employed therein may be dangerous to them or injuries to their health, he may serve on the manager of the factory an order in writing directing him to prevent the admission of such children to the factory or any part of it

33-N Notice of certain accidents · Where in any factory an accident occurs which causes death, or which causes any bodily injury whereby any person injured is prevented from resuming his work in the factory during the forty eight hours after the accident occurred, or which is of any nature which may be prescribed in this behalf, the manager of the factory shall

send notice thereof to such authorities, and in such form and within such time, as may be prescribed.

33 P Appeals : (1) The Manager of a factory on whom an order in writing by an Inspector has been served under the provisions of this Chapter, or the occupier of the factory, may, within thirty days of service of the order, appeal against it to the Provincial Government, or to such authority and the Provincial Government, or appointed authority may subject to rules made in this behalf by the Provincial Government, confirm, modify or reverse the order.

(2) The Appellate Authority may, and if so required in the petition or appeal shall, hear the appeal with the aid of assessors, one of whom shall be appointed by the appellate authority and the other by such body representing the industry concerned as the Provincial Government may prescribe in this behalf

Provided that if no assessor is appointed by such body, or if the assessor so appointed fails to attend at the time and place fixed for hearing the appeal, the appellate authority may, unless satisfied that the failure to attend is due to sufficient cause, proceed to hear the appeal without the aid of such assessor, or if it thinks fit, without the aid of any assessor.

(3) Except in the case of an appeal against an order under sub section (3) of Section 33-I or sub section (2) of Section 33-M the Appellate Authority may suspend the order appealed against pending the decision of the appeal, subject however to such conditions as to partial compliance or the adoption of temporary measures as it may choose to impose in any case

33-Q Additional power to make health and safety rules relating to shelters during rest (1) The Provincial Government may makes rules requiring that in any specified factory wherein more than one hundred and fifty workers are ordinarily employed, an adequate shelter shall be provided for the use of workers during periods of rest, and such rules may prescribe the standards of such shelters

(2) Rooms for children : The Provincial Government may also make rules—

(a) requiring that in any specified factory, wherein more than fifty women workers are ordinarily employed, a suitable room shall be reserved for the use of children under the age of six years belonging to such women, and

(b) prescribing the standards for such rooms and the nature of the supervision to be exercised over the children therein.

(3) Certificate of stability . The Provincial Government may also make rules, for any class of factories and for the whole or any part of the Province requiring that work on a manufacturing process carried on with the aid of power shall not be begun in any building or part of a building erected or taken into use as a factory after the commencement of this Act, until a certificate of stability in the prescribed form, signed by a person possessing the prescribed qualifications, has been sent to the Inspector.

(4) Hazardous operations . Where the Provincial Government is satisfied that operation in a factory exposes any persons employed upon it to a serious risk of bodily injury, poisoning or disease, it may make rules applicable to any factory or class of factories in which the operation is carried on—

(a) specifying the operation and declaring it to be hazardous.

(b) prohibiting or restricting the employment of women, adolescent or children upon the operation,

(c) providing for the medical examination of persons employed or seeking to be employed upon the operation and prohibiting the employment of persons not certified as fit for such employment, and

(d) providing for the protection of all persons employed upon the operation or in the vicinity of the places where it is carried on.

[20][(5) The Provincial Government may also make rules requiring the occupiers or managers of factories to maintain stores of First Aid appliances and provide for their proper custody and use]

CHAPTER IV

RESTRICTIONS ON WORKING HOURS OF ADULTS

34. **Weekly hours ;** No adult worker shall be allowed or required to work in a factory for more than forty-eight hours in any week, or where the factory is a seasonal one, for more than fifty hours in any week :

Provided that an adult worker in a factory engaged in work which for technical reasons must be continuous throughout the day may work for fifty-six hours in any week.

35 **Weekly holiday :** (1) No adult worker shall be allowed or required to work in a factory on a Friday unless—

(a) be had or will have a holiday for a whole day on one of the three days immediately before or after that Friday, and

(b) the manager of the factory has, before that Friday or the substituted day, whichever is earlier—

(i) delivered a notice to the office of the Inspector of his intention to require the worker to work on the Friday and of the day which is to be substituted, and

(ii) displayed a notice to the effect in the factory ;

Provided that no substitution shall be made which will result in any worker working for more than ten days consecutively without a holiday for a whole day.

(2) Notice given under sub section (1) may be cancelled by a notice delivered to the office of the Inspector and a notice displayed in the factory not later than the day before the Friday or the holiday to be cancelled, whichever is earlier.

(3) Where, in accordance with the provisions of sub-section (1) any worker works on a Friday and has had a holiday on one of the three days immediately before it, the Friday shall, for the purpose of calculating the weekly hours of work, be included in the preceding week.

35-A. **Compensatory holidays :** (1) Where as a result of the passing of an order or the making of a rule under the provisions of this Act exempting a factory or the worker therein from the provisions of Section 35, a worker is deprived of any of the weekly holidays for which provision is made by sub-section (1) of that section, he shall be allowed, as soon as

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20. Sub-sec (5) added by the Factories (Amendment) Act, XVI of 1973, Sec 11.

circumstances permit, compensatory holidays of equal number to the holidays so lost.

(2) The Provincial Government may make rules prescribing the manner in which the holidays for which provision is made in sub-section (1) shall be allowed.

36 **Daily hours ,** No adult worker shall be allowed or required to work in a factory for more than nine hours in any day :

Provided that a male adult worker in a seasonal factory may work for ten hours any day.

37. **Intervals for rest** The periods of work of adult workers in a factory during each day shall be fixed either,—

(a) so that no period shall exceed six hours and so that no worker shall work for more than six hours before he had an interval for rest of at least one hour , or

(b) so that no period shall exceed five hours, and so that no worker shall work for more than five hours before he has had an interval for rest of at least half an hour, before he has at least two such intervals

38. **Spread over :** The periods of work of an adult worker in a factory shall be so arranged that along with his intervals for rest under Sec 37, they shall not spread over more than ten and-a-half hours, or where the factory is a seasonal one, eleven and-a-half hours in any day, save with permission of the Provincial Government and subject to such conditions as it may impose, either generally or in the case of any particular factory

39. **Notice of periods for work for adults and preparation thereof :** (1) There should be displayed and correctly maintained in every factory in accordance with the provisions of sub-section (2) of Sec. 76 a Notice of Periods for Work for Adults showing clearly the periods which adult workers may be required to work.

(2) The periods shown in the notice required by sub-section (1) shall be fixed before hand in accordance with the following provisions of this section and shall be such that workers working for these periods would not be working in contravention of any of the provisions of Sections 34, 35, 36, 37 and 38.

(3) Where all the adult workers in a factory are required to work within the same periods, the manager of the factory shall fix those periods, for such workers generally

(4) Where all the adult workers in a factory are not required to work within the same periods, the manager of the factory shall classify them into groups according to the nature of their work.

(5) For each group which is not required to work on a system of shifts, the manager of the factory shall fix the periods within which the group may be required to work

(6) Where any group is required to work on a system of shifts and the relays are not to be subject to pre-determined periodical changes of shifts, the Manager of factory shall fix the period within which each relay of the group may be required to work.

(7) Where any group is to work on a system of shifts and the relays to be subject to pre-determined periodical changes of shifts, the manager of

the factory shall draw up a scheme of shifts whereunder the periods within which any relay of the group may be required to work and the relay which will be working at any time of the day shall be known for any day.

(8) The Provincial Government may make rules prescribing forms for the Notice of Periods for Work for Adults and the manner in which it shall be maintained

40. Copy of Notice of Periods of Work to be sent to Inspector · (1) A copy of the Notice referred to in sub-section (1) of Section 39 shall be sent in duplicate to the Inspector within fourteen days after the commencement of this Act, before the day on which it begins work.

(2) Any proposed change in the system of work in a factory which will necessitate a change in the Notice shall be notified to the Inspector in duplicate before the change is made, and except with the previous sanction of the Inspector, no such change shall be made until one week has elapsed since the last change.

41. Register of Adult Workers · (1) The manager of every factory shall maintain a Register of Adult Workers, showing—

(*a*) the name [21][and age] of each adult worker in the factory,

(*b*) the nature of his work,

(*c*) the group, if any, in which he is included,

(*d*) where his group works on shifts, the relay to which he is allotted, and

(*e*) such other particulars as may be prescribed :

Provided that, if the Inspector is of opinion that any muster roll or register maintained as part of routine of factory gives, in respect of any or all of the workers in the factory, the particulars required under this section he may, by order in writing, direct that such muster roll or register shall, to the corresponding extent, be maintained in place of and be treated as the Register of Adult Workers in that factory.

Provided further that, where the Provincial Government is satisfied that the conditions of work in any factory or class of factories are such that there is no appreciable risk of contravention of the provisions of this Chapter in the case of that factory or factories of that class, as the case may be, the Provincial Government may, by written order, exempt, on such conditions as it may impose, that factory or all factories of that class, as the case may be, from the provisions of this section

(2) The Provincial Government may make rules prescribing the form of the Register of Adult Workers, the manner in which it shall be maintained and the period for which it shall be preserved

42 Hours of work to correspond with Notice under Sec 39 and Register under Sec 41 No adult worker shall be allowed or required to work otherwise than in accordance with the Notice of Periods for Work for Adults displayed under sub-section (1) of Sec 39 and the entries made beforehand against his name in the Register of Adult Workers maintained under Sec. 41.

43. Powers to make rules exempting from restrictions : (1) The Provincial Government may make rules defining the persons who hold

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21 Ins. by the Factories (Amendment) Act XVI of 1973 Sec 12

positions of supervision or are employed in a confidential position in a factory, and the provisions of this Chapter, other than the provisions of clause (*b*) of sub-section (1) of Sec. 45 and of the provisions to that sub-section, shall not apply to any person defined.

(2) The Provincial Government may make rules for adult workers providing for the exemption to such extent and subject to such conditions as may be prescribed in such rules,—

(*a*) of workers engaged on urgent repairs from the provisions of Secs 34, 35, 36, 37 and 38,

(*b*) of workers engaged in work in the nature of preparatory or complementary work which must necessarily be carried on outside the limits laid down for the general working of the factory—from the provisions of Secs 34, 36, 37 and 38,

(*c*) of workers engaged in work which is necessarily so intermittent that the intervals during which they do not work while on duty ordinarily amount to more than the intervals for rest required under Sec 37—from the provisions of Secs. 34, 36, 37 and 38,

(*d*) of workers engaged in any work which for technical reasons must be carried on continuously throughout the day—from the provisions of Sections 34, 35, 36, 37 and 38.

(*e*) of workers engaged in making or supplying articles of prime necessity which must be made or supplied every day—from the provisions of Section 35,

(*f*) of workers engaged in a manufacturing process which cannot be carried on except during fixed seasons—from the provisions of Section 35,

(*g*) of workers engaged in a manufacturing process which cannot be carried on except at times dependent on the irregular action of natural forces—from the provisions of Section 35 and Section 37, and

(*h*) of workers engaged in engine-rooms or boiler-houses—from the provisions of Section 35

(3) Rules made under sub section (2) providing for any exemption may lso provide for any consequential exemption from the provisions of Secons 39 and 40 which the Provincial Government may deem to be expeient, subject to such conditions as it may impose

(4) In making rules under this section the Provincial Government all prescribe the maximum limits for the weekly hours of work for all asses of workes, and any exemption given, other than an exemption under ause (*a*) of sub-section (2), shall be subject to such limits

(2) Rules made under this section shall remain in force for not more an three years.

44 Powers to make orders exempting from restrictions · (1) Where e Provincial Government is satisfied that, owing to the nature of the rk carried on or to other circumstances, it is unreasonable to require at the periods of work of any adult workers in any factory or class of ctories should be fixed beforehand, it may, by written order, relax or odify the provisions of Sections 39 and 40 in respect of such workers to ch extent and in such manner as it may think fit, and subject to such nditions as it may deem expedient to ensure control over period of work

(2) The Provincial Government, or subject to the control of the Provincial Government the Chief Inspector, may, by written order, exempt, on such conditions as it or he may deem expedient, any or all the adult workers in any factory, or group or class of factories, from any or all of the provisions of Sections 34,35, 36, 37, 38, 39 and 40, on the ground that the exemption is required to enable the factory or factories to deal with an exemptional pressure of work.

(3) An exemption given under sub-section (2) in respect of weekly hours of work shall be subject to the maximum limits, prescribed under sub-section (4) of Sec. 43.

(4) An order under sub-section (2) shall remain in force for such period, and exceeding two months from the date on which notice thereof is given to the manager of the factory, as may be specified in the order:

Provided that if the opinion of the Provincial Government the public interest so requires, the Provincial Government may from time to time, by notification in the official Gazette, extend the operation of any such order for period, not exceeding six months at any one time, as may be specified in the notification

45 Further restrictions on the employment of women: (1) The provisions of this Chapter shall, in their application to women workers in factories, be supplemented by the following further restrictions, namely —

(*a*) no exemption from the provisions of Section 36 may be granted in respect of any woman ; and

(*b*) no woman shall be allowed to work in a factory except between 6 a m and 7 p m :

Provided that the Provincial Government may, by notification in the official Gazette, in respect of any class or classes of factories and for the whole year or any part of it, vary the limits laid down in clause (*b*) to any span of ten and-a-half hours, or where the factory is a seasonal one, of eleven and-a-half hours, between 5 a m. and 7-30 p m :

Provided further, that, in respect of any seasonal factory or class of seasonal factories in a specified area, the Provincial Government may make rules imposing a further restriction by defining the periods of the day within which women may be allowed to work, such that the period or periods so defined shall lie within the span fixed by clause (*b*) or under the above proviso and shall not be less than ten hours in the aggregate

(2) The Provincial Government may make rules providing for the exemption from the above restrictions, to such extent and subject to such conditions as it may prescribe, of women working in fish-curing or fish-canning factories where the employment of women beyond the said hours is necessary to prevent damage to or deterioration in any raw material

(3) Rules made under sub-section (2) shall remain in force for not more than three years.

46 Special provision for night shift: Where a worker works on a shift which extends over mid-night, the ensuing day for him shall be deemed to be the period of twenty-four hours beginning when such shift ends, and the hours he has worked after mid night shall be counted towards the previous day:

Provided the Provincial Government may, by order in writing, direct that in the case of any specified factory or any specified class of workers

therein the ensuing day shall be deemed to be the period of twenty-four hours beginning when such shift begins and that the hours worked before midnight shall be counted towards the ensuing day.

47. Extra pay for overtime: (1) Where a worker—

(*a*) in a non-seasonal factory works for more than nine hours in any day or for more than forty-eight hours in any week, or

(*b*) in a seasonal factory works for more than nine hours in any day or for more than fifty hours in any week,

he shall be entitled in respect of the overtime worked to pay at the rate of twice his ordinasy rate of pay.

[22-23][*Explanation* In this sub-section, 'ordinary rate of pay' means all remuneration capable of being expressed in terms of money which would, if the terms of the contract of employment, express or implied, were fulfilled, be payable to a worker in respect of his employment or of work done in such employment, but does not include—

(*i*) the value of any house accommodation, supply of light, water, medical attendance or other amenity ;

(*ii*) any contribution paid by the employer to any pension fund or provident fund ,

(*iii*) any travelling allowance or the value of travelling concession ; or

(*iv*) any gratuity, bonus or share in the profits of the factory.

(3) Where any workers are paid on a piece-rate basis, the Provincial Government in consultation with the industry concerned may for the purposes of this section fix time-rates as nearly as possible equivalent to the average rate of earnings of those workers, and the rates so fixed shall be deemed to be the ordinary rates of pay of those workers for the purposes of this section

(4) The Provincial Government may prescribe the registers that shall be maintained in a factory for the purpose of securing compliance with the provisions of this section

[24][47-A Obligation to work overtime Any adult workers may be required to work overtime, provided that such working conforms to the provisions of this Act and the rules made thereunder]

48 Restriction on double employment · No adult worker shall be allowed to work in any factory on any day on which he has already been working in any other factory, save in such circumstances as may be prescribed.

49 Control of overlapping shifts: The Provincial Government may make rules providing that in any specified class or classes of factories work shall not be carried on by a system of shifts so arranged in work for the same kind at the same time save with the permission of the Provincial Government and subject to such conditions as it may impose, either generally or in the case of any particular factory.

22-23 Explanation added by the Factories (Amendment) Act, XVI of 1973, S. 13.
24 Sec 47-A added by the Factories (W.P. Amendment) Ordinance of 1966.

[25]CHAPTER IV-A
HOLIDAYS WITH PAY

49-A Application of Chapter (1) The provisions of the Chapter shall not apply to a seasonal factory.

(2) The provisions of this Chapter shall not operate to the prejudice of any rights to which a worker may be entitled under any other enactment, or under the terms of any award, agreement or contact of service.

49-B Annual Holidays (1) Every worker who has completed a period of twelve months' continuous service in a factory shall be allowed during the subsequent period of twelve months holidays for a period of [26][.....] fourteen consecutive days, inclusive of the day or days, if any, on which he is entitled to a holiday under sub-section (1) of Section 35

(2) If a worker fails in any one such period of twelve months to take the whole of the holidays allowed to him under sub-section (1), any holidays not taken by him shall be added to be holidays to be allowed to him under sub-section (1) in the succeeding period of twelve months, so however that the total number of holidays which may be carried forward to a succeeding period shall not exceed [27][ ] fourteen

(3) If a worker entitled to holidays under sub section (1) is discharged by his employer before he has been allowed the holidays, or if, having applied for and having been refused the holidays, he quits his employment before he has been allowed the holidays, the employer shall pay him the amount payable under Section 49-C in respect of the holidays

Explanation · A worker, shall be deemed to have completed a period of twelve months' continuous service in a factory notwithstanding any interruption in service during those twelve months brought about by sickness, accident or authorised leave not exceeding ninety days in the aggregate for all three, or by lock-out or by a strike which is not an illegal strike or by intermittent periods of involuntary unemployment not exceeding thirty days in the aggregate, and authorised leave shall be deemed not to include any weekly holiday under Section 35 which occurs at beginning or end of an interruption brought about by the leave

49-C Pay during annual Holidays Without prejudice to the conditions governing the day or days, if any, on which the worker is entitled to a holiday under sub-section (1) of Section 35, the worker shall, for the remaining days of the holidays allowed to him under Section 49-B, be paid at a rate equivalent to the daily average of his wages as defined in the Payment of Wages Act, 1936 (IV of 1936), for the days on which he actually worked during the preceding three months, exclusive of any earning in respect of overtime.

49 D Payment when to be made A worker who has been allowed holidays under Section 49-B shall, before his holidays begin, be paid half the total pay due for the period of holidays.

49 E Power of Inspector to act for worker · Any Inspector may institute proceeding on behalf of any worker to recover any sum required to be paid under this Chapter by an employer which the employer has not paid.

25 Chapter IV-A ins by the Factories (Amendment) Act III of 1945, S 3
26-27 The words ' ten or, if a child ' omitted by the Factories (Amendment) Act, XVI of 1973

49 F Power to make rules (1) The Provincial Government may make rules to carry into effect the provisions of this Chapter

(2) Without prejudice to the generality of the foregoing power, rules may be made under this section prescribing the keeping by employers of registers showing such particulars as may be prescribed and requiring such registers to be made available for examination by Inspectors

(3) *Omitted by A O , 1964 Art 2 and Sch*

49 G Exemption of factories from provisions of this Chapter : Where the Provincial Government is satisfied that the leave rules applicable to workers in a factory provide benefits substantially similar to those for which this Chapter makes provision it may, by written order exempt the factory from the provisions of this Chapter

[28][49-H Casual leave and sick leave (1) Every worker shall be entitled to casual leave with full pay for ten days in a year

(2) Every worker shall be entitled to sixteen days' sick leave on half average pay in a year]

[29][49-I Festival holidays (1) Every worker shall be allowed holidays with pay and on all days declared by the Provincial Government to be festival holidays

(2) A worker may be required to work on any festival holiday, but one day's additional compensatory holiday with full pay and a substitute holiday shall be allowed to him in accordance with the provisions of Section 35

CHAPTER V
SPECIAL PROVISIONS FOR ADOLESCENTS AND CHILDREN

50 Prohibition of employment of young children · No child who has not completed his [30][14] year shall be allowed to work in any factory.

51 Non adult workers to carry tokens giving reference to certificates of fitness No child who has completed his [30][14] year and no adolescent shall be allowed to work in any factory unless—

(*a*) a certificate of fitness granted to him under Section 52 is in the custody of the manager of the factory, and

(*b*) he carries while he is at work a token giving a reference to such certificate

52 Certificate of fitness (1) A certifying surgeon shall, on the application of any [31][child of adolescent] who wishes to work in a factory or, of the parent or guardian of such person or of the factory in which such person wishes to work, examine such person and ascertain his fitness for such work

(2) The certifying surgeon after examination, may grant to such person, in the prescribed form—

(*a*) a certificate of fitness to work in a factory as a child, if he is satisfied that such person has completed his twelfth year, that he

28 Sec 49 H added by the Factories (Amendment) Act, XVI of 1973, S 15
29 Section 49-I added by the Factories (Amendment) Act, XVI of 1973 S 16
30 Subs for ' twelfth by the Labour Laws (Amendment) Act XVII of 1977
31 Subs for the words "young persons " by the Factories (Amendment) Act, XVI of 1973 S 17

has attained the prescribed physical standards (if any), and that he is fit for such work, or

(*b*) a certificate of fitness to work in a factory as an adult if he is satisfied that such person has completed his fifteenth year and fit for full day's work in a factory.

(3) A certifying surgeon may revoke any certificate granted under sub-section (2) if, in his opinion the holder of it is no longer fit to work in the capacity stated therein in a factory

(4) Where a certifying surgeon or a practitioner authorised under sub-section (2) of Section 12 refuses to grant a certificate or a certificate of the kind requested, or revokes a certificate, he shall, if so requested by any person who could have applied for the certificate state his reasons in writing for so doing

53. Effect of certificate granted to adolescent (1) An adolescent who has been granted a certificate of fitness to work in a factory as an adult, under clause (*b*) of sub section (2) of Section 52, and who, while at work in a factory, carries a token giving reference to the certificate, shall be deemed to be an adult for all the purposes of Chapter IV.

(2) An adolescent who has not been granted a certificate of fitness to work in a factory as an adult under sub section (2) of Section 52, shall notwithstanding his age, be deemed to be a child for the purposes of this Act.

54 Restrictions on the working hours of a child (1) No child [32][or adolescent] should be allowed to work in a factory for more than five hours in a day.

(2) The hours of work of a child shall be so arranged that they shall not spread over more than seven and-a half hours in any day.

(3) No child [32][or adolescent] shall be allowed to work in a factory except between 6 a m and 7 p m .

Provided that the Provincial Government may, by notification in the official Gazette in respect of any class or classes of factories and for the whole year or any part of it, vary those limits to any span of thirteen hours between 5 a m and 7-30 p m.

(4) The provisions of Section 35 shall apply also to child workers, but no exemption from the provisions of that section may be granted in respect of any child

(5) No child shall be allowed to work in any factory on any day on which he has already been working in another factory

55. Notice of periods for work for children (1) There shall be displayed and correctly maintained in every factory in accordance with the provisions of sub section (2) of Section 76, a Notice of Periods for Work for Children, showing clearly the periods within which children may be required to work

(2) The periods shown in the Notice required by sub-section (1) shall be fixed beforehand in accordance with the method laid down for adult in Section 39 and shall be such that children working for those periods would not be working in contravention of Section 54.

32. Subs for the words "young persons" by the Factories (Amendment) Act, XVI of 1973, Sec 17

(3) The provisions of Section 40 shall apply also to the Notice of Periods for Work for Children

(4) The Provincial Government may make rules prescribing forms for the Notice of Periods of Work for Children and the manner in which it shall be maintained.

56 Register of children workers: (1) The manager of every factory in which children are employed shall maintain a Register of Child Workers showing—

(*a*) the name [33][and age] of each child worker in the factory,

(*b*) the nature of his work,

(*c*) the group, if any, in which he is included,

(*d*) where his group works on shifts, the relay to which he is allotted,

(*e*) the number of his certificate of fitness granted under Section 52, and

(*f*) such other particulars as may be prescribed.

(2) The Provincial Government may make rules prescribing the form of the Register of Child Workers, the manner in which it shall be maintained and the period for which it shall be preserved

57 Hours of work to correspond with Notice and Register No child shall be allowed to work otherwise than in accordance with the Notice of Periods for Work for Children displayed under sub-section (1) of Section 55 and the entries made beforehand against his name in the Register of Child Workers maintained under sub section (1) of Section 56

58 Power to require medical examination Where an Inspector is of opinion—

(*a*) that any person working in a factory without a certificate of fitness is a child or an adolescent, or

(*b*) that a child or adolescent working in a factory with a certificate is no longer fit to work in the capacity stated therein,

he may serve on the manager of the factory a notice requiring that such person, or that such child or adolescent, as the case may be, shall be examined by a certifying surgeon or by a practitioner authorised under sub section (2) of Section 12, and such person, child or adolescent shall not, if the Inspector so directs, be allowed to work in any factory until he has been granted a certificate of fitness, as the case may be

59 Power to make rules The Provincial Government may make rules—

(*a*) prescribing the forms of certificate of fitness to be granted under Section 52, providing for the grant of duplicates in the event of loss of original certificates, and fixing the fees which may be charged for such certificate and such duplicates,

(*b*) prescribing the physical standards to be attained by children and adolescents,

(*c*) regulating the procedure of certifying surgeons under this Chapter, and specifying other duties, which they may be required to perform in connection with the employment of children and adolescent in factories, and

33. Ins by the Factories (Amendment) Act, XVI of 1973 S 18

(*d*) providing for any other matter which may be expedient in order to give effect to the provisions of this Chapter.

[34][59-A. **Provisions to be in addition to Act, XXVII of 1938.** The provisions of this Chapter shall be in addition to, and not in derogation of, the provisions of the Employment of Children Act, 1938 (XXVII of 1938)].

CHAPTER VI

PENALTIES AND PROCEDURE

60 **Penalty for contravention of Act and rules:** If in any factory—

(*a*) there is any contravention—

(*i*) of any of the provisions of Sections 13 to [3] [32] inclusive, or

(*ii*) of any order made under any of the said sections, or

(*iii*) of any of the sections read with rules made in pursuance thereof under clause (*a*) of section [35][33] or

(*iv*) of any rules made under any of the said sections, or under Sections [33][33-J and 33-Q], or

(*v*) of any condition imposed under sub-section (3) of Section [35][33 P], or

(*b*) any person is allowed to work in contravention—

(*i*) of any of the provisions of Sections 34 to 38 inclusive 42, 45 [35][48, 49-H and 49-I]

(*ii*) of any rule made under any of the sections, or under Section 49, or

(*iii*) of any condition attached or any exemption granted under Section 43 or Section 44 or Section 45 or to any permission granted under Section 38 or Section 49, or

(*c*) there is any contravention of any of provisions of Sections 39 to 41 inclusive or of any rules made under Section 39, Section 41 or Section 47, or of any condition attached to any exemption granted under Section 41 or to any modification or relaxation made under Section 44, or

(*d*) any person is not paid any extra pay to which he is entitled under the provisions of Section 47, or

(*e*) any adolescent or child is allowed to work in contravention of any of the provisions of Sections 50, 51, 54, 55, 57 and 58, or

(*f*) there is any contravention of Section 55 or Section 56 or of any rules made under either of these sections, or under clause (*d*) of Section 59, or

(*g*) there is any contravention of Section 49-B, 49-C or 49-D, or of any rules made under Section 49-F,

the manager and occupier of the factory shall each be punishable with fine which may extend to five hundred rupees.

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34. Sec 59-A subs for Chapter V-A by the Factories (Amendment) Act XVI of 1973 S 19.
35. Subs by the Labour Laws (Amendment) Act, XI of 1975

Provided that if both the manager and the occupier are convicted, the aggregate of the fines in respect of the same contravention shall not exceed this amount

61 **Enhanced penalty in certain cases after previous conviction:** If any person who has been convicted of any offence punishable under clauses (*b*) to (*g*) inclusive of Section 60 is again guilty of an offence involving a contravention of the same provision, he shall be punishable on the second conviction with fine which may extend to seven hundred and fifty rupees, and shall not be less than one hundred rupees and if he is again so guilty, with fine which may extend to one thousand rupees and shall not be less than two hundred and fifty rupees:

Provided that for the purposes of this section no cognizance shall be taken of any conviction made more than two years before the commission of the offence which is being punished:

Provided further that the Court, if it is satisfied that there are exceptional circumstances warranting such a course, may, after recording its reasons in writing, impose a smaller fine than is required by this section.

62 **Penalty for failure to give notice of commencement of work or change of manager** An occupier of a factory who fails to give any notice required by sub section (1) [36][sub section (1-A)] or sub-section (2) of section 9 shall be punishable with fine which may extend to five hundred rupees

THE FACTORIES (PUNJAB AMDT) ACT, 1940

After section 62 of the said Act, the following section shall be deemed to be inserted, namely —

"62-A *Penalty for failure to register* — A manager or an occupier who contravenes the provisions of section 9-A or the conditions on which a registration certificate is granted or an endorsement made shall be punishable with fine which may extend to five hundred rupees, or, if he has previously been convicted of an offence under that section of the said Act to one thousand rupees on the second conviction For every subsequent offence the maximum amount of fine which may be imposed shall be enhanced by five hundred rupees subject to a maximum of two thousand and five hundred rupees"

THE FACTORIES (N-W F P AMDT,) ACT, 1946

After section 62 of the said Act, the following section shall be deemed to be inserted, namely —

"62 A *Penalty for failure to register* —A manager or an occupier who contravenes the provisions of section 9-A or the conditions on which a registration certificate is granted or an endorsement made shall be punishable with fine which may extend to five hundred rupees, or, if he has previously been convicted of offence under that section of the said Act, to one thousand rupees on the second conviction For every subsequent offence the maximum amount of fine which may be imposed shall be [illegible]

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36. Ins by the Fac[illegible]

enhanced by five hundred rupees subject to a maximum of two thousand and five hundred rupees."

63. **Penalty for obstructing Inspector:** Whoever wilfully obstructs an Inspector in the exercise of any power under Section 11, or fails to produce on demand by an Inspector any registers or other documents in his custody kept in pursuance of this Act or of the rules made thereunder, or conceals or prevents any worker in a factory from appearing before or being examined by an Inspector, shall be punishable with fine which may extend to five hundred rupees.

64. **Penalty for failure to give notice of accident.** A manager of a factory who fails to give notice of an accident as required under Section 33-N shall be punishable with fine which may extend to five hundred rupees.

65. **Penalty for failure to make returns:** If in respect of any factory any return is not furnished as required under Section 77, the manager and the occupier of the factory shall each be liable to fine which may extend to five hundred rupees.

Provided that if both the manager and the occupier are convicted the aggregate of the fines inflicted shall not exceed this amount.

66. **Penalty for smoking or using naked light in vicinity of inflammable material:** Whoever smokes, or uses a nacked light or causes or permits any such light to be used in the vicinity of any inflammable material in a factory shall be punishable with fine which may extend to five hundred rupees.

Exception: This provision does not extend to the use, in accordance with such precautions as may be prescribed, of a naked light in the course of a manufacturing process.

67. **Penalty for using false certificate:** Whoever knowingly uses or attempts to use, as a certificate granted to himself under Section 52 a certificate granted to another person under that section, or who having procured such a certificate, knowingly allows it to be used, or an attempt to use it to be made by another person, shall be punishable with fine which may extend to twenty rupees.

68. **Penalty on guardian for permitting double employment of a child.** If a child works in a factory on any day on which he has already been working in another factory, that parent or guardian of the child or the person having custody of, or control over him or obtaining any direct benefit from his wages shall be punishable with fine which may extend to twenty rupees, unless it appears to the Court that the child so worked without the consent, connivance or wilful default of such parent, guardian or person.

69. **Penalty for failure to display certain notices.** A manager of a factory who fails to display the notice required under sub-section (1) of Section 76 or by any rule under this Act, or to display or maintain any such notice as required by sub-section (2) of that section, shall be punishable with fine which may extend to five hundred rupees.

70. **Determination of "occupier" for purposes of this Chapter:** (1) Where the occupier of a factory is a firm or other association of individuals, any one of the individual partners or members thereof may be prosecuted and punished under this Chapter for any offence for which the occupier of the factory is punishable —

Provided that the firm or association may give notice to the Inspector that it has nominated one of its members who is resident in Pakistan to be the occupier of the factory for purposes of this Chapter, and such individual shall, so long as he is so resident, be deemed to be the occupier for the purposes of this Chapter until further notice cancelling his nomination is received by the Inspector or until he ceases to be partner or member of the firm or association.

(2) Where the occupier of a factory is a company, any one of the directors thereof, or in the case of a private company, any one of the shareholders thereof may be prosecuted and punished under this Chapter for any offence for which the occupier of the factory is punishable.

Provided that the company may give notice to the Inspector that it has nominated a director, or in the case of a private company, a shareholder, who is resident in either case in Pakistan to be the occupier, of the factory for the purposes of this Chapter and such director or shareholder shall, so long as he is so resident be deemed to be the occupier of the factory for the purposes of this Chapter until further notice cancelling his nomination is received by the Inspector or until he ceases to be director or shareholder.

71. **Exemption of occupier from liability in certain cases:** (1) Where the occupier or manager of a factory is charged with an offence against this Act, he shall be entitled upon complaint duly made by him to have any other person whom he charges as the actual offender brought before the Court at the time appointed for hearing the charge, and if, after the commission of the offence has been proved, the occupier or manager of the factory proves to the satisfaction of the Court—

(a) that he has used due diligence to enforce the execution of this Act, and

(b) that the said other person committed the offence in question without his knowledge, consent or connivance,

that other person shall be convicted of the offence and shall be liable to the like fine as if he were the occupier or manager, and the occupier or manager shall be discharged from any liability under this Act.

(2) When it is made to appeal to the satisfaction of the Inspector at any time prior to the institution of the proceedings—

(a) that the occupier or manager of the factory has used all due diligence to enforce the execution of this Act, and

(b) by what person the offence has been committed, and

(c) that it has been committed without the knowledge, consent or connivance of the occupier or manager, and in contravention of his orders, the Inspector shall proceed against the person whom he believes to be the actual offender without first proceeding against the occupier or manager of the factory, and such, person shall be liable to the like fine as he were the occupier or manager.

72. Presumption as to employment: If a child over the age of six years is found inside any part of a factory in which children are working, he shall until the contrary is proved, be deemed to be working in the factory.

73. Evidence as to age: (1) When an act or omission would, if a person were under or over a certain age, be an offence punishable under this Act, and such person is in the opinion of Court apparently under or over such age, the burden shall be on the accused to prove that such person is not under or over such age.

(2) A declaration in writing by a certifying surgeon relating to a worker that he has personally examined him and believes him to be under or over the age set forth in such declaration shall, for the purposes of this Act, be admissible as evidence of the age of that worker

74. Cognizance of offences; (1) No prosecution under this Act, except a prosecution under Sec. 66, shall be instituted except by or with the previous sanction of the Inspector

(2) No Court inferior to that of a Magistrate of the First Class shall try an offence against this Act, or any rule or order made thereunder, other than an offence under Section 66 or Section 67.

(3) *Omitted by the Factories (Amendment) Act, XVI of 1973, Sec. 21.*

75 Limitation of prosecution: No Court shall take cognizance of any offence under this Act or any rule or order thereunder, other than an offence under Section 62 or Section 64, unless complaint thereof is mad within six months of the date on which the offence is alleged to have bee committed.

Provided that when the offence consists of disobeying a written orde made by an Inspector, complaint thereof may be made within twelv months of the date on which the offence is alleged to have been committed

CHAPTER VII

SUPPLEMENTAL

76. Display of factory notice. (1) In addition to the notice required to be displayed in any factory by this Act or the rule made thereunder there shall be displayed in every factory a notice containing such abstracts of this Act and of the rules made thereunder in English and in the vernacular of the majority of the workers as the Provincial Government may prescribe.

(2) All notices required to be displayed in a factory shall be displayed at some conspicuous place at or near the main entrance to the factory and shall be maintained in a clean and legible condition.

77. Power of Provincial Government to make rules: The Provincial Government may make rules requiring occupiers or managers of factories to submit such returns, occasional or periodical, as may in its opinion be required for the purposes of this Act.

78 Control of rules made by Local Government - *Omitted by the Government of India (Adaptation of Indian Laws) Order, 1937.*

79 Publication of rules (1) All rules made under this Act shall be subject to the condition of previous publication, and the date to be specified under clause (3) of Section 23 of the General Clauses Act, 1897 (X of 1897) shall not be less than three months from the date on which the draft of the proposed rules was published

(2) All such rules shall be published in the official Gazette and shall, unless same later date is appointed, come into force on the date of such publication

80 Application to Government Factories: This Act shall apply to factories belonging to the Government.

81 Protection to persons acting under this Act: No suit, prosecution or other legal proceeding shall lie against any person for anything which is in good faith done or intended to be done under this Act.

82 Repeal and Savings [*Repealed by the Repealing and Amending Act, XX of 1937, S 3 and Second Schedule.*

The Schedule [*Repealed by the Repealing and Amending Act, XX of 1937, Sec 4, Sch. II*]

APPENDIX 5

The Industrial & Commercial Employment (Standing Orders) Ordinance [VI OF 1968]

[8th May, 1968]

An Ordinance to amend and consolidate the law relating to Industrial employment in the Provinces

Preamble : Whereas it is expedient to amend and consolidate the law relating to industrial employment in [1][the Provinces]

And whereas the Provincial Assembly of [1][a Province] is not in sessions and the Governor of [1][the Province] is satisfied that circumstances exist which render immediate legislation necessary ,

Now, therefore, in exercise of the powers conferred on him by clause (1) of Article 79 of the Constitution, the Governor of [1][a Province] is pleased to make and promulgate the following Ordinance :

1 **Short title, extent and commencement :** This Ordinance may be called the Industrial and Commercial Employment (Standing Orders) Ordinance, 1968

(2) It extends to the whole of [2][Pakistan]

(3) It shall come into force at once.

(4) It applies to—

[3][(a) Every industrial establishment or commercial establishment wherein twenty or more workmen are employed, directly or through any other person whether on behalf of himself or any other person, or were so employed on any day during the preceding twelve months] ,

(b) *Omitted by the Industrial & Commercial Employment (Standing Orders) (Amendment) Act, XXIII of 1973, S 2 (a).*

(c) such classes of other industrial and commercial establishments as Government may from time to time by notification in the Official Gazette, specify in this behalf .

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1. Subs for the words "West Pakistan" by the Federal Adaptation of Laws Order, 4. of 1975
2. Subs for the words "Province of West Pakistan" by the Federal Adaptation of Laws Order, 4 of 1975, S 2 (1) and Sch
3. Clause (a) Subs for the original clauses (a) & (b) by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act, XXIII of 1973

Provided that nothing in this Ordinance shall apply to industrial and commercial establishments carried on by or under the authority of the Federal or any Provincial Government, where statutory rules of service, conduct or discipline are applicable to the workmen employed therein :

[4][Provided further that the provisions of Standing Orders 10-B and 11, clauses (6) and (8) of Standing Order 12 and Standing Order 15 shall not apply in the first instance, to any industrial establishment wherein not more than forty-nine persons were employed on any day during the preceding twelve months but Government may by notification in the Official Gazette, extend all or any of the said provisions to any such industrial establishment or any class of such establishments]

2. Definitions : In this Ordinance, unless there is anything repugnant in the subject or context—

(a) "collective agreement" means an agreement in writing, intended to specify the conditions of employment, and entered into between one or more employers on the one hand, and one or more trade unions or, where there is no trade union, the duly authorized representatives of workmen, on the other ,

(b) "commercial establishment" means an establishment in which the business of advertising, commission or forwarding is conducted, or which is a commercial agency, and includes a clerical department of a factory or of any industrial or commercial undertaking, the office establishment of a person who for the purpose of fulfilling a contract with the owner of any commercial establishment or industrial establishment, employs workmen, a unit of a joint stock company, an insurance company, a banking Company or a Bank, a broker's Office or stock-exchange, a club, a hotel, a restaurant or an eating house, a cinema or theatre, and such other establishment or class thereof, as Government may, by notification in the Official Gazette declare to be a commercial establishmen for the purposes of this Ordinance ,

[5][(bb) "Construction industry" means an industry engaged in the construction, reconstruction, maintenance, repair, alteration, or demolition of any building, railway, tramway, harbour, dock, pier, canal, inland waterway, road, tunnel, bridge, dam, viaduct, sewer, drain, water work, well, telegraphic or telephonic installation, electrical undertaking, gas work, or other work of construction as well as the preparation for, or laying the foundation of, any such work or structure],

(c) "employer" means the owner of an industrial or commercial establishment to which this Ordinance for the time being applies, and includes—

(i) in a factory, any person named under Clause (e) of sub-section (1) of Section 9 of the Factories Act, 1934 (XXV of 1934), as manager of the factory;

(ii) in any industrial establishment under the control of any department of the Federal or any Provincial Government, the authority appointed by such Government in this behalf, or where no such authority is so appointed, the head of the department:

(iii) in any other industrial or commercial establishment, any person responsible to the owner for the supervision and control of such establishment ,

(d) "go-slow" means on organised, deliberate and purposeful slowing down of normal output of work by a body of workers in a concerted manner and which is not due to any mechanical defect, breakdown of machinery, failure or defect in power supply, or in the supply of normal materials and spare parts of machinery ;

(e) "Government" means the [6][Provincial Government]",

(f) "industrial establishment" means—

(i) an industrial establishment as defined in clause (ii) of Section 2 of the Payment of Wages Act, 1936 (IV of 1936), or

(ii) a factory as defined in clause (j) of Section 2 of the Factories Act, 1934 (XXV of 1934), or

(iii) a Railway as defined in clause (4) of Section 3 of the Railways Act, 1890 (IX of 1890), or

[7][(iv) the establishment of a contractor who, directly or indirectly, employs workmen in connection with the execution of a contract to which he is a party, and includes the premises in which, or the site at which, any process connected with such execution is carried on , or

[8][(v) the establishment of a person who, directly or indirectly employs workmen in connection with any construction industry]

Explanation : 'Contractor' includes a sub-contractor, headman or

(g) "Standing Orders" means the Orders contained in the Schedule, read with such modifications, if any, as may be made in pursuance of the provisions of Section 4,

(h) "trade union" means a trade union for the time being registered under the Industrial Relations Ordinance, 1969 (XXIII of 1969)] ,

(i) "workman" means any person employed in any industrial or commercial establishment to do any skilled or unskilled, manual or clerical work for hire or reward.

3. Enforcement of Standing Orders : In every industrial or commercial establishment, conditions of the employment of workmen and other incidental matters shall, subject to the other provisions of this Ordinance, be regulated in accordance with the Standing Orders

4. Modification of Standing Orders : The Standing Orders may be modified by means of a collective agreement and not otherwise :

4. Proviso added by the Industrial and Commercial Establishment (Standing Orders) (Amendment) Act, XXIII of 1973.
5. Clause (bb) added by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act, XXIII of 1973.

6. Subs. by Federal Adaptation of Laws Order, IV of 1974.
7. Subs. for the original clause by Ord . XVIII of 1972.
8. Clause (v) added by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act, XXIII of 1973.
9. Clause (h) subs by ibid

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Provided that no such agreement shall have the effect of taking away or diminishing any right or benefit available to the workmen under the provisions of the Schedule.

5 Posting of Standing Orders : The text of the Standing Orders shall be prominently posted and kept in a legible condition by the employer in English and Urdu, and in the language understood by the majority of his workmen on special boards to be maintained for the purpose at or near the entrance through which the majority of the workmen enter the industrial or commercial establishment and in all departments thereof where the workmen are employed

6 Inspectors : (1) The Inspectors of Mines appointed under Section 4 of the Mines Act, 1923 (IV of 1923), the Inspectors appointed under Section 10 of the Factories Act, 1934 (XXV of 1934), and such other persons not being [10][Conciliators appointed under the Industrial Relations Ordinance, 1969 (XXIII of 1969)] as Government may by notification in the official Gazette appoint, shall be the Inspectors for the purposes of this Ordinance within the local limits assigned to each

(2) An Inspector may at all reasonable hours enter on any premises and make such examination of any register or document relating to the maintenance or enforcement of the Standing Orders and take on the spot or otherwise such evidence of any person, and exercise such other powers of inspection, as he may deem necessary for carrying out the purposes of this Ordinance

(3) Every Inspector shall be deemed to be public servant within the meaning of the Pakistan Penal Code (XLV of 1860)

7 Penalties and procedure : (1) An employer who modifies the Standing Orders applicable to his industrial or commercial establishment otherwise than in accordance with Section 4, shall be punishable with fine which may extend to five thousand rupees, and in the case of a continuing offence, with a further fine which may extend to two hundred rupees for every day after the first day during which the offence continues

(2) An employer who does any act in contravention of the Standing Orders as applicable to his industrial or commercial establishment shall be punishable with fine which may extend to one hundred rupees, and in the case of a continuing offence, with a further fine which may extend to twenty-five rupees for every day after the first day during which the offence continues.

(3) Whoever contravenes any of the provisions of this Ordinance shall, if no other penalty is elsewhere provided by or under this Ordinance for such contravention, be punishable with fine which may extend to one hundred rupees.

(4) Whoever having been convicted of any offence punishable under sub-section (1), (2) or (3), again commits such offence shall, on conviction be liable to double the punishment prescribed for such offence under the aforesaid sub-sections.

(5) No prosecution to an offence punishable under this Ordinance shall be instituted except by or with the previous permission in writing of the Inspector.

10 Words subs by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act, XXIII of 1973.

[11][(6) No Court other than a Labour Court established under the Industrial Relations Ordinance, 1969 (XXIII of 1969) shall try any offence under this Ordinance]

7-A *Omitted by Industrial and Commercial Employment (Standing Orders) (Amendment) Act, XXIII of 1973.*

8. Power to exempt : Government may, subject to such conditions as it thinks fit to impose, by notification in the official Gazette, exempt any industrial or commercial establishment or class of such establishments from all or any of the provisions of this Ordinance.

9. Protection to existing conditions of employment Nothing in this Ordinance shall affect any law, custom, usage, award or agreement in force immediately before the promulgation of this Ordinance in so far as such law, custom, usage, award or agreement ensure conditions of employment more favourable to workmen than those provided in the Standing Orders

10 Repeal : The Industrial and Commercial Employment (Standing Orders) Ordinance, 1960 (III of 1960), in its application to the Provinces, is hereby repealed.

11 Added by the Labour Laws (Amendment) Act, XI of 1976

SCHEDULE

STANDING ORDERS

[*Section 2 (g)*]

1. **Classification of workmen : (*a*) Workmen shall be classifie[d] as—**

(1) permanent,

(2) probationers,

(3) badlis,

(4) temporary,

(5) apprentices.

(*b*) A "permanent workman" is a workman who has been engaged on work of permanent nature likely to last more than nine months and has satisfactorily completed a probationery period of three months in the same or another occupation in the industrial or commercial establishment, and includes a badli who has been employed for a continuous period of three months or for one hundred and eighty-three days during any period of twelve consecutive months, including breaks due to sickness, accident, leave, lock-out, strike (not being an illegal lock-out or strike) or involuntary closure of the establishment [12][and includes a badli who has been employed for a continuous period of three months or for one hundred and eighty three days during any period of twelve consecutive months]

(*c*) A "probationer" is a workman who is provisionallly employed to fill a permanent vacancy in a post and has not completed three months' service therein. If a permanent employee is employed as a probationer in a higher post he may, at any time during the probationary period of three months, be reverted to his old permanent post

(*d*) "Badli" is a workman who is appointed in the post of a permanent workman or probationer, who is temporarily absent.

(*e*) A "temporary workman" is a workman who has been engaged for work which is of an essentially temporary nature likely to be finished within a period not exceeding nine months.

[13][(*f*) An "apprentice" is a person who is an apprentice within the meaning of the Apprenticeship Ordinance, 1962 (LVI of 1962)]

2 **Tickets :** (1) Every workman employed in an industrial establishment shall be given a permanent ticket unless he is a probationer, a badli a temporary workman or an apprentice

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12. Words added by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act, XXIII of 1973.
13. Clause (f) subs , by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act, XXIII of 1973

(2) Every permanent workman shall be provided with a departmental ticket, showing his number, and shall on being required to do so, show it to any person authorised by the employer to inspect.

(3) Every badli shall be provided with a badli card, on which shall be entered the days on which he has worked in the establishment, and which shall be surrendered if he obtains permanent employment.

(4) Every temporary workman shall be provided with a 'temporary ticket' which he shall surrender on his discharge

(5) Every apprentice shall be provided with an apprentice card, which shall be surrendered if he obtains permanent employment

[14][2-A Terms and conditions of Service to be given in writing · Every workman at the time of his appointment, transfer or promotion shall be provided with an order in writing, showing the terms and conditions of his service]

3 Publication of working time The periods and hours of work for all classes of workmen in each shift shall be exhibited in Urdu and in the principal language of workmen employed in the industrial or commercial establishment on notice boards maintained at or near the main entrance of the establishment and at the timekeeper's office if any.

4 Publication of holidays and pay days Notices specifying (*a*) the days observed by the industrial or commercial establishment as holidays and (*b*) pay days shall be posed on the said notice board

5 Publication of wage rates : Notices specifying the rates of wages payable to all classes of workmen and for all classes of work shall be displayed on the notice boards

6 Shift working · More than one shift may be worked in a department or any section of a department of the industrial or commercial establishment at the discrection of employer

If more than one shift is worked the workmen shall be liable to be transferred from one shift to another No shift working shall be discontinued without one month's notice being given prior to such discontinuance, provided that no such notice shall be necessary if, as a result of the discontinuance of the shift, no permanent employee will be discharged If as a result of discontinuance of shift working, any permanent workmen are to be discharged they shall be discharged having regard to the length of their service in the establishment, those with the shortest term of service being discharged first If shift working is restarted a week's notice thereof shall be given by posting a notice at the main entrance of the establishment and at the timekeeper's, office, if any, and the workmen discharged as a result of discontinuance of the shift, shall, if they present themselves at the time of the restarting of the shift, have preference in being re-employed, having regard to the length of their previous service under the establishment, those with the longest term of service being re employed first

7 Attendance and late coming All workmen shall be at work at the establishment at the time fixed and notified under Stading Order 3 Workmen attending late shall be liable to the deduction provided for in the Payment of Wages Act, 1936 (IV of 1936)

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14 Standing Order 2-A added by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act XXIII of 1973 S 6 (b).

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8. Leave : [15][(1) Holidays and leave with pay shall be allowed as hereinafter specified ;

(a) Annual holidays, festival holidays, casual leave and sick leave as provided for in Chapter IV-A of the Factories Act, 1934 (XXV of 1934), and

(b) other holidays in accordance with the law, contract, custom and usage]

(2) A workman who desires to obtain leave of absence shall apply to the employer, who shall issue orders on the application within a week of its submission or two days prior to the commencement of the leave applied for, whichever is earlier, provided that if the leave applied for is to commence on the date of the application or within three days thereof, the order shall be given on the same. If the leave asked for is granted, a leave pass shall be issued to the workman If the leave is refused or postponed, the facts of such postponement or refusal and the reasons therefor shall be recorded in writing in a register to be maintained for the purpose, and if the workman so desires, a copy of the entry in the register shall be supplied to him. If the workman after proceeding on leave desires an extension thereof he shall apply to the employer who shall send a written reply either granting or refusing extension of leave to the workman if his address is available, and if such reply is likely to reach him before the expiry of the leave originally granted to him.

(3) & (4) *Omitted by the Industrial and Commercial Employment (Standing Orders) Amendment Act, XXIII of 1973, S 6 (e)*

9 Casual Leave *Omitted by Industrial and Commercial Employment (Standing Orders) (Amendment) Act, XXIII of 1973.*

10. Payment of wages : (1) Any wages due to the workman but not paid on the usual pay day on account of their being unclaimed, shall be paid by the employer on an unclaimed wages pay day in each week which shall be notified on the notice boards as aforesaid

(2) All workmen shall be paid wages on a working day before the expiry of the 7th or 10th day after the last day of the wage period, in respect of which the wages are payable if the total number of workmen employed in the establishment is 1,000 or less or exceeds 1,000 respectively

[16][10-A. Group incentive scheme (1) In every industrial establishment which is a factory and in which fifty or more workmen are employed there shall be introduced from such date as may be specified by the Provincial Government, by notification in the official Gazette, a group incentive scheme to provide incentive for greater production to groups of workmen employed in the factory The scheme shall provide the manner in which the performance of different groups of workmen, whether in the same section, shop department or shift or in different sections, shops, departments or shifts, shall be evaluated

(2) The incentive shall be in the form of additional wages or additional leave with wages or in both such forms to the members of the group of workmen whose production exceeds that of the other groups or the average of all the groups. The incentive shall be according to such

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15 Sub-section (1), subs by the Industrial and Commecial Employment (Standing Orders) (Amendment) Act, XXIII of 1973

16 Standing Order 10-A added by the Labour Laws (Amendment) Ordinance, IX of 1972, Sec 2 and Sch

scales as may be prescribed and shall be related to the extent of the excess production achieved by the group with the best performance]

[17][10-B Compulsory group Insurance : (1) The employer shall have all the permanent workmen employed by him insured against [18][natural death and disability and] death and injury arising out of contingencies not covered by the Workmen's Compensation Act, 1923 (VIII of 1923), or the [19][Provincial] Employees' Social Security Ordinance, 1965 (Ordinance No. X of 1965)

(2) The employer shall in all cases be responsible for the payment of the amount of premia and for all administrative arrangements whether carried out by himself or through an insurance company

(3) The amount for which each workman shall be insured shall not be less than the amount of compensation specified in Schedule IV to the Workmen's Compensation Act, 1923 (VIII of 1923)]

[20][(4) Where the employer fails to have a permanent workman employed by him insured in the manner laid down in clauses (1), (2) and (3) and such workman suffer death or injury arising out of contingencies mentioned in clause (1) the employer shall pay, in the case of death, to the heirs of such workman, or in the case of injury, to the workman, such sum of money as would have been payable by the insurance company had such workman been insured

(5) All claims of a workmen or his heirs or recovery of money under clause (4) shall be settled in the same manner as is provided for the determination and recovery of compensation under the Workmen's Compensation Act, 1923)]

[21][10 C Payment of bonus (1) Every employer making profit in any year shall pay [22][for that year within the three months of the closing of] that year to the workmen who have been in his employment in that year for a continuous period of not less than ninety days a bonus in addition to the wages payable to such workmen

(2) The amount of the bonus payable shall—

(a) if the amount of the profit is not less than the aggregate of one month's wages of the month's wages of the workmen employed, be not less than the amount of such aggregate, subject to the maximum of thirty per cent, of such profit

[23][*Illustration 1* If the profit is Rs. 1,20,000 00, and the aggregate of one month's wages of the workmen is Rs 30,000 00, the amount of bonus payable shall be not less than the aggregate of one month's wages, that is to say, Rs 30,000 00

Illustration 2 If the profit is Rs 33,000 00 and the aggregate to one month's wages of the workmen is also Rs 30,000.00, the amount of bonus

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Standing Order 10-B added by the Labour Laws (Amendment) Ordinance IX of 1972, S 2 and Sch

Ins. by the Labour Laws (Amendment) Act, XI of 1976

Ins. by the Federal Adaptation of Laws Order, IV of 1975

Added by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act, XLVIII of 1974

Standing Order 10-C added by the Labour Laws Ordinance, IX of 1972, Sec 2 and Sch

Subs. for the word 'in' by Act XXIII of 1973 S 6 (c)(i)

Illustration added by Act, XXIII of 1973

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payable shall be not less than thirty per cent of the profit, that is to say, Rs. 9,000,00 ;].

(*b*) If the amount of the profit is less than the aggregate referred to in paragraph (*a*) the amount of bonus payable shall be not less than fifteen per cent of such profit.

(3) The bonus payable to a workman entitled thereto under clause (1) shall bear to his monthly wages the same proportion as the total bonus payable by the employer bears to the aggregate of the wages referred to in paragraph (*a*) of clause (2) and shall be paid either in cash or in N I T. Units of equivalent value at the option of such workman

(4) Nothing in this section shall be deemed to affect the right of any workman to receive any bonus other than that payable under clause (1) to which he may be entitled in accordance with the terms of his employment or any usage or any settlement or an award of a Labour Court established under the Industrial Relations Ordinance, 1969 (XXIII of 1969)

Explanation : For the purpose of this section—

(*a*) "N.I.T Units" means the Units referred to in the National Investment (Unit) Trust Ordinance, 1965 (VII of 1965) ;

(*b*) "Profit" means the "net profits' as defined in Section 87-C of the Compensation Act, 1913 (VII of 1913) , and

(*c*) "wages" does not for the purpose of calculating the bonus payable to a person under clause (1), include the bonus referred to in clause (*vi*) of Sec . 2 of the Payment of Wages Act, 1936 (IV of 1936)

11. Stoppage of work : (1) The employer may, at any time in the event of fire, catastrophe, break-down of machinery or stoppage of power supply, epidemics, civil commotion or other cause beyond his control, stop any section or sections of the establishment, wholly or partially for any period or periods or without notice.

(2) In the event of such stoppage during working hours, the workmen affected shall be notified by notices put up on the notice board in the departments concerned or in the office of the employer, as soon as practicable, when work will be resumed and whether they are to remain or leave their place of work The workmen shall not ordinarily be required to remain for more than two hours after the commencement of the stoppage

If the period of detention does not exceed one hour, the workmen so detained shall not be paid for the period of detention If the period of detention exceeds one hour, the workmen so detained shall be entitled to receive wages for the whole of the time, during which they are detained as a result of the stoppage In the case of piece-rate workers, the average daily earning for the previous months shall be taken to be the daily wage. Whenever practicable reasonable notice shall be given of resumption of normal work.

[24][(3) In cases where workmen are laid-off on account of failure of plant, a temporary curtailment of production or any stoppage of work for reasons mentioned to clause (1), they shall be paid by the employer an amount equal to one-half of their daily wages during the first fourteen days of lay-off as compensation. When, however, the workmen have to be laid-off for an indefinite period beyond the above-mentioned fourteen-days,

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24. Clause (3) subs by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act, XXIII of 1973.

their services may be terminated after giving them due notice or pay in lieu thereof]

(4) The employer may in the event of a strike affecting either wholly or partially any section or department of the establishment close down, either wholly or partially, such section or department and any other section or department affected by such closing down The fact of such closure shall be notified by notices put on the notice board in the section or department concerned and in the time-keeper's office, if any, as soon as practicable The workmen concerned shall also be notified by a general notice, prior to resumption of work, as to when work will be resumed.

[25][11-A Closure of establishment Notwithstanding anything contained in Standing Order 11, no employer shall [26][terminate the employment or more than 50 per cent of the workmen or] close down the whole of the establishment without prior permission of the Labour Court in this behalf, except in the event of fire, catastrophe, stoppage of power supply, epidemics or civil commotion

Explanation 'Close down' in this Standing Order includes lay-off of workmen beyond fourteen days where such lay-off results in closure of an establishment but does not include lock-out declared, commenced or continued in accordance with the provisions of the Industrial Relations Ordinance, 1969 (XXIII of 1969)]

[27][12 Termination of employment : (1) For terminating employment of a permanent workman, for any reason other than misconduct, one month's notice shall be given either by the employer or the workman

One month's wages calculated on the basis of average wages earned by the workman during the last three months shall be paid in lieu of notice.

(2) No temporary workmen, whether monthly rated, weekly rated, daily-rated or piece-rated and no probationer or badli, shall be entitled to any notice if his services are terminated by the employer, nor shall any such workman be required to give any notice or pay wages in lieu thereof to the employer if he leaves employment of his own accord

(3) The services of a workman shall not be terminated, nor shall a workman be removed, retrenched, discharged or dismissed from service, except by an order in writing which shall explicitly state the reason for the action taken. In case a workman is aggrieved by the termination of his services or removal, retrenchment, discharge or dismissal, he may [28][take action in accordance with the provisions of] Section 25-A of the Industrial Relations Ordinance, 1969 (XXIII of 1959), and thereupon the provisions of the said section shall apply as they apply to the redress of an individual grievance.

(4) Where the services of any workmen are terminated, the wages earned by him and other dues, including payment for unavailed leave as defined in clause (1) of Standing Order 8, shall be paid before the expiry of the second working day from the day on which his services are terminated.

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25 S O 11-A added by the Industrial and Commercial Employment (Standing Orders (Amendment) Act, XXIII of 1973, S 6 (g).
26. Inserted by the Labour Laws (Amendment) Act, XI of 1976
27. S O 12 subs for the original by the Labour Laws (Amendment) Act, V of 1972.
28. Subs by the Industrial and Commecial Employment (Standing Orders) (Amendment) Act, XXII of 1973

(5) The services of a permanent or temporary workman shall not be terminated on the ground of misconduct otherwise than in the manner prescribed in Standing Order 15.

(6) Where a workman resigns from service or his services are terminated by the employer, for any reason other than misconduct, he shall, in addition to any other benefit to which he may be entitled under this Ordinance or in accordance with the terms of his employment or any custom, usage or any settlement or an award of a Labour Court under the Industrial Relations Ordinance, 1969 (XXIII of 1969) be paidgratuity equivalent to [29][twenty] days' wages, calculated on the basis of the [30][wages admissible to him in last month of service if he is fixed-rated workman or the highest pay drawn by him during the last twelve months if he is a piece-rated workman] for every completed year of service or any part thereof in excess or six months.

Provided that, where the employer has established a Provident Fund to which the workman is a contributor and the contribution of the employer to which is not less than the contribution made by the workman no such gratuity shall be payable for the period during which such Provident Fund has been in existence

(7) A workman shall be entitled to receive the amount standing to his credit in the Provident Fund, including the contributions of the employer to such Fund, even if he resigns or is dismissed from service [31][xxx]

[32][(8) Where a workman dies while in the service of the employer, his dependant shall be paid gratuity in accordance with the provisions of clause (6):

Provided that no payment of gratuity in such cases shall be made otherwise than by a deposit with the Commissioner, who shall proceed with the allocation of the deposit to the dependant of the deceased in accordance with the provisions of Section 8 of the Workmen's Compensation Act, 1923 (VIII of 1923)

(9) If the employer fails to deposit the amount of the gratuity under clause (8) the dependant of the deceased may make an application to the Commissioner for the recovery of the amount thereof

Explanation· "Commissioner" and "dependant" in this Standing Order shall have the same meanings as are respectively assigned to them in the Workmen's Compensation Act, 1923 (VIII of 1913)]

13. Procedure for retrenchment Where any workman is to be retrenched and he belongs to a particular category of workmen, the employer shall retrench the workman who is the last person employed in the category.

14. Re-emploment of retrenched workmen Where any number of workmen are retrenched and the employer proposes to take into his employment any person within a period of one year from the date of such retrenchment he shall give an opportunity to the retrenched workmen belonging to the category concerned, by sending a notice by registered post to their last known addresses to offer themselves for re-employment, and they shall have

29 Subs for "fifteen" by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act, XXIII of 1973

30. Subs by the Industrial and Commercial Employment (Standing Orders) Amendment) Act, XXIII of 1973

31 Certain words omitted by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act, XXIII of 1973

32 Clauses (8) and (9) added ibid

preference over the persons, each having priority according to the length of his service under the employer ·

[33][Provided that, in the case of a seasonal factory within the meaning of Section 4 of the Factories Act, 1934 (XXV of 1934), a workman who was retrenched in one season and reports for duty within ten days of the resumption of work in the factory in the immediately following season [34][shall be given preference for employment by the employer] ·

[35][Provided further that, in the case of such a seasonal factory, the employer may by sending notice by registered post to the last known address of a workman who was retrenched in one season require him to report on a day specified in the notice, not being earlier than ten days before resumption of work in such factory, and if such workman so reports he shall be given preference for employment and paid full wages from the day he reports]

[36][14 A Special provisions for construction workers Where any workman is retrenched or discharged by a contractor or any employer engaged in the construction industry due to completion, cessation, discontinuance of work, he shall be given preference for employment in any other similar work undertaken by the contractor or employer within a period of one year from the date of such retrenchment or discharge

Provided that where a workman is re-employed within one month of his retrenchment or discharge, he shall be deemed to have been in continuous service of the contractor or employer notwithstanding the interruption caused by his retrenchment or discharge but no wages shall be paid to him for the period of interruption

15 Punishments (1) A workman may be reprimanded or fined in the manner prescribed under the Payment of Wages Act, 1936 (IV of 1936) upto three paisa in the rupee of the wages payable to him in a month, for any of the following acts or omissions, namely —

(i) in cases where the Payment of Wages Act, 1936 (IV of 1936), is applicable, the list of acts and omissions for which fine may be levied shall be same as approved by the Chief Inspector of Factories or any other officer concerned,

(ii) in other cases, the following shall be list of acts and omissions—

(a) disregard or disobedience of rules or orders,

(b) improper behaviour, such as drunkenness,

(c) making false or misleading statements,

(d) inefficient, dilatory careless or wasteful working,

(e) malingering

(2) A workman found guilty of misconduct shall be liable to any the following punishments —

(i) fine in the manner prescribed under the Payment of Wages Act, 1936 (IV of 1936), up to three paisa in the rupee of the wages payable to him in a month,

Proviso added by the Labour Laws (Amendment) Ordinance, IX of 1972 Sec 2 and First Sch

Subs for "shall be re employed" by the Labour Laws (Amendment) Act, V of 1972

Second Proviso added by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act XLVIII of 1974, S 3

Standing Order 14 A added by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act XXIII of 1973

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(ii) withholding of increment or promotion for a specified period not exceeding one year ;

(iii) reduction to a lower post ; or

(iv) dismissal without payment of any compensation in lieu of notice.

(3) The following acts and omissions shall be treated as misconduct—

(a) wilful insubordination or disobedience, whether alone or in combination with others, to any lawful and reasonable order of a superior ;

(b) theft, fraud, or dishonesty in connection with the employer's business or property ;

(c) wilful damage to or loss of employer's goods or property ;

(d) taking or giving bribes or any illegal gratification ;

(e) habitual absence without leave or absence without leave for more than ten days ,

(f) habitual late attendance ,

(g) habitual breach of any law applicable to the establishment ;

(h) riotous or disorderly behaviour during working hours at the establishment or any act subversive of discipline ;

(i) habitual negligence or neglet of work ;

(j) frequent repetition of any act or omission referred to in clause (1) ;

(k) striking work or inciting others to strike in contravention of the provisions of any law, or rule having the force of law ;

(l) go-slow.

(4) No order of dismissal shall be made unless the workman concerned is informed in writing of the alleged misconduct [37][within one month of the date of such misconduct or of the date on which the alleged misconduct comes to the notice of the employer's] and is given an opportunity to explain the circumstances alleged against him The approval of [38][the employer shall be required in every case of dismissal] and, the employer shall institute independent inquiries before dealing with charges against a workman .

[39][Provided that the workman proceeded against may, if he so desires for his assistance in the enquiry, nominate any workman employed in that establishment and the employer shall allow the workman so nominated to be present in the enquiry to assist the workman proceeded against and shall not deduct his wages if the enquiry is held during his duty hours]

(5) Where, for the purposes of conducting an inquiry into the alleged misconduct of a workman, the employer considers it necessary, he may suspend the workman concerned for a period not exceeding four days at a time [37][so, however that the total period of such supension shall not exceed four weeks except where the matter is pending before an arbitrator a Labour Court, Tribunal or Conciliator for the grant of permission under Section 46 of the Industrial Relations Ordinance, 1969 (XXII of 1969)] The order of suspension shall be in writing and may take effect immediately on delivery to the workman During the period of suspension, the workman concerned shall be paid by the employer subsistance allowance of not less than fifty per centum of the wages. If the workman is found not guilty, he shall be deemed to have been on duty during the period of suspension and shall be entitled to the same wages as he would have received if he had not been suspended.

16 Eviction from residential accommadation (1) Notwithstanding the provisions of any law for the time being in force, including those of the Urban Rent Restriction Ordinance, 1959 (VI of 1959), a workman occupying residential accommodation provided by his employer, who has resigned or retired or has been retrenched, discharged or dismissed or whose services have been terminated, shall vacate such accommodation within a period of two months from the date of his retrenchment, dismissal or termination of services, as the case may be, provided that in case of re-instatement of the workman, the employer shall be bound to provide him with similar residential accommodation from the date of such re instatement or pay him per mensem an allowance in lieu thereof at the rate of three times the wages of the last full working day

(2) If a workman, who has been retrenched, discharged or dismissed, or whose services have been terminated, fails to vacate any residential premises provided by the employer, within the period specified in clause (1) the employer may lodge a complaint with a Magistrate of the First Class having jurisdiction in the area where such residential accommodation is located

(3) The Magistrate on hearing the parties, may, notwithstanding anything contained in any other law for the time being in force, summarily decide the case and may pass an order of eviction, giving the workman a reasonable time to vacate the premises

(4) Where a Magistrate passes an order for the eviction of a workman, he may also pass an order directing a police officer to evict such workman and any other person occupying through such workman the residential accommodation in respect of which the order of eviction is made, if the workman or such other person fails to vacate the accommodation within the time allowed under clause (3).

(5) A police officer acting under an order of the Magistrate under clause (4), shall notify the occupants of the premises in question, the contents of the Magistrate's order and his intention to enter on such premises, and shall allow at least two hours' time to the occupants to vacate the premises and shall give all reasonable facilities to the children and female occupants, if any, to withdraw therefrom before applying any force for taking over the possession of such premises

(6) Where a workman occupying residential accommodation provided to him by the employer dies, the procedure prescribed in this Standing Order shall *mutatis mutandis* and so far as applicable, apply, for evicting any person, who was occupying the premises through such workman, and after his death continues to remain in occupation thereof.

17 Provident Fund : [Omitted by the Labour Laws (Amdt.) Act, V of 1972

18 Grievance Procedure [37][Omitted by the Labour Laws Amdt. Ordinance IX of 19..

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37 Ins by the Labour Laws (Amendment) Act, XI of 1976

38. Subs by the Industrial and Commercial Employment (Standing Orders) (Amendment) Act XXIII of 1973

39 Prov ...

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19. Certificate of termination of service : Every permanent workman shall be entitled to a service certificate at the time of his dismissal, discharge, retrenchment or retirement from service.

20. Liability of empolyer : The employer of an industrial and commercial establishment shall personally be held responsible for the proper and faithful observance of the Standing Orders, whether or not the workmen of such establishment are employed through contractors.

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THE PAYMENT OF WAGES ACT, 1936

CONTENTS

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APPENDIX 6

NATIONAL INDUSTRIAL RELATIONS COMMISSION (PROCEDURE AND FUNCTIONS) REGULATIONS, 1973

Islamabad, the 18th April, 1973

S R O. 536 (I)/73 —In exercise of the powers conferred by section 22F of the Industrial Relations Ordinance 1969 (XXIII of 1969), the National Industrial Relations Commission, with the prior approval of the Federal Government, is pleased to make the following regulations relating to its procedure and the performance of its functions namely —

CHAPTER I

PRELIMINARY

1 **Short title and commencement** —(1) These regulations may be called the National Industrial Relations Commission (Procedure and Functions) Regulations, 1973

(2) They shall come into force at once

2. **Definition** —(1) In these regulations unless there is anything repugnant in the subject or context,—

(*a*) "Bench" means a Bench of the Commission or, as the case may be a Full Bench of the Commission, constituted under section 22B ;

(*b*) "Chairman" means the Chairman of the Commission and includes the Senior Member nominated by him to perform the functions, and exercise the powers of the Chairman during his absence ,

(*c*) "Commission" means the National Industrial Relations Commission constituted under section 22A and includes a Bench ,

(*d*) "form" means a form appended to these regulations ;

(*e*) "Ordinance" means the Industrial Relations Ordinance, 1969 (XXIII of 1969) ,

(*f*) "Registrar" means the Registrar of the Commission appointed under regulation 6 and includes the Deputy Registrar of the Commission so appointed :

(*g*) "Secretary" means the Secretary of the Commission appointed under regulation 6 ;

(*h*) "Section" means section of the Ordinance and

(*i*) words and expression used but not defined in these regulations shall have the same meanings as in the Ordinance

CHAPTER II

ESTABLISHMENT

3. **Head office** —The Commission shall have its head office Islamabad.

4 **Bench offices** —(1) For the purpose of efficient performance of functions, the Commission may set up offices of its Benches in each Province under the supervision and control of the Secretary of the Labour Department of the Province concerned.

5. **Working hours and holidays** —(a) Subject to regulation 7, the head office of the Commission shall observe such working hours and holidays as are observed by the Federal Government at Islamabad , and

(*b*) Each Bench office shall observe such working hours and holidays as are observed by the Provincial Government of the Province concerned

6 **Officers and staff** —(1) The Federal Government or, if authorised by it, the Chairman may appoint a Secretary, a Registrar and one or more Registrars of the Commission

(2) The Chairman may appoint such other staff for the Commission as he considers necessary and each member of the staff shall perform such functions as may be assigned to him

7. **Place and time of sittings of Benches** —The sittings of each Bench shall be held at such times, days and places as the Chairman or, subject to his general control, the Bench may fix .

Provided that no sitting shall be held on a holiday unless the Chairman or, subject to his general control, the Bench thinks it expedient to do

CHAPTER III

REGISTRATION

8 **Application for registration** —(1) Every application for registration of an industry wise trade union shall be in form "A"

(2) Every application for registration of a federation of industry-wise trade unions or a federation at the national level shall be in "form" B

9 **Certificate of registration** —The certificate of registration under section 9 read with clause (d) of sub section (8) of section 22A shall be issued in form "C" under the signature of the Registrar

10 **Procedure for registration** —For the registration of an industry-wise trade union, a federation of such trade unions and a federation at the national level, the Commission shall, subject to the provisions of this Chapter, follow the procedure laid down in the Ordinance for the registration of a trade union or, as the case may be, a federation of trade unions

Provided that, if an application for registration is made by an industry-wise trade union, a federation of such trade unions or a federation at national level which has previously been registered by the Registrar appointed under section 12, the applicant shall submit with the application copy of the certificate of registration issued to it

11 **Limitation** —Subject to the provisions of section 65B, an appeal under sub section (3) of section 8, relating to the functions of the Commission shall be preferred within sixty days —

(*a*) from the date of the order rejecting an application for registration, if the appeal is preferred against such order ,

(*b*) from the last day of the period of fifteen days provided in sub section (1) of section 8, if the appeal is preferred against the delay in disposal of the application with ... [illegible]

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(c) from the last day of the period of three days as provided in sub-section (2) of section 8, if the appeal is preferred against the delay in issuing a certificate of registration within such period.

12 Maintenance of registers etc —(1) An application for the membership of an industry-wise trade union shall be in form "D"

(2) Every registered industry-wise trade union, federation of such trade unions and a federation at the national level shall maintain —

(a) a list of its members in form "E" ;

(b) a register in form "F" showing the particulars of the monthly subscriptions paid by the members and arrears, if any ,

(c) printed receipt books in form "G" which shall be bound and of which—

(i) every page shall be serially numbered, and ,

(ii) an account shall be maintained ,

(d) an account book in form "H" showing the receipt and expenditure which shall be bound and of which every page shall be serially numbered , and

(e) a minute-book, which shall be bound and of which every page shall be serially numbered, wherein shall be entered—

(i) the date, place and time at which a meeting of the general body or the executive of the trade union is held ,

(ii) details of all points discussed and all resolutions passed at such a meeting , and

(iii) in case of a meeting of the general body the approximate number of workmen who attended the meeting and in case of meeting of the executive the names and signatures of the officers who attended the meeting

(3) No minutes entered in a minute-book referred to in paragraph (e) of clause (2) shall be valid until they have been confirmed by the person presiding at the subsequent meeting after their having been read out loudly at such meeting and the consent of all persons present at the meeting having been obtained.

13. **Limit of members of the executive.**—The maximum number of members of the executive of an industry-wise trade union shall be as specified below —

Where the number of workers employed in the establishment of the industry is

		Number
(1)	not more than —	
	50	5
	100	8
	200	10
	300	12
	400	14
	500	16
	600	18
	1,000	20
	5,000	25
(2)	10,000 or more	50

Provided that, in addition to the members whose number is specified in the above table, there shall be one member of the executive from amongst the workers employed in every establishment of the industry

14 Register of industry-wise trade unions etc —The Commission shall maintain a register of industry-wise trade unions in form "I" and a register of federations of such trade unions and federations at the national level in form "J"

15 Annual Return —The annual return to be furnished by a registered industry-wise trade union, a registered federation of such trade unions and a registered federation at the national level shall be submitted to the Registrar by the 30th day of April each year and shall be in form "K".

CHAPTER IV.
COLLECTIVI BARGAINING AGENT

[1][16 Procedure —For the purpose of determining the Collective Bargaining Agent amongst the registered industry wise trade unions, federations of such trade unions and the federations at the national level, the Commission shall follow the procedure as under —

(1) *Supply of list of members* —The trade unions applying for determination of Collective Bargaining Agent shall submit list of their members showing in respect of each member, his parentage, age, the section or department and the place where he is employed, his ticket number and the date of his becoming a member of the trade union

(2) *Fixing date and place for ballot* —The Commission shall fix the date and time during which the ballot shall be held under intimation to the contesting trade union and the employer ,

Provided that the date or time so fixed may be postponed by the Commission if for reasons to be recorded in writing the bal ot cannot be held at such date or time

(3) *Allotment of symbols* —The Commission shall, after consultation with the duly authorised representatives of the contesting trade unions, allot different symbols to the contesting trade unions for the ballot ,

Provided that in case of a dispute between the contesting trade unions about allotment of symbols the decision of the Commission shall be final and binding on all the contesting trade unions ,

Provided further that if a union fails to indicate the symbols the Commission may allocate any smbol to such union and its decision shall be final and binding on the union concerned

(4) *Form of ballot paper* —The votes shall be cast by means of a ballot paper which shall be in Form 'L'.

(5) *Supply of ballot boxes* —The employers shall provide to the Commission at least three days before the ballot as many wooden boxes as may be required by it which shall be of the size as specified by the Commission

[1]Regulation 16 subs for the original, Gaz of Pak Extr Pt. II, 2 Aug 1980 -1518 [S R O 816 (I) 80]

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(6) *Stoppage of ballot* If at any time the ballot at any polling station is interrupted or obstructed for any reason, the Commission may stop the ballot and cancel the votes cast and shall, as soon thereafter as possible, appoint another date, time and place for a fresh ballot for that polling station on the basis of the list of voters already verified

(7) *The number of polling booths* —The Commission shall decide the number and location of the booths to be provided for the ballot which may be in accordance with the specification given in Form 'M',

Provided that the Commission may at its discretion in cases of establishments employing less than fifty workers call for votes by post in accordance with the procedure laid down for such postal ballot by it.

(8) *Appointment of Polling Officers and Balloting Officers, etc* —The Commission may appoint as many Polling Officers, Balloting Officers and other staff as it may deem necessary for conducting and supervising the ballot who shall perform all such duties and exercise all such powers as are assigned to them by the Commission

(9) *Appointment of polling agents* —(*a*) The contesting trade unions may appoint one polling agent at a time for each booth and give notice thereof to the polling officer half an hour before the commencement of the polling ·

Provided that failure to nominate an agent shall not delay the commencement or affect the conduct of the ballot

(*b*) The polling agents will witness the voting and assist the polling officer in indentification of voters

(10) *Commencement of ballot* — Before commencement of ballot the Polling Officer shall, in the presence of all the polling agents, satisfy himself that the ballot box is empty and thereafter seal the ballot box in the presence of the polling agents and record a certificate to this effect in Form 'N'.

(11) *Identification of voters* —The Polling Officer may require the voter to produce evidence of Identification as required by the Commission before issuing the ballot paper to him

(12) *Issuance of ballot paper*,—Ballot paper shall be issued to a voter only after his name and other full particulars have been verified from the list of voters approved by the Commission

(13) *Marking of ballot paper and casting of vote* —(*a*) After a voter has been issued a ballot paper, he shall mark the ballot paper by putting cross (X) mark on the portion bearing the name and symbol of the union of his choice

(*b*) The marking of the ballot paper under sub-paragraph (a) shall be done in a segregated area provided for this purpose in the polling booth.

(*c*) After marking the ballot paper, the voter shall fold and draw the ballot box which is to be kept before the Polling Officer

(14) *The ballot box* —(*a*) Only one ballot box shall be used at a time in a polling booth

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(*b*) If the course of the polling one ballot box has been filled to capacity and, in the opinion of the Polling Officer, can no longer be used for polling, the Polling Officer shall seal it in the manner specified in sub-paragraph (b) of paragraph (15) and provide a new ballot box in the manner laid down in paragraph 10

(15) *Commencement and closer of ballot* —(*a*) No person shall be given the ballot paper before or after the hours fixed for ballot, except those persons who are within the polling booth at the closing time who shall be given the ballot papers and allowed to vote.

(*b*) After all the persons present within the polling booth at the closing time have cast their votes the Polling Officer shall forthwith seal the opening provided for dropping the ballot paper in the ballot box in the presence of the polling agents and will record a certificate to this effect in Form 'O'

(16) *Unsealing of the ballot box and counting of votes* —(*a*) After the ballot box has been sealed under sub paragraph (b) of paragraph (15), the Polling Officer shall unseal it in the presence of the polling agents and record a certificate to this effect in Form 'P',
Provided that the absence of a polling agent shall not affect or delay the unsealing of the ballot boxes

(*b*) After the ballot box has been unsealled under sub paragraph (a), the Polling Officer shall, in the presence of Polling agents, count the votes and record the result of counting alongwith a certificate in Form Q' duly signed by the polling agents

(*c*) If a polling agent refuses to sign the result sheet and the certificate under sub-paragraph (b), this fact shall be recorded by the Polling Officer on the result sheet in the presence of two witnesses

(17) *Decision of objections* —All objections by the contesting trade union whether before or at the time of ballot shall be given in writing by the authorised representatives of the trade union to the Polling Officer who shall give his decision at the spot which shall be final and binding on the parties

(18) *Invalid ballot paper* —The Polling Officer shall give a decision about Challenged votes at the spot and the decision shall be binding on the contesting trade unions

(19) *Challenging of votes* —When a vote is challenged by any of the polling agents during the course of the ballot a fee of Rs 5/- for every vote challenged shall be deposited with the Polling Officer and the amount of such fee shall be paid in cash and a receipt in Form 'R' shall be issued by the Polling Officer who will submit full account of the amount so received to the Commission and deposit the same in the Government Treasury under the Head XXXVI Misc Department Fee under the Industrial Relations Ordinance

(20) *Duties of Polling Officers* —(*a*) The Polling Officer shall prepare a ballot paper account showing the number of blank ballot papers received by him, the number of ballot papers taken out of the ballot boxes, the number of unissued and spoiled ballot papers and prepare a certificate in Form 'S'.

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(b) The Polling Officer shall, as soon as possible after the counting of votes is completed, send to the Commission the result sheet, the used and un-used ballot papers, the ticked list of voters and other documents and papers

(21) *Declaration of Collective Bargaining Agent* —On receipt of the result from the Polling Officers, the Commission or its authorised agent shall declare the trade union which has received the highest number of votes to the Collective Bargaining Agent in accordance with clause (e) of sub section (9) of section 22 and issue a certificate to this effect in Form 'T'.

(22) *Ballot to be repeated in case a union receives less than the required number of votes* —Notwithstanding the provisions of paragraph (21), is the number of votes received by the winning trade union is less than one-third of the total number of workmen emplayed in the establishment, such trade union shall not be declared as Collective Bargaining Agent and the ballot shall be held afresh on such date and time as may be fixed by the Commission

Provided that the fresh ballot may be held on the basis of a fresh list of voters to be prepared by the Commission in the manner provided in section 22.

(23) *Ballot to be repeated in case of a tie* —In case the contesting trade unions receive equal number of votes, the secret ballot shall be held a fresh on such date and time as may be fixed by the Commission

(24) *Procedure to be followed in case of ballot in more than one city* —Notwithstanding anything contained in these regulations if the ballot is to take place at more than one polling station located in different areas in one city or more than one cities, the procedure for the ballot and all ancillary matters thereto may be determined to suit the requirements of the occasion by the Commission or its authorised officers under intimation to the contesting trade unions.

(25) *Registration of trade unions during pendency af secret ballot proceedings* —The Commission may allow or disallow a trade union to participate in the ballot which is registered during the pendency of the secret ballot proceedings

(26) *Code of conduct for contesting unions during the poll* —The Commission shall formulate a code of conduct to be observed by the contesting unions during the poll and the code shall provide for canvassing during office hours, slogan raising, processions, demonstrations, badges, exploitation of political parties affiliation or use of their symbols or signs, general body or gate meeting, pamphlets and banners and any other matter on which the Commission may issue direction as it deems fit.

(27) *Expenses during the poll* —(a) All the contesting unions shall submit a statement of their accounts to the Commission as they stood on a specified date and submit the account of expenses incurred during the poll which shall in no case exceed the fund shown to the Commission.

(b) The violation of the provision of clause (a) may render the successful union liable to be disqualified for being declared as Collective Bargaining Agent]

CHAPTER V

INDUSTRIAL DISPUTE

17 **Application** —As application for adjudication and determination of an industrial dispute shall be in form "L".

18 **Decision by the Commission** —(1) A decision of the Commission shall be made in writing and announced in public and two copies thereof shall be forwarded forthwith to the Federal Government provided that, if a Provincial Government is a party to the dispute, two copies of the decision shall be forwarded to that Government as well

(2) A decision of the Commission shall become effective on such date and remain effective for such period not exceeding two years, as may be specified therein The Commission shall specify dates from which the decision on verious demands shall be effective and the time limit by which it shall be implemented in each case :

Provided that if, at any time before the expiry of the said period, any party bound by a decision applies to the Commission for reduction of the said period on the ground that the circumstances in which the decision as given have materially changed, the Commission may, by order made after giving to the other party an opportunity of being heardy, terminate the said period on a date specified in the order

(3) A decision of the Commission in appeal from an award of Bench shall be affective from the date of the award

(4) Notwithstanding the expiry of the period for which an award is to be effective under sub regulation (3), the award shall continue to be binding on the parties until the expiry of two months from the date on which either party informs the other party in writing of its intention no longer to be bound by the award,

19 **Application of the Code of Civil Procedure, 1908 (Act V of 1908)** —Subject to the provisions of these regulations, the procedure prescribed under the Code of Civil Procedure, 1908 (*Act V of 1908*), in regard to suits may be followed, as far as it can be made applicable, in the proceedings for adjudication and determination of Industrial disputes before the Commission

CHAPTER VI

TRIAL OF OFFENCES

20 **Postponement of issue of process** —(1) The Commission, on receipt of a complaint of an offence of which it is authorised to take cognizance, may if it thinks fit, for reasons to be recorded in writing, postpone the issue of process for compelling the attendance of the person complained against, and either enquire into the case itself or direct an inquiry or investigation to be made by a Labour Court, Junior Labour Court, a Magistrate a Police Officer, or such other person as it thinks fit, for the purpose of ascertaining the truth or falsehood of the complaint

(2) If any inquiry or investigation under this regulation is made by a person not being a Magistrate or a Police Officer such person shall exercise all the powers conferred by the Code of Criminal Procedure, 1898 (*Act V of 1898*), on an officer-in-charge of a police station, except he shall not have power to arrest without warrant

(3) Any Court inquiring into a case under this regulation, may, if it thinks fit, the evidence of witnesses on oath

21 Issue of process.—(1) If in the opinion of the Commission there is sufficient ground for proceeding, and the case appears to be one in which, according to the fourth column of the Second Schedule to the Code of Criminal Procedure 1898 (*Act V of 1898*), a summon should issue in the first instance, it shall issue summons for the attendance of the accused If the case appears to be one in which, according to that column, a warrant should issue in the first instance, it may issue a warrant, or if it thinks fit, a summons, for causing the accused to be brought or to appear at a certain time before the Commission

(2) Nothing in this regulation shall be deemed to affect the provisions of regulation 20

22 Issue of warrant in lieu of, or in addition to summons—The Commission may, in any case in which it is empowered under the Code of Criminal Procedure, 1898 (*Act V of 1898*), or these regulations to issue a summons for the appearance of any person, issue, after recording its reasons in writing, a warrant for his arrests—

(a) if, either before the issue of such summons, or after the issue of the same but before the time fixed for his appearance, the Commission sees reasons to believe that he has absconded or will not obey the summons, or

(b) if at any time he fails to appear and the summons is proved to have been duly served in time to admit of his appearing in accordance therewith and no reasonable excuse is offered for such failure

23 Petition of complaint and copies—In all cases instituted upon a complaint in writing, the complainant shall—

(a) state in the petition of complaint the name of the accused, the substance of accusation, the names of the witnesses and the gist of the evidence which he is likely to adduce at the trial, and

(b) within three days of the order of the Commission under regulation 21 for issue of process to the accused, file before the Commission for supply to the accused as many copies of the complaint and any other document which he has filed with his complaint as the number of the accused.

Provided that the provisions of his regulation shall not apply to any case in which the complaint has been made by a public servant acting or purporting to act in the discharge of his official duties.

24. Charge to be framed—When the accused appears or is brought before the Commission a formal charge shall be framed relating to the offence of which he is accused and he shall be asked whether he admits that he has committed the offence with which he is charged

25 Conviction on admission of truth of charge—If the accused admits that he has committed the offence with which he is charged, his admission shall be recorded as nearly as possible in the words used by him, and, if he shows no sufficient cause why he should not be convicted, the Commission may convict him accordingly.

26 Procedure where no such admission is made—(1) If the Commission does not convict the accused under the preceding regulation or if the accused does not make such admission, the Commission shall proceed to

hear the complainant and take all such evidence as may be produced in support of the prosecution, and also to hear the accused and take all such evidence as he produce in his defence

(2) The Commission may, if it thinks fit, on the application of the complainant or accused issue a summons to any witness directing him to attend or to produce any document or other thing

(3) The Commission may, before summoning any witness on such application, require that his reasonable expenses, incurred in attending for the purposes of the trial, be deposited with the Commission

27 Acquittal or conviction—If the Commission, upon taking the evidence referred to in regulation 26 and such further evidence (if any) as it may, of its own motion cause to be produced, and (if it thinks fit) examining the accused finds the accused not guilty, it shall record an order of acquittal or if it finds the accused guilty, pass sentence upon him according to law.

28 Non-appearance of complainant—If the summons has been issued on complaint and upon the day appointed for the appearance of the accused, or any day subsequent thereto to which the hearing may be adjourned, the complainant does not appear, the Commission may, notwithstanding anything herein before contained, either discharge the accused or proceed with the case

Provided that where the complainant is a public servant or a workman and his personal attendance is not required, the Commission may dispense with his attendance, and proceed with the case

29 Withdrawal of complaint—If a complainant, at any time before a final order is passed in any case under this Chapter, satisfies the Commission that there are sufficient grounds for permitting him to withdraw his complaint, the Commission may permit him to withdraw the same, and shall thereupon acquit the accused

30 Power to stop proceedings—If any case instituted otherwise than upon complaint, the Commission may for reasons to be recorded by it, stop the proceedings at any stage without pronouncing any judgment, either of acquittal or conviction and may thereupon release the accused

31 Application of the Code of Criminal Procedure, 1898—Subject to the provisions of this Chapter, the Code of Criminal Procedure, 1898 (*Act of 1898*), shall apply to the proceedings in relation to trials of offences before the Commission

CHAPTER VII

UNFAIR LABOUR PRACTICE

32 Manner of dealing with unfair labour practices—(1) Where an unfair labour practice has been committed, and the case falls under section 25A, section 34 or section 53, as the case may be, the Commission may deal with the case under that section

Provided that the Commission while awarding punishment under section 53 may also direct the re instatement of a worker and allow consequential benefits to him

(2) Where a case of unfair labour practice is likely to occur, the Commission may take the following measures, namely :—

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(a) it may summon all or any of the persons connected with the case which is likely to occur, hereafter in this chapter referred to as the connected persons, hear them and hold such enquiry as it deems fit ;

(b) ascertain the factors which are likely to give rise to unfair labour practice ;

(c) advise, direct or prohibit all or any of the connected persons to do or refrain from doing any act or to conduct themselves or their affairs in a manner calculated to avoid occurrence af unfair labour practice.

(d) reprimand or warn all or any of the connected persons that if they conduct themselves in an improper way it would be deemed to be in futherence of the commission of an offence punishable under section 53 , and

(e) initiate security proceedinges in order to prevent the occurrence of an unfair labour practice

(3) Where a person whom the Commission has reprimanded or varned under sub regulation (2) commits an unfair labour practice, the Commission may consider, for the purpose ef awarding punishment under ection 53, the reprimand or warning as a circumstance aggravating the ffence.

33 Procedure —(1) The Commission, while asking the Registrar ppointed under section 12 to inquire into a case and report or referring a ase to a Junior Labour Court or a Labour Court either for report or dis-osal, may direct such connected persons as may be before it to appear efore the Registrar, the Junior Labour Court, or the Labour Court, as the ase may be

(2) The Commission, while dealing cases based on allegations of nfair labour practices brought before it for enforcement of, or for redress f individual grievance in respect of any right guaranteed or secured to any orker by or under any law or any award or settlement, shall follow the rocedure laid down for the Junior Labour Courts under section 25A and ction 36B

CHAPTER VIII

SPECIAL RULES OF EVIDENCE

34 Power to curtail examination etc —(1) In the interest of expedi-ous disposal of the business before the Commission, it may direct any amination or cross examination or re examination to be cut short or spensed with

(2) In matters relating to industrial disputes, the Commission may deavour to remove differences between the parties and secure an ami-ble settlement of the issues before it

35 Inspection of documents —All books, papers and other documents things produced before the Commission, whether voluntarily or in rsuance of a summons, may be inspected by the Commission and o by such parties as the Commission may allow , but the informa-tion obtained therefrom shall not, except as provided in the Ordinance, made public

CHAPTER IX

GENERAL

36 Expenses of witnesses —Every witness who, on being summoned by the Commission, appears before it, shall be entitled to an allowance for expenses according to the scale for the time being in force with respect to witnesses appearing before the Lahore High Court, Lahore.

37 Standing Orders,—Subject to the Ordinance and these regulations, the Chairman may make standing orders for general superintendance of the affairs of the Commission under sub-section (1) of section 22B.

FORM A

[*See* Regulation 8(1)]

Application for registration of an industry-wise trade union to the National Industrial Relations Commission, Islamabad, or Bench at———

Dated the————day of—————19 .

(1) We hereby apply for the registration of an industry-wise trade union under the name of——————————————

(2) The address of the head office of the union is————————

(3) The union came into existence on the————day of————19 .

(4) The union is a union of employers/workers engaged in the industry (name) or group of establishments namely——————and has its membership in the Provinces of——————————————

(5) The particulars, required under sub clause (iii) of clause (a) of section 6 of the Industrial Relations Ordinance, 1969, are given in Schedule I appended hereto

(6) The particulars given in Schedule II appended hereto show the provi-sions made in the rules for the matters detailed in section 7 of the Industrial Relations Ordinance, 1969

(7) Total No of membership is——————————————

(8) The particulars required by sub clause (iv a) of clause (a) of section 6 of the Industrial Relations Ordinance, 1969, are given in Schedule III appended hereto

(9) We append three copies of the constitution of the trade union confor-ming to the provisions of the Industrial Relations Ordinance, 1969, together with a copy of the resolution mentioned in clause (b) of section 6 of the Industrial Relations Ordinance, 1969.

(10) We append a certificate to the effect that no officer of the union was convicted under section 61 of the Industrial Relations Ordinance, 1969

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FILE
391-0515

The Financial Sector in Pakistan. With Particular Reference to Investment Finance Banks and Development Finance Institutions.

STUDY UNDERTAKEN

FOR USAID
ISLAMABAD

BY

epru

Economic Policy Research Unit
Lahore, Pakistan

THE FINANCIAL SECTOR IN PAKISTAN, WITH PARTICULAR REFERENCE TO INVESTMENT FINANCE BANKS AND DEVELOPMENT FINANCE INSTITUTIONS.

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ECONOMIC POLICY RESEARCH UNIT

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The EPRU team for the study consisted of FATMA SHAH and SHAZIA JAMIL. The director of the project was OMAR NOMAN

Questionnaire formulation : FATMA SHAH.

Computer graphics, design and administration . MUHAMMAD ZAFAR.

CONTENTS

EXECUTIVE SUMMARY

i Pakistan's financial system has evolved through four phases The first phase witnessed the establishment of basic financial institutions to aid economic development The commercial banks were set up by the private sector, whereas development finance institutions began operating in the public sector The second phase was one of nationalisation of financial institutions in response to grievances regarding the concentration of industrial and financial power within a tiny corporate elite The third phase did not involve a change of ownership but introduced religiously determined instruments and measures into a confused financial system The current phase is one where the GOP is embarked on a tentative course of financial liberalisation Attempts are underway to rationalise existing public sector institutions, increase competition and more towards a more market oriented system Such reorganisation would require prudent regulation, but this would be qualitatively different from the extensive control exercised currently by the government At present, the country's financial system is under considerable confusion and distress GOP's efforts at reform acquire particular urgency at a time when the country needs to rely more on domestic resource mobilisation

ii This study examines two features of the current liberalisation First, we examine the prospects of the forthcoming investment finance banks The second aspect of the study is a review of development finance institutions The conclusions and recommendations emerging from our study, regarding both subset of institutions, are summarised below

IFBs : EMERGING ISSUES AND RECOMMENDATIONS

iii The first and foremost hindrance that was faced by all parties was the lengthy process of seeking approval This process has been almost two years in some cases This poses a constraint for all new aspirants in the field It is alleged that interested parties are using all sorts of political connections and seeking foreign government recommendations in their bid to obtain letters of intent The pressure is building up as more applications find their way to the authorities The experience of the Crescent Group the only ones that have had the public subscription so far is a case in point The stock market with all its inefficiencies gives a premium to the sound reputation of the Crescent Group This resulted in over subscription and the price of shares being quoted at two or three times the par value Aspiring sponsors thus also see this as a way to increase the value of their net worth in a short period of time This explains the interest that has been shown by various parties in obtaining licenses by any possible means This fact also encourages those whose intentions are only to make a 'quick buck'

iv The procedure that companies in Pakistan have to follow in order to have a public offering, whether Investment Banks or others, is aso very tedious and rampant with unnecessary delays The inherent delays in this process will directly effect the working of IFBs as well when they will underwrite issues of, and act as advisors to clients going public The present process requires the sponsors of any company to register with the registrar of joint stock companies, go to the controller of capital issue with the memorandum and articles of association, have the same whetted by the Corporate Law Authority, seek State Bank of Pakistan approvals and then put in the prospectus to te Stock Exchange for approval before the actual floatation The slightest of objections, say at stage 3 would result in going back to stage one in order for them to be approved by the authorities What would be desirable is the ubiquitous and much desired "one window operation" whereby the sponsors could put together the entire package and then seek a 'blanket approval' from any designated department of the Ministry of Finance Going a step beyond this, it has been suggested that the IFBs in particular should be granted approvals to undertake issues on behalf of clients on their own books or by directly placing them in the market In areas where the regulators wish to retain control there should be a swift approval process which allows transaction to proceed before market condition change

v IFBs are allowed to act as traders and brokers of listed securities under section 5 (b)(v) of the SRO At present stock exchanges are not issuing new membership cards as they do not want to increase membership The only way out for the IFB is to puchase a card from an existing member This has led to a monopoly situation for the existing members who have started quoting unrealistic prices for them It was alleged that they want to sell off cards at exorbitant prices but officially document only a minimal amount in order to make an off-the-book profit

vi Nationalized Commercial Banks and Domestic Foreign Banks in Pakistan are regulated by the State Bank of Pakistan At the time the SRO of Investment Banks was being drawn, it was decided that since Investment Banks are not going to be scheduled banks, therefore they do not need to be regulated by the SBP Instead it was decided that the Ministry of Finance and in particular the controller of capital issue would be the regulating authority This decision is responsible for the regulatory confusion that the investment banks are facing today In particular IFBs do not have access to the money market like other financial institutions As per section 5(a)(iv) of the SRO, they are allowed to borrow and lend in the call money market (Inter bank) The situation on ground is different, and they cannot participate in the Interbank market which puts them at a relative disadvantage The more aggressive foreign banks in Pakistan are the traditional borrowers in this market, due to a decline in their share of bank deposits coupled with a more active demand for bank credit The Interbank or Call Money rate is artificially low At the peak of the busy season it may exceed the bank rate charged by the SBP This is due to demand for credit being more than that allowed by SBP and because Call Money does not require collateral As the name indicates the money is 'on call' but participants in this market have a gentlemen's agreement that it will not be called for some time To maintain the investment finance banks liquidity position at par with commerical banks it is important that the present situation be amended without delay

vii IFBs are allowed to issue short and long term redeemable capital which includes Participation Term Certificates and Term Finance Certificates under section 5 (b)(vii) and 5(c)(xi) of the SRO However, under section 120 of the Companies Ordinance a company can issue any instrument in the nature of redeemable capital in favour of 'scheduled banks', 'financial institutions' or other persons as may be specified for the purpose by the Federal Government through notification in the Official Gazzette As an IFB is neither a scheduled bank nor a financial institution, companies cannot issue TFCs in their favour This situation can be altered only if authorities issue a notification that will amend the existing regulations

viii. At present IFBs do not have authorization to function as foreign exchange dealers For this reason they are not in a position to open Letters of Credit on behalf of clients Thus they would have to have a standing relationship with a commercial bank for this purpose and give up half of the commission that is earned Their exclusion from this highly lucrative market seems unnecessary It must be pointed out that foreign banks derive more than two thirds of their income from trade related financing

ix IFBs must be eligible for remedies available to commercial banks in cases of default such as access to the banking tribunal (It is a different matter that the said tribunal is without a judge for the past year and a half) Moreover the existing law regarding foreclosures and taking posession of assets which are pledged as security leave a lot to be desired Thus recovery mechanisms must be put in place before IFBs can be expected to take on the risk of credit and new ventures x IFBs are not allowed to take deposits that are of less that ninety days maturity nor have checking accounts, which differentiates them from commercial banks Investment banks want to provide all services under the same roof for their corporate clients This includes raising short term funds on their behalf, which may be less than 90 days maturity Similarly Form L ceilings limit short term borrowing If paper issued by prime corporate customers were excluded from this limit or incorporated as a sub limit, it would encourage entry by companies, help develop markets and create liquidity It must be realised that the IFBs could play an important role in developing a broad and flexible money market where funds can be channelled where they are most needed

xi Specialized credit line from the State Bank are not available to IFBs as they are to NCBs and DFIs These include concessioanry lines for locally fabricated machinery

xii IFBs must be able to take hold and make markets in different kinds of paper without restrictions or impediments Instead matters appear to have been made artificially complex due to the stamp duties that are imposed on the creation of new instruments There is a need to build a secondary market in Pakistan GOP has been showing an interest and a number of studies have been undertaken IFBs can play an important role if provided with the required incentives In well developed money markets, liquidity is the 'name of the game' The only reason why there is a demand for instruments with long term maturitys such as 30 year bonds, is because they can be traded freely It is recommended that stamp duty on IFB paper products be removed

xiii To have IFBs competing with other institutions on a level playing field certain conditions have to be created Liquidity and tradeability form the critical mass of capital markets Pakistani authorities will have to take committed steps to fuel the market For instance the crowding out effect due to unnecessarily advantageous features of certain instruments should be avoided The WAPDA bonds is a case in point First, they are guaranteed by the government Secondly, they are just another source of non bank domestic borrowing The rate of return does not reflect the operating performance of WAPDA Infact the bonds prospectus did not contain a financial statement of WAPDA These long term bonds have features of discounting (after 6 months with FCDC and a tax advantage that will be very difficult to match for any prime corporate borrower) The prime customer will be able to borrow at 12 5% + legal and administrative cost and will thus be driven out of the market It is ofcourse critical that IFBs have access to cheaper funds as compared to the corporations that they are lending to

xiv Since IFBs are not included in the list of scheduled banks there is a number of problems that they are facing For instance IFBs can provide guarantees on behalf of customers in case equipment is imported, but cannot guarantee the payment of duty through custom debentures, as the law only names scheduled banks as eligible for this function Section 5(c)(xii) allows IFBs to undertake guaranteeing and counter guaranteeing business, but public sector institutions are resisting the acceptance of guarantees issued by them, as IFBs are absent from the text of the Companies Ordinance 1984 Similarly certain government corporations which have surplus funds cannot place them with IFBs since they have not been given the status of financial institutions in existing law

xv The tax status of the IFBs is still not very clear and there has not been any rate disclosure If the IFB are taxed like other banks it will be unfair since the quality of the portfolio of the two types of institutions will be very distinct Secondly the amount of money that the IFBs are spending on the research and development of new products will have an impact on their income thus rendering them incomparable to other banks xvi IFBs are working in a regulated environment where each activity is restricted in quantifiable terms as a percentage of liq' id net worth or other similar measures On the other hand activities of leasing companies and modarabas are not restricted or governed by any regulation This results in their unlimited and unregulated involvement in activities which essentially lie in the domain of investment banking These companies are investing in shares, discounting bills, giving margin loans and accepting deposit and lending in an unrestricted manner This results in unfair competition as the conventional leasing rates are 22 - 24% Thus leasing companies are in a position to offer competitive deposit rates in the neighbourhood of 16-13%, which are the highest in the market It is therefore recommended that either Modarabas should be disallowed investment banking activities or should have similar guidelines as those provided to IFBs so as to have fair competition

xvii A major problem exists due to the fact that investment banking is a new concept in Pakistan The market as well as the bureaucracy do not or only partially understand what is entails Some think of IFBs as being synonymous with the fraudulant investment companies which mushroomed in the past decade These companies offered tremendous returns and later decamped with the investors's money This is the chief reason for the extreme caution being exercised by regulatory agencies and the public at large Thus it is important to educate the target audience, as regards investment banking The challenge facing the IFBs is, firstly to create a demand for their services and then to create an awareness of their name Even the professional and fresh graduates who are working in IFBs are only familiar with the academic working of Investment Banks The experience of well developed capital markets can also not be replicated in their entirety For this reason, it would be appropriate for organizations such as the Pakistan Banking Council and/or the regulating bodies, alongwith international agencies, to hold seminars and training workshops all over the country for bankers and professionals Donor agencies could also play an important role by sponsoring workshops, where experienced investment bankers from overseas could be invited to impart training to the aspiring investment bankers in Pakistan or those in the field be sent overseas for a short period of time to gain practical knowledge and experience

xviii Donor agencies could lend support to IFBs through various measures First of all an awareness of the existence of these institutions needs to be created in the donor community The IFBs came into existence due to World Bank conditionality on liberalization of the financial sector and the role that the private sector could play It appears that the pressure on regulatory authorities must continue in a similar manner If the objectives in view are to be achieved, half hearted effort is of no use Instead the whole process should be monitored at every step A positive move would be the provision of credit lines In this regard donor agencies and overseas DFIs should be encouraged to disburse funds through IFBs The process can start by a few initial projects where final evaluation and approval vests with the foreign DFI At a later stage dedicated lines of credit could also be made available to IFBs as were given to the government controlled DFIs in the past Caution must be exercised in this regard to avoid undesirable experiences such as those with state controlled DFIs For this reason it will be very important to look at the track record of sponsors

xix IFB personnel should be sponsored for training courses in other less developed countries such as Thailand and Indonesia The environment of the financial sector is similar to that in Pakistan, or was recently at a stage where Pakistan is now

RECOMMENDATIONS FOR IMPROVING DFI PERFORMANCE

xx DFI performance has to be seen alongwith the infrastructural and other inherent weaknesses of the financial sector DFIs may be performing similar functions but there is hardly any competition among them Applicants have also felt free to approach more than one institution The government must encourage competition within the DFIs For this it may chose certain target performance measures such as rate of return on assets or rate of recovery In fair competition it is necessary to reward performance just as it is necessary to penalize poor results However there must also be a minimum acceptable level of adverse performance

xxi All DFIs must be encouraged to mobilize their own resources and not depend on subsidized credit facilities of the SBP or international agencies If their mandate does not allow resource mobilization, it should be amended accordingly At this stage some DFIs may not be in a position to do so, owing to the adverse quality of their loan portfolios

xxii Concentration of DFI headquarters in one region has resulted in large projects becoming the prerogative of Karachi businessmen To have an equitable disbursement of funds DFI headquarters must be moved up country Initially the headquarters of two institutions should be moved to Lahore and one each to Islamabad, Peshawar and Quetta This should be coupled with opening of regional offices (as recently announced by ADBP) This step might also lead to a natural division of sectoral lending, for instance DFIs based in Punjab may end up financing more agro based industry and/or cotton textiles Similarly there might be a natural division on the basis of rural or urban concentration of the projects under consideration Looking ahead, if the government wants to move towards (say) rural industrialization , DFIs can play an important role in developing infrastructural facilties for industries in selected rural areas

xxiii Competition for DFIs is also emerging in the form of private sector Investment Finance Banks These institutions will undertake project finance activities as well and claim to have turn around time of 10 to 15 days In order to compete DFIs will be forced to atleast work within the stated 60 day approval cycle and push towards early disbursements

xxiv It is recommended that DFIs should create a technical intelligence unit and hire inhouse technical consultants In this age of rapidly changing technology, such a unit should have the ability to evaluate technological choices, its interaction with other technologies, its relationship with social and economic systems and its impact on the economic viability of the project

xxv DFIs must also consider the technological development objectives of the country while evaluating projects Import substitution, deletion policies and utilization of indigenous capabilities could be a consideration while considering loans Related certain quantitative measures and targets could be made prerequisites for disbursal For instance, they could include graduated deletion of foreign technology import by (say) 5-10% per year

xxvi DFI performance has been excessively top management dependant As is the practice in many other areas of Pakistan society, individual personalities have dominated certain institutions One way of avoiding this would be by giving more power to the Executive Boards who should have an equal number of internal and external members, thus increasing the chances of dissent Decentralizing to regional or provincial levels will also decrease the dependence on Head Office and the decision making on one person Regulatory agencies could keep a check on performance by monitoring the trend in the number of sanctions over time and doing the needful in case there is an extreme movement

xxvii Terms and conditions of work and salary structure at DFIs need to be reviewed Ideally these should be brought in line with private sector terms Performance criteria and objectives should be decided in consultation with the employees and performance reviews should be carried out regularly Moreover performance based rewards and promotion must be introduced, as is the case in private banks

xxviii New employees should go through intensive training modules along with on-the job training This should be similar to the training programs being offered by private sector financial institutions DFIs could also institute the Account Officer system (see detail in commercial banking section)

xxix. DFIs must also have ready or on-line access to the credit information network for NCBs This will enable them to have up-to-date information regarding group accounts and total liabilities outstanding of corporate individuals and groups, and delinquencies ,if any

xxx Disbursing institutions must ensure that the recipients of funds are the initial sponsors of the projects In many cases sanctions have been sold to other non deserving parties or original sponsors are no longer associated with the project when it finally takes off.

xxxi. Certain preconditions must be imposed on borrowers, such as the provision of audited financial statements in a timely fashion The integrity and sophistication of reporting standards depends on the sophistication of its users In developed systems it is analysts and institutional stake holders who ensure high quality reporting Laws regarding timely preparation of accounts are in place in Pakistan, as in other countries, but the implementation is too slow or is non existent

xxxii In order to play their due role in capital market development in Pakistan, DFIs could make it a precondition for borrowers to have a public offering DFIs could provide an all-in-one package to clients This would also result in better reporting practices

xxxiii Internationally employed loan clssification criteria must be adopted by DFIs The importance of post disbursal evaluation and project monitoring must be recognized in this regard Having an account officer sytem in place will aid this process greatly

xxxiv Over the long term it is recommended that the DFIs be restructured finanacially and administratively Some measures regarding administrative restructuring have been mentioned earlier Measures for financial restructuring should include a thorough portfolio audit in each institution as a first step

xxxv Secondly the formation of a central management service company or smaller companies is recommended These should be along the lines of "work-out groups" in some Western countries The company consists of an independent group of professionals including accountants, financial managers lawyers, tax advisors which may be hired by the institution(s) This group usually takes over the management of problem companies which would be similar to our 'sick units' It carries out a management audit and puts measures in place that may aid in turning it around In case of a situation beyond redemption, it aids in the filing of bankruptcy proceedings and the final disposal of assets of all creditors DFIs could have inhouse work out groups if outside consultants are not available

xxxvi Institutional retructuring along the lines of commercial banks could also be undertaken Here each instituion would be divided to form two separate ones One would retain all the 'good loans' and the other all the classified or sub standard ones The purpose of the latter would be restricted to that of a collection agency - collecting interest pay nents and pursuing loan recovery with the aid of the legal sytem A combined collection agency for all the DFIs could also be set up

Abbreviations and Definitions

DFI:	Development Finance Institution.
GOP:	Government of Pakistan
IFB.	Investment Finance Bank
NCB.	Nationalized Commercial Bank
SBP:	State Bank Of Pakistan
ADB:	Asian Development Bank
ADBP:	Agricultural Development Bank of Pakistan.
BEL	Bankers Equity Limited
EPF:	Equity Participation Fund
FBC	Federal Bank for Co-operatives
ICP	Investment Corporation of Pakistan
IDBP	Industrial Development Bank of Pakistan
NDFC	National Development Finance Corporation
NDLC	National Development Leasing Company
NIT	National Investment Trust
PICIC	Pakistan Industrial Credit and Investment Corporation
PLHCL	Pakistan-Libya Holding Company Limited
PKICL	Pak-Kuwait Investment Company Limited
SAPICO	Saudi-Pak Industrial and Agricultural Company.
SBFC.	Small Business Finance Corporation

Definitions

* **BANKS** Financial institutions that accept funds, principally in the form of deposits repayable on demand or at short notice (such as demand, time, and savings deposits) Under the general rubric "banks" come commercial banks, which engage only in deposit taking and short- and medium-term lending, investment banks, which handle securities trading and underwriting, housing banks, which provide housing finance, and so on In some countries there are universal banks, which combine commercial banking with investment banking and sometimes with insurance services

* **CAPITAL MARKET** The market in which long-term financial instruments, such as equities and bonds, are raised and traded

* **COMMERCIAL BILLS** Short-term debt instruments that are used mainly to finance trade Examples are promissory notes, by which debtors commit themselves to pay to creditors or to their order a stated sum at a specified date, and bills of exchange, which are drawn up by creditors and accepted by debtors Commercial bills that are also accepted by banks are known as bank acceptances Promissory notes issued by large corporations to meet their general financial needs are known as commercial paper

* **CONTRACTUAL SAVINGS INSTITUTIONS** Occupational pension funds, national provident funds, life insurance companies, and similar institutions that collect long-term savings on a contractual basis

* **CURB MARKET.** An unofficial money and capital market

* **DEVELOPMENT FINANCE INSTITUTIONS** (DFIs) Financial intermediaries that emphasize the provision of capital (loans and equity) for development DFIs may specialize in particular sectors-for example, industry, agriculture, or housing Although most provide only medium- and long-term capital, some, particularly those that specialize in agriculture, also provide short-term finance

* **DISCOUNT** A reduction from the face value of a financial contract

* **EQUITY FINANCE** The provision of finance in a form that entitles its owner to share in the profits and net worth of the enterprise

* **FINANCIAL SAVINGS.** The portion of total wealth held in the form of financial assets

* **FOREIGN PORTFOLIO INVESTMENT.** Investment by foreign residents in domestic capital markets, without the investors' provision of technology and management services that usually occurs with foreign direct investment

* **FRACTIONAL RESERVE BANKING** The practice by which commercial banks maintain a reserve of highly liquid assets (usually deposits in a central bank) equal to only a fraction of their deposit liabilities

* **INDEXATION.** A mechanism for periodically adjusting the nominal value of contracts in line with movements in a specified price index

* **LEVERAGE.** The ratio of debt to equity or of debt to total capital employed.

* **LIQUID LIABILITIES.** Money plus highly liquid money substitutes, such as savings deposits.

* **MARKET CAPITALIZATION.** The total value of outstanding securities at present market prices

* **MONEY MARKET.** A market in which short-term securities such as Treasury bills, certificates of deposit, and commercial bills are traded

* **NONBANK FINANCIAL INTERMEDIARIES.** Financial institutions, such as building societies and insurance companies, that hold less-liquid liabilities not normally regarded as part of the money stock

* NONPERFORMING LOAN A loan on which contractual obligations (for example, interest or amortization payments) are not being met

* **RESERVE MONEY** Currency in circulation plus deposits (of banks and other residents but not the government) with the monetary authorities.

* **TERM FINANCING.** Equity or medium- and long-term loan finance.

Source: The World Bank's Financial Definitions Washington, 1989

List of persons met.

Mr. Babar Ali,
Chairman, Packages, Lahore
Chief Executive, Interbank.

Mr Yusuf Shirazi,
Chairman,
Atlas Group of Companies, Karachi.

Mr Altaf Saleem,
Chairman, Crescent Investment Bank, Lahore.

Mr. Salman Taseer,
Member of Provincial Assembly,
Co-Chairman, Fideliny Masraf Investment Bank

Mr Sultan Ahmed Khan,
Investment Bank Advisor,
Bank of Oman

Mr Fred Piecoczeck,
Chief Executive,
Inter-Bank, Karachi

Mr Iqbal Ahmed,
Bank of Oman

Mr Javed Iqbal,
Atlas Group,
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Economic Advisor,
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Mr Mansoor Khan,
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Mr Syed-u-Rehman
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1 01 The current weaknesses in Pakistan's financial sector are the result of a four staged evolution since partition In 1947, the country's financial system, such as there was, remained confined to short term financing of trade and commercial activities It was clearly inadequate for the substantive development process launched in subsequent years

1 02 The first phase of the financial sector's growth contained two features which mirrored the GOP's development strateges First, the government's major priority was import substituting industrialisation A host of incentives - such as an artifically high exchange rate, heavy non-tariff and tariff protection - aided this primary objective Accompanying this pattern of resource allocation was the creation of private commercial banks These banks,as well as insuracne companies, were owned by the same group of families who were in the forefront of the industrialisation process The resulting concentration of financial and industrial assets had adverse equity implications As far as the financial sector was concerned, such lop sided development implied that credit was by and large confined to a small group of Karachi based entrepreneurs The second feature of the first phase was the establishment of quasi public sector financial institutions to direct credit into particular sectors, to finance projects that the private sector was unwilling or unable to In some cases it was to promote medium and small scale industry To a great extent, however, the major industrial financial families were the beneficiaries of state created institutions as well They were frequently represented on the Boards of these organisations and managed to allocate a fair proportion of sanctions to their units Thus, the first phase witnessed the evolution of a financial system which to be adequately serving its norrowly defined purpose - providing finance for the few entrepreneurs who were engaged in capital intensive import substituting industrialisation Financial institutions were involved in little innovation or effort beyond their limited scope. The major achievement of this phase was the beginning of institution building and development of indigenous management for the financial sector Indeed much of the managerial talent emerging from this phase was to provide the backbone for the development of a major international bank in the seventies - the Bank of Credit and Commerce International (BCCI) Within the public sector an institutional base was laid out through organisations such as the Industrial Development Bank of Pakistan Popular resentment against the industrial - financial elite gathered force in the late 1960's It led to demands for the curtailment of their control over the economy and was responsible in part for the downfall of the regime

1 03 The People's Party government, which came into power in the truncated Pakistan, nationalized banks and insurance companies in 1974 This public take over of assets heralded the second phase of the financial sector's evolution The process saw the emergence of five nationalized commercial banks and a proliferation of development finance institutions Whereas nationalization may have broken the hold of a few families, it led to a number of complications which have debilitated the financial sector Many of the problems that have emerged are common to the involvement of an inefficient public sector The root cause of shortcomings has been the use of financial institutions to subsidies government operations This subsidy takes several forms Socially desirable projects inevitably involve a trade off with pure profitability concerns Another form of subsidy is forced lending by nationalized banks to finance a burgeoning budget deficit This feature has become particularly prominent in recent years, as the deficit - GNP ratio rate rise from 5% to nearly 8% Funding this deficit through a 'tax' on NCBs is preferable to deficit financing as far as inflation is concerned But the cost of such a policy is borne by an increasingly constrained and inefficient financial sector

1 04 Nationlisation of banks has led to a number of additional adverse developments, in the financial sector, which are summarised below

i Extensive Intervention by a centralised bureaucracy in the functioning of financial markets This has led to a general lack of innovation due to the absence of incentives for better performance

ii Administered interest rates, which have prevented creditors from charging a premium for highly productive but risky projects It has also biased lending towards creditworthy government guaranteed borrowers Further, large reserve requirements have adversely affected the profitability of commercial banks One of the likely benefits of less regulated financial markets would be greater flexibility in financing investment projects, introduction of a larger variety of financial instruments and better deposit rates to attract savings Recent experience provides evidence of responsiveness of savings to such incentives The mushrooming of private finance companies led to difficulties not due to lack of funds but due to absence of prudent regulation The response of savers to attractive interest rates that were offered was somewhat dramatic

iii NCBs pay out set minimum deposit rates set by the State Bank The adjustment has typically lagged behind changes in the economic environment To some extent this may be due to the inefficiencies of an oligopolistic market structure But the primary reason appears to be the strict controls on commercial banks which do no provide the necessary incentives for engaging in the mobilisation of deposits Further, financial layering blunts the incentive to tend to the most profitable borrower and decreases the degree of competition among lenders

iv Credit has been used as an important tool for political patronage Excess demand for credit inevitably involves rationing When this scarcity is utilised for cultivating political allegiance there are detrimental effects Two are notable, First, those who receive such credit are not particularly concerned about repayment The nature of the sanctioning is one where the recipient knows that default will not lead to punishment Second, those who get credits in this manner help destroy the credibility of financial institutions Such overt manipulation creates an ethos of favour dispensation which inhibits the development of financial criteria for loan dispersal

v The quality of management attracted to the nationalised financial sector often leaves a lot to be desired Poor remuneration, lack of incentives and better opportunities abroad have deprived the financial sector of good quality staff Since the quality of management is a key skill in financial services, the migration of Pakistani banking professionals has hampered institutional development

vi The banking sector has been used for positive discrimination policies Promoting disadvantaged groups is desirable but very damaging, to financial institutions who have to take on personnel obviously unsuited to the task Such personnel policies should in future be targeted at first inducting positive discrimination entrants into rigorous training programmes Further, banks have been subjected to the unfortunate but common practice as 'employers of last resort' They carry the burden of a highly overmanned workforce due to normal public sector pressures

vii Credits directed to particular sectors have sometimes proved to be useful However, sectoral allocations require continous adjustments Not only is there some trade off with more productive alternatives but these sectoral credits are also amenable to manipulation by powerful lobbies In this manner, potentially important sectors may be deprived of credit

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viii The provision of subsidised credit, through interest rate ceilings, is effectively a tax on the financial sector The concomitant low deposit rates do not encourage financial savings Small spreads discourage innovation and the resulting caution restricts credit disbursement to safe and well known parties The financial sector can be taxed more easily if it remains in public hands Government's plans to liberalise the financial sector have already been adversely affected by the temptation to retain control over public sector organisations

1.05 The third phase in Pakistan's financial sector evolution did not involve a change of ownership Thus the earlier comments made regarding the shortcomings of public sector financial institutions remained valid through this period The third phase involved new shocks to the financial system from within the public sector It involved the introduction of Islamic injunctions Two aspects of the Islamisation of the financial sector are worth noting First, there was an attempt to abolish the very concept of interest Second, there was an addition of financial instruments and schemes which emphasised equity participation by the lender The result of the latter has been an expansion of instruments but the funds raised through these do not appear to constitute additional resource mobilisation Commercial banks are often reluctant to get involved in equity financing

1.06 Perhaps the most damaging effect has been the uncertainty created by measures ostensibly to abolish interest Often all this has involved complex subterfuges to discover ideologically sound nomenclature But the more pervasive effect has been greater insecurity and incohesiveness within the financial sector - attributes which are anathema to sound development It is no surprise that Islamisation of the financial sector appears to have made no positive contribution towards raising Pakistan's low savings ratio The rates on PLS deposits were much lower than those being offered under the interest based system The country's savings rate is half that of India's 22% In brief, the net effect of Islamisation has been to introduce an additional shock to a financial system already under considerable duress Further, these measures were accompanied by accelerated use of politically determined credits, rising default rates and deepening structural malaise during the third phase

1 07 The current phase represents the fourth in the chain of financial sector evolution Towards the mid to late eighties, it was evident that the financial system was in need of substantial reform A worryingly large number of institutions are insolvent and are on an effective subsidy to remain in business Loan write offs, rising default rates and persisting political interference have contributed to deep malaise in the financial system Donors have frozen credit lines to some agencies due to poor pay-back performance of previous loans, which is indicative of the problems prevalent in the sector

1 08 Pakistan is reaching a stage in its development where it has to rely increasingly on domestic resources Mobilisation of these resources is extremely important at a time when the net inflow of aid is shrinking The GOP is well aware of the role that will need to be played by the financial sector to mobilize these resources The needed liberalisation of the financial system is critically dependent on reducing the hold of the public sector and encouraging greater competition through the active involvement of the private sector Fortunately, the present government is favourably disposed towards a greater role for the private sector in general But the process of liberalising the financial sector is complex, particularly since this sector has been effectively subsidising a number of economic activities Powerful groups stand to lose in a process of adjustment Nonetheless, these contraints have been overcome in other developing countries Liberalisation should not be limited to the reform of the banking system but should seek to develop a more broadly based financial system that will include money and capital markets and non bank intermediaries A balanced and competitive system of finance contributes to

macroeconomic stability by making the system more robust in the face of external and internal shocks Active securities markets increase the supply of equity capital and long term credit, which are vital to industrial investment Further, to operate efficiently financial institutions and markets have to be guided primarily by market forces rather than government directives Competition needs to be strengthened by encouraging the entry of new and innovative providors of financial services, by phasing out interest rate controls and by stimulating the development of money and capital markets

1 09 Some of the policy challenges faced by the GOP during the course of financial liberalisation are summarised below

1. An important feature for financial sector reform is the need to control the fiscal deficit Unless this is done, the pressure on non-bank borrowing will be too intense for a meaningful transition from a regulated to a more liberal financial system

2 The GOP would need to pay special attention to improve the foundations of a financial system -- this would involve improvement of the legal system This is crucial, as it will enable contracts to be enforced and swift action can be taken against defaulters Financial liberalisation can be volatile and would need prudential regulatory bodies to supervise the transition

3 A move towards a more market based system would involve a reduction in directed credit programmes as well as adjustments in the structure of interest rates Broader ranges for deposit and lending rates would need to be introduced It will be more prudent to channel directed credits for activities rather than target specific sectors Thus exporters in general should have priority over producers in particular sub-sectors

4 GOP would need to encourage autonomy in the management of those financial institutions which remain in the public sector It is important that managers in the public sector should have autonomy and be accountable GOP interference in asset management, personnel policy and loan decisions should be kept to the minimum To the extent possible, the government should take a bolder initiative towards privatisation of banks The present policy of offering nearly 20% of equity to the public is likely to lead to a very meagre privatisation programme Since management remains with the public sector, thus these 20% floats are effectively a form of non-bank borrowing rather than privatisation drives Admittedly, caution is needed when liberalising financial markets but being over cautious can defeat the whole purpose of the exercise

5 Competition and efficiency would be encouraged by allowing foreign entry into domestic financial markets This can be implemented with the provision that local partnership is necessary, to ensure the development of indigenous management capacity Similarly, new institutions such as investment banks should be encouraged not only because they could add instruments and functions but also because of the competitive pressure they would exert on the public sector

1 10 The study provides a description of the institutional framework, its evolution and present status It describes the role played by each set of institutions and their strengths and weaknesses

1 11 This study focuses on two aspects of the financial sector liberalisation currently being initiated in Pakistan First, the emerging investment finance banks are examined in section B. The experience of 5 investment banks is enumerated This section ends with an

analysis of future directions for IFBs in Pakistan and necessary steps required to aid their operations The second component consists of an analysis of the performance of development finance institutions A survey of their individual performance is followed by the issues emerging from present state of affairs and recommendations for their further development The recent performance of seven DFIs is summarised This is followed by a brief of each of the remaining DFIs

1 12 The study is based on interviews of the Chairmen of 5 investment banks, Ministry of Finance officials, development finance institution personnel, other officials and commentators The written material consulted consisted of annual reports, articles in periodicals and newspapers and government publications

CHAPTER 2

SUMMARY ANALYSIS OF FINANCIAL INSTITUTIONS IN PAKISTAN.

FINANCIAL SECTOR IN PAKISTAN - AN OVERVIEW

2.01 The financial sector in Pakistan consists of various institutions namely:

The State Bank of Pakistan
5 Nationalized Commercial banks
3 Specialized Banks
19 Domestic Foreign banks
14 Development Financial Institutions (including the three specialized banks)
7 leasing and Modaraba Companies
2 Stock Exchanges
Insurance Companies
Investment Finance Banks (upcoming)

STATE BANK OF PAKISTAN

2 02 The State Bank of Pakistan (SBP) is the central bank of the country It governs and monitors the working of the various financial institutions and implements the monetary policy It was established on July 1, 1948 Under the SBP Act of 1956 it is charged with regulating the monetary and credit systems of the country and foster utilization of its productive resources

2 03 The Chief Executive is the Governor who is assisted by one or more deputy governors, who are appointed by federal government for a term of five years

2 04 As the central bank of the country, the functions of the State Bank include,

* Bank of Issue for currency notes of Rs 2 & above

* Banker to the Government supplies cash required for salaries and accepts deposits of cash

* Advisor to the Government on economic, financial and monetary matters, agriculture credit and industrial finance

* Banker's Bank It is the under of the last resort for commercial banks, and maintains a discount window where it offers re-discount facilities of 90 day trade bills and agriculture bills and against government securities

* Controller of Credit and bank rate

* Controller of Foreign Exchange it issues licenses to institutions to function as authorized dealers It exercises full control over the movement of capital to and from the country and both visible and invisible payments such as foreign exchange for business, travel, medical treatment and education

2.05 It has the sole authority to process applications for opening new branches of commercial banks, changing the location of existing ones and can move a court of law for liquidation of a bank The State Bank obtains periodic reports from all nationalized and foreign banks regarding their ceilings and reserves State Bank auditors also visit branches to inspect credit documents and other books The Finance Sector Adjustment Loan of the World Bank has required SBP to undertake various measures such as Introduction of new

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treasury bills These bills were to be sold at discount through open auction at regular intervals The market forces would then determine the rate So far three auctions were held but bids were declared since rate quoted were considered high Setting up of an information bureau to meet the needs of having a computerized credit system, accessible to all banks and non-bank financial institutions

COMMERCIAL BANKS

2 06 There are five Nationalized Commercial Banks (NCBs) namely:
National Bank of Pakistan
United Bank Ltd
Habib Bank Ltd
Allied Bank Ltd
Muslim Commercial Bank Ltd

2 07 In addition to the above there are nineteen Domestic Foreign Banks such as Citibank, Bank of America, Bank of Tokyo, Grindlays Bank, Banque Indosuez etc These along with three specialized institutions form what are known as scheduled banks A scheduled bank is one that is governed by the Companies Act 1927 and the banking Ordinance of 1962 Section 5 (b) of the Ordinance defines banking as "the accepting for the purpose of lending or investment of deposit of money from the pubic, repayable on demand or otherwise and withdrawable by check, draft, order or otherwise"

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2 08 Before 1947 the banking sector had been dominated by Hindus with Habib Bank as the only major Muslim banks At independence the banking system inherited by Pakistan was mainly engaged in financing raw cotton export The private sector took the task of economic developmental on itself and laid the foundation of the industrial infrastructure What started with 81 branches in 1947 in the territory which now comprises Pakistan increased to 7,100 branches all over the country and 74 offices in foreign countries at the end of 1988 This phenomenal growth is responsible for the tremendous mobilization of individual saving Even though Pakistan has one of the lowest rates of savings amongst developing countries, it is the most important source of credit in the country's economy There are nearly 21 million depositors at present and more than ninety percent are individuals

2 09 The NCBs operate on a decentralized basis There are four provinces four federally administered areas, 22 districts, 311 tehsils and 45,719 villages in the country Each province is politically sub divided into divisions and further into district tehsils union councils and village The provincial members of the executive board of the NCBs are fully responsible for all banking functions in their respective provinces The provincial area of operations of each NCB is divided into circles Each circle is responsible for three to five zones, with each zone responsible for a number of branches Branches operate at the union-council level All domestic foreign banks are allowed to have a maximum of three branches in the country except ANZ Grindlays which has eleven branches This is due to the fact that it came into being after independence as a merger of seven different banks

2 10 There are three kinds of debt in Pakistan All rates on Government debt are administratively determined and the rate structure is somewhat distorted

Floating debt is usually short term with maturity of one year or less This includes adhoc T-bills which are like an automatic overdraft facility for GOP at 0 5% and held by the State Bank Regular or eligible T-bill at 6% held by commercial banks to meet their asset reserve requirement and Government Treasury Deposit Receipts (GTDRs) at 9-10 5% held by the general public These account for 43% of government debt
Permanent debt which includes 7 - 20 years loan & bonded debt at 5-12%

Unfunded debt including the National Savings Scheme This includes instruments such as Defence Savings Certificates Special Deposit Certificates ranging from 12% to 15 - 16%. This accounts for 44% of government's domestic debt

The total debt and rate of return breakup is as follows

% Of Total Debts	% Rate Of Return
30%	1 5 - 3 %
20	5 - 6 5
20	8 - 12
30	12 - 20

(Source SBP Annual report)

Recently ineligible T-bill have been auctioned, in order to have a secondary market for the non bank public

2 11 The financial sector in Pakistan is characterised by an ever increase in bank financing The increase in the share capital during 1983 88 was only 25% in sharp contrast to the increase in bank financing which over the same period was almost 50% Five NCBs account for 80 percent of the financial system's assets whereas the foreign banks account for another 10 percent of the asset The remaining 10 percent is accounted for by the specialized banks and other non bank financial institutions

2 12 Commercial banks in Pakistan are required to hold the 6 percent T-bills to meet the 'liquid asset' reserve requirement of 30% as stated by the SBP This is in addition to a 5% cash liquid asset requirement The reserve requirements combined with the low rate on eligible paper drives up the rates to the private sector borrowers Deposits of banks are fully guaranteed by the Government of Pakistan (GOP) The legal implication of this guarantee are ambiguous as it is not an outright insurance such as that provided by the FDIC in the United States (up to $100,000)

2.13 The National Credit Consultative Council uses credit ceilings as the key instrument of monetary policy to set specific credit target for commercial banks and ensure credit expansion targets as allocated In order to ensure compliance by banks the SBP prescribes credit target for individual banks indicating the public and private sector ceilings Mandatory targets are also set by the SBP for small loans to agriculture, business and industry and low cost housing in the non government sector, In keeping with the desirable money supply targets Non compliance of these limits result in penalty in the form of return free deposit to the extent of shortfall It is interesting to note that these targets are based on the market share of both local and foreign currency deposits for the previous period They are not based on the rate of annual growth in deposits which, if it were a criterion, would be an incentive for the bank to increase deposit mobility Traditionally the commercial banks concentrated on short term lending but lately havu also ventured to medium and long term financing due to credit lines extended by international agencies

TABLE 1
SCHEDULED BANKS DISTRIBUTION OF DEPOSITS & ADVANCES

Rs in Billion

Size of Acct	Deposit	%	Advances	%
0 - 10,000	82543 9	89 0	4645 3	45 7
100,000 - 50,000	40066 4	9 0	16339 6	34 0
50,000 - 100,000	18522 9	1 18	28339 4	14 2
100,000 - 500,000	24736 4	6	13656 1	3 8
500,000 - 1000,000	6990 7	10	7771 8	6
1000,000 - 10000,000	21752 8	9	44413 9	1 6
10000,000 & over	25548	03	68386 8	1
Total	22661 1		169896 8	100

As can be seen 89% of depositors have holdings of less than Rs 10,000 whereas more than 40% of the advances go to 1% of the borrowers

The following table shows the secheduled bank advances by the nature of security pledged

SCHEDULED BANKS ADVANCES CLASSIFIED BY SECURITY PLEDGED

Million Rs

		%
Golb, Bullion	924 1	5
Shares and Financial Instruments	5754 2	3 39
Merchandize	58065 9	34 2
Fixed Assets including Machinery	19235 1	11 33
Real Estate	37989 3	22 37
Fixed deposit & Insurance Policies	6302 7	3 71
Other Secured Advances	35507 0	20 9
Unsecured Advances	6118 5	3 6
		100 0

2.14 Major milestones in the history of the financial sector were the Nationalization Act of 1974, the setting up of the Development Financial Institutions in 1959 and the implementation of Islamic modes of finance which was fully accomplished in 1985

NATIONALIZATION

2 15 In the early 1970s credit was concentrated in big accounts and banking was characterized by interlocking of ownership with enterprise On January 1, 1974 the

Government of Pakistan decided to nationalize the scheduled banks and promulgated the banks Nationalization Act 1974, the stated objectives were,

- To obtain access to use of capital concentrated in the hands of the rich banking elite and channel it to more urgent social welfare projects

- Coordinate banking policy for joint activity without eliminating healthy competition,

- Equitable distribution of bank credit to different classes, sectors and regions

2.16 Nationalization completely ensured the exit of the private sector from banking The general direction and management of affairs being totally handed over to their Executive Boards Post nationalization the institutioal framework included the setting up of the National Credit Consvetative Council under the auspices of the SBP The Act further provided for the setting up of the Pakistan Banking Council, as a body parallel to the State Bank it was assigned various functions, some of which were,

Making policy recommendation to the government for directing banking activities towards national socio-economic objectives

Formulating policy guidelines for the banks

Laying down performance criteria for banks and taking steps for assuring their observance

Analyzing and appraising financial performance of the banks and appointing auditors

Determining areas of coordination of banks

Assisting the SBP in establishing a Credit Information Bureau and establishing a Research Department

Developing management information systems and schemes for modernization of banks

2 17 PBC was established as a buffer between commercial banks and the government In the mid 1970's the PBC worked on the reorganization of the banking sector which included the reconstitution of a group of banks into a new bank It was authorized to call for information statements and reports periodically Over time however there was an overlap between the monitory sole of the SBP will monitor & regulate the foreign branches of Nationalized Banks and the SBP, the local branches The functions of both these institutions can be seen in the table ahead Auditing of branch performance and appraisal of crdit procedures continues to be performed by SBP staff PBC now has a minimal role in regulation Infect it has become a target of severe criticism and has been labelled as a 'dumping ground' or 'warehouse' for ex commercial bankers from NCBs Most presidents of NCBs look upon appointment as chairman of the Banking Council as a prestigious pre-retirement perk, at the end of their career The following table shows the regulating agency and the legislation for various institutions

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INSTITUTION	BODY RESPONSIBLE FOR		GOVERNING LEGISLATION
	REGULATION	INSPECTION	
NCBs	P B C	S B P	SBP Act 1956 Banking Co Ordinance 1962 Banking Reform Act 1972 Banking (Nationalization Act) 1974
FOREIGN BANKS	S B P	S B P	Bank Co Ordinance 1962 Bank Reform Act 1972 Foreign Private Investment Act 1976 S B P Act 1956
ADBP	S B P	S B P	ADBP Ordinance 1961
IDBP	S B P	M O F	Industrial Development Fin Ordinance 1961
FEDERAL BANK OF COOP	M O F/S B P	M O F	Establishment of FBC & Regulation of Cooperative Banking Ordinance 1976
NDFC	M O F/S B P	M O F	NDFC Act 1973
PICIC	S B P	S B P/CLA	Companies Ordinance 1984
BEL	S B P	S B P/CLA	Companies Ordinance 1984
HBFC	MOF	MOF	HBFC Act 1952

2 18 The national Credit Consultative Council was set up to ensure the optimum utilization of bank credit in Pakistan and charnelize it for development purposes in accordance with national policy It determines the credit need of various sectors of the economy under a confidential formula and prepares a well defined credit plan before the commencement of each financial year The plan is then approved and allocations made to various sectors in conformity with priorities set out The members consist of representatives of the government, banks and financial institution, business and industry It meets as often as necessary to review the credit plan and adjust the allocation in accordance with the emerging economic situation The allocation for the private sector are residual after government / public sector borrowing requirements are deducted from the overall credit expansion

PROBLEMS CONFRONTING COMMERCIAL BANKS

2 19 The working of commercial banks over the last few years has been marred by their inefficient performance, political pressures and huge bad debt portfolios The major problems being confronted by NCBs can be summarized as follows,

I There is inadequate competition between them, which leads to inefficient operations Even the foreign banks do not provide enough competition due to regulations, size of operations, and the small branch network

II Concentration of lending in few hands due to inavailability of credit information At present none of the commercial banks or DFIs have any system computerized or

So. No.	Name of IFB (Chief Sponsor)	Letter of Intent	Head Office	Incorporation Date	Date of License	Consent for Capital Issue	Clearance of Prospectus.
1	Crescent Investment Bank Ltd (Crescent Group)	24 1 1989	Lahore	4 4 89	4 6 89	10 6 89	25.9 89
2.	Trust Investment Bank Ltd Nisar Akbar and Rayon Group - Bank of Qatar)	29 3 1989	Lahore	22 6 89	14 9 89		
3	Redco Qatar Islamic Investment Co	13 4.1989					
4	Fidelity Masraf (Investment Finance Bank) Ltd (Nishat Group-Salman Taseer)	17 4.1989	Faisalabad				
5	Security Investment Finance Bank Ltd (Anwar Majeed)	3 5 1989	Islamabad				
6	Pakistan Northern Investment Finance Company	3 5 1989					
7	[illegible] Investment Bank	28 10 1989	Islamabad	14 2 90	17 2.90	19 2.90	
8	First International Investment Bank (Packages - Amex)	28 10 1989	Lahore	7 2 90	19 3 90	23 6 90	20.7.90
9	Islamic Investment Bank Ltd (Bank of Oman)	8 1.1990	Peshawar				
10	Alboraka Investment & Dev Bank	10 1.1990	Lahore				
11	Pak Investment Bank Ltd	30 1.1990					
12	Atlas Investment Finance Co (Shirazi Group-Bank of Tokyo)	4 5 1990	Lahore				

otherwise that contains information such as individual/group exposure Therefore it is difficult to know the association of individuals with corporate groups or to obtain information on delinquent loans and uncredit worthy borrowers

iii. Non performing loans due to lack of freedom in the selection of loan portfolio due to political pressure NCBs have full discretion on only 30 - 75% of interest earning assets Administered distribution of credit results in crowding out of new small private investors

iv. Weak organization and lack of managerial policies as regards credit evaluation There is lack of managerial autonomy and the work force is unionized NCBs do not have the account officer system that exists in foreign banks whereby an account officer manages and monitors a set of accounts The loan officer analyzes the reported figure periodically to assess debt capacity and strength of capital structure Unlike NCBs, Foreign Banks have the standard practice to send out a credit enquiry to all other banks to check the status of any loans and total exposure Loan officers at Foreign Banks also visit management to determine future plans has his/her evaluation tied to loan performance

v Inadequate spread between the rate of lending and rate of borrowing Banks are able to mobilize savings at around 8% or so but earn only 6% on 35% of their liquid assets

vi Under capitalization Their capital average is 2 9% of assets, which is very low in selection to the riskiness of asset portfolios and in relation to banks of other developing countries

vii. There have been a large number of cases of willful default in the absence of efficient recovery mechanism The lack of adequate credit reporting systems reinforces this There have been instances of loans being granted to small and medium sized businesses in the absence of audited financial statements Banking tribunals are also ineffective and the litigation process is lengthy and tedious

viii Most banks and specialized credit institutions take part in the inter bank market The more conservative institutions are lenders while the more aggressive ones are borrowers Mandatory credit ceilings tend to inhibit the growth of the inter bank market as they create surplus liquidity This surplus is estimated as Rs 40 billion (Subtracting the reserve requirements of all banks from the total deposits and subtracting from this the combined credit ceilings)

2 20 Various recommendations made to increase the efficiency of NCBs under the FSAL of the World Bank include the,

i. Creation of a central credit bureau (already announced by SBP) in order to have an information network on credit of individuals and corporate groups for all NCBs and Non bank financial institutions

ii Conducting a comprehensive portfolio audit, in order to classify loans realistically The FSAL guideline calls for loan classification as sub standard doubtful and uncollectable and calls for a proportionate provision in each case

iii Establishment of performance targets such as those employed by private sector banks alongwith issuance of new credit policies and procedures

iv. Rationalization of the branch network on the basis of income and operating cost.

v. Improvement in the recovery of bad loans

DEVELOPMENT FINANCIAL INSTITUTIONS

2.21 The credit enquiry committee set up in 1959 to examine the scope and working of the financial sector recommended the formation of specialized financial institutions Development Financial Institutions or DFIs were set up with the aim of providing medium and long term credits to industry and agriculture The following are the DFIs presently operating in the country, namely (year established),

Pakistan Industrial Credit and Investment Corporation (1957) - PICIC
Industrial Development Bank of Pakistan (1961) - IDBP
Agriculture Development Bank of Pakistan (1960) - ADBP
National Development Finance Corporation (1973) - NDFC
Investment Corporation of Pakistan (1966) - ICP
National Investment Trust (1962) - NIT
Equity Participation Fund - EPF
Bankers Equity Ltd (1980) - BEL
National Development Leasing Corporation (1985)- Private Sector - NDLC
Pak Kuwait Investment Co (1978)- Private Sector - PKI
Pak Libya Holding Company (1978)- Private Sector - PLHC
Saudi-Pak Industrial and Agricultural Investment
(1981)-Private Sector - SAPICO
Small Business Finance Corporation - SBFC
Regional Development Finance Corporation - RDFC
House Building Finance Corporation - HBFC

2 22 Most DFIs were set up in the late 1960s to address the needs that commercial banks could not serve due to inadequate resources and risk aversion Industrial investment offered low profitability and the time frame of repayment could well extend to a decade or so Moreover, the collateral fell short of established security criteria DFIs in Pakistan were meant to play an important role in the finance sector, an initiative that was expected to lead to a healthy growth of broad based capital markets They were set up in a parallel semi-government structure where a number of private corporate executives were appointed on their boards in order to ease out conventional bureaucratic delays

2 23 Most DFIs were created with distinct development objectives such as the area of operation or the size of the project Besides these they were also engaged in financing large scale units in nationally desirable sectors DFIs financing criteria included regional development and objectives of development plans such as use of local raw material in projects,purchase of locally manufactured machinery, their impact on the balance of payment, and preference for labor intensive technology On certain occasions formulae set by external lending agencies were also employed when their funds were used

2 24 The IDBP and PICIC were set up with a view that they would play a key role in linking the corporate sector with international capital The IDBP was an institution derived out of the Pakistan Industrial Finance Corporation PIFCO PIFCO was set up to finance industries which the private sector was unable to undertake either because they were technologically complex or capital intensive International development agencies such as the IFC and IDA also extended credit lines through the IDBP PICIC was set up to provide

long and medium term financing in local and foreign currencies for industries based on local raw material or are import substitutes It also aimed at assisting foreign investors to locate suitable investing opportunities and bring them together with local enterprise

2 25 ICP and NIT were created to stimulate the money and capital markets in Pakistan The objectives of the NIT was the 'pooling of resources' of a large number of small investors which could then be invested in a diversified portfolio of shares This was aimed at dispersing share ownership and relieving the small investor from maintaining constant contact with the financial position of companies The NIT also undertook the underwriting of public issues ICP was formed in order to undertake underwriting activities (PICIC and IDBP were also authorized to do the same) floating closed end funds, trading in shares or on its own account and providing professional investment advice

2 26 There are three joint venture DFIs namely Pak-Libya, Pak-Kuwait, and Saudi-Pak which were incorporated in the late 1970 early 1980s These aim to provide assistance to industrial units, joint venture projects which may or may not be in partnership with the country of the sponsors SAPICO is particularly interested in financing agro based industries by taking an equity position in the venture

2 27 Then there are specialized institutions such as the Agriculture Development Bank of Pakistan which provides credit to the agriculture sector, agro based industry and farm related processing units The House Building Finance Corporation finances the building and purchase of residential property A detail description of all the institutions follows in chapters 8 & 9

ISLAMIC MODES OF FINANCING

2 28 The Islamization of the economic system which was initiated on Jan 1, 1981 was fully implemented during 1985 It can be divided into fiscal and financial measures Fiscal measures include the Zakaat and Ushr Ordinance Financial measures required banks and other lending institutions co-provide financing on the basis of participation in profit and loss Under Islamic Law this is a mandatory deduction from saving deposits and profit that remains in the hands of the owners for one full year, which goes into the central Zakaat Fund This fund is administered by the government which then channels funds to various welfare projects on a nation wide scale The various instruments of Islamic Finance are along the lines of equity rather than debt, and are designed on the basis of Profit and Loss sharing Under Islamic banking the cost of credit is fixed for a predetermined period of time, on a markup basis Financial institutions purchase assets and sell them with a profit margin that is mutually agreed upon with the borrower The agreed price is payable on a deferred payment basis either in lump sum or installments Incentives for prompt payment, usually a rebate on the agreed markup are standard Markup was initially used for providing short term financing and later extended to term financing Beyond the predetermined period of the loan, the system is not time bound Finance charges do not accrue after the agreed period so delay or default result in loss of income to the financial intermediary Loss of the 'prompt payment' rebate is the only penalty for a defaulting borrower The various instruments introduced in Pakistan include the following,

2 29 Profit and Loss Sharing Deposit Accounts (PLS) There is no maximum limit to the amount of money that can be deposited in a PLS savings account Under the PLS system the proportion of profit or loss is determined retroactively by the banks once every six months as a function of the banks profitability during the preceding 6 months Incase of term deposit the depositors are issued a Term Deposit Receipts and if the receipt is encashed before the date of maturity without completing the minimum period of six

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months, the deposit is withdrawn from the PLS and depositor does not get share in the profit.

2.30 Musharika or Mark-up financing Musharika is a kind of temporary partnership where both a customer and a bank in an arrangement of business or financing contribute their money, effort or skills or a combination of all these components In this arrangement profit is shared in a pre-agreed proportion but loss if any is borne by the capital only Profit sharing ratios are determined in accordance with the profit projections compatible with the company's past performance or in light of future plans and the general economic climate The working capital requirements of trade and industry are met through this scheme The capital provided by the bank is not equity but an investment NCBs stipulate that capital be in the form of checking account or an overdraft account where the deposits and withdrawal are at the convenience of the borrower The company has to make payments at the end of each quarter The traditional debtor creditor relationship is maintained because of the predetermination The entire management or operation remains with the borrowing company Banks give due recognition to managerial skills by awarding a portion of the profit as 'management fee' or bonus

2.31 Hire Purchase Financing This scheme is geared towards meeting the fixed investment needs of various sectors such as machinery equipment, and commercial and industrial vehicles Monthly rental installments are so fixed that the amount invested by the bank alongwith some rental income is fully ammortized during the validity of the agreement and within the normal useful life of the article concerned The ownership of articles vests in the bank till it is transferred in favor of the hirer on payment of all the agreed installments or incase a settlement is reached

2 32 Modarabas Is a general or specific purpose fund which is formed under a limited partnership agreement It is raised through a public subscription and is managed by a management company like that of a mutual fund It is designed to pool the entrepreneurial talents of the not so wealthy with the money of the wealthy who may not have any managerial prowess 'The Modareb' or manager is required to put in ten percent of the capital while the 'Rabbul Mal' or investor contributes ninety percent of it The arrangement may for a fixed period or for an indefinite period The earnings are to be shared on a profit and loss sharing basis The earnings of a modaraba are exempt from tax if ninety percent of it are distributed to the investors Modarabas can also have a debt/equity ratio of 80 20 There are number of activities that a modaraba can undertake Lately leasing of industrial assets and motor vehicles is a very popular activity undertaken by the various modaraba companies At present there are 21 Modaraba management companies registered and up until now Rs 955 million has been raised through 11 funds

2 33 Lease Financing The financial institution as lessor provides medium or long term credit for acquiring assets on a deferred payment basis The lessor retains ownership of the assets and he lessee obtain the possession and use of it and bears all operating risk Ownership may be transferred at the lessee's option on payment of nominal residual value determined by the lessor This mode has been used for financing buildings, plants and machinery and tubewells besides commercial motor vehicles

2.34 Participation Term Certificates Based on a profit and loss sharing PTCs are similar to convertible debentures with the difference that the bank is going into a 'partnership' with the borrower and has to participate in the profits as well as losses The holders of the PTCs, in lieu of losses suffered in any financial year, are issued convertible common shares of the company to the extent of such loss from the term capital created for the issue Subsequently the term capital is deemed as ordinary capital The convertible shares may be reduced from the profits of the company in subsequent years, as provided in the agreement Moreover, these shareholders have the same voting rights as the rest of the common stockholders

2.35 Term Finance Certificates, TFCs are issued by borrowers to establish a basis for payment for the purchase of assets from bank Instead of a conventional loan arrangement, the bank or DFI enters into a buy sell agreement whereby it buys assets and re-sells them to customers The sale price is based on cost plus an agreed rate of profit, established within a range set by the SBP Cost is paid by customers over a 3 year period (short term) or 3-6 years (long term) by the issue of a series of TFCs with six month maturities On each payment date a TFC matures, customers pay the bank or DFI the face value of the TFC which is then cancelled

2 36 The Islamic modes of financing were implemented by the SBP by prescribing a methodology of calculating the maximum service charge (10 to 20%) in case of return free lending by NCBs and DFIs and the maximum and minimum rates applicable to the investment type modes (minimum 10 percent) The Islamization does not apply to foreign branches of NCBs nor to foreign currency accounts kept in Pakistan All arrangements under interest based system at the time were to be honored till maturity and transactions with foreign governments and international institutions remain interest based till an acceptable system evolves

THE STATE LIFE INSURANCE CORPORATION

2 37 SLIC has the monopoly of life insurance business in Pakistan Life insurance is the single most important non banking source of mobilization of household savings The Insurance Act of 1938 and the investment rules made thereunder govern the investment of life insurance funds It was established on November 1, 1972 with a Principle office and three Beema units which were mainly concerned with selling, underwriting, claim settlements and servicing life policies The three beema units have been replaced by five zonal offices SLIC is fully guaranteed by the Government and has a small pension division as well In the public sector pension funds are unfunded and government employees are members of non contributing schemes By law pension funds are to be invested in Government securities or the NSS For SLIC the law requires that 40% of the funds be invested in Government or Government approved securities There are discretionary upper limits to the proportion that can be invested in certain assets They are as follows,

Qouted companies,these should be large concerns with a proven track record	40%
Propertieds	60%
Term Finance Certificates	60%
Bank Deposits	10%

Actually 70-75% of the insurance funds are invested in Government or approved securities and 25-30% in other assets such as real estate investments This is in contrast to the western countries where insurance companies and pension funds are the largest investors in all kinds of instruments of investment especially stocks and bonds

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THE SECURITIES MARKET

2.38 Well developed capital markets aid in transferring real economic resources from lender to borrower The role of a stock market in any economy is of value in that,

It collects savings that would not otherwise go into financial investments and channels these into productive investments

It enables companies to obtain equity to match debt for the purpose of growth and expansion

It enables the government to disinvest equity and attract investors, thus have a wider ownership of enterprise

2 39 In Pakistan there are two stock exchanges one each at Karachi and Lahore They are regulated by the Securities and Exchange Ordinance 1969 and the Securities and Exchange rules of 1971 The Corporate Law Authority (CLA) has the dual responsibility of the enforcement of law and surveillance of the stock exchanges and company affairs It intervenes in the working of the exchanges whenever it is considered necessary in public interest Insurance companies are listed while banking companies are not listed on the exchanges The security market is not well developed and evidence is that out of a total number of 21,804 joint stock companies in the country only 1,595 are public limited companies Out of these only 450 are listed on the Karachi Stock Exchange and only 298 on the Lahore exchange The exchange in Lahore has a role that is secondary to that of the KSE According to an estimate almost 90% of the public subscription are from industry that is located in and around Karachi At present there are two hundred members of the Karachi Stock Exchange out of whom only 87 are active Lahore Stock exchange has 117 members out of whom only 18 are active Official figures show the number of shareholders as greater than one million whereas participants estimate it to be around 300,00 only Some selected statistics regarding the stock market are given below

STOCK MARKET - SELECTED STATISTICS

	1984	1985	1986	1987	1988	1989
No of Companies	347	362	360	382	411	450
Market Capitalization (Rs Million)	19647 4	21953 5	24422 4	31617.1	38151.4	43934.9
Index of Share Prices (1980-81 = 100)	182.35	176.32	171.02	222.68	260.59	273.23
Turnover of Shares (Million No)	N.A.	94.7	147.0	85.4	84.2	172.7

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2 40 The causes for the lack luster performance of capital markets can be attributed to a number of factors chief among which are,

Credit policies
Disparities in the interest rate structure

2 41 Family controlled businesses are the norm in the private sector, where sponsors their family and friends own approximately 60% of the equity Out of the 40% that is offered to the public 20% has to be offered to NIT and 10% to ICP, to 'enable them to carry out the role of ironing out dramatic moves in share prices' This in turn has a favorable impact on the portfolios of investments of these institutions, due to the CCI pricing formula as discussed later Family control is reluctant to admit outsiders for which reason they resort to cheap bank credit at low rates of interest Good banking connections aid in this process which results in a high debt to equity ratio, which in turn makes the venture appear risker to potential shareholders, thus forming a viscous circle Due to narrow shareholding bids, to takeover poor performing companies are next to impossible

2 42 Interest rates as already mentioned are highly distorted The nominal rates vary from 6% to 15-16% on 3 year investments of the National Saving Scheme For deposits under three years, the Khas Deposit yields 12 5% The absence of risk and the advantage inherent in the NSS increases their attractiveness to individuals and institutions alike On the other hand only 15% of the companies pay dividends between 20-30% whereas others have a lower rate and nearly 40% have a record of not paying at all over the last 9-10 years

2.43 According to economic literature the efficiency of the capital market can be measured along the following criteria,

Allocative Efficiency this refers to the channelizing of savings into the most productive and profitable uses

Informative Efficiency This refers to the fact that prices fully reflect all the information available

Operational Efficiency This reflect the day to day operation of the market It is responsible for keeping transactions cost down and have them determined by market forces

Second period Efficiency This arises if market provides fair game to all players It is when there are equal opportunities of access to price sensitive information and there are no consistent opportunities to make gains at the other investor's expense and so increase the inequality of wealth from one period to another

2 44 In Pakistan, information as regards companies' accounts and management decisions is published too late and share prices do not reflect the information available Often the integrity of the accounting profession is also in question The efficiency of a stock market or the lack of it is a direct reflection of the efficiency of the economy in which it operates The problems being faced by participants are reflective of the conditions prevalent everywhere There don't seem to be too many 'fair games' economically, socially or politically, so perhaps asking for fair play on the stock exchanges is out of context In an environment where there is lack of law and order, where presence of illegal money and gross tax evasion are facts of life and where the august institution of the civil service is corrupt achieving stock market efficiency might only remain a dream

2.45 The trend towards having a public issue is on the increase in Pakistan In 1989, 38 companies were listed The total market capitalization at present is Rs 49 billion, which is approximately equal to US $2 5 billion There are a number of reasons why a company would wish to go public Some of these as follows,

1. Public limited companies are taxed at a lower rate than private limited companies Prior to 1989 the income of listed companies was taxed at 40% whereas the rate for private companies was 55% This has been changed to 50% for listed companies as of 1989

2. Listed companies' dividend income above Rs 15,000 is tax exempt whereas those of unlisted companies are taxed at the regular income tax rate

3. Companies may be forced to go to the market as the amount of capital required to support a competitive sized business increases

4 In view of the over subscription of issues in the past underwriting is not a pre condition to going public which means issuers will not shy away due to the cost of underwriting

5. The new generation of businessmen has professional degrees and wish to work in a more professional environment Thus they are keen to instill reporting standards and have detailed disclosures

6. Government policy on disinvestment of public business entities is a sign of encouraging the private sector

7. Securities prices rise immediately to great heights after the issue which is very attractive to entrepreneurs

8. GOP has changed rules regarding Bridge Financing Bridge loans are required to be treated as debt as opposed to equity This amendment would compell companies to go public

2.46 Inspite of all the above there are various factors which deter potential investors There are a number of distortions in the securities market in Pakistan, chief among which is the restriction on issuing shares at a premium The CCI does not allow the premium on shares to exceed 50% of the difference between the intrinsic value (paid up capital and reserves) and the paid up value of the share This pricing formula has no rationale Par value, an accounting convenient does not reflect the market value of the company nor all the available information It results in the over subscription of shares, as investors can make huge gains over night They also get a tax break Informal trading of the securities starts before the official trading, where speculative group bidding pushes the price up to enormous heights thus rendering the public offer into a virtual lottery The institutional investors such as NIT and ICP gain from this arrangement as the allotted shares show immediate appreciation on their books Thus performance of their portfolios is not a function of asset selection or the expertise of portfolio managers Thus market forces are not allowed to determine the price and have lead to the creation of a parallel market

2 47 Insider Trading is another major obstacle to the smooth working of the market Insider trading by the officers and directors of the company is not a criminal offense in Pakistan as it is in most western countries Section 244 of the Securities and Exchange Ordinance states that gains made within a period of less than six months be tendered to the company and a report be sent to the CLA However it provides that 'nothing in section

244 shall apply to a security acquired in good faith in satisfaction of debt previously contracted' This virtually renders the restrictions of section 244 useless Insider trading is further encouraged due to the fact that stock brokers are allowed to sit on the board of the qouted companies

2 48 Some recent measures taken by GOP to encourage participation in the capital market are as under,

1. As mentioned earlier underwriting has been made optional in order to bring down the cost of the issue

2. Restrictions have been imposed on bridge financing, which is now being treated as debt for the purpose of working out debt and equity ratios

3. The SBP has stopped general line of credit to financial institutions, indirectly encouraging them to go to raise resources in the market through instruments such as certificates of investment such as TFC & PTCS SBP has also issued instructions to DFIs regarding debt/equity and current ratios for projects of various sizes

4 It has been decided to induct institutions such as investment banks as members to improve the quality of brokerage

5 The privatization program will increase the supply of shares in the market As a first step 10% shares of the Pakistan International Airlines have been disinvested 20% shares of one of the commercial banks MCB will also be offered to the general public (this has met opposition from the workers union of this institution)

6 To extend brokerage services to the northern part of the country, it has been decided to set up a stock exchange in Islamabad (the case has been put on hold due to evidence of corruption and nepotism in the sanctioning process)

2 49 The government has recently decided to set up a Pakistan Fund to be sponsored by the Asian Development Bank This off shore fund of US $50 million is proposed to be listed on London Stock Exchange and is expected to attract institutional investors abroad

THE UNOFFICIAL FINANCIAL MARKET IN PAKISTAN

2 50 Financed by wealthy landlords and industrialists, Pakistan unofficial or parallel financial sector has developed a lot over the past two decades As in other developing countries, the system has developed due to the fluctuation in exchange rates and transactions that are less easily monitored or controlled through the regulatory framework such as arms, deals, narcotics and real estate deals It generally consists of the following arrangements,

The 'Hundi' system of foreign exchange transactions

Credit arrangements in the non-corporate cotton textile sector (sooter mandi)

Merchant credit operations particularly in the commodities market

Arrangements within the non corporate banking sector Jaurya Bazaar or other Indigenous banks

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2 51 The Informal sector at one time was restricted to hundis which are informal promissory notes popularized due to the large number of workers overseas Over time, however, it has become increasingly urban in character and has developed closer and more complex linkages with the formal economy The sector is extremely fragmented and plays an important role in the transportation and textile sector The informal sector operates chiefly through brokers who know or identify borrowers who are retailers requiring stock (inventory) financing, cottage industry requiring finance to purchase raw material or commodity traders to finance purchase of grain, spices etc from farmers There is a sophisticated system of credit control which exists by way of a highly developed communication network among brokers which limits the chances of bad debts the collection system that exists in this regard is alleged to be similar to that followed by the mafia in certain countries

2 52 NCBs play a very minor role (if at all) in the informal sector The market participants do not trust the NCBs due to various reasons For instance, NCBs cannot issue bearer securities, and tax officials can obtain information regarding identity of account holders

2 53 The hundi system consists of a 'chitthi' or promissory note given by the foreign exchange dealer to the remitter in return for cash foreign exchange The chitthi can be encased in Pakistan in domestic currency as a negotiable instrument of exchange

2 54 The money market in sooter mandi in Faisalabad is an elaborate credit system parallel to the official system where a number of self devised money instruments are used to facilitate transactions These transactions are estimated at Rs 135 million per day and the total value of these instruments in circulation at any time is estimated at Rs 4 billion (source Parallel Financial Sector in Pakistan by Ferguson Associates) Cash delivery receipts are a common instrument in this market and the chief participants are,

Yarn commission agents
Cloth commission agents
Cloth exporters
Weavers
Brokers and
Investors

2 55 The Nationalized Commercial Banks are a part of these arrangements in that they issue Cash Deposit Receipts to investors which are encashable during banking hours Knowledgeable investors open PLS deposits before obtaining CDRs and thus earn a profit Any new investor only gets a blank endorsed CDR and the accruing profit is earned by the bank staff who have opened a PLS account in the interim A CDR is usually accepted only if it is issued by a bank branch in one of the eight bazaars surrounding Faisalabad's clock tower When presented for encashment the banks pay in notes of small denomination, which acts as a deterrent against indiscriminate encashment of CDRs and to ensure their quick return to the system

2 56 The merchant credit system consists of intermediaries known as 'arthies' who finance forward operations, hedging storage or speculation in specialized commodities such as cotton, wheat and fruit

2.57 Operations in the noncorporate banking sector date back to the colonial period when indigenous banks provided services to entrepreneurs in large cities Some went on to become a part of the formal banking sector Today this sector is considered to be of a substantial size with 12 leaders and operations are streamlined based on interlocking relations.

2 58 In recent years, narcotics and real estate business have provided boost to the informal sector The reach of these marke's are no longer restricted to a single market, city or country The unofficial market extends overseas Funds that have been generated through double invoicing of import and export transaction proceeds of drug sales and possibly the proceeds of fraud committed on domestic and international banks are all syphoned off to bank accounts outside the country The attraction for importers in this market is the fact that they borrow Rs 100 million to pay for imports which are documented to show a value around Rs 10 million which is the basis used for calculating duties

2 59 Foreign exchange transaction in this sector have thrived due to official restrictions Inspite of all the restrictions on Foreign Exchange it is fairly easy to obtain the currency of any kind at a little above or below the official rate Popular currency such as the US dollar and Pound Sterling sell at above the official rate Various restrictions are also responsible in inflated exchange rates For instance Banks in Pakistan are not allowed to provide foreign exchange for the purchase of motor vehicle thus people resort to the unofficial market According to an estimate approximately $232 million (source Rationalization of DFIs) was financed through this sector last year Foreign exchange restrictions have been rendered ineffective to a large extent also due to the Foreign Exchange Bearer Certificates (FEBC) Scheme Under this scheme anyone can buy FEBCs up to an unlimited amount in Pakistan, convert them into foreign exchange through a check or draft and take the proceeds overseas without disclosing the source of funds In Pakistan these can only be encased in local currency

2 60 Public transport vehicles such as taxis,trucks and buses etc are financed through transport entrepreneurs operating out of this market Real estate deals are also usually not financed through banks Instead documentation in these deals is usually much below the actual price to avoid wealth tax and buyers do not need to disclose the source of the money

2 61 Nowadays international financial markets offer a great channel for funds of wealthy individuals regardless of the source These markets are virtually unregulated and convertible currencies are free to flow around unfettered irrespective of the source According to a report by J P Morgan non bank sector residents of fifteen developing countries held assets abroad amounting to almost $300 billion at the end of 1987 which was more than half of the foreign debt outstanding of these countries Wealthy families transfer assets abroad due to lack of confidence in the political and economic climate in the country These people will keep their assets abroad as long as the exchange rate is over valued and there is a negative real interest rate The large budget deficit, insofar as it leads to deficit financing through printing of money and high inflation, and the highly inefficient capital markets also contribute to this exodus

CHAPTER 3

INVESTMENT FINANCE BANKS : BACKGROUND

3 01 Before recounting the experiences of the Pakistani private sector in the field of investment banking it is important to keep in mind the following discusssion

INVESTMENT/MERCHANT BANKING

3 02 Merchant Baking as it is known as in Europe is identical to the US phraseology of Investment banking Investment/Merchant banking can be defined as wholesale banking dealing in large deposits and loans It includes fee based activities such as corporate advice and management of loans and initial public offerings Typically an investment bank has a small proportion of operational staff and a high proportion of decision makers It may typically have a limited deposit base Investment banker organise syndicates and advice on sources of credit, corporate strategy, merger and acquisition activities, leveraged buy out decisions and privatization issues In developing countries they are usually more active in project financing activities (Thus acts of financial sophistication and complexity are "business as usual" for them)

UNIVERSAL VS SPECIALIZED BANKING

3 03 The case for having specialized banking where each institution plays a role that is concieved by the regulating authorities or having universal banking whereby every institution has the mandate to undertake any/all activities is largely a policy choice On the one hand, we see a more specialized approach to banking in the United States where regulation in the form of the Glass Steagall Act prohibit commercial banks from undertaking activities that would essentially lie in the domain of investment banks This regulation came in the wake of the stock market crash and was aimed to avoid the exposure of depositor funds to equity risk It was formulated with a view to matching maturities of deposits and loans and to avoid conflict of interest situations Commercial banks in the US were allowed to have investment banking subsidiaries outside the United States Over time, however, due to financial engineering commercial banks are offering products that are very sophisticated and not much different from Investment banking products The situation is quite the contrary in Europe ,where there are no restrictive laws but commercial banks have separate investment/merchant banking subsidiaries In general the trend in the world today is increasingly towards universal banking Thus prohibitions under law are not needed when a situation naturally creates the desired condition Even in Pakistan there has been a trend towards universal banking where NCBs have extended medium and long term lending to customers through lines of credit provided by the World Bank and the Asian Devlopment bank On the other hand DFIs have been urged to take deposits and offer checking account facilities to the public The charter of the proposed IFBs may seem to favor specialized banking but that is not the case for institutions such as modarabas and leasing companies (See detail follows)

INVESTMENT FINANCE BANKS IN PAKISTAN

3 04 Announced in the budget speech of 1987 by the Finance Minister of the time, Investment Finance Banks were given a charter for operation in the private sector This step was directly in line with the conditions laid out in the Financial Sector Adjustment Loan (FSAL) of the World Bank which stated a need for private sector participation in the Financial Sector This was done with a view to creating competition for the nationalized commercial Banks who were seen as incompetent and inefficient This was envisaged by most as a means for the private sector to re enter the field of banking The role of these institutions was to provide Project Financing and Merchant Banking facilities to the corporate sector They were expected to promote capital market development as 'market makers' providing a two way quotation system for all government paper

3 05 The initial government notification of 1987 attracted a total of 45 applications which were filed in December By June 1988 Letters of Intent were issued to six of the interested parties With the change in government, however, the previously awarded letter were withdrawn in November 1988 and new applications were invited Fifty seven applicants came forward out of which six were given approvals by June 1989 This figure has reached 12 by May 1990

3 06 According to the Gazzette notification of the government of Pakistan Statutory Regulation - SRO No 585(I)/87 anyone desirous of commencing operations has to comply with a number of conditons, some of which are as follows (see exhibit for the original text of the notification)

i It must be registered as a Public Limited company

ii. It should have a minimum paid up capital of one hundred million rupees and shall be listed on the Stock exchanges in Pakistan

iii. Its investment policy has to be clearly and concisely stated in its Memorandum and Articles of Association and the prospectus for the public offer of its securities

3 07 The objects of Investment Finance Banks preclude banking business and insurance business as defined by the Banking Companies Ordinance 1962 and the Insurance Act of 1938 respectively As laid out in the gazzette notifications of July and August 1987, the chief objectives and functions are as under

Money Market Activities

3 08

i. Issuing short term paper or certificates of deposit or investment of not less than 30 days maturity.

ii. Trading in commercial paper issued by it clients, Government securities, promissory notes, Banker's acceptances and other money market instruments acting as a broker or on its own account

iii Assisting in the issue of commercial paper, including introdution of companies to the money market, preparation of documentation, distribution and market making.

iv Acting as a broker or on its own account in the Call Money market.

Project Financing Activites:

3.09

i Make investments through underwriting of pubic issue, shares, participation term certificates, and term financing certificates

ii. Guaranteeing and counter guaranteeing loans and obligaton

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Corporate Finance Activities:

3 10

i. Act as advisor and agent in obtainig direct bak loans, export credit, syndicated loans leases and other project financing

ii Assisting companies in cash management and private placement of debt and equity.

iii. Assisiting companies in financial restructuring, mergers and Acquisitions and divestiture decisions

iv. Preparing feasability, market or industry studies and raising equity through venture capital for new and existing companies

3 11 The afore mentioned cover a wide range of activities, infact the SRO is open to accomodate other activites which may be discussed with the Controller Of Capital Issue Investment Banks are expected to play a major role in the restructuring of the financial sytem in Pakistan They have to mobilise new sources of funds and tap into niches peviously ignored by commercial banks and DFIs They are expected to develop Money and Capital Market operations In addition they are expected to share the burden of DFIs in providing financial assistance and advisory services

SANCTION PROCESS

3 12 The sanction process as indicated by nearly all the sponsors interviewed was not devoid of favoritism and political considerations According to one source four out of the first eight sanctions given in the first six months of the new regime's coming to power were purely political favors Chief among them were Fidelity Masraf (Investment Fianance Bank) Ltd, a favor to the Deputy leader of the opposition in the Punjab assembly Trust Investment Bank Ltd,given to Nisar Akbar an MNA and Choudry Umar Draz an MPA in the Punjab assembly The next was Tariq Islam a relation of the highest office in the country and one to Mr Anwar Majeed who had friends in high places The track record of these sponsors except those of Fidelity Masraf was unknown Infact, Mr Anwar Majeed, was involved in a court case in one of the Gulf States on charges of embezzlement
Two other sanctions were given in exchange of contributions made by two of the leading corporate groups to the funds of the ruling party Another two were granted due to intervention of the emmisaries of two foreign governments Thus merit and setting of tangible and measurable criteria was not the path followed by the authorities On the other hand to say that all the parties who have recieved permissions to operate investment banks are not sound would not be true This is further substantiated by the fact that most of them belong to corporate groups who can boast outstanding performance In three cases the same group got sanctions by both regimes (BCCI, AMEX, ATLAS)

3 13 According to one of the sponsors the IFB sponsors can be divided into two categories, those who are interested in changing the present state of the capital markets in Pakistan They will be sound professionally, are bound to be interested in the long term viability of their venture and will fight tooth and nail, any unncessary delays in their path The other category is people who are only interested in the short term benefits they can derive out of setting up investment banks These were labelled as 'fly by night' operations not much different from the investment companies of the late 1970s In the late 1970's and in later in 1987-88 various finance companies appeared in the market who granted rates of return which were much higher than any offered These fly-by-night operations put up sign

boards all over in large cities that projected their image as large corporate house with diversified portfolios of business Names such as Pioneer Industries and Samad Enterprises became the subject of conversation with a lot of individuals and retired personnel who were keen in sharing the success of these This clearly indicates that it is very important for the Government to have checks and balances to avoid institutions or individuals who might take advantage of naive investors and bring a bad name to all of them

3 14 By the same token it is crucial to give the professional groups enough incentives to operate and flourish The post nationalization performance of commercial banks and the inefficiency of the public sector DFIs is well known It is desirable for the government to extend all support to IFBs in recognition of the role they are expected to play in the health of the financial sector

CHAPTER 4

FIVE CASE STUDIES

4 01 The following is a brief description of five investment banks that are at some stage of initiating operations Detailed interviews with key executives of these institutions were conducted in order to do so The various issues and policy recommendations emerging from these discussions follows the description

CRESCENT INVESTMENT BANK LTD.

4 02 Crescent Investment Bank or Cresbank, with its head office in Lahore is the first investment Finance bank to be set up in the private sector It is a Joint venture of the Crescent Group and National Development Finance Corporation (NDFC) The equity structure is as follows,

Crescent Group	50%
NDFC	20%
General Public	30%

4 03 The Crescent Group is a reputable and well established corporate group in Pakistan It has been involved in various industrial ventures and has a successful track record It has the development and profitable operation of several industrial and commercial ventures to its credit These include fifteen public limited companies including seven textile units, two sugar mills, distilleries jute, particle board, steel and engineering works, trading, contracting and consulting and insurance and a leasing company The group has also been dominant in the field of cotton trade and has had close association with leading organizations in Pakistan and overseas The share prices of companies are adequate reflection of the Group's performance For instance, Cresecent jute share pice is 107% above face value, whereas other jute mills are selling at well below par Besides the interest in insurance and leasing (Pakistan Industrial leasing Corporation) the group had interest in a commercial bank in the pre-nationalization days and also has representation on the board of PICIC

4 04 The group is the poineer in the field of Investment Banking in Pakistan A brief history of their experience follows The group had applied for an IFB when applications had been called by the previous government in 1987, but inspite of a good track record did not recieve permission to operate After the elected government came into power another application was immediately filed and skepticism was expressed over the lack of justifiable measurable criteria that had been used previously for selection (some sanctions had been given during the last days of the last regime and had been rightfully entitled as 'sanctions at midnight') All previous permissions were subsequently cancelled and new applications were invited The Group initially wanted the Asian Development Bank as a partner with a ten percent stake The groups leasing company also has equity participation of the ADB and has direct lines of credit confirmed with the World bank, the Asian Development bank and the Commonwealth Development Corporation This arangement, however was not looked at with favor by GOP (this condition was subsequently done away with) and the group was forced vithdraw It subsequently applied with NDFC as partner and was one of the few to be ed a 'letter of intent' in January 1989 According to a sponsor of one of the banks, the ease of the sanction even this time was not entirely on the basis of measurable criteria, but infact was directly related to the amount of contruibution that a group made to the fund of the ruling party It is alleged that inspite of being one of the premier corporate groups in the country today, the Crescent Group had to resort to the same

4 05 Inspite of inherent delays such as the name of the bank (five names were changed in the first eleven months after the letter of intent had been issued), the issue was brought to the public in October 1989 As expected the issue was well recieved by the public and it was over subscribed by 82 times and shares are subsequently being traded at almost two times face value The Commencement of Business certificate was finally granted in December 1989, and Cresbank opened its doors for business in January 1990 Even after the successful public offer GOP wanted the sponsors to do it over, citing a change in decision regarding the sponsors' minimum equity requirement as Rs 100 million At this point the sponsors expressed their inability to scratch the previous public offer and go through the entire process over again and GOPs objection was withdrawn

PRODUCTS AND COMPETITION

4 06 The following is a list of products and services that the bank proposes to offer;

Project Finance
Equity Investment and trading in listed securities
Underwriting issues of corporate debt and equity securities
Guaranteeing loans and other obligations
Loan syndication
Financing trade
Financing securities purchases (Margin Finance)
Issuing certifictes of deposits on its own behalf and on behalf of customers
Discounting of debt securities
Mobilization and management of mutual funds
Investment and Financial advisory services
Provide fee based services like fund management portfolio management, preparation of feasibilities

4 07 Management realizes at this stage that inspite of the list of allowable activities, most of these require a lot more sophisticated and organized infrastructure than the existing Initially management may have to undertake activities that are already being undertaken by other institution such as DFIs and NCBs for making inroads into the sector In other words a client base will initially be built by undertaking conventional activities as it may take up to four or five years for formulating new products, bringing them to market and having people accept them The management at Cresbank does not want to engage in project finance activities at the scale at which the DFIs perform this activity Instead they see themselves as being the catalyst in the entire process Management wants to provide "One Window Operation" for prospective clients It wants to reduce the time taken for processing project financing requests and provide clients the advantage of obtaining all services under one roof The bank in turn will be in a position to refer clients to various DFIs and function as an interface This would benefit the client who in turn would have a lot more credibility in the eyes of the DFIs Given the present nature of the approval cycle for a project and the time involved in obtaining DFI approvals, it will be a welcome step for prime corporate clients Cresbank has also had meetings with some private DFIs such as FMO the Netherlands Development Finance Corporataion and DEG a German DFI to obtain lines of credit These agencies displayed caution due to the poor performance of DFIs in Pakistan, and cited experiences where donors were forced to freeze lines due to poor performance

FIRST INTERNATIONAL INVESTMENT BANK LTD.

4 08 First International Bank or Interbank with its head office in Lahore (physically in Karachi) is a joint venture of Packages Ltd , American Express Bank Ltd (AMEX). and the International Finance Corporation (IFC) The equity structure is as follows,

Packages Ltd	30 1%
American Express	30 0%
IFC	14 9%
General Public	25.0%

4 09 Packages Group is one of the most dynamic industrial groups on Pakistan's business horizon It has been involved in a number of industrial and commercial ventures most of which have been joint venture arrangements with industrial houses of the West Often they have been first efforts of their kind, for instance the Tetrapak plant and the Milk plant In the non profit sector, the group has been one of the chief sponsors of the Lahore University of Management Sciences This is a private sector undertaking which is providing management education at par with leading business institutions of the world The operating performance and reputaion of the group can be best judged by the company share prices which for Packages and Milkpak is 340% and 200% of face value The chairman of the board Syed Baber Ali is the chairman of the Inter bank and is also on the board of the International Finance Corporation

4 10 The experience of the sponsors as far as sanctions for the bank are concerned were summarized by the chairman who said that the high officials of USAID were well aware of the constraints encountered in this regard It is pointed out that the AID official had been made aware of the progress at every stage of the process This sanction, it was alleged could not have been possible without the involvement of the highest representatives of the United States government, and substantial verbal and written exhortations These stemmed from the interest the US government has in encouraging free enterprise in Pakistan

4 11 The same partners had put in an application in the pre democracy days and had nearly started operation when the licenses ware revoked and it had to be disbanded Unnecessary delays were encountered by them at every juncture of the reapplication process, chief among whom was the highest public authority in the ministry concerned who at the time was of the view that foreign partners should not be given the right to repatriate profits It must be pointed out that this right is safeguarded by the constitution of the country

4 12 Interbank's chief executive officer is Mr Fredrick Piecoczeck an experienced investment banker appointed by American Express Inter bank was awarded the letter of intent in October 1989 and hopes to have the public offering on July 19, 1990 At present the CEO is in Karachi eventhough the sanction was given for an office in Lahore Karachi is the centre of Business & Commerce The major Stock Exchange is in Karachi as are the corporate headquarters of various private & multinational corporations

4.13 Management sees the achievement of its objectives subject to the regulatory environment and the encouragement and incentives it may recieve from the authorities Management sees Inter bank and infact all the IFBs as a force that is capable of exploiting opportunities existing in the Financial sector It seeks to establish profitable new areas of business given liberalization of markets and the setting up of a regulatory framework condusive to capital market activities Inter bank has the advantage of having institutional support in the form of the world wide network of AMEX and access to and knowledge of other financial markets of the world Inter Bank management and other investment banks, see it as the leader in introduction of new financial products in Pakistan It wants to play a major role in a substantial broadening of the financing options available to the corporate sector AMEX's prior experience in this regard has been entirely favorable It was one of the first foreign banks who offered leasing of corporate assets to prime clients This was done under an unusual arrangement, whereby it went into a tripartite agreement with a Modaraba company - B R R Modaraba and the client

PRODUCTS OFFERED AND COMPETITION

4 14 The products/services that it proposes to offer include,
Assistance in floatation of companies including underwriting of issues
Arrangement and provision of short term and long term financing through paper issue,
Musharikas and markup arrangements
Market making in corporate and government paper
Money market, treasury and Foreign exchange activities (Subject to approval)
Corporate and project advisory work
Floatation of modarabas and mutual funds
Introduction of investors and capital to Pakistani investment opportunities
Loans and equity syndication
Leasing

Management wants to provide competition to nationalized and foreign commercial banks, which might be expected to react by measures such as rate reduction It also expects Modaraba companies if sufficient in number, to pose competition, given their advantagous tax structure (please refer to detailed discussion ahead)

ISLAMIC INVESTMENT BANK LTD.

4 15 Islamic Investment Bank Ltd with its head office in Peshawar is being set up by a group of entrepreneurs and professionals It will have six corporate directors none of whom will have an absolute majority One of the key sponsors is the Al-Hurair Group from the Gulf whc are investing almost fifteen percent in their personal capacity in this venture The equity structure is as follows

Al-Hurair Group	15%
Professional group	45%
General	40%

4.16 The professional group consists of various retired civil servants (ex Governor State Bank of Pakistan, ex Secretary Ministry of Production, ex official of the PIDB etc.), entrepreneurs, (Mr Fareed a chartered accountant, overseas Pakistanis and an experienced bankers Mr Sultan Ahmed Khan (Chief Manager Bank of Oman in Dubai) This group does not have equity from any large corporate group in Pakistan and instead the largest shareholding is that of the Bank of Oman Bank of Oman has a representation in Pakistan and has branches in Karachi, Lahore and Peshawar

4.17 Management wants to provide "modern services" to the entrepreneurial class They want to provide innovative products, especially in project finance and claim to have recieved encouragement in this regard from the aminlstrative authorities in the North West Frontier Province Management expects to compete with the Development Finance Institutions The group hopes the Islamic Bank will play a major role in development finance citing profit as not being the prime motive for business Sponsors strongly believe in the

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soundness of Islamic banking and its viability in the market place "Social responsibility" and a "spirit of service to the nation" by locating in a relatively less developed area of the country were reiterated by both sponsors who were interviewed in this regard They also stressed the fact that they want to play a major role in the development of sectors previously ignored such as housing etc

4 18 The sponsors indicated fragmented holding and professional management as their competitive advantage It was proffesionals who initiated the application and then went about looking for sponsors The entire operations are being conducted solely by Mr Sultan Khan who is also working in the capacity of legal counsel and corporate accountant They see investment banking as a viable channel to direct resources away from the unorganized financial sector In this regard sponsors believe that they will complement the role of NCBs initially and eventually hope to expand operation so as to compete with them The mandate of Islamic Bank is somewhat unclear, as most activities were those that are undertaken by DFIs or NCBs Sponsors projects the idea of their bank more as a commercial bank Moreover the interviewer heard a lot about professionalism yet the professional management team was nowhere in sight

THE ATLAS GROUP.

4 19 The investment bank being set up by the Atlas group is the most recent entrant in the field Having obtained the actual permission to operate on May 2, 1990 the Atlas group has been sanctioned its head office in Lahore, but will initially operate out of Karachi (along the lines of Interbank) The proposed equity structure is as follows,

Atlas Group	40%
Bank of Tokyo	20%
Asian Development Bank	20%
General Public	20%

4 20 The Atlas Group was formed in 1962 and in a period of 28 years has become one of the largest corporate groups in Pakistan today It stood at number nineteen in the list of net assets of top twenty five corporate groups listed on the stock exchange The group consists of six public limited companies engaged in diverse business The group is heavily oriented towards engineering and more specifically towards the automotive industry The group has a number of joint venture projects chiefly with Japanese corporations such as Honda motorcycle, Japan Storage Battery Co Ltd and the Bank of Tokyo The objective of the group has always been to transfer technology into Pakistan and use the international experience of partners to build a professional business venture The share price of companies in the group such as Atlas Autos and Panjdarya are 250% and nearly 300% of face value The chairman of the board is Mr Yusuf Shirazi who prides himself with the team of professionals looking after these companies

4.21 The group set up a leasing company in 1987 with National Investment Trust and the Bank of Tokyo as partners It took over the Muslim Insurance Company in 1980 which today, with its network of 27 branches, is one of the leading companies in the industry It also has an ivestment company dealing in innvestment and trading of financial and other assets

4.22 The Atlas group had also applied for a license to operate an investment bank during the previous regime The permission was revoked like all the rest and the group re-applied in 1988 The chief sponsor indicated the lack of positive response from present authorities in the ministry concerned, so much so that sponsors were asked to put up their case to the chief excutive of the country or her family members This suggestion was turned down by the sponsor and therefore there was no progress Instead the concerned ministry raised objections on the location of the head office Sanction was granted nearly two years after the application had been put in, and the visit of the Japanese Prime Minister proved to be a catalyst in this regard It is alleged that the final approval came when the Emissary of the Japanese government wanted MOF to give them a progress report of all joint venture projects which awaited approvals At this point the location of the Head office seemed to be of no consequence to the approving authorities

4 23 The present Chief Executive Mr Jawaid Iqbal Ahmed has been assocated with the group for a long time and is looking after this project till a professonal management team is hired for the purpose Management strongly feels that so far bureaucratic controls have inhibited social development in Pakistan instead of encouraging it It is felt that Development Financial Institutions and the public sector have fallen short of the expected role and only the private sector can now achieve the intended objectives At the same time management feels it is very important to have checks and balances along the way so as to weed out those who are not seriously committed to the task of nation building and are in it only for the short term Management wants to play a major role in mobilizing savings in the country and expanding the capital base It is very conscious of the fact that individuals have a lot of money that is hoarded and invested in non-productive assets

4 24 Management hopes to introduce innovative mechanisms of investment and deal making through financial engineering Management expects the leasing company and the investment company as playing a major role in complementing the scope of the Investment bank The Atlas group of companies has a historical relationship with the Bank of Tokyo dating back to almost 27 years and hopes to replicate its tr... of technoogy experience with other Japanese corporate houses in investment banking They hope to gain from the experience of the Japanese Investment banks and are working on formulationg policy documents and procedural manuals in direct consultation with co-sponsors The Asian Development Bank is another important partner that has a wealth of resources, the group is seeking to tap this as well Management realizes the importance of having sound promoters in order to gain the confidence of the business sector and cited its repeated success in the engineering sector by the same token The management indicated the current dialogue between them and Yamaichi Securities under which they want to study the operating structure of an investment company that the laterhasset up with the help of the ADB in Indonesia

FIDELITY MASRAF (Investment Finance Bank Ltd.)

4 25 Fidelity having recently obtained the letter of intent from the government intends to start operations with Faisalabad as the head office The shareholding is divided amongst five individuals / groups and the general public These include ,

Main Mohammed Mansha	10%
Mean Tariq Saigol	10%
Mr Jehangir	10%
Sapphire Group	10%
Mr Salman Taseer	10%
General Public	50%

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4 26 The chief sponsors are amongst the top seven companies listed on the stock exchange with the highest net asset Mian Mansha has been the chairman of All Pakistan Textile Mills Association (APTMA) and Chief Executive of the Nishat Group of companies (listed number 6) Mian Tariq Saigol has also been the chairman of APTMA (listed number 4) The Sapphire group (listed as number 7) Mr Jehangir a leading stockbroker from Karachi and Mr Salman Taseer was a partner in the reputable Auditing and Accounting firm of Taseer Handi and Khalid all have an equal stake

4 27 The experience of the sponsors regarding the application / approval process is fairly straight forward According to one of the sponsors the initial letter of intent was given by the Prime Minister as political favour to one of them who was a stalwart of the People's Party He further added that out of a total of six sanctions given during the first half of 1989 four were political favours (please see detail above)

4 28 Inspite of the nature of approval, even this group faced a lot of difficulty and unnecessary delays which were attributed in their entirety to the Ministry concerned The delay was chiefly due to disagreement on the location of the Head Office The group had been authorized head office in Multan whereas they had wanted one in Faisalabad

4 29 IFBs came into being due to World Bank conditionality as stated in the FSAL The loan report talks of these IFBs developing into full fledged banks ultimately which would provide competition to nationalized banks GOP has sanctioned one branch initially with the provision of expanding into five branches over time officials have repeatedly mentioned that their role will be restricted to the invigoration of money and capital markets at this stage and for the foreseeable future

4 30 The interest of various parties such as leading foreign banks provides evidence to the contrary BCCI, American Express and Bank of Oman have already received approvals, whereas Citibank and Grindlays Bank are keen to obtain approvals at the earliest Observers see this as a means for them to undertake activities which they were previously prohibited from These include the issuance of certificates of deposit, underwriting of shares and flotation of moodarabas and leasing companies Foreign banks have also found an opportunity to increase profits through avenues, such as increase in branch network and a reduction in their tax liability

4 31 The latter can be achieved by transferring a chunk of non-funds based earning to the books of the investment bank IFBs are listed companies that will be taxed at 40% whereas tax liabilities of foreign banks is sometimes in excess of 75%

CHAPTER 5

EMERGING ISSUES AND RECOMMENDATIONS.

PRESENT HINDRANCES TO SUCCESSFUL OPERATIONS

5 01 The first and foremost hindrance that was faced by all parties was the lengthy process of seeking approval This process has been almost two years in some cases This poses a constraint for all new aspirants in the field It is alleged that interested parties are using all sorts of political connections and seeking foreign government recommendations in their bid to obtain letters of intent The pressure is building up as more applications find their way to the authorities The experience of the Crescent Group the only ones that have had the public subscription so far-is a case in point The stock market with all its inefficiencies gives a premium to the sound reputation of the Crescent Group This resulted in over subscription and the price of shares being quoted at two or three times the par value Aspiring sponsors thus also see this as a way to increasing the value of their net worth in a short period of time This explains the interest that has been shown by various parties in obtaining licenses by any possible means This fact also encourages those whose intentions are only to make a 'quick buck'

5 02 The procedure that companies in Pakistan have to follow in order to have a public offering, whether Investment Banks or others, is aso very tedious and rampant with unnecessary delays The inherent delays in this process will directly effect the working of IFBs as well when they will underwrite issues of, and act as advisors to clients going public The present process requires the sponsors of any company to register with the registrar of joint stock companies, go to the controller of capital issue with the memorandum and articles of association have the same whetted by the Corporate Law Authority, seek State Bank of Pakistan approvals and then put in the prospectus to te Stock Exchange for approval before the actual floatation The slightest of objections, say at stage 3 would result in going back to stage one in order for them to be approved by the authorities What would be desirable is the ubiquitous and much desired "one window operation" whereby the sponsors could put together the entire package and then seek a 'blanket approval' from any designated department of the Ministry of Finance Going a step beyond this, it has been suggested that the IFBs in particular should be granted approvals to undertake issues on behalf of clients on their own books or by directly placing them in the market In areas where the regulators wish to retain control there should be a swift approval process which allows transaction to proceed before market condition change

5 03 IFBs are allowed to act as traders and brokers of listed securities under section 5 (b)(v) of the SRO At present stock exchanges are not issuing new membership cards as they do not want to increase membership The only way out for the IFB is to puchase a card from an existing member This has led to a monopoly situation for the existing members who have started quoting unrealistic prices for them It was alleged that they want to sell off cards at exorbitant prices but officially document only a minimal amount in order to make an off the book profit

5.04 Nationalized Commercial Banks and Domestic Foreign Banks in Pakistan are regulated by the State Bank of Pakistan At the time the SRO of Investment Banks was being drawn, it was decided that since Investment Banks are not going to be scheduled banks, therefore they do not need to be regulated by the SBP Instead it was decided that the Ministry of Finance and in particular the controller of capital issue would be the regulating authority This decision is responsible for the regulatory confusion that the investment banks are facing today In particular IFBs do not have access to the money market like other financial institutions As per section 5(a)(iv) of the SRO, they are allowed to borrow and lend in the call money market (Inter bank) The situation on ground is different, and they cannot participate in the Interbank market which puts them at a relative disadvantage The more aggressive foreign banks in Pakistan are the traditional borrowers in this market due to a decline in their share of bank deposits coupled with a more active demand for bank credit The Interbank or Call Money rate is artificially low At the peak of the busy season it may exceed the bank rate charged by the SBP This is due to demand for credit being more than that allowed by SBP and because Call Money does not require collateral As the name indicates the money is 'on call' but participants in this market have a gentlemen's agreement that it will not be called for some time To maintain the investment finance banks liquidity position at par with commerical banks it is important that the present situation be amended without delay

5.05 IFBs are allowed to issue short and long term redeemable capital which includes Participation Term Certificates and Term Finance Certificates under section 5 (b)(vii) and 5(c)(xi) of the SRO However, under section 120 of the Companies Ordinance a company can issue any instrument in the nature of redeemable capital in favour of 'scheduled banks', 'financial institutions' or other persons as may be specified for the purpose by the Federal Government through notification in the Official Gazzette As an IFB is neither a scheduled bank nor a financial institution, companies cannot issue TFCs in their favour This situation can be altered only if authorities issue a notification that will amend the existing regulations

5 06 At present IFBs do not have authorization to function as foreign exchange dealers For this reason they are not in a position to open Letters of Credit on behalf of clients Thus they would have to have a standing relationship with a commercial bank for this purpose and give up half of the commission that is earned Their exclusion from this highly lucrative market seems unnecessary It must be pointed out that foreign banks derive more than two thirds of their income from trade related financing

5 07 IFBs must be eligible for remedies available to commercial banks in cases of default such as access to the banking tribunal (It is a different matter that the said tribunal is without a judge for the past year and a half) Moreover the existing law regarding foreclosures and taking posession of assets which are pledged as security leave a lot to be desired Thus recovery mechanisms must be put in place before IFBs can be expected to take on the risk of credit and new ventures

5 08 IFBs are not allowed to take deposits that are of less that ninety days maturity nor have checking accounts, which differentiates them from commercial banks Investment banks want to provide all services under the same roof for their corporate clients This includes raising short term funds on their behalf, which may be less than 90 days maturity Similarly Form L ceilings limit short term borrowing If paper issued by prime corporate customers were excluded from this limit or incorporated as a sub limit, it would encourage entry by companies, help develop markets and create liquidity It must be realised that the IFBs could play an important role in developing a broad and flexible money market where funds can be channelled where they are most needed

5 09 Specialized credit line from the State Bank are not available to IFBs as they are to NCBs and DFIs These include concessioanry lines for locally fabricated machinery

5.10 IFBs must be able to take hold and make markets in different kinds of paper without restrictions or impediments Instead matters appear to have been made artificially complex due to the stamp duties that are imposed on the creation of new instruments There is a need to build a secondary market in Pakistan GOP has been showing an interest and a number of studies have been undertaken IFBs can play an important role if provided with the required incentives In well developed money markets, liquidity is the 'name of the game' The only reason why there is a demand for instruments with long term maturitys such as 30 year bonds, is because they can be traded freely It is recommended that stamp duty on IFB paper products be removed

5.11 To have IFBs competing with other institutions on a level playing field certain conditions have to be created Liquidity and tradeability form the critical mass of capital markets Pakistani authorities will have to take committed steps to fuel the market For instance the crowding out effect due to unnecessarily advantageous features of certain instruments should be avoided The WAPDA bonds is a case in point First, they are guaranteed by the government Secondly, they are just another source of non bank domestic borrowing The rate of return does not reflect the operating performance of WAPDA Infact the bonds prospectus did not contain a financial statement of WAPDA These long term bonds have features of discounting (after 6 months with FCDC and a tax advantage that will be very difficult to match for any prime corporate borrower) The prime customer will be able to borrow at 12 5% + legal and administrative cost and will thus be driven out of the market It is ofcourse critical that IFBs have access to cheaper funds as compared to the corporations that they are lending to

5 12 Since IFBs are not included in the list of scheduled banks there is a number of problems that they are facing For instance IFBs can provide guarantees on behalf of customers in case equipment is imported, but cannot guarantee the payment of duty through custom debentures, as the law only names scheduled banks as eligible for this function Section 5(c)(xii) allows IFBs to undertake guaranteeing and counter guaranteeing business, but public sector institutions are resisting the acceptance of guarantees issued by them, as IFBs are absent from the text of the Companies Ordinance 1984 Similarly certain government corporations which have surplus funds cannot place them with IFBs since they have not been given the status of financial institutions in existing law

5 13 The tax status of the IFBs is still not very clear and there has not been any rate disclosure If the IFBs are taxed like other banks it will be unfair since the quality of the portfolio of the two types of institutions will be very distinct Secondly the amount of money that the IFBs are spending on the research and development of new products will have an impact on their income thus rendering them incomparable to other banks

5 14 IFBs are working in a regulated environment where each activity is restricted in quantifiable terms as a percentage of liquid net worth or other similar easures On the other hand activities of leasing companies and modarabas are not restricted or governed by any regulation This results in their unlimited and unregulated involvement in activities which essentially lie in the domain of investment banking These companies are investing in shares, discounting bills, giving margin loans and accepting deposit and lending in an unrestricted manner This results in unfair competition as the conventional leasing rates are 22 - 24% Thus leasing companies are in a position to offer competitive deposit rates in the neighbourhood of 16-18%, which are the highest in the market It is therefore recommended that either Modarabas should be disallowed investment banking activities or should have similar guidelines as those provided to IFBs so as to have fair competition

5.15 A major problem exists due to the fact that investment banking is a new concept in Pakistan The market as well as the bureaucracy do not or only partially understand what is entails Some think of IFBs as being synonymous with the fraudulant investment companies which mushroomed in the past decade These companies offered tremendous returns and later decamped with the investors's money This is the chief reason for the extreme caution being exercised by regulatory agencies and the public at large Thus it is important to educate the target audience, as regards investment banking The challenge facing the IFBs is, firstly to create a demand for their services and then to create an awareness of their name Even the professional and fresh graduates who are working in IFBs are only familiar with the academic working of Investment Banks The experience of

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well developed capital markets can also not be replicated in their entirety For this reason, it would be appropriate for organizations such as the Pakistan Banking Council and/or the regulating bodies, alongwith international agencies, to hold seminars and training workshops all over the country for bankers and professionals Donor agencies could also play an important role by sponsoring workshops, where experienced investment bankers from overseas could be invited to impart training to the aspiring investment bankers in Pakistan or those in the field be sent overseas for a short period of time to gain practical knowledge and experience

5 16 Donor agencies could lend support to IFBs through various measures First of all an awareness of the existence of these institutions needs to be created in the donor community The IFBs came into existence due to World Bank conditionality on liberalization of the financial sector and the role that the private sector could play It appears that the pressure on regulatory authorities must continue in a similar manner If the objectives in view are to be achieved, half hearted effort is of no use Instead the whole process should be monitored at every step A positive move would be the provision of credit lines In this regard donor agencies and overseas DFIs should be encouraged to disburse funds through IFBs The process can start by a few initial projects where final evaluation and approval vests with the foreign DFI At a later stage dedicated lines of credit could also be made available to IFBs as were given to the government controlled DFIs in the past Caution must be exercised in this regard to avoid undesirable experiences such as those with state controlled DFIs For this reason it will be very important to look at the track record of sponsors

5 17 IFB personnel should be sponsored for training courses in other less developed countries such as Thailand and Indonesia The environment of the financial sector is similar to that in Pakistan, or was recently at a stage where Pakistan is now

GOP VIEWS.

5 18 The views of various GOP officials was sought in this regards Some issues as perceived by officials at the Ministry are as under

MOF realizes the lack of a unitary regulatory authority and had suggested the creation of a special bureau with the SBP The bureau has been approved as a part of the finance bill now after considerable delay and will be operational by the beginning of next year MOF sees the role of IFBs distinct from NCBs and does not want them to think they are commercial banks Thus they do not want this to be perceived as a back door entrance to commercial banking, which is the perception held by the private sponsors

5 19 The private sector was decribed as being 'capricious and dishonest' Some officials cast doubts over the seriousness of the efforts of the private sector He maintained that the delays in setting up operations was indicative of this - only one bank is functioning whereas 12 have been awarded sanctions

5 20 The official was wary of those groups who appear to be fly-by-night operators He indicated that the lack of a proper management team and or hired professionals was a proof of their short term committment Officials also indicated that the team of professionals initially shown in the applications were nowhere in sight

5 21 The large corporate groups were perceived as only serving self interests Management was of the opinion that IFBs belonging to the large corporate groups will probably end up serving only the companies of the group, who will thus have a tight control over operations Certain Officials also alluded to the fact that these may only serve as 'money laundering' outfits for the groups

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5 22 The authorities were not willing to concede to their demands of having checking accounts or being authorized dealers of foreign exchange IFBs are not commercial banks and that is not their desired role, was the response

5 23 The IFBs are required to play a distinct role to invigorate the financial sector It was for this reason that none of them have been given a license to operate with a head office in Karachi As cited by an Official of the Ministry, more than 70 percent of the deposits are in the NWFP and the Punjab, whereas more thn 80% of the lending is done in Karachi IFBs are expected to remove this distortion by having operations up country

5 24 The sponsors have not been straight forward in dealing with the Ministry was another allegation For instance, one group of sponsors had indicated foreign partners as having a 25% share in equity in the initial application but had shown a 50% participation in subsequent paper work, without pointing out the discrepency to the officials concerned

5 25 Another sponsor had come to the ministry to demand that the license issued to him should be revoked, as he had fallen out with the original sponsors Instead he wanted another sanction in his own name He was asked to resolve his disagreement instead of involving officials of the Ministry in insider bickering

5 26 Officials expressed concern over the operations of the one bank in the market It was alleged that they had been turning away potential clients Moreover they had not advertised any deposit or resource mobiliation schemes in the six month of operation and seem to be involved in only group dealings The authorities hope to have an SBP audit soon whereby they will get a fair idea of the operations of this bank The official mentioned that as a last resort measure, if the private sector did not 'shape up' licenses may be revoked

CHAPTER 6

SECTOR REVIEW

DEVELOPMENT FINANCIAL INSTITUTIONS - SECTORAL SUMMARY

6 01 There may not be a single quantifiable measure by which a comparison of the working of all DFIs is possible However, the strengths and weaknesses of each can be weighed against their stated objectives Their performance has been a source of concern for the government and international agencies who have had to resort to extreme measures PICIC is a case in point where the lines of credit that were once available from the World Bank have been frozen More recently the Asian Development Bank undertook a study in order to investigate the rationalization of Development Financial Institutions The final report and recommendations are still awaited by the concerned ministry (1) The following is a brief attempt to explain the working of DFIs and some reasons that have hampered their performance over the years

6 02 At the time Pakistan came into being, the muslim businessmen chiefly belonged to the trader-merchant class who were involved in the export of raw cotton, retail of cotton produce and similar activities The trader merchant class was gradually moving into industrial ventures and transforming into a financial-industrial class The policies of the military ruler Field Marshall Ayub provided a critical stimulus to this process Institutions such as the PIDC, PICIC and the IDBP were formed in the wake of those policies The financial-industrial groups that emerged in the late 1950s and early 1960s, such as the Dawoods, the Crescent group and the Valikas, were the prime beneficiaries of these policies A large portion of the loans of institutions like the IDBP and PICIC went towards these groups

6 03 In addition the board of the PICIC was dominated by representatives of these large industrial houses From its inception PICIC did not risk providing capital to new groups, instead it relied on tried and tested industrial houses which further aided in concentrating wealth in the hands of the chosen few These industrial groups were later identified among the famous 22 families in 1968 in whose hands lay more than 80% of Pakistan's economic wealth

6 04 The National Investment Trust (NIT) and the Investment Corporation of Pakistan(ICP) were created to have broad based capital markets with wide share ownership They were set up to encourage individual savings to be invested in money and capital market instruments These institutions were also meant to conform to the risk/investment profile of the investors Over the years, however these two institutions have not only been denied the membership to the stock exchanges but have also not fulfilled their mandate NIT has performed very well, but its success is not due to its efficient investment portfolio but due to the various concessions by the government For instance a fixed percentage of any new share issue in the market has to be offered to the Trust Since the price of issues generally goes up to double or more in a short period, the value of the Trust's holding goes up without any astute decision making by the portfolio managers This has prevented the development of financial expertise in the institution As a result the institution has not been able to provide the necessary impetus to money and capital market development

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1 It is over due and Ministry of Finance Officials have labelled it almost as an exercise in futility after seeing the draft EPRU staff had the opportunity to briefly review it at the ADB office in Islamabad It seemed to suffer from being repetitive and somewhat incoherent The recomendations made thereunder also seemed contradictory at times

6 05 The ICP has floated numerous mutual funds over the years The effective annual yield of these 17 funds varies from 15 percent to greater than 40 percent There are no minimum standards and the annual reports do not expound on the quality of management or the profile of potential investors This is in contrast to the practice elsewhere in the world, where the general asset composition is disclosed The risk profile of investors determines whether they want to invest in a conservative or an aggressive fund Further there is no mention of the reasons why one fund has a high rate of return and the other low

6 06 NDFC was initially created in 1972 to provide financing to State Owned Enterprises, especially the balancing modernization and expansion activities of the nationalized industrial units Similarly Banker's Equity was set up to provide direct equity support and under writing facilities to private enterprise NCBs are members of BEL and are chiefly responsible for its creation Prior to BEL, NCBs used to take part in consortium financing with other DFIs such as in ICP, BEL ad NDFC have also moved away from their main objectives in a similar fashion to that of IDBP and PICIC in the past NDFC undertook project financing in the more lucrative private sector with hardly any restriction on the nature or size of the projects BEL went into project financing over and above the bridge financing and underwriting activities

CHAPTER 7

CASE STUDY : AGRICULTURE DEVELOPMENT BANK OF PAKISTAN.

AGRICULTURAL CREDIT-SECTORAL REVIEW

7 01 As mentioned earlier the NCCC estblishes aggregate ceilings for credit expansion which are alocated among the economy's various sectors These ceilings cover the maximum amount f loans to all sector that a bank is authorized to disburse during the priod For agricuture the process involves the Agricultural Credit Advisory Council and the State bank, after having recieved the approval from the inistry of Finance The ACAC assesses credit requirement for various agricultural purposes as detailed in annua targets of the 5 year pan The NCCC fixes and the SBP administers the over all credit allocations for the sector Ceiling for the ADBP like other DFIs and FBC are based on their absorptive capacity for loan disbursement and lon recovery performance

7 02 The instituional structure of the agricultural credit system is dominated by the Government of Pakistan Agriculture credit flows through three main chanels

The Agricultural Development bank of Pkistan
The Nationalized Commercial Banks
Federal Bank for Cooperatives

Table I shows the source wise break up of Institutional Agricultural credit for 1988-89

7 03 The NCBs and their branch network have been discussed earlier, here an attempt is made to describe the cooperative credit, the Agriculture Development Bank of Pakistan and its role in the agricultural sector

COOPERATIVE BANKS

7 04 A Cooperative Bank means a banking society registered under the Cooperative Societies Acts 1912 and 1925 The movement started in Indo-Pak towards the end of the niineteenth century Initially set up to provide credit to farmers in order to save them from village money lender, cooperatives were organized to encourage self help to persons of limited means through the Cooperative Act of 1904 Cooperatives are organized on a three tier system

Cooperative Societies
Provincial cooperative Banks (PCB)
Federal bank for Cooperatives (FBC)

7.05 State Bank funds are channeled through FBC which is an extention of the SBP It is vested with developmental and supervisory functions over cooperatives The four provinces and two federally administered areas are served by one Provincial Cooperative bank each A general manager is the chief executive of each PCB The credit function of loan processing, approval and collection are performed by personnel of the cooperative department, which has reduced the role of PCBs to mere disbursing units The cooperatives societies have an average membership of thirteen and are channels of credit at the village level They get loans from the PCB and lend it to indvidual members These are essentially village organizations with meager equity and the risk of loan repayment is borne by all its members

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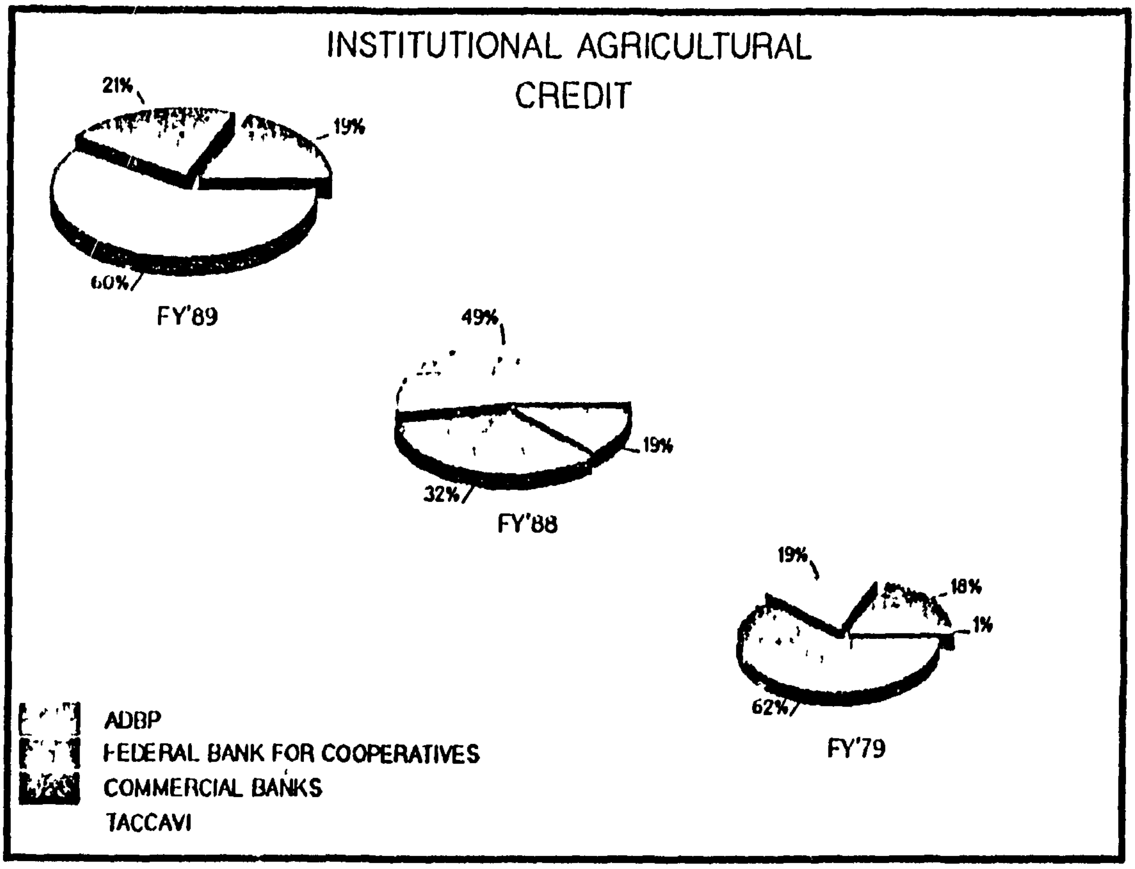
Table 1
Institutional Agricultural Credit 1988-89
Source-wise

(Rupees-Million)

Institution	Production Loans	Development Loans	Total	Share (%)
* Agricultural Development Bank of Pakistan	2109 526	6557 997	8667 523	60 0
** Commercial Banks	2706 500	347.600	3054.100	21.1
Fedoral Bank for Cooperatives	2[illegible]000	92.710	2730.710	18 9
Total.	7454.026	6998.307	14452.333	100.0

* Includes Rs 593 027 million for agribusiness loans

** Net of Rs 369 500 million for tobacco marketing



THE AGRICULTURE DEVELOPMENT BANK OF PAKISTAN-CASE STUDY

ORGANIZATION

7 06 ADBP was established under the ADBP Ordinance in 1961 through the merger of the Agriculture Development Finance Corporation set up in 1951 and the Agriculture Bank of Pakistan set up in 1957 The stated objectives included the provision of better credit facilities to agriculturists and persons who had set up agro-based cottage industry It has an authorised capital of 40 crores and subsribed capital of 36 crores The policies and operations of the Bank are supervised by a Board of Directors consisting of 12 memebers, incuding Federal Government, officials from the Ministry of Finance and the Ministry of Food and Agriculture, representatives of the provincial government, representatives of the State Bank and one from the Azad Jammu and Kashmir

7 07 Organizationally the bank is structured into 10 divisions Executive Directors are the Division heads who control the affairs of the division within the financial and administrtive powers delegated to them Each division is sub divided into departments headed by directors There are 42 departments such as Economic Research, Planning, Project and Consultancy, training and manpwer development etc These departments are operating units for routine business, preparation of plans and transmission of policy guidelines Field operations are condcted by a network of 42 regional offices 250 branches and a team of almost 1400 Mobile Credit Officers (MCOs)

7 08 ADBP is a scheduled bank and therefore has to abide by the credit and monetary policies and directions issued by the SBP It is authorized to accept deposits but is prohibited from engaging itself in trade or having direct interest in industrial or other undertakings The bank is authorised to advance short term loans repayable within 18 months, medium term loans to be repaid between 18 months to 5 years and long term loans to be reapaid within a period exceeding five years It charges 12 percent interest and incase of default a 2% penal charge and an additional 2% recovery charge Table II shows the total loan portfolio of ADBP as on June 30, 1989 The largest portfolio is that of loans in the Punjab

7 09 ADBP depends on SBP for its borrowings It also has direct credit lines from the World Bank ,the IDA and the Asian Development Bank The government has, what are essentialy soft loans at 3/4 or 1 percent service charge available from these agencies These are repayable in about 50 year with a grace period of 10-15 years

7 10 Lending is done with the aid of three types of appication forms depending on the nature of the security these are,

Credit against personal surety or crops
Credit against a mortgage
Credit under the pass book cheme

7 11 Loans are provided to individuals and corporate bodies engaged in agriculture or contribute towards the development of agriculture Small farmers are usualy unwilling to take investment for increasing productivity without suitable arrangement for marketig surplus In order to facilitate this and ensure that farmers get a fair price, credit is

Table 2

Total Loan Portfolio as on 30.06.1989: Area-wise

(Rupees-Million)

Province/Area	Amount Outstanding	Share (%)
1 Federal Capital Area	323.508	1.1
2. Punjab	17554.719	61.4
3 Sind	6383.562	22.3
4 N W.F P	2703.324	9.5
5. Baluchistan	1150.304	4.0
6 Azad Kashmir	213.622	0.8
7 Federally Administered Northern Areas	175.691	0.6
8 Head Office	97.165	0.3
Total:	28601.895	100.0

disbursed to organizations that have undertaken processing and marketing of agricuture produce, and activities such as dairy development, poultry farming and live stock development The total loans disbursed upto June 30, 1989 since inception can be seen in table III

7 12 Upon receipt of of an apppication, an appraisal mission is sent to collect information from office records through observation and field visits After this a government delegation including representatives of institutions visit the concerned branch for negotiations and end up with an agreed set of minutes The loan proposal is then placed before the Board of Governors for consideration and is declared 'effective' when terms and conditions are agreed to by both parties Any expenses in utilizing funds are reimbursed while items required to be purchased internationally are purchased through competitive bidding

7 13 The ADBP has to monitor loans and provide the lending instituion with information on financial activities, lending operations and recovery Administrative and procedural changes are also to be conveyed Review and supervision missions start visiting the country after the utilization of funds has started The term of loans is flexibe and negotiable and can be extended The Government of Pakistan bears the risks arising out of changes in the exchange rate
Table IV shows the cumulative recovery of loans upto June 30, 1989 since inception

7.14 In 1979 a senior banking executive became the chairman of the bank On review at the time it was revealed that since 1961 only 7 lac agricuturists had been assisted which came to about 19% of total farmers in the country Moreover there were huge arrears that had accumulated over the years Major restructuring of the organization took place under new management, some of the salient features were as follows,

(i) Branches were rationalized and it was decided not to open any new branches

(ii) A lot of attention was given to the needs of small farmers who were hesitant to come to towns and cities

(iii) The novel concept of Mobile Credit Officers was introduced to provide door to door credit to farmers Each MCO was provided with a motor cycle They reported to regional managers who were incharge of 15-20 villages and controlled six branches each

(iv) The MCO system promoted customer-banker relationship, ensured regular field visit and a well organized feed back system Lately the introduction of the new cadre of Functional Mobile Credit officers or FMCOs has also proven to be an excellant way to introduce new technology to farmers and motivate them to modernize their farms MCOs assist borrowers in fulfilling borrowing formalities, sanction loans on the spot and supervise its utilization They also ensure the recovery of dues through the assistance of the District Revenue Administration incases of default

IMPACT OF ISLAMIC BANKING

7 15 Based on the mark up system, Islamic financing replaced the conventional interest based lending in 1985 The lender becomes the seller of inputs at a 'cash price' to the bank and the 'credit price' paid by farmer/borrower incudes cash price plus a mark up of an amount intended to cover its costs plus a profit margin The farmer is offered a 'prompt 306

Table 3

Loans Disbursed Since Inception Upto June 30,1989

(Rupees Million)

	Province/Area	No. of Loan Cases	Amount Disbursed	Share (%)
1	Federal Capital Area	3462	362,989	0.8
2	Punjab	948164	27496.124	61.7
3	Sind	476551	11121.251	25.0
4	N W F P	120225	3533.021	8.0
5	Baluchistan	44210	1428.494	3.2
6	Azad Kashmir	19147	349.070	0.8
7	Federally Administered Northern Areas	9567	238.110	0.5
	Total:	1621326	44529.159	100.0

Table 4

Cumulative Recovery Since Inception Upto June 30,1989

(Rupees-Million)

Province/Area	Amount due for Recovery upto 30 06.1989 (since inception)	Amount Recovered upto 30.06.1989 (since inception)	Past Dues as on 30.06.1989	Recovery Ratio (%) (since inception)
Federal Capital Area	147 564	120 176	27 388	81 4
Punjab	18199 075	17051.772	1147 303	93 7
Sind	8734 994	7430 624	1304 370	[illegible]5 1
N W F P	1901.537	1635 185	266 352	86.0
Baluchistan	737.014	558.353	178.681	75.8
Azad Kashmir	225 641	199.917	25 724	88.6
Federally Administered Northern Areas	122.912	109 510	13.402	89.1
Total	**30068.737**	**27105.537**	**2963.200**	**90.1**

payment price'as an incentive for timely repayment There is no concept of compounding returns in Islamic banking and the mark up may be charged only for a 210 day 'cushion period' following due date, beyond which there is little or no incentive to repay

7 16 ADBP and NCBs adopted Islamic modes of financing in 1985 Because the World Bank reimburses ADBP for part of the loans disbursed to farmer, the modes of financing, interest rates and purposes for which the loans are made are part of the legal agreement The World Bank put the condition that the ADBP lending under service charge and profit and loss sharing modes would not exceed 2 percent of its total lending in any one year

7 17 Markup free credit programs in NCBs has also been criticized because of the alleged misuse of loans intended for the subsistence farmers It has been singled out as the most costly program with the greatest negative impact on the GOP budget

SUPERVISED AGRICULTURE CREDIT PROGRAMME

7 18 This program was introduced in 1972 after the Banking Reform Act 1972, which compulsorily involved commercial banks in agriculture lending It emphasized productivity based aproach to lending Special credit officers were appointed in this regard and it limited itself to small farmers

AGRO BASED PROJECT LENDING

7 19 ADBP financing of small and medium Agro processing industries started in 1980-81 Project financing was undertaken with rupee resources and subsequently the Asian Development Bank provided assistance This assistance was for the preparation of feasibility studies to develop agro-based project lending and agro servicing sector This facility was extended subsequently to provide foreign exchange credit for financing the establishment of such industry in the private sector

WOMEN IN AGRICULTURE

7 20 Women have been identified as having the major responsibility of work in activities related to livestock, poultry, cottage industry, vegetable farming and produce storage They have also been identified as principal decision makers in these activities They perform a number of tasks in the pre and post harvest season as well Their access to credit is limited, however, and where they may have access, as in the case of cooperatives, their requests are denied

7 21 In 1985 ADBP introduced the Couple Mobile Credit Officers Scheme where wives of MCOs would disburse,monitor, and recover credit to women There has also been an inclination towards hiring female credit officers and training them if their qualificatons fall short of the requirements

EMERGING ISSUES

7 22 The ariculture holdings in Pakistan are dominated by the landed aristocracy These feudals have successfully survived three land reforms over the last forty years Infact it is alleged that they have been able to strengthen their holdings as a result of reforms At the time of reforms, land was transferred in the name of tenant farmers and peasants for the purposes of book entries alone These landlords have also dominatd the political scenario Most of these families have atleast one or two members in the provincial and national assemblies Their political clout precludes the need for having a well organized

lobby to plead their cause in the parliament, as might be the case in western democracies, Instead these people have been successful in setting the tone for policy reforms or the lack of the same Their strength has resulted in the non implementation of the contraversial agriculture tax which has been recommended by many objective authorities These feudals have also exerted a lot of pressure on various lending institulons of the country and since all of them are engaged in agriculture lending ADBP has been a major target of their pressures

7 23 The ADBP is not able to mobilize deposits for the expansion of its future lending due to the cost of fund under savings and time deposits schemes Instead it relies heavily on SBP funds In FY 1986-7 SBP refinanced Rs 4 86 billion or 81% of the Rs 6 03 billion disbursed to the sector Its present resource mobilization efforts might be ineffective in light of its lending policies If it offers rates comparable to the market on deposits (except demand deposts) it is bound to face a negative spread

7 24 ADBP along with FBCs has become unduly dependant on low cost funds which are avialable at only 5 percent per annum This rate is well below the market rates which has led to its misuse

7 25 ADBP operations are centralized in the corporate office in Islamabad All Decison are made by top management along the same lines as other DFIs Most medium and long term loan sanctions are the priveledge of management in Islamabad There is a need for regional offices with more autonomy and sanctioning authority An announcement has recently been made in this regard

7 26 ADBP FBC and NCBs seem to be offering funds to the same clientelle for the same purpose according to their accessability This leads to all three instituitons lending for all types of needs seasonal and non seasonal to borrowers of all sizes

7 27 Land is the primary collateral used by most institutions,incase of ADBP the pass book system is used in this purpose The transaction costs for pass book accounts are prohibitive for farmers The acquisition in case of default is a complicated and long drawn procedure The second most common form of collatral is personal guarantees or sureties The recovery mechanism leaves a lot to be desired Foreclosures are constrained by cultural factor and various permissions from the Board of Revenue

7 28 There is a need for more qualified and trained personnel In order for supervised credit to be more widespread This in turn will ensure an improvement in recovery ratios as well

RECOMMENDATIONS

7 29 In view of its initial efforts to mobilize deposits any impediments should be removed or minimized by the concerned authorities The cost of funds mobilized may be prohibitive if the existing liquidity and cash reserve reuirements are adhered to Initially it may be necessary to remove this temporarily and then only a reduced percentage be implemented

7 30 ADBP needs to wean itself off SBP financing It should aim to do so by bringing its administrative costs under control Moreover SBP should replace 100 percent refinancing with interest rate subsidies These subsidies may even be linked with resource mobilization performance

7 31 There is need for making agriculture lending competitive with trade and industry.

This can be done by either increasing lending rates or decreasing costs by ensuring better credit monitoring and minimal loan losses.

7 32 ADBP, NCBs and the FBC need to specialize in the type of clientelle that each serves By catering to the different markets there can be specialization of the training requirements and evaluating abilities of each type of institution This objective can, however, only be achieved if the said instituion can reach out to the target market through its branch network

CHAPTER 8
REVIEW OF SEVEN DFIS

HISTORY

8 01 The Industrial Development Bank of Pakistan originated from the Pakistan Industrial Finance Corporation (PIFCO) PIFCO was established in 1949 to finance industries which the private sector could not undertake either because they were technologically complex or capital intensive It was the first Development Finance Corporation in Pakistan and was a joint venture of the Government and private sector PIFCO financed only those industries which were very large or already established It did not finance new industries or give foreign currency loans

8 02 To overcome these set backs, the Credit Enquiry Commission recommended that PIFCO should be converted into a development bank To mobilize and allocate foreign exchange resources and cater for the long and medium term loans of the private industrial sector, especially medium and small industries The Government converted PIFCO into the Industrial Development Bank of Pakistan in August 1961 The Bank has had the continuous support of the Government and State Bank Since its inception, new industrial development financial institutions have been set up in Pakistan

OBJECTIVES

The main objectives of IDBP are

8 03 To provide medium and long term loan for establishment of new industrial units and to expand, balance, modernize or replace existing units

8 04 To collaborate with the Boards of Provincial Small Industries Corporation in financing small industrial units

8 05 To provide short term loans (upto 25%) for working capital

8 06 Encourage the growth of small and medium size units in less-developed areas by administering the Equity Participation Fund established under the ordinance of the Federal Government in 1970 Also to encourage Government financed industrial trading estates located in the country except in Karachi

8 07 Gives IDA credits for Small Scale Industrial Units

8 08 Helps the borrowers in solving their complex problems by giving them financial, technical and managerial advice in planning and execution of projects

8.09 Industrial projects approved by the Non-repatriable Investment (NRI) are financed by IDBP

8.10 Local machineries are encouraged by providing loans at a reduced rate for the purchase of local machinery

8.11 Industries which are import substituting are encouraged by the Bank

8.12 It was only recently that IDBP decentralised the processing of loan applications to regional offices to maintain better contact with the sponsors, effectively monitor projects, improve the quality of appraisal and improve regional profitability

OPERATIONS

8 13 IDBP prescribes an Industrial Investment Schedule whereby credits are given to Industrial enterprises The financial targets for each industrial sector and province is outlined in the schedule The Bank grants loans according to the Investment Schedule It can even obtain sanctions from the Government for special loans

8 14 For limited loans the ceiling of loaning one project is Rs 4 million with a foreign currency requirement which does not exceed Rs 3 million For partnerships or sole ownerships, the upper limit is Rs 11 5 million with a foreign currency component below one million rupees The lending ceiling does not apply to mining cotton, jute, inland transport and shipping The upper lending limit can be relaxed with the consent of the Federal Government The Bank's lending does not have a lower limit

8 15 IDBP offer a higher rate of interest than commercial Banks The rate of local currency is between three to four percent above the Bank rate Private industries in less developed areas are especially encouraged and special rates are offered to them

8 16 On foreign currency loans, the rate of interest is 2% above the rate of the loans which is given by the agency It is subject to a minimum of nine and a half percent or as specified by the Government

8 17 In the case of local currency loans, the loans have to be repaid over a period from five to ten years For foreign currency loans, the period of repayment is between ten to fifteen years, depending upon the term of foreign loan and earning capacity of the project Loans can be repaid in half yearly installments, the first installment in twenty eight months from the date of opening of letter of credit and/or payment of the first instalment of local currency loan

TABLE 1

Loans Disbursed by Industrial Sub-sectors (Rs in Million)

Sub-sectors		1985-86 Amount	1986-87 Amount	1987-88 Amount	1988-89 Amount
Milling Industries		34 89	44 94	45 31	31 41
		(6 3)	(4 9)	(4 6)	(3 3)
Food Industries		156 33	204 04	93 01	134 97
		(28 2)	(22 4)	(9 5)	(14 0)
Baverage Industries			2 23	0 58	1 17
			(0 2)	( )	(0 1)
Mfg of Cotton Textile	15 87	122 67	306 99	260 22	
(Spinning,weaving etc)	(2 9)	(13 4)	(31 6)	(27 0)	
Mfg of Other Textiles	34 58	19 71	18 91	16 85	
		(6.2)	(2 2)	(1 9)	(1 7)
Footwear			2 75	1 29	2 58
			(0 3)	(0 1)	(0 2)
Other Weaaring Apparel	2 35	16 93	24 00	8 71	
and Made-up Textiles		(0 4)	(4 8)	(2 4)	(0 9)
Mfg of Wood Cork &		0.65			9 64
Allied Products		(0 1)			(1 0)
Furniture and Fixtures	2 88	1 80	6 24	4 97	
		(0 5)	(0 2)	(0 6)	(0 5)
Paper & Paper Products	56 09	21 37	61 49	128 18	
		(10 1)	(2 3)	(6 3)	(13 3)
Printing Publishing &	4 10	29 22		5 04	
Allied Products		((0 7)	(3 2)		(0 5)
Mfg of Leather &		7 31	12 21	24 92	3 45
Leather Products		(1 3)	(1 3)	(2 5)	(0 3)
Mfg of Rubber Products	20 16	13 29	31 94	11 49	
		(3 6)	(1 5)	(3 3)	(1 2)
Mfg of Chemicals &		47 37	62 87	43 48	69 32
Chemical Products		(8 5)	(6 9)	(4 4)	(7 2)
Non-Metallic Mineral		43 82	133 46	71 05	48 20
Products		(7 9)	(14 6)	(7 3)	(5 0)
Basic Metal Products		16 26	17 28	12 23	29 86
		(2 9)	(1 9)	(1 2)	(3 1)
Mfg Of Metal Products	16.28	12 38	13 53	21 21	
(Except Machinery)		(3 0)	(1 4)	(1 4)	(2 2)
Machinery		1 73	12 25	7 58	0 33
		(0 3)	(1 3)	(0 8)	( )
Electrical Machinery		6 91	18 57	80 78	34 52
		(1 2)	(2 0)	(8 2)	(3 6)
Transport Equipment		7.96	28 74	17 48	34 55
		(1 4)	(3 1)	(1 8)	(3 6)
Cotton Ginning &			1 06	2 34	3 26
Pressing			(0 1)	(0 2)	(0 3)
Hotels and Motels		11 36	35 01	25 14	10 14
		(2 1)	(3 8)	(2 6)	(3 1)
Cold Storage including	6 15	10.88	14 50	4 31	
Ice Plants		(1.8)	(1 2)	(1 5)	(0 4)
Transport Service			0 96		

Loans Disbursed by Industrial Sub-sectors (Rs in Million)				
Sub-sectors	1985-86 Amount	1986-87 Amount	1987-88 Amount	1988-89 Amount
		(0 1)		
Other Service Industry 18 41	9 82	36 49	46 22	
	(3 3)	(1 1)	(3 7)	(4 8)
Mining & Quarrying	1 26	20 72	5 79	28 80
	(0 2)	(2 3)	(0 6)	(3 0)
Other Miscellaneous	17 95	41 40	34 29	14 61
Industries	(3 2)	(4 5)	(3 5)	(1 5)
TOTAL	553 51	916 13	979 36	963 98

(figures in parenthesis give the percentage of total amount)

TABLE 2 Recoveries by Sub-sectors Rs in Million					
Sub-sector	1985-86	86 87	87-88	88-89	% change in 88-89 over 87-88
Cotton Textile	136 12	186 02	158 44	120 48	-23 96
Other Textile	50 75	59 94	71 86	91 74	+27 76
Chemicals	76.25	79 46	100 13	39 26	-60 79
Food, Baverages	133 12	144 30	171 42	146 38	-14 61
Engineering	29 39	24.67	31 48	41 15	+30 72
SICs/Board Projects	8 36	6 32	5 41	1 50	-72 27
Miscella-neous	67 76	88 90	165 65	130 25	-21 37
Total	501 75	589 61	704 39	570 76	-18 97

8 18 Over the past five years the major industries which were funded by IDBP were Food, cotton textiles, paper, non-metallic minerals and chemicals The share of the Food Industry in disbursements (by industrial sub-sector) was the highest in 1985-86 The Industry accounted for 28% of the disbursements The percentage share of the Food Industry in disbursements reduced to 22 4% in 1986-87 and 9 5% in 1987-88 However the recoveries in this sector increased by only 8% in 1986-87 since 1985-86 The recoveries improved by 16% in 1987-88 There was increase in the percentage share of disbursement by 14% in 1989 but the recoveries declined by 14%

8 19 The share of Cotton textile industry in total disbursements (by industrial subsector) has shown an increase from 2 9% in 1985-86 to 13 4% in 1986-87 The recoveries in this sector also increased by 37% during this year However, from 1986-87 to 1987-88 the share of cotton industry in disbursements increased by 31 6%, whereas the recoveries decreased by 15% over the last year The disbursement in this sector decreased by 27% in 1988-89 and the recoveries also declined by 23 9%

8 20 The chemical industry accounted for 8 5% of the loans disbursed by IDBP in 1985-86 The trend in the percentage share of chemical industry in disbursements remained the same over the next five years The recoveries however improved by 31% from 1985-86 to 1987-88 There was a sharp decline in recoveries by 60% in 1988-89

8 21 The share of miscellaneous industries in 1986 to 1987 increased from 3 2% to 4 5% The recoveries increased by 31% in the same year However, from 1987 to 1988 the share in disbursements declined by 3 5% whereas the recoveries increased by 86% In 1989 the disbursements declined by 1 5% and the recoveries by 30 225%

8 22 The share of paper industry in the total disbursements (by industrial sub-sector) was 10 1% in 1985-86 The percentage share decreased by 2 3% in 1986-87 and kept increasing until it was 13 3% in 1988-89

8 23 Non-metallic minerals accounted for 14 6% of the disbursements in 1986-87 but the percentage share non-metallic minerals in total disbursements steadily decreased to 5% in 1988-89

8 24 Keeping in view the objective of the Bank, IDBP should be financing new industries The Bank should move away from traditional industries like textile and concentrate on promoting non-traditional and diversified projects

TABLE 3				
Loans disbursed by provinces				
Period	1985-86	1986-87	1987-88	1988-89
Sindh	31 2%	31 2%	24 1%	32 5%
Punjab	40 5%	40 5%	60 1%	51 0%
NWFP	11 9%	11 9%	9 7%	10 6%
Balochistan	16 4%	16.4%	6 1%	5 9%

8 25 A total of 3775 loans were given to the provinces over the past four years Punjab has had the largest share of disbursement which is 48 3% over the past four years 32 2% of the total amount (from 1985-89) were for Sindh, 11 9% for NWFP and 7 6% for Balochistan

8 26 Punjab and Sindh have had the largest share of disbursements

TABLE 4			
Loans sanctioned by purpose			
			Rs in millions
Period	1986-87	1987-88	1988-89
Loans to New Units	80.0%	82.5%	78 9%
Loans for expansion	10.4%	10 8%	9 5%
Loans for BMR purposes	9 6%	6 7%	11 6%

8 27 The Table shows that the largest amount (in loans sanctioned by purpose) were allocated for new units The average annual percentage of loans for new units from 1986-89 was 80 5%

8 28 Also keeping in view the objective of the Bank,IDBP disbursed 77% of the total local currency loans for the financing of locally manufactured machinery in 1988 In 1989 the percentage share was 73% of the total local currency loans Figures for the previous years are not available The following are some key performance ratios of IDBP

PERFORMANCE RATIOS					
					(Rs in millions)
Period	84-85	85-86	86-87	87-88	88-89
Loans disbursed	265 4	358 3	532 3	979 4	963 9
Return on capital	50%	44%	.6%	23.7%	23.4%
Return on assets	.02%	1%	1%	3%	01%
Disbursements per staff number	0.68	0.69	1.12	1.17	1.16
Op Profit/adm cost	95%	112%	140%	163%	150%
adm cost/staff No	.07	.07	.08	.09	.11

8 29 The Table shows that the loans disbursed by IDBP amounted to Rs 963 9 m in 1988-89 The loans increased at an average annual rate of 41 8% percent from 1984-87 However from 1987-88 to 1988-89 disbursements declined by 1 6% The return on capital was very high, 50% in 1984-85 but decreased over the years It was very low, 0 6% for the year 1986-87

8 30 Return on assets has been very low (an average of 1 02%) over the past five years The disbursements per staff number were Rs 680,000 per staff member in 1985 and 1986 but increased to Rs 1 12 million in 1987 There was a further increase to Rs 1 17 million in 1988 Total operating profit as a percentage of total administrative cost was 95% in 1985 and showed a favourable trend until it was 163% in 1988 The total administrative cost as a percentage of the total number of staff members has been about Rs 70,980 from 1985 89

PROBLEMS

8.31 Loans are given due to political pressure The employees cannot be held responsible for bad loans because they are not given on a professional basis

8.32 Even though the Bank has been sanctioning loans to new units, locating new entrepreneurs is a difficult process because it involves risk

8 33 Insufficient data on the market in evaluating projects IDBP goes largely by what the sponsors say

8 34 The World Bank suspended financial assistance to IDBP to provide loans to medium size investors

8 35 No action is taken if objectives are not followed

8 36 Management changes frequently due to political pressure.

8 37 Legal proceedings take a long time to settle

IDBP's CONTRIBUTION TO THE GROWTH OF DFIs

8.38 IDBP's share in aggregate channelization of resources by DFI's fell from 11 8% in 1984 to 10 7% in 1988 IDBP's share in advances of DFIs decreased from 13% in 1984 to 12% in 1988 Its share in investments of DFIs increased from 3 2% in 1984 to 3 9% in 1988

8.39 The share of IDBP in aggregate resources mobilized by DFIs decreased slightly from 11 2% in 1984 to 11 1% in 1988 THe share of IDBP in equity and borrowing of DFIs fell from 4% and 15 2% respectively in 1984 to 3 5% and 13 6% in 1988 Its share in deposits of DFIs improved from 7 6% in 1984 to 12 3% in 1988

HISTORY

8 29 Pakistan Industrial Credit and Investment Corporation Limited (PICIC) was established in October 1957 with the support of the government of Pakistan and the World Bank It is a public limited company and finances the private industrial sector in the form of long or medium term loans in local or foreign currencies In this way it helps in the expansion and modernization of private industrial enterprises and assists in the growth of the capital market It is also involved in equity participation, purchase of debentures and underwriting any public issue of shares and debenture It arranges participation of local and external finance from private and institutional investors Besides it provides managerial, financial and technical services to industry in the private sector

8 30 PICIC aims at broadening the base of the industrial ownership in the country and thereby developing the stock market It provides loans both in foreign and local currencies for industrial projects in the private sector which are financially feasible Purchase of local plants and machinery and establishment of industries in the backward areas is especially encouraged

8 31 To generate resources PICIC borrows both in foreign and local currencies Borrowing in local currencies are the loans from the Government and the State Bank of Pakistan International Financial Institutes such as the World Bank, Asian Development Bank and DFW (Germany) provide loans in foreign currencies Loans are also given by a number of other countries These loans are given in accordance with the purchase of machinery from the countries A line of equity has also been provided by the Islamic Development Bank of Pakistan

8 32 Foreign investment in PICIC's share capital includes investments by International Finance Corporation, Washington, an affiliate of the World Bank and Common Wealth Development Finance Company Ltd London

OBJECTIVES

* PICIC gives long term and medium term loans in foreign and local currencies and in this way assists the private sector industry in Pakistan It provides assistance for acquisition of fixed assets It does not give loans for refunding operation or for working capital

* It makes direct participation in shares, debentures stock and underwriting public issues of shares and other securities

* PICIC assists foreign investors to locate suitable opportunities for investment in Pakistan It also helps Pakistani entrepreneurs to obtain suitable foreign investment in their enterprises It gives funds to entrepreneurs in the preparation of investment proposals

* It gives financial, technical and managerial advice to the industries which have been financed and helped by it

* PICIC helps entrepreneurs through the implementation and operational stage of the project It takes any remedial steps if there are any financial or technical problems

* It finances industries which are based on local raw material and are export oriented or would generate import saving It diversifies investment both by region and industry

* It gives preference to less developed areas

* Non traditional industries are encouraged so that new entrepreneurship can develop in the country.

OPERATIONS

TABLE 1					
Cumulative No of Projects					
Period	1985	1986	1987	1988	1989
No	873	896	933	959	1013

8 33 The cumulative number of projects financed by PICIC show a steady increase from 1985-89 The average annual percentage increase of projects was 5 6% over the past five years

TABLE 2

INDUSTRY WISE DISTRIBUTION OF LOANS SANCTIONED

Rs in Million

INDUSTRY	1985	1986	1987	1988	1989
Agriculture & Forest					
Food Products	159 67 (14 4)	58 24 (4 5)	193 75 (8 9)	42 68 (2 2)	28 20 (0 5)
Sugar	83 55 (3 6)	46 76 (7 5)	108 85 (5 0)	463 56 (23 6)	564 31 (10 2)
Paper & Printing		103 15 (8 1)	116 84 (5 4)	1 17 (0 1)	0 13 ( )
TEXTILES Cotton	422 66 (38 5)	658 05 (51 3)	1517 77 (69 8)	1059 94 (54 0)	3429 35 (61 8)
Jute	15 00 (1 3)		3 50 (0 2)		
Other	48 60 (7 7)	98 98 (4 4)	12 61 (0 6)	22 67 (1 2)	131 50 (2 3)
Leather & Rubber	2 15 (0 2)	27 00 (2 1)	2 90 (0 1)	0 15 ( )	
Engineering	120 56 (10 8)	51 42 (4 0)	98 87 (4 5)	55 19 (2 8)	361 61 (6 5)
Chemicals	66 49 (6 0)	160 28 (12 5)	73 74 (3 4)	269 55 (13.7)	536 42 (9 7)
Minerals		101 32 (9 1)	7 62 (0 3)		183 98 (3 3)
Cement, Ceramics	53 82 (4 8)	65 80 (5 1)		47 42 (2 4)	138 24 (2 5)
Tourism					
Shipping					
Miscellan-eous	32 86 (3.0)	13 42 (1 1)	39.04 (1.8)		177.80 (3 2)
TOTAL	1112 68	1283 10	2175 49	1962 33	5551.54

(figures in parentheses give the percentage of total amount of loans disbursed)

8 34 Some of the major industries which have been funded by PICIC were Food, Sugar, Textile cotton, Engineering and the Chemical Industry Food Industry accounted for 14 4% of the total disbursements in 1985 The percentage share of Food Industry in

disbursements decreased to 4 5% in 1986 The percentage share of Engineering industry in disbursements also decreased from 10 8% in 1085 to 4 0% in 1986 While more importance was given to the Sugar, Textile cotton and chemical industry The percentage share of sugar industry in disbursements increased from 3 6% to 7 5% from 1985 to 1986 the share of textile industry increased from 38 5% to 51 3% and the chemical industry increased from 6% to 12 5%

8.35 In 1987 the percentage share of food industry in disbursement increased to 8 9% but decreased to 2 2% in 1988 and 0 5% in 1989 The cotton textile industry was given more funds Its share increased to 69 8% in 1987 and than declined to 54 0% in 1988 and increased to 61 8% in 1987 The share of chemical industry in disbursements decreased to 3.4% in 1987 and increased to 13 7% in 1988 and than 9 7% in 1989

8 36 Keeping in view the objective of PICIC, it should be financing new industries instead of traditional ones like the textile industry They have been giving preference to traditional industries only This clashes with the policy of promoting new, non-traditional and diversified projects The World Bank has recently put a credit squeeze on PICIC barring it from financing the textile industry especially spinning units PICIC discourages diversification because of the risk involved in encouraging new projects However locating and nurturing new entrepreneurs should be an important area of responsibility for PICIC because it is a development bank

TABLE 3

Province wise distribution of loans sanctioned

Rs in million

Period	1985	1986	1987	1988	1989
Sindh	541 47	454 42	396 31	438 8	1453 4
Punjab	409.77	582 55	1574 2	1476 9	3170.4
NWFP	34.87	28 88	16 62	16 40	642 7
Balochistan	126 57	196 25	187.7	30 2	24 48
Islamabad					126 50
Azad Kashmir		21 00	0 70		134 1

8 37 The percentage share of loans sanctioned to provinces was the highest for Punjab over the past five years In 1986 Punjab accounted for 41% of the loans sanctioned by PICIC The share of Sindh in the loans sanctioned was 35%, NWFP 2% and Baluchistan 15% in 1986 In 1987 the share of Punjab increased to 72% while that of Sindh was reduced to 18% NWFP 1% and Baluchistan 2% In 1988 Punjab again accounted for 75% of the loans sanctioned, while Sindh accounted for 22% and NWFP and Baluchistan 1% each In 1989 the loans sanctioned to Punjab decreased to 57% Sindh was sanctioned 26% of the loans, NWFP 11 5% and Baluchistan 0 4%

8 38 Even though one of the main objective of the bank is to support less developed areas, people a e not encouraged to put up industries in these areas due to the lack of infrastructure facilities It is only when the government provides these facilities that industrialization can begin in these areas

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TABLE 4	
Annual Recoveries of Loans	
Period	Rs in Millions
1980	306 00
1981	350 00
1982	406 00
1983	440 00
1984	484 00
1985	538 00
1986	652 00
1987	778 00
1988	942 00
1989	1138 00

8 39 The amount of loans disbursed by PICIC increased from 1985-87 The annual recoveries of loans also show an improvement In 1985 loans worth Rs 643 million were disbursed while recoveries were Rs 538 million In 1986 loans worth Rs 722 million were disbursed while recoveries were Rs 652 million

8 40 From 1986-87 the loans disbursed increased by 8% while recoveries increased by 19% From 1987-88 loans disbursed increased by 44% while recoveries increased by 21% In 1988 to 1989 loans disbursed decreased by 6% while recoveries increased by 20%

8.41 Figures for the recoveries of loans targeted for a particular year are not given in the annual reports Therefore, an evaluation of the Bank regarding its loan loss ratios or overdues is not possible The following are some key performance ratios for PICIC

PERFORMANCE RATIOS				
				Rs in millions
Period	1985-86	1986-87	1987-88	1988-89
Loans disbursed	722 0	781 0	1126 7	1059 7
Return on Capital	1.15%	1.3%	1.1%	1.2%
Return on Assets	2%	2%	2%	2%
Op Profit/adm cost	367%	315%	359%	346%

8.42 The Table shows that return on capital has been very low over the past five years One reason could be that DFIs are not profit oriented institutions They donot aim at making profit like other commercial banks The return on assets which is the profit as a percentage of loans is also very low It has remained 2% over the past five years The operating profit as a percentage of the administrative cost was 367% in 1986. It decreased to 315% in 1987 and then increased to 359% in 1988.

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PROBLEMS

* Bad and doubtful loans are given due to political pressure The employees cannot be held responsible for giving bad loans because decisions are not made on professional basis

* Weak data base for market analysis Sponsors donot give the right information when they apply for loans.

* Estimates of people directly involved in the project are not reliable because they donot want competitors Government statistics are not upto date and donot give the right figures. It is difficult to find out the background of the sponsors

* Projects sometimes are not in a position to satisfactorily service their debts These include cost and time over-runs during the implementation stage, technical defects, changes in government policies and inefficient management PICIC takes a variety of actions to remedy the problems In case of managements difficulties, it coordinates with other banks and financial institutions and puts credit squeeze on the sponsoring group, which extends not only to the particular project but goes to cover all their business and industrial undertakings If this fails the alternative is to take the company into liquidation

* Sometimes the borrowers default deliberately in servicing debts From 1971-82 (latest figures are not available) the overdues against the borrowing companies continued to grow, and their dividend payouts tended to become larger This deteriorated the relationship between PICIC and the clients The number of cases which had to be filed in court swelled considerably There were problems in seeking adjudication of the courts The legal procedures are such that it takes a very long time to get results In many cases, the judgement of the court comes after years of litigation and then the execution of the decision takes a number of years and by that time the assets get substantially eroded in value A Law called the Bank's Loan Recovery Law was promulgated a few years back It was hoped that the loan recovery suits would be disposed of within a few months with the promulgation of this law, but it still takes a long time for the cases to be settled

* There is no in-service management development training programme in PICIC In a few cases, officials are sent abroad to attend courses run by the World Bank and Development Banking Institute Officials are not kept informed of new developments taking place in the world

* Slow process of sanctioning of loans Due to this the prices of plants and machinery go up and the cost of project increase New competitors appear in the market

* Time lag between the time the loans are sanctioned and disbursed This problem occurs because of non-availability of funds Sometimes the sponsors have to fulfill certain conditions which cannot be met Due to this problem it takes time before the loan is actually disbursed

* The administration is very weak which has a negative effect on the organization In the last five years, four managing directors have changed. Most of them are in their last years of retirement Even promotions cannot be carried through without the approval of the bureaucracy

* There is an absence of vigorous follow-up of underlying objectives of the bank as seen in the annual reports and interviews with bankers

PICIC's CONTRIBUTION TO THE GROWTH OF DFI's.

8 43 PICIC's share in the aggregate resources of DFIs fell from 11 2% in 1984 to 9 7% in 1988. Its share in equity and deposits of DFIs increased from 6 3% and 1 0%, in 1984 to 7.1% and 1 1% in 1988 However, its share in borrowing by DFIs declined from 16% in 1984 to 13% in 1988

8 44 PICIC's share in the aggregate channelization of resources by DFIs also deteriorated from 12.3% in 1984 to 10% in 1988 Its share in advances and investments of DFIs declined from 13 6% and 3 7% in 1984 to 11.5% and 3 0% in 1988

HISTORY

8 45 Sponsored by the Government of Pakistan, the National Investment Trust was established in 1962 The National Bank of Pakistan acts as its Trustee, and the Trust is managed by the National Investment Trust Limited known as the Management Company The Board of Directors consists of three leading industrialist, Presidents of four major nationalized commercial banks, Chief Executives of three D F Is', Chairman Pakistan Insurance Corporation, representative of the Federal Government and the Managing Director who is appointed by the Board with the approval of the Federal Government One of the Directors is appointed by the Federal Government as the Chairman of the Trust The Trust started its operation from 1 January, 1963

OBJECTIVES

8 46 When Pakistan was made, most of the large enterprises were family owned A gradual monopolization of industry had led to concentration of economic power It was therefore necessary to broaden the industrial base and energize small investors' capital formation But the government lacked resources as well as the technical know how to withstand the manipulations of those who exercised control over the capital market

8 47 To overcome these obstacles the National Investment (Unit) Trust was set up It is the only open-end Mutual Fund in Pakistan Its main objectives are -

* To mobilize saving mainly of common people through sales of Certificates (NIT Units)
* To meet the growing needs of corporate sector and achieve broad-based investment
* To bring about a diffusion of corporate ownership

OPERATIONS

8 48 The Trust Fund is divided into Units, called 'NIT Units' Each Unit represents an equal proportion of the assets of the Trust The main function of the management company is to promote the sale of Units for investment in profitable industrial enterprises in the corporate sector in order to broad base the share ownership of the companies listed on the Stock Exchanges

8 49 The income received from the investment of the Trust Fund and capital gains realized from its operations are distributed among investors holding NIT Units as on the 30th June, annually as dividend

8 50 The volume of the Trust's property expands or shrinks according to the quantum of sales and re-purchases The Units are sold and repurchased by the National Bank of Pakistan and seven other leading banks The issuing banks register the certificates, effect transfers and carry out consolidation, subdivision or cancellation of certificates Stock brokers and others have been appointed as sales agents on commission basis in various cities, centers of business and industry A center register is maintained by the Trustee and the management company on the basis of weekly returns furnished by the issuing banks

8 51 The NIT Units are 'Approved Securities' and 'Approved Investments' for the purpose of the Insurance Act, 1938 and the Companies Ordinance, 1984 They provide security of capital and initiate capital appreciation depending upon the performance of the Stock Market

There are two kinds of Units viz Registered Units and Bearer Units

Registered Unit Certificates

8 52 The NIT offices and authorized branches of banks sell Registered Units on application Individuals (in single or joint names) and companies and trust funds can invest in these Units

Dividend on Registered Units is paid annually by means of Income Distribution Warrants

Registered Units are issued in denomination fo 5, 10, 20, 30, 40, 50, 100, 200, 300, 400, 500, 1000, 5000, 10000, 25000, 50000 and 100000 Units

Cumulative Investment Plan

8 53 Holders of Registered Units can reinvest their dividend and obtain additional Units at concessional rate (less by 10 paisa per Unit on the opening sale price) under the Cumulative Investment Plan According to the Income tax ordinance 1979, CIP Units provide tax relief in the following year

Bearer Unit Certificates

8 54 [illegible]zed bank branches and NIT Offices sell Bearer Units against cash paymen[illegible] completion of any form or disclosure of identity There is no responsibility in case [illegible], stolen and destroyed Bearer Unit Certificates or dividend coupons

[illegible]vidend on Bearer Units is paid annually (on presentation of the dividend coupons attached with the Bearer Unit Certificates) at any authorized branch of National Bank of Pakistan The rate of dividend is the same as that of Registered Units

Bearer Units are issued in denomination of 5, 50, 100, 200, 300, 400, 500, 1000, 5000, 10000, 25000, 50000 and 100000 Units

UNIT PRICE

8 55 The price at which the Units are sold and repurchased are announced on each Saturday by the Management Company through the Press and are also published in the Official Ready Board Quotation Sheet of the Stock Exchanges at Karachi and Lahore

ISLAMISATION OF NIT

8 56 NIT was one of the first institutions chosen by the government for the Islamisation of the Financial System Since 1st July, 1979 NIT has stopped investment of its funds in interest bearing securities and investments It invests in schemes which are approved by the State Bank of Pakistan as an interest-free mode Investment is made in Stock Market Shares, Modaraba Certificates, PTCs, TFCs and Morabaha and Leasing Financing arrangement for financing trade and industries

The Government promulgated Zakat and Ushr-Ordinance on 21st June, 1980 The Unit holders who are defined as the 'Saheb-e-Nisab' according to the Ordinance have to pay Zakat at the rate of two and a half percent of the repurchase value of NIT Units This is deducted from NIT's annual dividend fund

STATISTICAL OVERVIEW

Sales of Units

8 57 During the period from June'84 to June'89 the number of Units have increased from 20 501 million Units to 112 009 million Units The net sales of Units in 1988-89 amounted to Rs 1362 491 million as against Rs 241 337 million in 1983-84 which means an increase of 360% over the past five years The number of units sold increased by 52 2% from 1984-85 and the net salses of units also increased by 53% From 1986 to 1987 there was a decline in sales of units by 27% In 1987-88 the net sales again increased by 118% and then declined to 29% in 1988-89

TABLE 1

SALES OF UNITS

Figures in Millions

Years	No of Units		Net Sales of Units Value (Rs)	
84-85	20 501		41 337	
85-86	31 177	(52 2%)	368 325	(53%)
86-87	39 633	(27%)	464 160	(26%)
87-88	86 462	(118%)	1035 647	(122 9%)
88-89	112 009	(29%)	1362 441	(31%)

(figures in paranthesis give the percentage increase over the previous year)

Income Distribution

8 58 The amount of income available for distribution was Rs 842 193 million in 1988-89 compared to Rs 255 m in 1983-84, representing a growth of 271 32% over the past five years From 1984 to 1986 there was a steady increase in the amount of income from 7 05% to 27% in 1986 From 1987 to 1988 the income increase by 41% and increased again by 42% in 1988-89 The Trust declared dividend of Rs 1 90 per Unit as compared to Rs 1 50 per Unit in 1983-84

TABLE 2				
INCOME DISTRIBUTION (Figures in Millions)				
Period	Ammount of Income in (Rs.)		Rate of Income Distribution / Unit	
1983-84	255.000		1.50	
1984-85	273 000	(7 05%)	1.60	(6%)
1985-86	332 800	(22%)	1.65	(3%)
1986-87	422 373	(27%)	1.75	(6%)
1987-88	596 629	(41.1%)	1.82	(4%)
1988-89	842 193	(41.2%)	1.91	(5%)

Investments

8 59 The net investment at cost has increased by 232 2% since 1984 It includes shares of Joint Stock Companies, Modaraba Certificates, Participation Term Certificates/Term Finance Certificates, Morabaha, PLS deposits etc

The following table shows that the net investment at cost stood at Rs 4382 4 million in 1988-89 against Rs 1319 204 million in 1983-84 The highest increase in net investment was in 1987-88 when it went up by 37%

TABLE 3		
Investment at cost Figures in millions		
Period	Investment at cost in Rs	
1983-84	1319 204	
1984-85	1583 828	(20%)
1985-86	2058 414	29%)
1986-87	2803 800	(36%)
1987-88	3838 000	(37%)
1988-89	4382 371	(14%)

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Income of the Trust

8 60 The following table represents the annual income earned by the Trust since 1983-84

TABLE 4

Income of the Trust

Figures in millions

Period	Income in Rs	
1983-84	229 000	
1984-85	284 500	(24%)
1985-86	337 668	(18 7%)
1986-87	419 221	(22%)
1987-88	596 186	(42 2%)
1988-89	861 461	(44%)

8.61 The total income of the Trust on its investment has registered an increase of 276 2% over the past five years The highest increase in income was in 1987-88 when it went up by 42% and in 1988-89 when it further increased by 44% since the previous year

NIT's CONTRIBUTION TO THE GROWTH OF DFI's.

8 82 The share of NIT in aggregate resources mobilised by DFIs increased from 6% in 1984 to 7 6% in 1988 The share of NIT in equity of DFIs recorded a rise of 10 4% from 23 4% in 1984 to 33 8% in 1988

NITs contribution to the aggregate channelisation of resources by DFIs improved from 5 1% in 1984 to 7 8% in 1988 The share of NIT in advances by DFIs increased from 0 1% in 1984 to 3 2% in 1988, but its share in investments of DFIs decreased quite sharply falling from 38 7% in 1984 to 29 8% in 1988

HISTORY

8 83 The National Development Finance Corporation (NDFC) was established in 1973 with its Head Office in Karachi It was originally created to finance public sector corporations but its charter was subsequently amended to provide finance to the private sector also

The traditional role played by DFIs in Pakistan was only to provide development funds to feasible development projects NDFC from its very inception was expected to assume and discharge larger responsibilities It mobilized resources independently to a great extent and employed them for economic development of the country It offered a wide range of services expected of specialized development, investment and commercial banks

NDFC has also received permission to set up financial affiliates and subsidiary companies and has since established the following companies

- National Development Leasing Corporation (NDLC)
- Regional Development Finance Corporation (RDFC)
- Asian Leasing Corporation (ALC)
- BRR Investments Limited

OBJECTIVES

* Promote industrial expansion and economic growth in the country by providing financial and technical assistance and consultancy services for the establishment of new enterprises as well as for the balancing, modernization, replacement and expansion of the existing enterprises and financing working capital requirements

* Identify, promote and develop new projects and investment proposals

* assist the government in rehabilitation of sick and problem projects

* administer and supervise the loans provided by the government and foreign institutions to projects in the country

OPERATIONS

8 84 NDFC offers different forms of financing as well as working capital financing The Corporation has evolved the "one window style" operation Participation of other banks and financial institution is often necessitated To avoid any inconvenience, borrowers are assisted in obtaining commitments from the participating banks and institutions It also provides bridge financing so that there is no delay in the release of funds This approach ensures minimizing the chances of implementation delays and cost overruns

8 85 The Corporation offers financial and consultancy services This includes loans of short, medium and long maturities, guarantees, underwriting, equity participation, syndication, working capital assistance, export financing of local machinery, trade financing of commodities between Pakistan and other members of the Islamic Development Bank and consultancy services In this way NDFC can attract new customers and build up a clientele so that it can exercise greater choice in picking up projects for financing

8 86 NDFC has devised successfully market innovative deposit schemes One such

scheme is the Bearer Certificate of Deposit which has been selling at the average rate of nearly a million rupees a day since it was launched in 1983 There are other deposit schemes which have been very successful and have not only lent stability to NDFCs resource base but have also helped in its growth over the years

8 87 NDFC was the first institute to arrange trade financing between the member countries of the Islamic Development Bank under a deferred payment plan and the first in the country to enter into large scale financing of plant and equipment export from Pakistan and to mobilize development loans from the Euro-dollar market

8 88 NDFCs approach to business development is market oriented In making market evaluation, it first finds out what the customer wants and designs the product that suits his need This kind of a financial assistance is "customer driven" The customers are treated as mere borrowers and the depositors are taken as investors

8 89 The Corporation also gets help from the government and its assisted enterprises It has evaluated the problems of certain public sector enterprises irrespective of its business interest in the concerned projects This has helped the government in identifying weaknesses and evaluating alternatives for some of the difficulties faced by public sector enterprises It has identified new business opportunities, made appraisals of industrial projects and identified, formulated and financed downstream projects for the country's only steel mills near Karachi It has also involved itself in the planning of the annual credit budget participation in the management of selected public sector enterprises through the appointment of nominee directors and various other assignments given by the government It also recommends policy changes to the government to improve the performance of the public sector

8 90 NDFC makes sure that the projects are followed up after they are sanctioned The project cost budgets are planned tightly to discourage overspending Local and foreign consultants are engaged in this to assist in house staff The Corporation has used the plan of working capital lending so that projects can be followed on almost a day-to day basis

8 91 NDFC makes sure that its staff is fully trained Out of 158 officers presently employed, 63 have undergone training in Pakistan and abroad in various aspects of development banking

8 92 A new system is being designed to manage major accounts and quantitative projects appraisals to serve as a reliable data bank to facilitate monitoring of budgets and plans and to help in making day to day decisions With this new information system, the Corporation hopes to improve its efficiency and client relationship

TABLE 1				
FINANCIAL ASSISTANCE DISBURSED				
SECTOR/INDUSTRY	1985 %	1986 %	1987 %	1988 %
CONSTRUCTION	0 5	1.1	2.1	0.4
ENERGY	15 3	10 0	4.8	7.6
Electricity	2.8			1.1
Oil	4.0	2.1		
Gas	8 5	7.9	4.8	6 5
MANUFACTURING	75 1	80.7	86 0	82.4
Agrobased			25.8	39.0
Sugar	13 2	7.9	10 3	9 3
Dairy & Poultry	0.5	0.3	0.3	0.0
Oil and Vegetable ghee	9.5	12 0	13 6	28.7
Others	1 2	1 6	1.6	1.1
Automobile	7 9	9 2	9 3	5.3
Cement	12 0	8 6	7 4	3.9
Chemicals	9 9	20 1	21 5	17.7
Steel & Engineering	8 6	9 8	9 4	10 3
Textiles	4 7	10 5	8 8	4.5
Others	7.5	0 7	3.8	1.7
HEALTH CARE	4 1	2 6	1.4	0 3
MINING	0 1			
TRANSPORT		0 7		2 6
OTHERS	5 0	4 9	5.7	6 5

(figures for 1989 are not available)

8 93 The manufacturing sector received the highest share in disbursements, about 82 8% from 1985-88 In the manufacturing sector the sugar, oil & vegetable ghee, chemical and steel & engineering industries were given preferences The percentage share of the sugar industry in total disbursements has remained almost constant over the past five years It was about 10 2% from 1985-89 The oil and vegetable industry accounted for 9 5% of the total disbursements and the percentage share kept on increasing until it was 13 6% in 1987 and 28 7% in 1989 The share of the chemical industry in disbursements was 9 9% in 1985 and increased to 20 1% in 1986 but declined to 17 7% in 1989 The steel and engineering industry accounted for 8 6% of the total disbursements and by 1989 the percentage share had slowly increased to 10 3%

TABLE 2				
REGIONAL DISPERSION OF TERM FINANCIAL ASSISTANCE APPROVALS				
Province	1985 %	1986 %	1987 %	1988 %
Sind	54 6	44 0	31 4	64 0
Punjab	28 04	43 0	58 6	35 0
NWFP	4.6	1 45	9 0	9 0
Baluchistan	12.14	11 0	9 12	3 0
Azad Kashmir	0 6	0 4		

(figures for 1989 are not available)

8 94 The highest number of loans were approved for Sind and Punjab In 1985 Sind accounted for 54 6% of the loans In 1987 the percentage share reduced tc 31 4% but again increased to 64 0% in 1988 Punjab accounted for 28 04% of the approvals in 1985 and percentage share increased to 43% in 1986 and 58% in 1986 but again reduced to 35% in 1988 The share of Baluchistan in the number of approvals was 12 14% in 1985 but the percentage share kept on reducing until it was only 3 0% in 1988 NWFP got only about 6% of the share in approvals from 1985 88

The following are key performance ratios of NDFC over the period 1985-89

PERFORMANCE RATIOS				
				Rs in million
Year	1985	1986	1987	1988
disbursements	5002 5	7698 9	8521 8	11548 7
Return on capital	27 8%	36 1%	63 0%	33 0%
Return on assets	2 5%	2 5%	2 5%	2 5%
disb/staff No	9 14	11 8	11 9	14 51
Op profit/adm cost	628%	628%	675%	535%
adm cost/staff No	0 07	0 07	0 08	0 11

(figures for 1989 are not available)

8 95 The disbursements of funds have increased from 1985-88 In 1985 disbursements were about Rs 5002 5 million Disbursements increased to Rs 7698 9 million 1986 and Rs 8521 million in 1987 In 1988 there was a further increase to Rs 11548 7 million The return on capital was 27 8% in 1985 and increased to 63% in 1987 and then decreased to 33% in 1988 The return on assets has been about 2 5% from 1985-88 The disbursement per staff member have not varied considerably over the past four years The disbursements per staff member remained at an average of Rs 11 8 million from 1985-88 The operating profit as a percentage of the administrative cost has also remained almost constant It was about 616 5 over the past four years The administrative cost per staff member was Rs 70,000 in 1985 and 1986 but increased to Rs 80,000 in 1987 and Rs 110,000 in 1988

NDFCs CONTRIBUTION TO THE GROWTH OF DFIs

8 96 The share of NDFC in aggregate resources mobilized by DFIs ranged between 336

21.7% and 23 8% during the period under review. Its share in equity, deposits, and borrowing of DFIs decreased from 9 1%, 75 3% and 13 2%, in 1984 to 7 0%, 65 0% and 11, 6% in 1988

8 97 The share of NDFC in channelization of resources by DFIs declined marginally from 23% in 1984 to 21 2% in 1988 In sharp contrast, NDFC's share in investment of DFIs increased from 18% in 1984 to 29 7% in 1988, while its share in advances of DFIs decreased from 24% in 1984 to 17 2% in 1988

HISTORY

8.98 The Small Business Finance Corporation was established in 1972 with the aim of financing firms to encourage them to establish new business or to expand the existing ones The aim of the Bank is to reduce unemployment among the educated people The Bank gives short, medium and long term loans to persons of small means who possess skill but have meagre resources to utilize them apart from the small transporters plying trucks, tankers, buses, wagons, taxis and rickshaws, the Corporation provides finances to small scale industry whose fixed assets, including the cost of land, do not exceed Rs 2 million and also small businesses having net assets not exceeding Rs 300,000

8 99 The State Bank of Pakistan has extended special lines of credit to the Bank In 1980, its operations were Islamized with the introduction of financing on profit-and-loss sharing basis and hire-purchase system The loans are granted under the Islamic Principles of Financing and are repayable in easy instalments within a period ranging from three to five years with appropriate grace period The finance provided by the Corporation takes the form of both local and foreign currencies The maximum maturity period is eight years Following are the objectives of the Bank

OBJECTIVE

* to provide loans for Cottage Industries, small Industries, traders/shop keepers and skilled people

* loans are given to professionals like doctors, Engineers or Lawyers to establish or expand offices etc Small scale industries and professional offices are given for rural areas Loans are also given for the purchase of cars

OPERATIONS

TABLE 1

Disbursements of Financial assistance

Rs in Million

Period	1884	1985	1986	1987	1988
Small businessmen& Professional	28.65 76%	60 18 75%	100 04 86%	180 22 95%	126 6 84 5%
Cottage/Small Industry	8.72 23%	19 82 25%	15.73 13%	10 20 5%	20 24 3%
TOTAL	37 43	80 00	115 77	190 42	149 80

8 100 The average annual percentage share of cottage industries in the total number of loans disbursed has been 13 8% from 1984-88 The percentage share of cottage industry was the lowest in 1988 when it accounted for only 3% of the total loans disbursed In 1987 the percentage share of loans disbursed to cottage industry was 5% 95% of the loans

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were for small businessmen and professionals during the same year. The average annual percentage of loans for businessmen/professionals was 85 5% from 1984-89

TABLE 2					
PROVINCE WISE BREAK UP OF FINANCIAL ASSISTANCE (AS PERCENTAGE OF TOTAL AMOUNT)					
Period	1984	1985	1986	1987	1988
Punjab	45%	43%	42%	33%	49%
Sind	36%	38%	39%	49%	30%
NWFP	10%	12%	14%	12%	11%
Baluchistan	4%	5%	3%	5%	5%
Azad Kashmir	3%	1%	1%	01%	3%

8 101 Punjab got the highest share of loans in the past five years Punjab accounted for nearly 50% of the loans in 1988, and the percentage share has remained steady over the five years In 1987 Sind received 49% of the loans and Punjab received 33% The percentage share of Sind in the loans disbursed was about 40% from 1984-88 and the percentage share has remained steady over the past five year The percentage share of NWFP, Baluchistan and Azad Kashmir in the total number of loans disbursed has also remained steady from 1984-88 The average annual distribution of loans for NWFP from 1984-88 has been about 11 8%, for Baluchistan 4 4% and for Azad Kashmir 1 6%

TABLE 3					
RECOVERIES					Rs in Million
Period	1984	1985	1986	1987	1988
Recoveries	38 20	44 57	54 24	96 93	114 23

8 102 From 1984-85 disbursements increased by 113 7% but recoveries increased only by 17%. In 1986 the disbursements increased by 44% and recoveries by 22% In 1987 disbursements went up by 64% and recoveries by 78% In 1988 recoveries increased by 18% and disbursements decreased by 21%

PERFORMANCE RATIOS				
				(Rs in million)
Year	1985	1986	1987	1988
tot disb	80	115	190 42	149 8
Return on capital	7%	8%	9%	9%
Return on assets	5%	4%	3%	3%
disb per staff No	0.48	0 66	1 01	0 79
Op profit/adm cost	151%	169%	110%	125%
adm cost/staff No	0.04	0 04	0 07	0.07

8 103 The total disbursement increased from Rs 80 million in 1985 to Rs 190 million in 1987 In 1988 there was a decrease in disbursement to Rs 149 million The return on capital has not been very high over the past five years It was 7% in 1985 and increased to 8% in 1986 and 9% in 1989 The return on assets has been about 3 8% over the past five years The disbursements per staff member were about Rs 480,000 in 1985 and increased to Rs 660,000 in 1986 In 1987 the disbursements per staff number further increased to Rs 1 01 million but declined to Rs 790,000 in 1989 The administrative cost per staff member was about Rs 50,000 from 1985-88

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HISTORY

8.104 The Banker's Equity Limited was established in October 1979, but started its operation in February 1980 It was incorporated as a public limited company and sponsored by the State Bank of Pakistan, the Pakistan Banking Council and the nationalized commercial banks including Habib Bank Limited, United Bank Limited, National Bank of Pakistan, Muslim Commercial Bank Limited and Allied Bank of Pakistan Limited Originally forty per cent of its capital was contributed by the State Bank of Pakistan and the balance sixty per cent by the Pakistan Banking Council and the nationalized commercial banks To privatize Bankers Equity, a portion of the share capital was offered to the general public in 1987

8 105 The policy formation, control and supervision of Bankers Equity is vested in its Board of Directors which comprises of the State Bank of Pakistan, the Pakistan Banking council and Presidents of the five nationalized commercial banks and the Managing director of Bankers Equity The Governor of the State Bank of Pakistan is the Chairman of Board of Directors

8 106 The Bank was formed to promote and accelerate industrial financing in the private sector and develop capital market in the country Since its inception, Banker's Equity has been financing a wide range of medium and large scale industrial projects It offers specialized services in the field of syndicated financing, merchant banking, leasing and modaraba finance

OBJECTIVES

* The main objective of Bankers Equity is to bridge the gap in industrial finance arising from the heavy cost of projects This is achieved by mobilizing the entire resources for the project as a whole through syndication with the nationalized commercial banks and other financial institutions Both national and international institutions may be partners irrespective of whether it is equity, bridging loan, or underwriting rupee funds or foreign currency loans, normal, long and short term financing or concessional financing or financing short term working capital requirements

* It provides assistance in a single package thereby curtailing the time lag in the execution of projects to a great extent The packaging capability is strengthened by the availability of concessional refinance facility from the State Bank of Pakistan for locally manufactured machinery and export of machinery Multiple lines of credit and equity from Asian Development Bank, the Islamic Development Bank and other external financing agencies and the co-financing arrangements with the local development finance institutions and the international financing agencies are also available

* It provides new techniques for investment financing within the frame-work of the Islamic Financial System being developed in the country One scheme is the Participation Term Certificates The concept of PTC and discounting of shares was introduced keeping in view the pattern of long term finance in the corporate sector in the country within the frame work of the report of the Council of Islamic Ideology on the elimination of interest from the economy The PTC replaced the existing instrument of long term financing which was debentures

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* BEL accords high priority to the high value added-export oriented and labour intensive industries

* It promotes high-tech and pioneering industries more particularly in electronics, chemical and petrochemicals

* It encourages investment in Down Stream steel-based and engineering goods industries, industries based on agricultural waste and those with specific indigenization targets such as automobiles

* It aims to simplify the existing financial procedures and to overcome the delays in the implementation of projects caused by the multiple system of project financing in the country

OPERATIONS

8 107 Bankers Equity Limited has the distinction of pioneering the concept of one-stop unified package financing in the country It offers the entire range of financial services extending from direct equity investment and underwriting of public issues of shares to the provision of term financing in both local and foreign currencies, short term working capital finance, modaraba finance, leased-based financial assistance and guarantees of foreign exchange

8 108 Bankers Equity provides financing to those industrial projects which are sponsored by the private sector solely or co-sponsored by the private sector jointly with the public sector and seek public subscription of shares together with being listed on the stock exchange The projects having a total capital cost of Rupees ten million and above are eligible for financing While the minimum financing limit per project is for the time being fixed at Rupees two and a half million There is no upper limit on the amount of financing packaged by Banker Equity for individual projects For balancing, modernization and replacement of existing units, the minimum financing limit is relaxed to Rupees one and a half million There is no minimum limit for successive additional financing of the projects assisted by Bankers Equity To be eligible for obtaining financial support from Bankers Equity the client should organize itself as a joint stock company
Before financing a project, the Bank makes a detailed investigation of the projects such as economic, technical, financial, and managerial aspects Projects which are not technically sound are declined during the preliminary examination The past performance of the sponsors is an important criterion

8 109 The Bankers Equity provides the following facilities to companies who desire to establish medium and large scale industries in Pakistan

Direct equity support and advance loans on profit sharing basis through the instrument of Participation Term Certificates It is aimed at providing term financing on PLS basis to projects PTCs are negotiable and marketable financial instruments It provides Term Finance Certificates which are redeemable long-term instruments based on mark-up prevailing in the market The certificates are issued by the sponsors and purchased by Bankers Equity They are repurchased by the sponsors from Bankers Equity over a period upto ten years

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* Foreign currency requirements of projects are arranged by Bankers Equity at rates applicable for respective credit line Such rates are inclusive of exchange risk cover.

* It provides working capital to the industrial and trading concerns

* It finances leases to projects on the basis of periodical payments

* It promotes and co-sponsors projects on a mutually agreed basis.

* It manages investment portfolios

* It provides guarantees against supplier/buyers credit in lieu of foreign currency loan. This loan is arranged by the sponsors of the project

* Syndicate stocks and term loans both in local and foreign currencies

* Underwrites public issues An arrangement is made under which an institutional underwriter such as a bank of DFIs makes a commitment to purchase the unsubscribed shares offered to the general public The most commonly practised technique of underwriting is "stand-by" underwriting

* It provides technical, financial and consultancy services to the companies projects

* It assists in take overs, merger, dis-investment, re-organizing and rehabilitation of companies

* Floats Modaraba and mutual funds Modaraba is a concept of Islamic finance in which funds are provided by one or a group of investors for business to be carried out by another party providing skill and effort to run the business

TABLE 1					
PERCENTAGE DISTRIBUTION OF DISBURSEMENTS BY INDUSTRIAL SECTORS					
Period	1984-85	1985-86	1986-87	1987-88	1988-89
Food,Tobacco, Baverages	24 88	35 74	20 6	11 8	13.2
Textile	13 7	12 34	21 0	38 4	13.2
Leather Paper& Pulp	9.25	11.6	5.2	0.9	2.7
Chemicals, Pharmaceutical &Fertilizer	8.56	40.39	16 0	19 6	6 4
Cement&Non-Metallic Minerals	38.94	23 34	16 9	10 2	8.4
Basic Metals	1 05			7.1	
Metal Products other than Machinery	1.48	1.56	2 0	1 9	1.2
Machinery	0.31	0.79			1.0
Electrical Machinery		0.85	0.5	3.2	0.7
Electronic Industry					2.3
Miscellaneous Industry	2 89	2 06	10.1	10.9	31.9

(figures give percentage of total amount of loans)

8 110 In 1985-86 the Food, Tobacco and Beverage Sector accounted for the largest share in disbursement of funds These industries accounted for 35 74% of the total disbursements, followed by Cement and Non-metallic Minerals and Products Sector at 23 34% The Paper and Pulp Sector was 11 16% In 1986-87, the textile, food, tobacco and baverages sectors accounted for the largest share in disbursement of funds at 21% and 20 6% The cement and other non-metallic minerals and chemicals and pharmaceuticals sectors accounted for 16 9% and 16% of the total disbursements

8 111 In 1987-88 the textile sector had the largest share in disbursements 38 4%, followed by chemicals, pharmaceuticals, and fertilizers at 19 6% Food, tobacco and beverages accounted for 11 8% of the total disbursements In 1988-89 there was a shift to the share of miscellaneous industries which accounted for 31 9% of the total disbursements, followed by 30 6% for the textile and 13 2% for the food, tobacco and beverages sectors

8 112 One of the main objectives of BEL was to support high-tech industries especially electronics, chemicals and petrochemicals BEL has not accorded priority to these industries over the past five years The figures from the annual reports show that the percentage share of chemical, pharmaceutical and fertilizer industry in the total disbursements was the highest in 1986 They accounted for 40 4% of the total share in disbursements However from 1987-89 the share in disbursements declined considerably from 16% in 1987 to 6 4% in 1989

8 113 Other high-tech industries like the ones which are steel based have not been given priority These include the electronic industry which did not contribute to the share in disbursements until 1989 when the percentage share was only 2 9% The machinery industry accounted for an average of 0 7% of the total disbursements and the metal industry accounted for about 1 6% of the disbursements

TABLE 2

REGIONAL DISPERSAL OF INVESTMENTS APPROVED BY BANKER'S EQUITY

Province	1985-86	1986-87	Net change
Sind	16	28	148 9
Punjab	52	50	76 9
NWFP	21	8	-32 1
Baluchistan	10	2	42 2
Azad Kashmir		12	

(figures give percentage of total amount)

8 114 In 1986-87 the total financing approval for Sind rose 2 5 times since the previous year Similarly, the financing approved for Punjab and Baluchistan have also risen by 76 9% and 42 2% The financing approved for NWFP declined by 32 1% during 1986-87

TABLE 3

REGIONAL DISPERSAL OF INVESTMENTS APPROVED BY BANKERS EQUITY

Province	1987-88	1988-89	Net change
Sind	22	24	54 3
Punjab	61	36	-3
NWFP	6	13	228 4
Baluchistan	9	23	233 8
Azad Kashmir	1	3	210 4

(figures give percentage of total amount of loans disbursed)

8 115 In 1988-89 the financing for Punjab approved by Bankers Equity declined by 3% since the previous year That of NWFP and Baluchistan increased by 228 4% and 233.8% in 1988-89 The disbursements approved for Azad Kashmir also rose by 210 4% although the total share in disbursements was only 3% in 1988-89 The disbursements for Sind rose by 54 3% over the previous year

8.116 It is seen that Punjab and Sind get the highest number of loans This is because these two provinces receive the highest number of applications Also lack of infrastructure facilities in the less developed areas discourage industrialists from financing in these areas

PERFORMANCE RATIOS (Rs In Millions)				
Year	1985-86	1986-87	1987-88	1988-89
Disbursements	926 502	1856 7	2315 25	2734.01
Return on Assets	6%	7%	4%	4%
disb/tot staff	5 01	7 45	7 44	8 26
Op Profit/tot adm cost	746%	813%	359%	359%
adm cost/staff no	0 11	0 12	0 15	0 16

8 117 The disbursements of funds have increased over the past five years The increase was the highest in 1986-87 when disbursements went up by 100 4% In 1987-88 the increase was 24 7% and 18 1% in 1988-89

8 118 The Return on assets has been an average of about 5% from 1986-89 The disbursements per staff number have increased from Rs 5 01 million in 1986 to 7 45 million in 1987 and Rs 8 26 million in 1989 The administrative cost per staff member was Rs 110,000 in 1986 and kept increasing until it was Rs 160,000 in 1989 The total operating profit as a percentage of the administrative cost was 746% in 1986 and increased to 813% in 1987 It decreased to 359% in 1988 and 1989

PROBLEMS

* There is an absence of vigorous follow up of underlying objectives and recoveries.

* Loans given due to political pressure often become substandard and doubtful.

* Market evaluations are weak due to non-availability of data

* Legal proceeding take a long time

BEL's CONTRIBUTION TO THE GROWTH OF DFIs

8 119 BEL's share in aggregate resources of DFIs increased from 4 6% in 1984 to 6% in 1988 Its share in aggregate deposits and borrowing of DFIs increased from 2 5% and 3 2% in 1984 to 3 6% and 6 8% in 1988 Its share in equity of DFIs increased from 9.3% in 1984 to 11% in 1986 but then fell to 4 6% in 1988
The share of BEL in channelization of resources of DFIs increased from 3 8% and 3.2% in 1984 to 6% and 5 6% in 1988

HISTORY

8 120 The National Development Leasing Corporation was established in 1985 as a joint venture of the Asian Development Bank and National Development Finance Cooperation It is the first leasing company and was set up under the auspices of the Government of Pakistan to introduce leasing in the country as part of the Islamic financial system Leasing, which is akin to long term financing is ideally suited for a non interest based financial system Since its inception thirteen new leasing companies have been established It is operating in the private sector and is managed by an independent professional management

8.121 NDLC provides lease facilities for acquisition of productive assets in the industrial, energy , mining, construction, commercial and services sector by employing a whole range of financial services These include among others direct purchase lease, asset lease transfer, leveraged and syndicate lease, sales lease back, and lease advisory services

8.122 Lease presents a viable and sound alternative to conventional debt financing The lessee acquires most of the economic values associated with outright ownership of the asset, even though the lessor retains title to it In addition leasing allows capital conservation upto 100% financing, improves cash flow position, provides a tax shield, is self-liquidating and preserves existing credit lines

OBJECTIVES

* To extend leasing facilities to financially sound and established enterprises

* To upgrade the technology of the existing industries through BM&R and expansion programmes Support is mainly provided for balancing, modernization, replacement and expansion programmes

* To utilize local technology through leasing the locally fabricated equipment

* To achieve the objective of the Government in contributing towards promoting leasing in the country and thereby advancement of the Islamic economic system The Council of Islamic Ideology has declared leasing conformed to the principles of Sharia

* To provide equity support and underwriting service to the private sector enterprises and broad base the capital market

OPERATIONS

8.123 Any capital equipment, listed below can be leased through NDLC.

<u>Industrial Equipment and Plants.</u>

Metal making and processing machinery, textile machinery, woodworking and plastic machinery, construction equipment, scarf-folding, cranes, forklifts, racks, chemical and pharmaceutical plants, power plants and boiler, anti-pollution equipment and installation

Office Equipment

Office equipment in general, computer and peripheral equipment, software, electronic data processing equipment, facsimile, electronic PABX systems, accounting machines, copiers and calculators

Industrial Vehicles

Forklifts, cranes, earth-moving equipment, concrete mixer, reefer trucks, fire trucks and ambulances

8.124 NDLC also offers assistance to overseas Pakistanis Leasing of industrial equipment to be purchased in foreign and local currencies and loans for similar purpose The letters of credit from the foreign banks for the payment of rentals on leased equipment and interest and repayment of loan can also be accepted as a valid security The extent of the security is negotiable
The objective is to allow the overseas Pakistanis to keep protected their savings in foreign exchange and at the same time establish and manage industry in Pakistan with financial assistance from NDLC

8.125 The Corporation has developed a financial instrument for the mobilization of savings as per the permission of the Government of Pakistan It is based on the principal of profit and loss sharing and consists of certificates of investment that may be bearer or registered for a term of three months to ten years

8.126 It launched in June 1989 Rs 100 million Modaraba Fund under the name of Long Term Venture Capital Modaraba According to the Annual Report of 1988 the leases are satisfactorily serviced Thus the Corporation has 100% recovery

TABLE 1			
INDUSTRY WISE DISBURSEMENTS OF LEASES (AS PERCENTAGE OF TOTAL AMOUNT)			
	1986	1988	1989
SECTOR	(%)	(%)	(%)
ENERGY	12 95	7 16	4 31
Oil	10 62	6 57	4 31
Gas	2 33	0 59	
MANUFACTURING	80 85	79 74	83 04
AGROBASED	50 01	45 92	52 0
Tobacco	8 13	4 21	2 01
Textile & Allied	16 59	22 72	22 95
Sugar	24 90	16 47	19 23
Food and Allied	0 39	2 53	7 82
ALL INCLUSIVE	30 85	33 82	31 04
Cement	8 61	7 66	4 83
Steel and Engineering	7 25	12 76	17 32
Jute & Allied	1 04	1 01	0 51
Pharmaceutical	4 11	1 91	1 01
Paper and Board	5 82	4 91	0 88
Other	4 01	2 39	5 31
TRANSPORTATION AND COMMUNICATION	1 93	0 00	
CONSTRUCTION	0 10	1 18	0 50
MINING	0 00	0 00	0 00
PROFESSIONAL SERVICES	1 66	1 94	4 94
HOTEL & TOURISM	16 59	22 72	1 08
HOSPITALS & CLINICS	0 00	5 14	5 52
MISCELLANEOUS	5 52	0 40	

8 127 The manufacturing sector was given a priority over all other sector The share of the manufacturing sector in total leases has been 80% over the past four years The Agrobased industry accounted for about 50% of the leases from 1986-89 The textile industry accounted for about 20% of the total leases and the sugar industry about 20% There has been no major shift in the sectoral disbursements of leases

PERFORMANCE RATIOS					
Period	1985	1986	1987	1988	1989
tot disb		258 0		1016 4	1609 0
Return on capital	25%	35%	81%	54%	46%
Return on Assets	3%	4%	4%	2%	1%
dis per staff No		8 60		2 42	2.682
Op profit/ adm cost	254%	482%	592%	402%	2389%
adm cost/ staff No	0 08	0 14	0 18	0 22	0 03

(disbursements for 1985 and 1987 are not available)

8 128 The return on capital was the highest in 1987 The profit earned by NDLC as a percentage of capital was 81% during that year The return on capital was 25% in 1985 It increased to 35% in 1986 and then decreased after 1987 to 54% in 1988 and 46% in 1989 The return on assets was averaged 2 8% from 1985-89 The disbursements per staff member were Rs 8 6 million in 1986 but declined to Rs 2 6 million in 1988 and 89 The operating profit as a percentage of the administrative cost was 254% in 1985 but kept increasing until it was 592% in 1987 and increased to ?389% in 1989 The administrative cost per staff member was Rs 80,000 in 1985 and kept increasing until it was Rs 220,000 in 1988 and decreased to Rs 30,000 in 1989

PROBLEMS

* Cross-border leasing In Pakistan's case, this refers to foreign lessors leasing to Pakistani lessees Under the existing law, a with-holding tax has to be deducted by the lessee and deposited with the government on the entire rental paid to the foreign lessor In the case of a finance lease, the rental consists of both capital reoayment and profit payment, and hence the with-holding tax is being deducted not only on the profit but also on capital repaid - an obviously unacceptable situation to the foreign lessor This treatment should be such that in the case of foreign loan, the with-holding tax is deducted only on the interest portion In order not to discriminate against the leasing alternative, the government should review its policy on with holding tax and rules so that on cross border leases this tax is deducted only on the profit portion

* It is difficult to make market evaluations due to the lack of data.

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CHAPTER - 9

SUMMARY INFORMATION ON REMAINING DEVELOPMENT FINANCE INSTITUTIONS

9 01 This chapter reproduces the summary information on the remaining DFIs provided by the Ministry of Finance, Government of Pakistan The sequence of presentation reflects chronology of the dates of commencement

ICP

INVESTMENT CORPORATION OF PAKISTAN

HISTORY AND OBJECTIVES

The Investment Corporation of Pakistan (ICP) was established in February 1966 through an Ordinance of the Federal Government of Pakistan, as a development institution with the objectives of broadening the base of equity investments and developing the capital market. Soon after its establishment, the Corporation invited applications from sponsors seeking finances through underwriting of share issues and placement of debentures. This enabled the enterpreneures to meet the equity and local currency requirements of funds of their projects.

In January 1967, the Corporation launched its Investors Scheme in order to broaden the base of equity investments. The objective was further strengthened with the floatation of First ICP Mutual Fund in June, 1967. The Corporation has up till June 30, 1988 launched 17 such Funds and has thus mobilized savings of Rs.190.0 million.

The Corporation seeks to meet the following objectives :

i) Underwrite public issues of shares, provide financial assistance through purchase of Term Finance Certificate /Participation Term Certificate to enable the enterpreneures to meet the equity and local currency requirement of funds for financing their projects and also for the purchase of locally manufactured machinery.

ii) Open and maintain investment accounts with a view to broadbasing share ownership and widening the base of capital market for the purchase and sale of shares of public limited companies. Further, with the introduction of Sharing Account Scheme the Corporation provides an opportunity to the investors to invest in shares jointly with ICP on 'profit and loss sharing basis.

iii) Buying and selling shares on the stock market with a view to providing strength to the stock exchange and help in maintaining stability in share values.

MANAGEMENT STRUCTURE

The Board of Directors consists of 13 members. Eight members including the Chairman and the Managing Director are appointed by the Federal Governement and five are elected by the shareholders.

CAPITAL STRUCTURE

The authorised capital of the Corporation is Rs.200 million. The issued and subscribed capital amounted to Rs.100 million on June 30, 1987. The shares are held by the nationalized banks, foreign banks and insurance corporations/companies.

INCOME STATEMENT

	(Rs. million) Year Ended 30 June 1988	1987	%Change
Operating Income			
Interest on Loans, Discounts and Return on Non-Interest Bearing Accounts	72.629	73.928	(1.75)
Gain on Sale of Investments	53.435	52.010	2.73
Service and Commitment Charges	19.756	19.782	(.13)
Others	78.817	92.349	(14.65)
	224.637	238.069	(5.64)
Operating Expenses			
Interest on Borrowings & Return on Non-Interest Bearing Accounts	122.919	116.758	5.27
Salaries, Allowances and Benefits	37.665	30.183	24.78
Other Expenses	42.380	41.967	.98
Depreciation	1.543	3.344	(53.85)
Loss on Sale of Investments	1.760	.603	191.87
	206.267	192.855	6.95
Operating Profit/(Loss)	18.370	45.214	(59.37)
Net Profit/(Loss) before Taxation	18.370	45.214	(59.37)
Taxation			
Prior Years	-	(5.871)	(100.00)
	-	(5.871)	(100.00)
Net Profit/(Loss) after Taxation	18.370	51.085	(64.04)
Accumulated Profit/(Loss) B/F	93.313	54.228	72.07
Profit Available for Appropriation	111.683	105.313	6.04
Appropriation			
Dividends Paid and Proposed	-	10.000	(100.00)
Transfer to Other Reserves	2.000	2.000	-
	2.000	12.000	(83.33)
Accumulated Profit/(Loss)	109.683	93.313	17.54

MANAGEMENT INFORMATION

	(Rs. million) Year Ended 30 June 1988	1987	%Change
LOANS, ADVANCES AND PROFIT SHARING ARRANGEMENTS			
Regional Breakdown of total advances approved during year			
- Punjab	154.355	51.496	199.74
- Sind	202.797	108.861	86.29
- N.W.F.P.	-	13.950	(100.00)
- Baluchistan	6.650	10.900	(38.99)
- Azad Kashmir and Northern Areas	29.800	-	-
Total	393.602	185.207	112.52
Regional Breakdown of total advances disbursed during year			
- Punjab	29.486	56.475	(47.79)
- Sind	93.936	118.167	(20.51)
- N.W.F.P.	3.000	6.350	(52.76)
- Baluchistan	.167	32.082	(99.48)
- Azad Kashmir and Northern Areas	19.800	5.000	296.00
Total	146.389	218.074	(32.87)
DEPOSITS AT YEAR END			
- Over 1 year	202.294	193.252	4.68
Total	202.294	193.252	4.68
NUMBER OF EMPLOYEES (AT YEAR END)			
Management			
- Executive	19	17	11.76
- Non-Executive	271	239	13.39
Total	290	256	13.28
Permanent Non-Management Staff			
- Other	273	289	(5.54)
Total	273	289	(5.54)
Total	563	545	3.30
FURTHER ANALYSIS OF PERMANENT NON-MANAGEMENT			
- No. of Unionised Staff	273	289	(5.54)
Total	273	289	(5.54)
WAGES BILL			
Management			
- Executive	1.603	2.150	(25.44)
- Non-Executive	11.635	7.352	58.26
Total	13.238	9.502	39.32
Permanent Non-Management Staff			
- Other	9.693	8.959	8.19
Total	9.693	8.959	8.19
Total	22.931	18.461	24.21
FURTHER ANALYSIS OF PERMANENT NON-MANAGEMENT			
- Unionised Staff Wage Bill	9.693	8.959	8.19
Total	9.693	8.959	8.19

MANAGEMENT INFORMATION

SPECIFIC INFORMATION - BANKS & DFI.
INVESTMENT CORPORATION OF PAKISTAN

1.TERM ADVANCES APPROVED DURING THE YEAR

	PRIVATE SECTOR 1988	PRIVATE SECTOR 1987	PUBLIC SECTOR 1988	PUBLIC SECTOR 1987	TOTAL 1988	TOTAL 1987
Manufacturing						
-Cement	-	-	-	-	-	-
-Sugar	134.900	-	-	-	-	-
-Fertilizer	-	-	-	-	-	-
-Energy	-	-	-	-	-	-
-Textile	196.972	29.570	-	-	-	-
-Engineering	33.600	7.500	-	-	-	-
-Others*	28.130	148.137	-	-	-	-
Agriculture,Forestry Hunting and Fishing	-	-	-	-	-	-
Mining & Quarrying	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Electricity, Gas & Water	-	-	-	-	-	-
Commerce	-	-	-	-	-	-
Services	-	-	-	-	-	-
Others						
TOTAL	393.602	185.207	-	-	-	-

* includes paper & board, Chemicals & Pharmaceutical and Vanaspati & allied.

2.BRANCH NET WORK AT YEAR END

	NO OF BRANCHES 1987	NO OF BRANCHES 1988	SHARING INVESTORS DEPOSIT 30-6-88 1987	SHARING INVESTORS DEPOSIT 30-6-87 1988	NON-SHARING INVESTOR DEPOSIT 30-6-88 1987	NON-SHARING INVESTOR DEPOSIT 30-6-87 1988	ICP DEPOSIT* 30-6-88	ICP DEPOSIT* 30-87
Sind Urban	2	2	70.1	71.0	39.0	35.3	105.1	106.3
Sind Rural	-	-	-	-	-	-		
Punjab Urban	5	5	85.4	82.2	64.4	50.7	127.8	123.1
Punjab Rural	-	-	-	-	-	-		
N.W.F.P Urban	1	1	7.6	7.6	9.7	9.2	11.4	11.4
N.W.F.P Rural	-	-	-	-	-	-		
Baluchistan Urban	1	1	2.0	2.1	1.0	0.4	3.0	3.2
Baluchistan Rural	-	-	-	-	-	-		
Azad Kashmir & Northen Areas Urban	-	-	-	-	-	-		
Azad Kashmir & Northen Areas Rural	-	-	-	-	-	-		

* Sharing Account only.

(Rs in millions)

DEPOSITS.

Deposits at year end.		
Deposits from banks and Development. Finance institutions.		
Other deposits for period		
- Less than 3 months	-	-
- 3 months - 1 year		
- Over 1 year	202.294	193.252
Total (Agree with line 218 of form B2)	202.294	193.252

RATIOS

	Year Ended 30 June 1988	1987
Net Profit After Tax/Net Shareholder's Equity	7.27 %	21.82 %
Total Income/Net Shareholder's Equity	88.97 %	101.69 %
Net Profit Before Tax/Net Shareholder's Equity	7.27 %	19.31 %
Salaries and Benefits/Total Operating Expenses	18.26 %	15.65 %
Dividend Rate	-	10.00 %
Operating Profit/Total Income	8.17 %	18.99 %
Net Shareholder's Equity/Total Assets	8.75 %	8.46 %
Borrowing Ratio	666.30 %	685.04 %
Liqiid Assets/Total Deposit Liabilities	6.4406 : 1	6.3243 : 1

EPF

EQUITY PARTICIPATION FUND

HISTORY AND OBJECTIVES

The Equity Participation Fund (EPF) was established by a special legislation of the Federal Government in 1970 to foster and accelerate the growth of small and medium-sized industrial enterprises in the private sector in the less developed areas of Pakistan and providing equity support to the entrepreneurs of moderate means who are unable to raise funds for industrial activity from the capital market. For the purpose of the Ordinance, less-developed areas are spread over the whole of Pakistan excluding the areas specified below but not excluding the Government financed industrial trading estates located in any of those areas other than Karachi: (i) Islamabad Capital Territory, (ii) Karachi Division, (iii) Lahore District, (iv) Tehsil of Ferozwala, (v) Tehsil of Gujranwala, (vi) Tehsil of Sialkot, (vii) Tehsil of Faisalabad, (viii) Tehsil of Multan, (ix) Tehsil of Rahimyarkhan, (x) Tehsil of Rawalpindi, (xi) Taluka of Kotri, (xii) Taluka of Hyderabad, (xiii) such areas adjoining Karachi Division and Lahore District as may be specified by the Central Board of Revenue.

MANAGEMENT STRUCTURE

The overall control of the EPF vests in its Board of Directors which is composed of the Chairman who is nominated by the Federal government, four Provincial Secretaries - Industries nominated by the Provincial governments, one member representing the Federal Government, another State Bank of Pakistan, two Senior Executives from institutional investors, and one Executive Director nominated by the IDBP who is the also the Executive Director of the Fund.

CAPITAL STRUCTURE

The authorised share capital of the Fund is Rs.200 million out of which Rs.155 million was paid-up as on 30.6.88. The Fund can, however, augment its resources by raising funds through issue of debentures and/or by raising loans from the Federal Government. The Federal Government has allowed a special facility in the form of tax credit for the companies which purchase shares or debentures of the fund.

BALANCE SHEET

	(Rs. million) Year Ended 30 June 1988	1987	%Change
ASSETS			
Cash and Bank Balances	8.051	28.220	(71.47)
Advances/Profit Sharing Arrangements			
Loans for Project Financing	1.650	1.650	-
	1.650	1.650	-
Investments - at Cost			
Shares of Companies	144.436	127.765	13.04
Other Investments	42.262	29.115	45.15
	186.698	156.880	19.00
Other Assets	19.486	14.966	30.20
Fixed Assets	.383	.122	213.93
Net Assets in Bangladesh	51.386	51.386	-
	267.654	253.224	5.69
EQUITY AND LIABILITIES			
Equity			
Paid Up Share Capital	155.000	155.000	-
Accumulated Profit/(Loss)	.005	.004	25.00
Capital Reserves	47.104	34.959	34.74
Revenue Reserves	30.113	27.746	8.53
	232.222	217.709	6.66
Borrowings			
Debentures and Bonds	35.000	35.000	-
	35.000	35.000	-
Other Liabilities	.432	.515	(16.11)
	267.654	253.224	5.69
Contingencies and Commitments	91.496	88.876	2.94

INCOME STATEMENT

	(Rs. million) Year Ended 30 June 1988	1987	%Change
Operating Income			
Interest on Loans, Discounts and Return on Non-Interest Bearing Accounts	4.910	3.790	29.55
Interest on Bank Deposits	1.816	2.513	(27.73)
Premium on Disinvestment of Funds' Holdings	.127	.131	(3.05)
Service and Commitment Charges	4.705	4.517	4.16
Others	.393	.059	566.10
	11.951	11.010	8.54
Operating Expenses			
Salaries, Allowances and Benefits	1.334	.926	44.06
Other Expenses	.600	.415	44.57
Depreciation	.061	.049	24.48
	1.995	1.390	43.52
Operating Profit/(Loss)	9.956	9.620	3.49
Net Profit/(Loss) before Taxation	9.956	9.620	3.49
Net Profit/(Loss) after Taxation	9.956	9.620	3.49
Accumulated Profit/(Loss) B/F	.004	.004	-
Profit Available for Appropriation	9.960	9.624	3.49
Appropriation			
Transfer To(From) General Reserve	2.000	-	-
Transfer to Other Reserves	7.955	9.620	(17.30)
	9.955	9.620	3.48
Accumulated Profit/(Loss)	.005	.004	25.00

MANAGEMENT INFORMATION

	(Rs. million) Year Ended 30 June 1988	1987	%Change
LOANS, ADVANCES AND PROFIT SHARING ARRANGEMENTS			
Approvals (during the year)			
- Equity Investments	35.610	54.450	(34.60)
Total	35.610	54.450	(34.60)
Disbursements (during the year)			
- Equity Investments	22.760	25.750	(11.61)
Total	22.760	25.750	(11.61)
Portfolio (year end)			
- Other Loans	1.650	1.650	-
- Equity Investments	144.436	127.765	13.05
Total	146.086	129.415	12.88
Regional Breakdown of total advances approved during year			
- Punjab	14.110	22.200	(36.44)
- Sind	10.350	12.800	(19.14)
- N.W.F.P.	9.950	11.350	(12.33)
- Baluchistan	-	6.600	(100.00)
- Azad Kashmir and Northern Areas	1.200	1.500	(20.00)
Total	35.610	54.450	(34.60)
Regional Breakdown of total advances disbursed during year			
- Punjab	12.710	8.450	50.41
- Sind	2.600	2.200	18.18
- N.W.F.P.	3.550	9.800	(63.78)
- Baluchistan	2.700	4.800	(43.75)
- Azad Kashmir and Northern Areas	1.200	.500	140.00
Total	22.760	25.750	(11.61)
NUMBER OF EMPLOYEES (AT YEAR END)			
Management			
- Executive	1	1	-
- Non-Executive	8	6	33.33
Total	9	7	28.57
Permanent Non-Management Staff			
- Other	10	8	25.00
Total	10	8	25.00
Total	19	15	26.67
FURTHER ANALYSIS OF PERMANENT NON-MANAGEMENT			
- No. of Unionised Staff	10	8	25.00
Total	10	8	25.00
WAGES BILL			
Management			
- Executive	.108	.094	14.89
- Non-Executive	.732	.483	51.55
Total	.840	.577	45.58
Permanent Non-Management Staff			
- Other	.494	.349	41.55
Total	.494	.349	41.55
Total	1.334	.926	44.06
FURTHER ANALYSIS OF PERMANENT NON-MANAGEMENT			
- Unionised Staff Wage Bill	.494	.349	41.55
Total	.494	.349	41.55

RATIOS

	Year Ended 30 June 1988	1987
Net Profit After Tax/Net Shareholder's Equity	4.28 %	4.41 %
Total Income/Net Shareholder's Equity	5.14 %	5.05 %
Net Profit Before Tax/Net Shareholder's Equity	4.28 %	4.41 %
Salaries and Benefits/Total Operating Expenses	66.86 %	66.61 %
Operating Profit/Total Income	83.30 %	87.37 %
Net Shareholder's Equity/Total Assets	86.76 %	85.97 %
Borrowing Ratio	15.07 %	16.07 %

FBC

FEDERAL BANK FOR COOPERATIVES

HISTORY AND OBJECTIVES

The Federal Bank for Cooperatives (FBC) was established under the Establishment of Federal Bank of Cooperatives and Regulation of Cooperative Banking Ordinance of 1976 to improve and regularise the working of Cooperative Banks in particular and strengthen the cooperative movement in the country in general.

Some of the major objectives of the Bank are summarised below:-

i) Make secured loans and advances to the provincial cooperative banks and multi-unit cooperative societies.

ii) Lay down policy guidelines in relation to the business of the Provincial Cooperative Banks.

iii) Assist the Federal Government and the Provincial Governments in formulating schemes for the development and revitalisation of the cooperative movement in the country in general and the Provincial Cooperative Banks in particular.

iv) Assist Provincial Cooperative Banks in preparing their seasonal and developmental loaning programmes and conduct appraisal and undertake feasibility study of projects covered by such loaning programmes.

v) Encourage the development of special cooperative projects, the objects and areas of operation of which may extend to more than one Province.

vi) Organize training in cooperation and cooperative banking for the employees of the Provincial Cooperative Banks and the Cooperative Societies.

vii) Carry out research in the problems of rural credit and on such other matters as have bearing on the development of the cooperative movement in the country.

viii) Ensure proper utilization of loans obtained from the Bank.

ix) Inspect the affairs of Provincial Cooperative Banks and issue guidance for the improvement of their working.

x) If necessary, contribute to the Share Capital of the Provincial Cooperative Banks.

MANAGEMENT STRUCTURE

The FBC is administratively under the control of the Ministry of Finance. The Governor of State Bank of Pakistan, is the Chairman of the Board of Directors. Seven other Directors are nominated by the State Bank while the Federal Government nominates the Managing Director and 12 Directors including the Federal Secretaries of the Ministries of Finance and Food and Agriculture and the Provincial Secretaries for Cooperatives.

CAPITAL STRUCTURE

There are 2000 ordinary shares of Rs.100,000 each; 75 percent of the shares are held by the State Bank of Pakistan, 10 percent by the Federal Government and the rest by the Provincial Governments.

BALANCE SHEET

	(Rs. million) Year Ended 30 June 1988	1987	%Change
ASSETS			
Cash and Bank Balances	14.419	6.277	129.71
Money at Call and Short Notice	-	3.623	(100.00)
Advances/Profit Sharing Arrangements			
Loans for Project Financing	247.462	136.000	81.95
Other Loans and Advances	2,925.574	2,258.288	29.54
	3,173.036	2,394.288	32.52
Investments - at Cost			
Securities/Treasury Bills of Federal/Provincial Governments	19.569	19.569	-
Shares of Companies	49.243	49.243	-
Other Investments	4.196	3.406	23.19
	73.008	72.218	1.09
Other Assets	5.990	4.205	42.44
Fixed Assets	3.721	2.739	35.85
	3,270.174	2,483.350	31.68
EQUITY AND LIABILITIES			
Equity			
Paid Up Share Capital	200.000	200.000	-
Accumulated Profit/(Loss)	.061	.257	(76.26)
Revenue Reserves	194.462	175.462	10.82
	394.523	375.719	5.00
Deposit and Other Accounts			
Current/Contingency Accounts	.908	4.557	(80.07)
	.908	4.557	(80.07)
Borrowings			
Local	2,810.559	2,043.443	37.54
	2,810.559	2,043.443	37.54
Other Liabilities	64.184	59.631	7.63
	3,270.174	2,483.350	31.68
Contingencies and Commitments	75.000	75.000	

INCOME STATEMENT

	(Rs. million) Year Ended 30 June 1988	1987	%Change
Operating Income			
Interest on Loans, Discounts and Return on Non-Interest Bearing Accounts	50.568	31.527	60.39
Interest on Bank Deposits	.359	.534	(32.77)
Interest on Government Securities	2.042	2.039	.14
Others	.525	.199	163.81
	53.494	34.299	55.96
Operating Expenses			
Interest on Borrowings & Return on Non-Interest Bearing Accounts	10.930	8.244	32.58
Salaries, Allowances and Benefits	10.147	7.688	31.98
Other Expenses	12.693	11.114	14.20
Depreciation	.868	.702	23.64
	34.638	27.748	24.83
Prior Period Adjustments	(.053)	(3.939)	(98.65)
Net Profit/(Loss) before Taxation	18.803	2.612	619.86
Net Profit/(Loss) after Taxation	18.803	2.612	619.86
Accumulated Profit/(Loss) B/F	.257	.145	77.24
Profit Available for Appropriation	19.060	2.757	591.33
Appropriation			
Transfer To(From) General Reserve	18.999	2.500	659.96
	18.999	2.500	659.96
Accumulated Profit/(Loss)	.061	.257	(76.26)

MANAGEMENT INFORMATION

	(Rs. million) Year Ended 30 June 1988	1987	%Change
LOANS, ADVANCES AND PROFIT SHARING ARRANGEMENTS			
Approvals (during the year)			
- Term Loans	150.000	75.000	100.00
- Other Loans & Bebentures	3,000.000	2,421.000	23.92
Total	3,150.000	2,496.000	26.20
Disbursements (during the year)			
- Term Loans	134.580	75.000	79.44
- Other Loans	2,885.700	2,419.750	19.26
Total	3,020.280	2,494.750	21.07
Portfolio (year end)			
- Term Loans	247.462	136.000	81.96
- Other Loans	2,914.798	2,250.753	29.50
Total	3,162.260	2,386.753	32.49
Regional Breakdown of total advances approved during year			
- Punjab	2,384.000	1,937.000	23.08
- Sind	211.500	246.000	(14.02)
- N.W.F.P.	390.000	244.000	59.84
- Baluchistan	-	9.000	(100.00)
- Azad Kashmir and Northern Areas	164.500	60.000	174.17
Total	3,150.000	2,496.000	26.20
Regional Breakdown of total advances disbursed during year			
- Punjab	2,335.590	1,851.300	26.16
- Sind	95.000	201.600	(52.88)
- N.W.F.P.	433.830	323.930	33.93
- Azad Kashmir and Northern Areas	155.860	117.920	32.17
Total	3,020.280	2,494.750	21.07
Advances made under Small Loans Scheme (during year)			
- Agriculture	2,885.700	2,419.750	19.26
Total	2,885.700	2,419.750	19.26
DEPOSITS AT YEAR END			
- Less than 3 months	.908	4.557	(80.07)
Total	.908	4.557	(80.07)
NUMBER OF EMPLOYEES (AT YEAR END)			
Management			
- Executive	1	1	-
- Non-Executive	59	52	13.46
Total	60	53	13.21
Permanent Non-Management Staff			
- Other	156	138	13.04
Total	156	138	13.04
Temporary Staff			
- Other	12	15	(20.00)
Total	12	15	(20.00)
Total	228	206	10.68
FURTHER ANALYSIS OF PERMANENT NON-MANAGEMENT			
- No. of Unionised Staff	156	138	13.04

MANAGEMENT INFORMATION

	(Rs. million) Year Ended 30 June 1988	1987	%Change
Total	156	138	13.04
WAGES BILL			
Management			
- Executive	.103	.097	6.19
- Non-Executive	4.302	3.792	13.45
Total	4.405	3.889	13.27
Permanent Non-Management Staff			
- Other	5.538	3.668	50.98
Total	5.538	3.668	50.98
Temporary Staff			
- Other	.204	.131	55.73
Total	.204	.131	55.73
Total	10.147	7.688	31.98
FURTHER ANALYSIS OF PERMANENT NON-MANAGEMENT			
- Unionised Staff Wage Bill	5.538	3.668	50.98
Total	5.538	3.668	50.98

SPECIFIC INFORMATION - BANKS & DFI.
FEDRAL BANK FOR COOPERATIVES

1. TERM ADVANCES APPROVED DURING THE YEAR

	PRIVATE SECTOR 1988	1987	PUBLIC SECTOR 1988	1987	TOTAL 1988	1987
Manufacturing						
-Cement	-	-	-	-	-	-
-Sugar	-	-	-	-	-	-
-Fertilizer	-	-	-	-	-	-
-Energy	-	-	-	-	-	-
-Textile	-	-	-	-	-	-
-Engineering	-	-	-	-	-	-
-Others	-	-	-	-	-	-
Agriculture, Forestry Hunting and Fishing	134.580	75.000			134.580	75.000
Mining & Quarrying	-	-	-	-	-	-
Electricity, Gas & Water	-	-	-	-	-	-
Commerce	-	-	-	-	-	-
Services	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Others						
TOTAL	134.580	75.000	-	-	134.580	75.000

RATIOS

	FBC Year Ended 30 June 1988	1987
Net Profit After Tax/Net Shareholder's Equity	4.76 %	.69 %
Total Income/Net Shareholder's Equity	13.55 %	9.12 %
Net Profit Before Tax/Net Shareholder's Equity	4.76 %	.69 %
Salaries and Benefits/Total Operating Expenses	29.29 %	27.70 %
Operating Profit/Total Income	35.24 %	19.09 %
Net Shareholder's Equity/Total Assets	12.06 %	15.12 %
Borrowing Ratio	712.39 %	543.87 %
Liqiid Assets/Total Deposit Liabilities	26.4185 : 1	4.2723 : 1

BALANCE SHEET

	(Rs. million) Year Ended 30 June 1988	1987	Change
ASSETS			
Cash and Bank Balances	235.012	233.701	.56
Money at Call and Short Notice	1,067.885	988.499	8.03
Investments - at Cost			
Shares of Companies	480.324	473.442	1.45
Debentures and Bonds	.009	.052	(82.69)
	480.333	473.494	1.44
Other Assets	476.016	473.494	.52
Fixed Assets	3.762	3.464	8.60
Net Assets in Bangladesh	99.080	99.080	-
Net Assets of Mutual Fund	205.457	182.293	12.70
Net Assets of State Enterprise Mutual Fund	316.383	310.888	1.76
	2,883.928	2,764.913	4.30
EQUITY AND LIABILITIES			
Equity			
Paid Up Share Capital	100.000	100.000	-
Accumulated Profit/(Loss)	109.683	93.313	17.54
Revenue Reserves	42.798	40.798	4.90
	252.481	234.111	7.84
Deposit and Other Accounts			
Other Deposits	202.294	193.252	4.67
	202.294	193.252	4.67
Borrowings			
Local	858.090	795.722	7.83
Participation Term Certificates / Musharika Arrangements	824.193	808.052	1.99
	1,682.283	1,603.774	4.89
Other Liabilities	746.870	733.776	1.78
	2,883.928	2,764.913	4.30

PKIC

PAKISTAN KUWAIT INVESTMENT COMPANY LIMITED

HISTORY AND OBJECTIVES

The Government of Pakistan and the Government of Kuwait signed a protocol in July 1976 for the establishment of a company to be known as Pakistan Kuwait Investment Company Limited with a view to carrying on investment activities in Pakistan in a profit - oriented manner. An agreement in respect of the joint venture was signed in Kuwait on March 8, 1978, which was followed by the signing of the Memorandum and Articles of Association of the proposed Company on December 23, 1978. The document was signed by the Secretary, Ministry of Finance, on behalf of the Government of Pakistan and the Deputy Managing Director, Kuwait Foreign Trading Contracting and Investment Company (KFTCIC), as a nominee of the Government of Kuwait. The company was incorporated in March 1979 as a private limited company.

The main purpose of the company is to promote and expand economic and investment collaboration between Pakistan and Kuwait. It provides financial assistance for industrial enterprises in the private as well as public sectors.

MANAGEMENT STRUCTURE

The management and superintendence of the Company vests in a Board of Directors consisting of six Directors including the Managing Director, who is the Chief Executive. Three Directors are nominated by each shareholder. The Chairman is the nominee of KFTCIC while the Managing Director is named by the Government of Pakistan. Each of the two parties has the right to appoint, re-appoint, replace or remove any of its representatives on the Board of Directors. Besides the Managing Directors, Controller of Capital Issues and Executive Director, the State Bank of Pakistan, represents the Pakistan side on the Board.

CAPITAL STRUCTURE

The company has an authorised capital of Rs.1,000 million. The paid-up capital is Rs. 378.100 million.

BALANCE SHEET

	(Rs. million) Year Ended 31 December 1987	1986	% Change
ASSETS			
Cash and Bank Balances	39.985	42.615	(6.17)
Advances/Profit Sharing Arrangements			
Loans for Project Financing	24.402	23.850	2.31
Participation Term Certificates	6.742	7.186	(6.17)
Other Loans and Advances	145.123	150.219	(3.39)
	176.267	181.255	(2.75)
Investments - at Cost			
Securities/Treasury Bills of Federal/Provincial Governments	5.000	5.000	-
Shares of Companies	212.059	213.862	(.84)
Debentures and Bonds	5.000	5.344	(6.43)
Other Investments	71.907	26.700	169.31
	293.966	250.906	17.16
Other Assets	27.053	22.783	18.74
Fixed Assets	29.895	29.194	2.40
	567.166	526.753	7.67
EQUITY AND LIABILITIES			
Equity			
Paid Up Share Capital	378.100	343.750	9.99
Accumulated Profit/(Loss)	.492	1.164	(57.73)
Revenue Reserves	149.447	173.854	(14.03)
	528.039	518.768	1.78
Other Liabilities	39.127	7.985	390.00
	567.166	526.753	7.67
Contingencies and Commitments	53.897	71.436	(17.5

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INCOME STATEMENT

	(Rs. million) Year Ended 31 December 1987	1986	%Change
Operating Income			
Interest on Loans, Discounts and Return on Non-Interest Bearing Accounts	52.747	50.673	4.09
Commission, Exchange, Fees and Brokerage	.389	4.148	(90.62)
Gain on Sale of Investments	3.459	5.000	(30.82)
Interest on Bank Deposits	7.761	5.688	36.44
	64.356	65.509	(1.76)
Operating Expenses			
Interest on Borrowings & Return on Non-Interest Bearing Accounts	.425	.991	(57.11)
Salaries, Allowances and Benefits	2.599	2.124	22.36
Other Expenses	14.680	8.075	81.79
Depreciation	.298	.226	31.85
	18.002	11.416	57.69
Other Income	.136	.068	100.00
Net Profit/(Loss) before Taxation	46.490	54.161	(14.16)
Net Profit/(Loss) after Taxation	46.490	54.161	(14.16)
Accumulated Profit/(Loss) B/F	1.164	1.094	6.39
Profit Available for Appropriation	47.654	55.255	(13.75)
Appropriation			
Dividends Paid and Proposed	37.810	-	-
Proposed Bonus Shares	-	34.375	(100.00)
Transfer To(From) General Reserve	-	5.000	(100.00)
Transfer to Other Reserves	9.352	14.716	(36.45)
	47.162	54.091	(12.80)
Accumulated Profit/(Loss)	.492	1.164	(57.7[illegible]

MANAGEMENT INFORMATION

	(Rs. million) Year Ended 31 December 1987	1986	%Change
LOANS, ADVANCES AND PROFIT SHARING ARRANGEMENTS			
Approvals (during the year)			
- Term Loans	10.705	30.831	(65.28)
- Equity Investments	19.188	1.932	889.58
Total	29.893	32.770	(8.78)
Disbursements (during the year)			
- Term Loans	1.257	58.280	(97.84)
- Equity Investments	6.283	3.940	59.47
Total	7.540	62.220	(87.88)
Portfolio (year end)			
- Term Loans	295.826	288.000	2.72
- Equity Investments	236.518	230.000	2.83
Total	532.344	518.000	2.77
Regional Breakdown of total advances approved during year			
- Punjab	15.836	20.145	(21.39)
- Sind	6.283	10.939	(42.56)
- Baluchistan	.133	1.686	(92.11)
Total	22.252	32.770	(32.10)
Regional Breakdown of total advances disbursed during year			
- Punjab	2.931	57.595	(94.91)
- Sind	6.283	2.939	113.78
- Baluchistan	.133	1.686	(92.11)
Total	9.347	62.220	(84.98)
NUMBER OF EMPLOYEES (AT YEAR END)			
Management			
- Executive	4	4	-
- Non-Executive	11	10	10.00
Total	15	14	7.14
Permanent Non-Management Staff			
- Other	24	20	20.00
Total	24	20	20.00
Total	39	34	14.71
FURTHER ANALYSIS OF PERMANENT NON-MANAGEMENT			
- No. of Non-Unionised Staff	24	20	20.00
Total	24	20	20.00

1. TERM ADVANCES APPROVED DURING THE YEAR

	PRIVATE SECTOR 1988	1987	PUBLIC SECTOR 1988	1987	TOTAL 1988	1987
Manufacturing						
-Cement	0.851	0.133			0.851	0.133
-Energy	-	4.283			-	4.283
-Textile	16.743	12.905			16.743	12.905
-Others	12.402	2.931			12.402	2.931
Construction	0.835	-			0.835	-
Services		2.000			-	2.000
TOTAL	30.831	22.252			30.831	22.252

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RATIOS

	Year Ended 31 December 1987	1986
Net Profit After Tax/Net Shareholder's Equity	8.80 %	10.44 %
Total Income/Net Shareholder's Equity	12.21 %	12.64 %
Net Profit Before Tax/Net Shareholder's Equity	8.80 %	10.44 %
Salaries and Benefits/Total Operating Expenses	14.43 %	18.60 %
Dividend Rate	10.00 %	-
Operating Profit/Total Income	71.87 %	82.48 %
Net Shareholder's Equity/Total Assets	93.10 %	98.48 %

PLHC

PAK-LIBYA HOLDING COMPANY LIMITED

HISTORY AND OBJECTIVES

The establishment of Pak-Libya Holding Company Limited (PLHC) as a Joint Stock Company on October 14, 1978 with its registered office at Karachi was the outcome of a mutual agreement signed on February 8, 1976 between the Governments of Pakistan and Libya. The Company commenced business operations in October 1980.

To achieve its prime objective of facilitating industrial investment in Pakistan, PLHC provides a comprehensive package of various modes of financing. Its operational sphere includes provision of local and foreign financing, equity participation, underwrting of public issues and bridge finance facilities, short-term investment, co-sponsoring of joint ventures, and also participation in financial packages in consortium with other financial institutions and financing projects by way of Islamic modes of financing particularly on the basis of Participation Term Certificates (PTCs) both for local and foreign currency financing. To further broaden PLHC's sphere of investment activities other Islamic modes of financing are also being explored such as lease financing, modaraba, musharika, mark-up, etc. In order to encourage greater utilization of indigenous machinery the company also extends financing facilities to prospective entreprencures for locally fabricated machinery under State Bank of Pakistan's Refinancing Scheme.

MANAGEMENT STRUCTURE

The executive authority for the conduct of the Company's business vests in its Board of Directors on which three Directors each have been nominated by the two Governments including its Chairman, the Managing Director and Deputy Managing Director.

CAPTIAL STRUCTURE

The paid-up share capital of PLHC in 1987 was Rs.1000 million.

BALANCE SHEET

	(Rs. million) Year Ended 31 December 1987	1986	%Change
ASSETS			
Cash and Bank Balances	10.436	14.539	(28.22)
Money at Call and Short Notice	27.307	87.307	(68.72)
Advances/Profit Sharing Arrangements			
Loans for Project Financing	483.424	589.980	(18.06)
Participation Term Certificates	507.410	222.987	127.55
Other Loans and Advances	.334	.633	(47.23)
	991.168	813.600	21.82
Investments - at Cost			
Securities/Treasury Bills of Federal/Provincial Governments	80.000	32.500	146.15
Shares of Companies	180.152	147.407	22.21
Debentures and Bonds	110.792	135.222	(18.06)
Other Investments	31.011	42.462	(26.96)
	401.955	357.591	12.40
Other Assets	171.858	146.804	17.06
Fixed Assets	29.430	28.035	4.97
	1,632.154	1,447.876	12.72
EQUITY AND LIABILITIES			
Equity			
Paid Up Share Capital	1,000.000	1,000.000	-
Accumulated Profit/(Loss)	1.059	4.181	(74.67)
Capital Reserves	144.000	102.000	41.17
Revenue Reserves	210.165	183.011	14.83
	1,355.224	1,289.192	5.12
Borrowings			
Local	159.181	47.422	235.66
	159.181	47.422	235.66
Other Liabilities	117.749	111.262	5.83
	1,632.154	1,447.876	12.72

INCOME STATEMENT

	(Rs. million) Year Ended 31 December 1987	1986	%Change
Operating Income			
Interest on Loans, Discounts and Return on Non-Interest Bearing Accounts	140.694	113.544	23.91
Commission, Exchange, Fees and Brokerage	2.300	2.273	1.18
Gain on Sale of Investments	4.555	4.418	3.10
Interest on Bank Deposits	6.503	25.737	(74.73)
Interest on Government Securities	20.964	9.081	130.85
Service and Commitment Charges	9.226	10.471	(11.88)
Others	7.391	11.921	(38.00)
	191.633	177.445	7.99
Operating Expenses			
Interest on Borrowings & Return on Non-Interest Bearing Accounts	2.908	1.866	55.84
Salaries, Allowances and Benefits	4.546	3.921	15.93
Other Expenses	2.729	2.996	(8.91)
Depreciation	.417	.396	5.30
	10.600	9.179	15.48
Operating Profit/(Loss)	181.033	168.266	7.58
Net Profit/(Loss) before Taxation	181.033	168.266	7.58
Net Profit/(Loss) after Taxation	181.033	168.266	7.58
Accumulated Profit/(Loss) B/F	4.181	13.155	(68.21)
Profit Available for Appropriation	185.214	181.421	2.09
Appropriation			
Dividends Paid and Proposed	115.000	110.000	4.54
Transfer To(From) General Reserve	27.155	25.240	7.58
Transfer to Other Reserves	42.000	42.000	-
	184.155	177.240	3.90
Accumulated Profit/(Loss)	1.059	4.181	(74.67)

MANAGEMENT INFORMATION

	(Rs. million) Year Ended 31 December 1987	1986	%Change
LOANS, ADVANCES AND PROFIT SHARING ARRANGEMENTS			
Approvals (during the year)			
- Term Loans	148.339	341.256	(56.53)
- Other Loans & Bebentures	52.750	112.000	(52.90)
- Equity Investments	44.500	39.300	13.23
Total	245.589	492.556	(50.14)
Disbursements (during the year)			
- Term Loans	210.471	179.700	17.12
- Other Loans	60.050	29.440	103.97
- Equity Investments	33.800	12.100	179.34
Total	304.321	221.240	37.55
Portfolio (year end)			
- Term Loans	480.911	587.469	(18.14)
- Other Loans	507.410	222.987	127.55
- Equity Investments	180.152	147.407	22.21
Total	1,168.473	957.863	21.99
Regional Breakdown of total advances approved during year			
- Punjab	95.914	186.905	(48.68)
- Sind	148.675	234.676	(36.65)
- N.W.F.P.	1.000	70.975	(98.59)
Total	245.589	492.556	(50.14)
Regional Breakdown of total advances disbursed during year			
- Punjab	152.582	165.015	(7.53)
- Sind	137.366	24.175	468.22
- N.W.F.P.	4.373	1.950	124.26
- Baluchistan	10.000	30.100	(66.78)
Total	304.321	221.240	37.55
NUMBER OF EMPLOYEES (AT YEAR END)			
Management			
- Executive	4	4	-
- Non-Executive	3	2	50.00
Total	7	6	16.67
Permanent Non-Management Staff			
- Other	46	43	6.98
Total	46	43	6.98
Temporary Staff			
- Other	1	6	(83.33)
Total	1	6	(83.33)
Total	54	55	(1.82)
FURTHER ANALYSIS OF PERMANENT NON-MANAGEMENT			
- No. of Non-Unionised Staff	46	43	6.98
Total	46	43	6.98
WAGES BILL			
Management			
- Executive	.616	.529	16.45
- Non-Executive	.339	.391	(13.30)
Total	.955	.920	3.80

MANAGEMENT INFORMATION

	(Rs. million) Year Ended 31 December 1987	1986	%Change
Permanent Non-Management Staff			
- Other	2.001	1.516	31.99
Total	2.001	1.516	31.99
Temporary Staff			
- Other	.008	.067	(88.06)
Total	.008	.067	(88.06)
Total	2.964	2.503	18.42
FURTHER ANALYSIS OF PERMANENT NON-MANAGEMENT			
- Non-Unionised Staff Wage Bill	2.001	1.516	31.99
Total	2.001	1.516	31.99

1.TERM ADVANCES APPROVED DURING THE YEAR

	PRIVATE SECTOR 1987	1988	PUBLIC SECTOR 1987	1988	TOTAL 1987	1988
Manufacturing						
-Cement	-	-	-	-	-	-
-Sugar	-	124.275	-	-	-	124.275
-Fertilizer	-	-	-	-	-	-
-Energy	-	-	-	-	-	-
-Textile	17.000	106.896	-	-	17.000	106.896
-Engineering	-	15.000	-	-	-	15.000
-Others	80.939	241.385	-	-	80.939	241.385
Agriculture,Forestry Hunting and Fishing	-	-	-	-	-	-
Mining & Quarrying	-	-	-	-	-	-
Construction	-	-	-	-	-	-
Others	147.650	5.000	-	-	147 650	5.000
TOTAL	245.589	492.556	NIL	NIL	245.589	492.556

RATIOS

	Year Ended 31 December 1987	1986
Net Profit After Tax/Net Shareholder's Equity	13.35 %	13.05 %
Total Income/Net Shareholder's Equity	14.14 %	13.76 %
Net Profit Before Tax/Net Shareholder's Equity	13.35 %	13.05 %
Salaries and Benefits/Total Operating Expenses	42.88 %	42.71 %
Dividend Rate	11.50 %	11.00 %
Operating Profit/Total Income	94.46 %	94.82 %
Net Shareholder's Equity/Total Assets	83.03 %	89.04 %
Borrowing Ratio	11.74 %	3.67 %

SAPICO

SAUDI-PAK INDUSTRIAL AND AGRICULTURAL INVESTMENT COMPANY

HISTORY AND OBJECTIVES

Saudi-Pak Industrial and Agricultural Investment Company (SAPICO) has been established to meet the financing requirements of industrial and agricultural sectors, promote and accelerate industrial development and establish agro-based industries. It is a joint venture between the Kingdom of Saudi Arabia and the Government of Pakistan, and was incorporated as a private limited company under the Company Law on December 23, 1981.

The objectives of the company are investment in the industrial and agro-based industrial fields in the Islamic Republic of Pakistan on commercial basis through the carrying out of industrial and agro-based industrial projects and marketing of their products in Pakistan and abroad.

MANAGEMENT STRUCTURE

The overall control and supervision of SAPICO vests in its Board of Directors comprising three Pakistanis and three Saudi Directors. The Pakistani Directors are nominated by the Federal Government of Pakistan. The Federal Finance Ministry is responsible for the affairs of the company. The Chief Executive officer is also appointed by the Federal Government.

CAPTIAL STRUCTURE

The share capital of the company as authorised by the Government is Rs.1,000 million, of which Rs.800 million has been paid against the first and second calls by the respective governments.

BALANCE SHEET

	(Rs. million) Year Ended 31 December 1987	1986	%Change
ASSETS			
Cash and Bank Balances	31.681	24.084	31.54
Money at Call and Short Notice	519.431	534.935	(2.89)
Advances/Profit Sharing Arrangements			
Loans for Project Financing	312.915	222.994	40.32
	312.915	222.994	40.32
Investments - at Cost			
Securities/Treasury Bills of Federal/Provincial Governments	159.364	163.011	(2.23)
Shares of Companies	81.800	69.700	17.36
Other Investments	84.000	86.500	(2.89)
	325.164	319.211	1.86
Other Assets	54.321	41.732	30.16
Fixed Assets	16.916	6.103	177.17
	1,260.428	1,149.059	9.69
EQUITY AND LIABILITIES			
Equity			
Paid Up Share Capital	800.000	800.000	-
Accumulated Profit/(Loss)	.289	.946	(69.45)
Revenue Reserves	449.625	343.625	30.84
	1,249.914	1,144.571	9.20
Other Liabilities	10.514	4.488	134.26
	1,260.428	1,149.059	9.69
Contingencies and Commitments	397.842	382.747	3.94

INCOME STATEMENT

	(Rs. million) Year Ended 31 December 1987	1986	%Change
Operating Income			
Interest on Loans, Disçounts and Return on Non-Interest Bearing Accounts	49.024	26.050	88.19
Interest on Bank Deposits	41.388	41.648	(.62)
Interest on Government Securities	16.250	13.298	22.19
Service and Commitment Charges	4.560	1.567	191.00
Others	7.806	36.706	(78.73)
	119.028	119.269	(.20)
Operating Expenses			
Salaries, Allowances and Benefits	3.739	2.735	36.70
Other Expenses	9.148	9.041	1.18
Depreciation	.798	.492	62.19
	13.685	12.268	11.55
Operating Profit/(Loss)	105.343	107.001	(1.54)
Net Profit/(Loss) before Taxation	105.343	107.001	(1.54)
Net Profit/(Loss) after Taxation	105.343	107.001	(1.54)
Accumulated Profit/(Loss) B/F	.946	3.945	(76.02)
Profit Available for Appropriation	106.289	110.946	(4.19)
Appropriation			
Transfer To (From) General Reserve	-	74.000	(100.00)
Transfer to Other Reserves	106.000	36.000	194.44
	106.000	110.000	(3.63)
Accumulated Profit/(Loss)	.289	.946	(69.45)

MANAGEMENT INFORMATION

	(Rs. million) Year Ended 31 December 1987	1986	%Change
LOANS, ADVANCES AND PROFIT SHARING ARRANGEMENTS			
Approvals (during the year)			
- Term Loans	194.087	121.366	59.92
- Equity Investments	66.213	53.000	24.93
Total	260.300	174.366	49.28
Disbursements (during the year)			-
- Term Loans	101.989	152.135	(32.96)
- Equity Investments	17.932	22.587	(20.61)
Total	119.921	174.722	(31.36)
Portfolio (year end)			
- Term Loans	312.914	222.994	40.32
- Equity Investments	101.340	78.408	29.25
Total	414.254	301.402	37.44
Regional Breakdown of total advances approved during year			
- Punjab	233.656	126.438	84.80
- Sind	12.505	35.796	(65.07)
- N.W.F.P.	12.954	4.500	187.87
- Baluchistan	1.185	7.632	(84.47)
Total	260.300	174.366	49.28
Regional Breakdown of total advances disbursed during year			
- Punjab	90.221	150.090	(39.89)
- Sind	20.796	23.000	(9.58)
Baluchistan	8.904	.982	806.72
- Azad Kashmir and Northern Areas	-	.650	(100.00)
Total	119.921	174.722	(31.36)
NUMBER OF EMPLOYEES (AT YEAR END)			
Management			
- Executive	5	4	25.00
- Non-Executive	10	10	-
Total	15	14	7.14
Permanent Non-Management Staff			
- Production	19	14	35.71
Total	19	14	35.71
Total	34	28	21.43
FURTHER ANALYSIS OF PERMANENT NON-MANAGEMENT			
- No. of Non-Unionised Staff	19	14	35.71
Total	19	14	35.71
WAGES BILL			
Management			
- Executive	432.671	448.036	(3.43)
- Non-Executive	1,004.264	650.921	54.28
Total	1,436.985	1,098.959	30.76
Permanent Non-Management Staff			
- Production	485.334	474.822	2.21
Total	485.334	474.822	2.21
Total	1,922.269	1,573.781	22.14
FURTHER ANALYSIS OF PERMANENT NON-MANAGEMENT			
- Non-Unionised Staff Wage Bill	485.334	474.822	2.21
Total	485.334	474.822	2.21

MANAGEMENT INFORMATION

1.TERM ADVANCES APPROVED DURING THE YEAR

	PRIVATE SECTOR		PUBLIC SECTOR		TOTAL	
	1988	1987	1988	1987	1988	1987
Manufacturing						
-Cement	-	-	NIL	NIL	-	-
-Sugar	-	-			-	-
-Fertilizer	-	-			-	-
-Energy	-	-			-	-
-Textile	1.300	-			1.300	-
-Engineering	182.387	152.276			182.387	152.276
-Others	5.000	22.090			5.000	22.090
Agriculture,Forestry Hunting and Fishing	-	-			-	-
Mining & Quarrying	-	-			-	-
Construction	-	-			-	-
Services	7.000	-			7.000	-
Others	64.613	-			64.613	-
TOTAL	260.300	174.366	NIL	NIL	260.300	174.366

RATIOS

	Year Ended 31 December 1987	1986
Net Profit After Tax/Net Shareholder's Equity	8.42 %	9.34 %
Total Income/Net Shareholder's Equity	9.52 %	10.42 %
Net Profit Before Tax/Net Shareholder's Equity	8.42 %	9.34 %
Salaries and Benefits/Total Operating Expenses	27.32 %	22.29 %
Operating Profit/Total Income	88.50 %	89.71 %
Net Shareholder's Equity/Total Assets	99.16 %	99.60 %

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CHAPTER 10

EMERGING ISSUES AND RECOMMENDATIONS.

10 01 Over time, there has been a considerable overlap between functions of separate DFIs as their mandates were expanded to permit similar activities Their various functions and the overlap has been summarized in Table 1 Many reasons have been cited for the overlap of functions, some of which are

i There is a scarcity of credit in Pakistan for financing industrial ventures There will always be a large number of prospective clients chasing the few sources Therefore financing industrial ventures will always be an attractive prospect

ii DFIs in Pakistan have taken little initiative in building infrastructure in the financial sector Had they engaged in activities never done before their profitabilty was likely to have been adversely affected Project financing is something tested and tried and allows them to remain inside their 'comfort zone'

iii Client demands have been responsible, to a large extent, for the institution offering a particular set of similar products/services For instance if an existing large PICIC client wanted working capital financing for a new project, PICIC did not want to lose them to another institution Nor did the clients want to go to another institution, having developed a track record and credit history with PICIC So mandates and charters were adjusted to accomodate such client requests

10 02 Most DFIs are not only performing similar functions but have also been sanctioning project financing loans largely concentrated in a particular area The location of the head offices of virtually all of DFIs in Karachi has been cited as one of the main reasons for this state of affairs Many of them have regional offices, but no sanctioning authority at that level The IDBP was the only institution which reviewed loans and sanctioned them at the regional level

10 03 The loan sanction-disbursement process cycle is full of unnecessary delays In general the sanction process at any DFI usually involves the following steps,

Project Review
Legal documentation
Market survey/Feasability
Board approvals
Disbursement
Project Supervision

10 04 Over time DFIs have become a prey to bureaucratic delays According to an estimate it takes almost two years for a project application to be processed and for the funds to be disbursed During this period the applicant may be required, in extreme cases, to undertake 80-120 visits to the DFI headquarters The legal documentation is usually lengthy and delays between loan approval and disbursements are long The slow release of funds sometimes leads to abandonment of implementation schedule and project suspension till such time that funds become available Delays sometimes necessitate re-appraisal and re-scheduling As a result projects either go ahead with reduced scope on available finances or, anticipating delays, the sponsors look for alternative financing Moreover, there is hardly any monitoring or supervision by DFI staff beyond disbursement

10 05 The appraisal process gives too little importance to the choice of technology or the impact of the choice of technology While evaluating financial viability and macro economic development effects it is also important to consider the appropriateness of technology to

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FUNCTIONAL MARTIX

INSTITUTION / FUNCTIONS

INSTITUTION	Commercial Banking	Development Banking	Investment Banking	Co-operative Banking	Issuing Agent	Under-writing	Guarantee/ Counter Guarantee	Foreign Exchange Financing	Management Advice	Borrowing From SBP	Investemnt in Stock Exchange	Equity Support	Med-Long Term Financing	Bridge Financing	Leasing
Nationalized Commercial Banks	*				*	*	*	*		*			*		
Foreign Commercial Banks	*				*	*	*	*		*			*		
A.D.B.P		*							*				*		
Federal Bank For Co-operatives		*		*											
I.D.B.P		*				*		*				*	*	*	
B.E.L.		*	*			*	*	*				*	*	*	
E.P.F		*										*	*		
I.C.P		*	*			*					*				
N.D.F.C.		*	*			*	*	*				*	*		
N.D.L.C.		*													*
N.I.T			*								*				
PICIC		*	*			*	*	*			*	*	*		
Pak Kuwait		*				*	*	*	*			*			
Pak Libya		*						*				*			
Saudi Pak		*						*	*			*			
S.B.F.C.		*													
R.D.F.C.		*													
H.B.F.C.		*													

the country's capabilities and problems

10 06 There is a trend in DFIs to sanction bigger projects, thus eliminating those that are small but may seem complicated due to design These are usually innovative from a social or technological viewpoint and may be new or very labor intensive Such projects may deviate slightly from the institution's quantitative guidelines

10 07 There are some dedicated lines available to DFIs to finance the purchase of locally manufactured machinery However since the collateral quality is a major consideration and institutions are risk averse they like to finance foreign manufactured machinery Machinery manufactured by reputable suppliers is bound to have a better re sale and subsequent salvage value Thus by playing it safe DFIs are not contributing to the country's indigenous technological capability

10 08 Management of DFIs is done through executive boards which consist of federal and provincial nominees There is a very high turnover at the board level which is responsible for lack of continuity of policy The management of these institutions, like most others in Pakistan is 'personality dependant' The profitable operations of NDFC and BEL has repeatedly been attributed to the genius of its ex-chairmen's management style, and the length of stay in office Top management has a lot of power as regards who gets the loan The strength of one person has often swayed the entire board in one direction or another The decisions of the chief executive are rarely challenged by senior managers If they wish to indulge in speculative ventures, it will be obvious only after the event Senior management at DFIs has been known to rush towards undertakings that may not have been viable but were undertaken due to personal motives

10 09 Initially all DFI sanctions used to go through a central agency which provided an objective assessment The projects under consideration were evaluated on economic and technical grounds before the actual disbursement In order to liberalize the process and remove unnecessary delays this agency was done away with There were two outcomes of this action Some decision makers became extremely conservative while others were swept up with all the power

10 10 In the absence of clear cut objectives the cautious managers became overly conservative They are still hesitant to make any decision, even if they know it to be right, for fear of retributon Moreover politicaly inspired decisions have also become fairly common The aggressive managers took bold measures some of which proved to be very successful NDFC is a case in point It was set up to provide financing exclusively to SOE so that there was no need to compete for resources of other instituions and NCBs This changed in the late 1970s when new departments were subsequently added with innovative objectives in view and private sector ventures of all sizes and descriptions were undertaken Many competent people were atttracted to this public sector DFI with a private sector profile Its profitability performance has been well above other DFIs However skepticism on whether such performance is sustainable abounds The institution showed some slack when there was a change in management and lately shadows of doubt have been repeatedly cast over the performance of the innovative departments To qoute an official of the Finance Ministry, the departments "have smart names and are filled with smart people in smart clothes who can converse in good english but are not able to produce a worthwhile analyis of industrial policy, when asked "

10 11 Management at DFIs is expected to perform like entrepreneurs yet they are not looked upon with favor incase of mistakes Everyone welcomes a success story but are reluctant to appreciate that in order to achieve the desired objectives even the most successful entrepreneurs'win some and lose some' If management is provided with targets to be

met there must be guidelines for the minimum acceptance of non performing undertakings If not, narrowly defined financial viability will always remain the foremost consideration which may not necessarily be the most desirable

10 12 There is a general lack of appropriate expertise in DFIs due to more desirable terms being offered by private banks and private enterprise Exodus of bright qualified people to better prospects overseas is also taking place This extreme shortage is further accentuated by the 'thinning out effect' due to expansion in the operations and rapid promotions

10 13 There is no specialized cadre for commercial or development bankers Similarly there are no special skill requirements for new employees There is a lack of structured training programs for entrant This results in fresh inductees going straight to the decision making position and then undergoing 'on-the job-training'

10 14 Hiring and firing decisions are also motivated by political considerations As was mentioned by an official in the concerned ministry, 28 people from a particular region were hired as clerical staff during the previous elected government These people were promoted to the official cadre due to pressure by the present government There appears to be no justification for this, as these staff members were only matriculates whereas there were many graduates and experienced people who were superceded In Pakistan today the problem of positive discriminatin in favor of various ethnic, geographical groups and women is a glaring reality But such measures are diffi An official of the Ministry labelled this as 'the cost of democracy '

10 15 There are no special incentives or performance based rewards for DFI personnel There are no performance criteria nor any well defined objectives In general promotions within the organization are a factor of the time spent in a position and not any achievements such as quick decision making or good credit All this results in staff following a path of least resistance so as to be safe and secure in their jobs

10 16 Financial planning has been taken out of the hands of the borrower, with all of the assets of the business backing one loan and subsequent lenders having second and third charge on the same asset (subject to prior lender approval) These institutions used collateral guidelines as if it were a term loan instead of project financing

10 17 In the absence of any credit information network there is not enough scrutiny at the appraisal level It is difficult for institutions to evaluate the credibility of the individuals, their track record and repayment histories with other institutions Further it is difficult to get an idea of the individual's total indebtedness or that of his group

10 18 Borrowers also suffer from a reputation of being unprofessional DFI personnel cite frequent examples of lack of proper paper work and delay in provision of audited financial statements as part of the application package Further, any objections raised by DFI staff are looked upon as delays and means of extracting financial favors by sponsors

Regulatory agencies have not played a very positive role in streamlining the working of the DFIs either The NIT and ICP have repeatedly been denied membership of the stock exchanges, on grounds that they are direct competitors The government and the relevant ministry have been discouraged from interference in this regard by International agencies On the other hand if the government continues using the current pricing formula for public offerings and continues to stipulate what is to be offered to them they will never be viewed as playing a positive role in market making

10 20 Since their inception subsidized credit lines have been made available on easy terms to

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DFIs This 'spoon feeding' has led to lack of creation of innovative means of resource mobilization These institulon have relied on credit ceilings and have always sought expansion of ceilings It is only recently that this request has been denied and they have been asked to mobilize their own resources As can be seen in Annexure 6 there are advertisements of PICIC and IDBP in the various national dailies introducing new schemes At this stage one cannot help but wish them luck as their track record has not been very good and it is ironical to see these advertisements appearing almost at the same time as repayment notices (please refer to annexure 7)

10 21 The loan loss experiences and low recovery ratios have become an essential characteristic of DFI performance These can be attributed to a number of factors,

1 Foreign currency denominated loans have been classified due to non payment because of the fast depreciating value of the rupee In the absence of appropriate hedging mechanisms even the interest payments on loans sanctioned in the early 1960s are in default

2 A number of industrial undertakings have been declared 'sick units' This adverse classification is sometimes desired by the entrepreneurs These people often make a considerable amount of money while setting up the venture and later wish to gain by getting preferential treatment DFI management has no built in mechanism that would check this practice

3. The actual intentions of the businessman are not evident to the DFI in the absence of post disbursement review or on going appraisal In cases where the entrepreneur had a portfolio of businesses DFIs have been known never to question why one or two units should be declared sick when others are doing well

4. Similarly when the industry is a clear winner due to its inherent supply-demand situation or other favorable factors there is little justification for poor performance For instance cotton ginning, yarn and cement units have the advantage of competing in a seller's market, so there is no apparent reason for the declared unprofitable operations

5. In Pakistan the legal framework for debt recovery is very weak and full of unnecessary delays which may take up to five or ten years As a result the institutions have become very cautious with respect to collateral

6 Many borrowers resort to wilfull default in the absence of any sound recovery mechanism There is always some tension between the borrower who wants litigation so as to delay the recovery and the lender who invariably opts for a out-of-court settlement

7. At the end of the day the only asset worth having as collataeral is land, even though it forms a very small part of the assets of any heavy industry It seems somewhat absurd for the rate of growth of industry to be constrained by its ability to provide land as collateral

RECOMMENDATIONS FOR IMPROVING DFI PERFORMANCE

10 22 DFI performance has to be seen alongwith the infrastructural and other inherent weaknesses of the financial sector DFIs may be performing similar functions but there is

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hardly any competition among them Applicants have also felt free to approach more than one institution The government must encourage competition within the DFIs For this it may chose certain target performance measures such as rate of return on assets or rate of recovery In fair competition it is necessary to reward performance just as it is necessary to penalize poor results However there must also be a minimum acceptable level of adverse performance

10 23 All DFIs must be encouraged to mobilize their own resources and not depend on subsidized credit facilities of the SBP or International agencies If their mandate does not allow resource mobilization, it should be amended accordingly At this stage some DFIs may not be in a position to do so, owing to the adverse quality of their loan portfolios

10 24 Concentration of DFI headquarters in one region has resulted in large projects becoming the prerogative of Karachi businessmen To have an equitable disbursement of funds DFI headquarters must be moved up country Initially the headquarters of two institutions should be moved to Lahore and one each to Islamabad, Peshawar and Quetta This should be coupled with opening of regional offices (as recently announced by ADBP) This step might also lead to a natural division of sectoral lending, for instance DFIs based in Punjab may end up financing more agro based industry and/or cotton textiles Similarly there might be a natural division on the basis of rural or urban concentration of the projects under consideration Looking ahead, if the government wants to move towards (say) rural industrialization , DFIs can play an important role in developing infrastructural facilities for industries in selected rural areas

10 25 Competition for DFIs is also emerging in the form of private sector Investment Finance Banks These institutions will undertake project finance activities as well and claim to have turn around time of 10 to 15 days In order to compete DFIs will be forced to atleast work within the stated 60 day approval cycle and push towards early disbursements

10 26 It is recommended that DFIs should create a technical intelligence unit and hire inhouse technical consultants In this age of rapidly changing technology, such a unit should have the ability to evaluate technological choices, its interaction with other technologies, its relationship with social and economic systems and its impact on the economic viability of the project

10 27 DFIs must also consider the technological development objectives of the country while evaluating projects Import substitution, deletion policies and utilization of indigenous capabilities could be a consideration while considering loans Related certain quantitative measures and targets could be made prerequisites for disbursal For instance, they could include graduated deletion of foreign technology import by (say) 5-10% per year

10 28 DFI performance has been excessively top management dependant As is the practice in many other areas of Pakistan society, individual personalities have dominated certain institutions One way of avoiding this would be by giving more power to the Executive Boards who should have an equal number of internal and external members, thus increasing the chances of dissent Decentralizing to regional or provincial levels will also decrease the dependence on Head Office and the decision making on one person Regulatory agencies could keep a check on performance by monitoring the trend in the number of sanctions over time and doing the needful in case there is an extreme movement

10 29 Terms and conditions of work and salary structure at DFIs need to be reviewed Ideally these should be brought in line with private sector terms Performance criteria and objectives should be decided in consultation with the employees and performance reviews

should be carried out regularly Moreover performance based rewards and promotion must be introduced, as is the case in private banks

10 30 New employees should go through intensive training modules along with on-the-job training This should be similar to the training programs being offered by private sector financial institutions DFIs could also institute the Account Officer system (see detail in commercial banking section)

10 31 DFIs must also have ready or on-line access to the credit information network for NCBs This will enable them to have up to date information regarding group accounts and total liabilities outstanding of corporate individuals and groups, and delinquencies ,if any

10 32 Disbursing institutions must ensure that the recipients of funds are the initial sponsors of the projects In many cases sanctions have been sold to other non deserving parties or original sponsors are no longer associated with the project when it finally takes off

10 33 Certain preconditions must be imposed on borrowers, such as the provision of audited financial statements in a timely fashion The integrity and sophistication of reporting standards depends on the sophistication of its users In developed systems it is analysts and institutional stake holders who ensure high quality reporting Laws regarding timely preparation of accounts are in place in Pakistan, as in other countries, but the implementation is too slow or is non existent

10 34 In order to play their due role in capital market development in Pakistan, DFIs could make it a precondition for borrowers to have a public offering DFIs could provide an all-in-one package to clients This would also result in better reporting practices

10 35 Internationally employed loan clssification criteria must be adopted by DFIs The importance of post disbursal evaluation and project monitoring must be recognized in this regard Having an account officer sytem in place will aid this process greatly

10 36 Over the long term it is recommended that the DFIs be restructured finanacially and administratively Some measures regarding administrative restructuring have been mentioned earlier Measures for financial restructuring should include a thorough portfolio audit in each institution as a first step

10 37 Secondly the formation of a central management service company or smaller companies is recommended These should be along the lines of "work-out groups" in some Western countries The company consists of an independent group of professionals including accountants, financial managers lawyers, tax advisors which may be hired by the institution(s) This group usually takes over the management of problem companies which would be similar to our 'sick units' It carries out a management audit and puts measures in place that may aid in turning it around In case of a situation beyond redemption, it aids in the filing of bankruptcy proceedings and the final disposal of assets of all creditors DFIs could have inhouse work out groups if outside consultants are not available

10 38 Institutional retructuring along the lines of commercial banks could also be undertaken Here each institution would be divided to form two separate ones One would retain all the 'good loans' and the other all the classified or sub standard ones The purpose of the latter would be restricted to that of a collection agency - collecting interest payments and pursuing loan recovery with the aid of the legal sytem. A combined collection agency for all the DFIs could also be set up

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ANNEXURE 1

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EXTRAORDINARY
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PART II

Statutory Notifications (S. R. O.)

GOVERNMENT OF PAKISTAN

FINANCE DIVISION

(Investment and Capital Issues Wing)

NOTIFICATION

Islamabad, the 13th July, 1987

S.R.O 585 (I)/87 In exercise of the powers conferred by sub-section (4) and (4A) of section 3 of the Capital Issues (Continuance of Control) Act, 1947 (XXIX of 1947) the Federal Government is pleased to stipulate that all consents and recognitions in respect of investment finance companies, for issue of capital for making a public offer or taking any other action under sub-section (2) or sub-section (3) of the said section shall be subject to the following conditions --

(1) *Definitions*.—In this notification, unless there is any thing repugnant in the subject or context ---

(a) " Act " means the Capital Issues (Continuance of Control) Act 1947 (Act XXIX of 1947) ;

(b) " associated companies " or " associated issuer " or " associated client " includes companies and associated undertakings as defined in sub-section (2) of section 2 of the Ordinance ,

(c) " bankers acceptance " means a draft drawn on a commercial bank or investment finance company by an individual or firm ordering the drawee bank or investment finance company to pay to the order of third person a specified sum of money, either on demand or at some future specified date, and accepted by the drawee ·

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(d) " Controller " means the Controller of Capital Issues appointed under the Act ,

(e) " close relative " includes spouse and minor children .

(f) " company " means a company incorporated under a law for the time being in force ;

(g) " investment finance company " means a company registered and granted licence under this notification to undertake and carry on the business of an investment finance company .

(h) " liquid net worth " means an investment finance company's book value (or net worth) reduced by its fixed assets and direct investment of more than 20 per cent in the paid up capital of a client enterprise or a lease or leases in respect of its assets aggregating more than 20 per cent of the total assets of the enterprise

(i) " margin loan " means a loan made by an investment finance company to a client to partly finance investments by the client in marketable securities which shall be held by investment finance company as collateral the amount invested by the client being the " margin against the loan ,

(j) " marketable securities " means freely negotiable debt and equity instruments bearer or, otherwise, such as corporate stocks and shares and Modaraba certificates listed on Stock Exchanges Government or Government-guaranteed securities corporate financial paper short-term commercial paper, bankers acceptances certificates of deposit and investment, Participation Term Certificates and Term Finance Certificates

(k) " Ordinance means the Companies Ordinance 1984 (XLVII of 1984) ,

(l) " risk assets " means marketable securities and other assets held by an investment finance company in the ordinary course of its business

(m) words and expressions which have been used in this notification but not defined and have been defined in the Act or the Ordinance shall have the same meaning as in the Act or the Ordinance

2. *Commencement of operation* —(1) An investment finance company shall commence business and its operations as such company only after it has been registered and issued a licence under this notification by the Controller

(2) A company proposing to commence the business of investment finance company shall make an application to the Controller in the manner notified by the Controller in the official Gazette, with a declaration that it complies with all the terms, conditions and requirements of this notification and shall comply with all that is required of investment finance companies in the conduct of such business

(3) At the time of making the applications under sub-paragraph (2) the applicant—company shall have fulfilled and complied with the following conditions, namely —

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(a) it shall be registered as a public limited company under the Ordinance or any other law for the time being in force with objects and functions specified in paragraph 4 of this notification ,

(b) it shall have a minimum paid-up capital of one hundred million rupees and shall be listed on Stock Exchanges in Pakistan ,

(c) its investment policy shall be clearly and concisely stated in its Memorandum and Articles of Association and the prospectus published for public offer of its securities The prospectus shall, so far as may be, conform to and comply with all applicable provisions of the Ordinance and the Act :

(d) no person who has been convicted of fraud or breach of trust or of an offence involving moral turpitude shall be its director, officer or employee and

(e) no person who has been adjudged as insolvent or has suspended payment or has compounded with his creditors shall be its director, officer or employee

(4) The Controller shall if he is satisfied that the company has fulfilled the conditions specified in sub-paragraphs (2) and (3) and in his opinion the promoters thereof are persons of means and integrity, have knowledge of matters which the company may have to deal with as an investment finance company and have engaged adequate qualified staff, register the company as an investment finance company

3 *Bar on interest bearing transactions* —An investment finance company will not transact any business on the basis of interest, except for the time being that relating to foreign loans and credits All financial transactions will be in accordance with the Islamic modes of financing.

4 *Bar on purchase or sale by beneficial owners* —An investment finance company shall not without the prior approval in writing of the Controller, purchase anything from, or sell anything to any director, officer, employee or a person who either individually or in concert with close relatives beneficially owns ten per cent or more either of the equity or other securities with voting rights, if any, issued by the investment finance company

5. *Objects and functions* —The objects and functions of investment finance companies shall be as follows , namely

(a) *Money market activities* '

(i) Issuing short-term paper of its own or certificate of deposits or investments of not less than 30 days maturity.

(ii) Trading in commercial paper issued by its clients, Government securities, promissory notes, bankers' acceptances and other money market instruments acting either as a broker or acting on its own account.

(iii) Assisting in the issue of commercial paper, including introduction of companies to the money market, preparation of documentation distribution and market making

(iv) Acting as broker or on its own account in the Call Money Market.

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(b) *Capital market activities*

(v) Trading in listed securities, both equity and non-equity instruments, acting either as broker or acting on its own account.

(vi) Providing professional analysis of securities to both institutional and individaul investors

(vii) Issuing of long-term certificates of deposit or investment and underwriting of stocks and shares short and long term Participation Term Certificates and other negotiable term obligations of corporations and financial institutions acting singly or jointly as manager underwirter and distributor of such issues and taking an active part in all stages of preparation for such issues either public issues or private placement

(viii) Floating and managing both open-end and closed-end mutual funds and managing portfolios of stocks and shares, pension and provident funds, Participation Term Certificates and other negotiable and debt instruments for both individual and institutional clients, on a discretionary as well as non-discretionary basis

(ix) Providing margin loans to individual and institutional investors

(x) Offering of cash management accounts to enable clients to shift at their discretion among various investment alternatives

(c) *Project financing activities*

(xi) Making investments in projects through underwriting of public issue of stocks and shares and securities short-term and long-term Participation Term Certificates and Term Finance Certificates of varyingtenatures.

(xii) Guaranteeing and counter-guaranteeing loans and obligations.

(d) *Corporate financial services*

(xiii) Acting as adviser and financial agent for companies in obtaining direct bank loans, syndicated loans export credits, leases and project finances, both domestically and internationally

(xiv) Assisting company in private placement of debt and equity, domestically and abroad

(xv) Acting as adviser to companies in corporate or financial restructuring as well as in the preparation of resource mobilisation plans.

(xvi) Acting as adviser to companies in mergers acquisition and divestitures.

(xvii) Assisting companies with cash management systems

(xviii) Preparing feasibility, market or industry studies for companies, both domestic and foreign.

(xix) Raising equity, such as through venture capital for new and existing companies, by acting as a financial intermediary.

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(e) *General*

(xx) Carrying on any other investment finance business specifically allowed by the Controller with the exception of banking business and insurance business as defined in the Banking Companies Ordinance, 1962 (LVII of 1962), and the Insurance Act, 1938 (IV of 1938), respectively, and in this connection they will neither issue cheque-books nor accept deposits.

(xxi) Raising funds through equity, foreign debentures, both short and long term, commercial paper issued abroad, sale of short and long term Participation Term Certificates and Term Finance Certificates, deposit and investment certificate, floating and managing of Modarabas and through other methods and instruments :

Provided that the period of term finance certificates and other instruments shall not be less than 30 days.

6. *Ratio of equity to liabilities*.—An investment finance company shall maintain for the first two years of its operation a ratio of equity to liabilities of not less than one is to seven and thereafter this ratio may be increased up to a maximum of one is to ten.

7. *Submission of reports, etc.*—(1) An investment finance company shall submit quarterly reports to the Controller in the manner and form to be prescribed by him from time to time or in any specific case or on any particular occasion and shall comply with such orders, directions or advice as the Controller may give in writing.

(2) The Controller shall monitor the general financial health of the company, and, at his discretion, may order special audit and appoint an auditor to carry out detailed scrutiny of the affairs of the company, or appoint both an auditor and an Inspector, provided that the Controller, may, during the pendency of the scrutiny, pass such interim orders and directions for the due completion of the scrutiny as may be deemed appropriate by him.

(3) On receipt of the special audit report or report from the Inspector, the Controller may direct the investment finance company to do or to abstain from doing certain things and issue directives for immediate compliance which shall forthwith be complied

(4) All orders, directions, advice under the foregoing sub-paragraphs and all that may be required to be done thereunder shall be done, acted upon and carried out. In case an investment finance company fails to comply with or carry out the said orders, directions, or advice, the Controller may take action under section 13 of the Act or any other law by making a complaint.

(5) The Controller, in case of gross mismanagement of the investment finance comoany, may also cancel the registration and licence granted to the investment finance company.

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8. *Total investment in equities*—Without the approval of Controller.—

(a) the total assets in equities shall not exceed an investment finance company's liquid net worth, except equities taken up as a consequence of underwriting commitment in which case this limit may be exceeded by the amount of equities taken up for a period of six months; and

(b) risk assets shall not exceed ten times an investment finance company's liquid net worth.

9. *Maximum exposure to a single issuer or associated issuer of risk assets.*—Unless otherwise specified by the Controller, the maximum exposure of an investment finance company to any single issuer, associated companies or associated issuer of risk assets, shall not exceed the following limits :—

Risk Assets	Maximum exposure to single issuer/ associated-issuer expressed as percent of investment finance company's liquid net worth
Equity investment	10%
Margin Loan	10%
Corporate financial paper and short-term commercial paper ..	35%
Underwriting of shares and corporate financial paper ..	50%

10. *Underwriting commitments.*—All underwriting commitments shall be fully backed by either available funds or firm stand by lines of credit or other funding arrangements.

11. *Principles for margin loans.*—The grant of margin loans to clients shall be governed by the following principles :—

(a) The aggregate of margin loans granted by an investment finance company shall not exceed 50% of its liquid net worth.

(b) The margin to be maintained by the client shall not be less than 33-1/3% of the loan amount outstanding calculated as the residual value obtained after deducting from the portfolio's market value the loan amount outstanding.

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(c) Margin loans to a single client or associated clients (being the same, in the case of corporate bodies, as associated companies or associated issuers) shall not exceed 10% of an investment finance company's liquid net worth

(d) Margin loans shall be approved by a minimum two-thirds majority of the Board of an investment finance company and shall not be granted to any employee, officer, director, or a shareholder having a beneficial ownership including that of close relatives of more than 10% in the paid-up capital of the investment finance company whether directly or indirectly (through their close relatives, companies controlled by them, affiliates, subsidiaries, or by way of acting in concert with others)

12. *Insurance coverage*.—An investment finance company shall obtain sufficient insurance coverage on its own or on its clients' benefit against any losses that may be incurred as a result of employee's fraud or gross negligence

Provided that the Controller may, from time to time, specify the nature and extent of insurance coverage to be obtained by an investment finance company.

13 *Exchange fluctuation risk*.—An investment finance company shall make satisfactory arrangement to insulate itself from exchange fluctuation risks associated with foreign currency obligations and transactions

14. *Ban on acquiring controlling interest*.—Except where it is necessary to protect its investment, an investment finance company shall not seek to acquire a controlling interest in any enterprise in which it has invested or has any other interest which would give it primary responsibility for management

15 *Managing mutual funds and discretionary client accounts*.—In managing mutual funds and discretionary client accounts, an investment finance company shall—

(a) exercise due diligence and prudence to achieve the investment objective of the mutual fund holders and discretionary clients

(b) so organise its affairs that mutual fund and discretionary client accounts are managed separately from other activities, each investment or disinvestment decision being taken independently on its own merit without consideration of any other potential or actual involvement of the investment finance company , and

(c) secure no remuneration directly or indirectly resulting from or otherwise related to transactions.

Explanation

In the event of any dispute, the onus of proof shall be on the investment finance company to show that it complied with the principles stated at cluses (a), (b) and (c).

16. *Audit of accounts*.—(1) The accounts of an investment finance company shall be audited by an auditor who is a chartered accountant within the meaning of the Chartered Accountants Ordinance, 1961 (X of 1961), appointed by the investment finance company with the approval in writing of the Controller (which shall be obtained prior to proposing the name of the auditor at the Annual General Meeting) and such auditor shall have the same powers, duties and liabilities as an auditor of a company has under the Ordinance

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(2) A casual vacancy of an auditor shall be filled with the prior approval in writing of the Controller.

17. *Opening of branches.*—(1) An investment finance company may be authorised by the Controller to open one branch to begin with

(2) For opening more branches, the investment finance company shall obtain prior permission in writing from the Controller.

18. *Penalties*—(1) Any contravention of and an attempt to contravene these conditions shall be punishable under section 13 of the Act.

(2) Without prejudice to an action and punishment under section 13 of the Act, in case of contravention of any provision of this notification the Controller may cancel the registration licence of the investment finance company after issuing a show cause notice and giving such company an opportunity of being heard or passe an order deemed appropriate by the Controller which shall be complied with as ordered.

(3) Upon cancellation of the registration and licence, the functions and carrying on the business of investment finance company shall cease and the Controller may move the Court for a winding up order in respect of the company

(4) Every director, chief executive, manager and other officer of a defaulting investment finance company shall be liable as provided under sub-section (2) of section 13 of the Act

19. *Miscellaneous.*—(1) An investment finance company shall not offer any of its own or other securities for any consideration other than cash, nor make any loan or advance against these securities

Illegible signature

(2) No investment finance company shall—

(a) transfer ownership of controlling shares, merge with, acquire or take-over any other investment finance company unless it has obtained the prior approval of the Controller in writing to the scheme of such merger, acquisition or take-over;

(b) make a loan or adv[illegible] [illegible]y to any person except in connection with the ordinary course of business of the investment finance company , and

(c) employ as a broker, directly or indirectly, any of its directors, officers or employees, or a person who beneficially owns whether individually or in association with close relatives ten per cent or more either of the equity or other securities with voting rights, if any, issued by the investment finance company.

[F. No. 14 (1) RO (INV)/85.]

SHAMIM AHMAD KHAN,
Controller of Capital Issues.

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PART II

Statutory Notifications (S. R. O.)

GOVERNMENT OF PAKISTAN

FINANCE DIVISION

(Investment and Capital Issues Wing)

NOTIFICATION

Islamabad the 31st August, 1987

S. R. O. 752 (I)/87.—Pursuant to sub paragraph (2) of paragraph (2) of Finance Division's S.R.O. No 585 (I)/87 dated the 13th July, 1987 following procedure for applying to the Controller of Capital Issues for registration as Investment Finance Company is notified for the public information

(i) In the first instance those desirous of registration as Investment Finance Company should apply to the Controller of Capital Issues (CCI), providing information (as given at Annex. I) for obtaining permission to form an Investment Finance Company.

(ii) On receipt of the permission from the Federal Government, the sponsors should apply to CCI on Form I

(iii) The specimen of licence to be issued by CCI, permitting the companies to carry on the business of an Investment Finance Company is also published for public information (Form II).

[F. No. 14(1)-RO (INV)/85.]

SHAMIM AHMAD KHAN.
Controller of Capital Issues

(1489)

Price : Rs. 60

[4292 Ex. Gaz]

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Annex I

INFORMATION TO BE SUPPLIED FOR OBTAINING PERMISSION TO FORM AN INVESTMENT FINANCE COMPANY IN TERMS OF S.R.O 585 (I)/87 DATED 13TH JULY 1987

1. Full names, any former names, Father's/Husband's name nationality, full residential and business addresses and details of other director ships and occupations of the proposed directors and officers including Chief Executive and Chairman of the Board indicating their respective designation and name of firms in which any one is a partner

2. Name of companies, firms or organisations of which the aforesaid directors and officers have been directors, managers, officers, employees or partners in the past.

3. Financial standing, professional qualifications and experience of persons mentioned in (1) above, supported by documentary evidence

4. Whether any aforesaid person has ever been convicted of fraud or breach of trust or of an offence involving moral turpitude or removed from service If so, full particulars thereof

5. Whether any person referred to in (1) above or any company or firm in which he has been associated in the past has been adjudicated an insolvent or has suspended payment or defaulted in making payments or has compounded with his or their creditor or gone into liquidation If so, full particulars thereof

6. Shareholdings of each of the person referred to in (1) above in the proposed company

7. Names of professionals to be engaged for management

8. Description of business operations to be undertaken and organizational set up and plans along with feasibility report, if prepared

9. Bank references

FORM I

[*See* paragraph 2(2)]

S.R.O. 585 (I)/87, dated 13th July 1987.

APPLICATION FORM FOR REGISTRATION OF INVESTMENT FINANCE COMPANY

Dated , 198 .

To

The Controller of Capital Issues,

DEAR SIR

We hereby apply for registration of------------ under paragraph 2 of S.R.O 585 (I)/87, dated 13th July, 1987, as an investment finance company

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2. We hereby confirm—

(a) that it is registered under the Companies Ordinance 1984 as a public limited company with the paid up capital of Rs. one hundred million :

(b) that none of its directors, officers or employees has been convicted of fraud or breach of trust or of an offence involving moral turpitude

(c) that none of its directors, officer or employees has been adjudged an insolvent or has suspended payment or has compounded with his creditors ,

(d) that it has engaged adequate qualified staff

the details of which are as follows

3. Three copies of the following documents pertaining to the company are also enclosed .

(a) Memorandum and Articles of Association duly certified and signed by all directors.

(b) Certificate of incorporation (one copy of which should be certified by the Registrar, Joint Stock Companies).

(c) Prospectus published for public offer of securities.

(d) Latest audited Balance Sheet and Profit and Loss Account together with related documents

4 Information and documents as required in the Annexure to this form duly verified and signed by all directors alongwith three spare copies of this application and an affidavit as to the correctness of the details by the Chief Executive and two directors are furnished herewith We undertake to keep the information up to date by communicating changes modifications therein within fourteen days of such changes/modifications

5. We further undertake that no change in the Memorandum and Articles of Association nor any change in the majority share-holders and directors shall be made without prior written authorisation of the Controller of Capital Issues and that we shall comply with all requirements of law and conditions of registration

6. We being authorised by the directors of the company hereby solemnly declare and affirm that to the best of our knowledge and belief the information contained in this application (Form-I), annex to Form-I and the documents accompanying thereto are true and correct and that all terms, conditions and requirements of S R O 585 (I)/87 *dated* 13*th July*, 1987 in respect of all matters precedent to the registration of the said-------------------as an investment finance company or incidental thereto have been duly complied with and the said company shall also comply with all that is required of an investment finance company in the conduct of such business.

Yours faithfully

Verified by
Oath Commissioner.

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Annex to Form

1. Name of the Company .. .. ..
2. Registered office of the company ..
3. Date of incorporation as a public limited company
4. Authorised, subscribed and paid up capital of the company .. . .. .
5. Management
   (a) Names, business and addresses of directors, amount of shares held by each and name(s) of the banker(s) of each of them
   (b) Director's interest, direct or indirect in any other company(ies) giving detail of such interest
   (c) Details of persons or group controlling the company including of those persons who own 10% or more shares given number and value of shares held
   (d) Name(s) of holding subsidiary and associated undertaking(s), if any
   (e) Whether any director officer or employee of the company has been convicted of any fraud or breach of trust or committed any offence involving moral turpitude or has been adjudicated as insolvent or suspended payment or compounded with his creditors
   (f) Name of the proposed chief executive officer of the company, his qualifications experience and proposed remuneration
6. Reasons for selecting the proposed place of business giving statistical data, if any
7. Whether the company fulfils all the conditions laid down in paragraph 2(3) of S.R.O. 585 (I)/87 and whether it is agreeable to permit the Controller of Capital Issues or any officer authorised on his behalf to satisfy himself by inspection of the books of the company or otherwise that the prescribed conditions are being fulfilled by the company
8. Any additional facts which the company may wish to add in support of its application .

To be completed by the Controller of Capital Issues

1. Date of receipt of application . .
2. Date of Registration . .
3. Registration No . ..
4. Date of Issue of Licence .. . ..

Signature of Controller of Capital Issues

FORM II

[*See paragraph 2(4)*]

LICENCE TO CARRY ON THE BUSINESS OF AN INVESTMENT FINANCE COMPANY

OFFICE OF THE CONTROLLER OF CAPITAL ISSUES

Islamabad, the————————,198 .

Registration No ——————

Certified that having considered the application for registration under paragraph 2(4) of S R O 585 (I)/87 and being satisfied that the company, whose particulars are specified below, is eligible for registration I in exercise of the powers conferred under paragraph 2(4) of S R O 585 (I)/87 do hereby grant licence to the company subject to the conditions laid down in the said S.R.O or imposed thereafter

1. Name .. -- . --
2. Address .. -- -- --
3. Date of Registration -- -- --
4. Other particulars, if any -- --

Issued under my signature and seal.

Signature of the Controller of Capital Issues.

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ANNEXURE 2

ANNEXURE 3

CRESBANK'S DEPOSIT SCHEMES

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INTRODUCTION:

Crescent Investment Bank Limited(CresBank) is the first investment bank in the private sector. CresBank has been incorporated under the Companies Ordinance 1984 as a public limited company with the paid-up capital of Rs. 100 million. The Bank is a joint venture of the Crescent Group and National Development Finance Corporation (NDFC). They have participated in the equity contribution of CresBank to the extent of 50 percent and 20 percent respectively. Balance thirty percent of the capital has been raised from the general public.

Crescent Group, a reputable and well established group, has for years been involved in converting ideas into reality by repeatedly bringing varied industrial ventures to fruitation. Crescent Group has successful track record of developing and profitably operating several industrial, commercial ventures (including fiftenn public companies) with a wide range of product and services. The industrial ventures include seven textile units, two sugar mills distilleries, jute, particle board, urea formaldehyde, steel and engineering works, construction, insurance and leasing. The Group is also developing its expertise in the field of power generation, including technical and financial feasibilities, engineering and arranging financial packages, etc. The Group has also been dominent in the field of cotton trade and is backed by seven modern ginning factories in the cotton growing arease of Punjab and Sind. Crescent Group has a substantial resource pool of project, engineering and financial services. These resources are regularly supplemented by a close association with the leading financial, engineering and supply organizations, within Pakistan and Overseas.

[illegible] Development Finance Corporation is the [illegible] financial institution in Pakistan in the public sector. NDFC's resource base consists of funds raised through its own deposit schemes and credit lines from the State Bank of Pakistan and lines provided by multinational lending agencies such as World Bank, Asian Development Bank, Islamic Development Bank and other sources.

CresBank has been placed under the administrative control of the Ministry of Finance through the office of the Controller of Capital Issues.

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SERVICES:

CresBank's primary objective is to provide a wide range of financial products and services to individuals and enterprises in the country. The broad and flexible framework for the investment companies allows CresBank to undertake a wide range of functions and provide a variety of financial product and services.

The activities in which CresBank can engage in is as follows:

- Provide project finance
- Make equity investment and trade in listed securities
- Underwriting of issue of corporate equity and debt securities
- Guaranteeing loans and other obligations
- Loan syndication
- Financing trade
- Financing securities purchases (Margin Finance)
- Issuing certificates of deposits on its own behalf and on behalf of customers
- Discounting of Debt Securities
- Mobilization and management of Mutual Funds
- Investment and financial advisory services
- Provide fee based services like fund managment, portfolio management, preparation of feasibility studies/reports etc.

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DEPOSIT CERTIFICATES:

CresBank has developed Deposit Certificates keeping in view the requirements of varied group of depositors like individuals and organizations in respect of liquidity, high return and simple formalities. The certificates are both registered and bearer in nature.

The important feature of each type of scheme are given hereunder:

Deposit Certificates - Registered

Under this scheme deposits can be placed for a fixed period varying from 30 days to 5 years.

Profit under this scheme is paid at the time of maturity or in case of certificates of longer maturity i.e. more than six months the profit is paid on half yearly basis.

The expected profit rates applicable to deposit certificates for the first half of the year 1990 are as follows:

period	rates
30 days	8.0%
3 months	10.0%
6 months	11.0%
1 year	12.0%
2 years	12.5%
3 years	13.0%
4 years	13.5%
5 years	14.0%

The certificates are non negotiable and non transferable. The encashment can only be made at the place of issue.

In case, the certificate(s) are lost, stolen or destroyed, duplicate certificate(s) can be issued against indemnity.

The Certificates are undenominated and issued according to the requirement of the customer.

Identification of the Depositor is required at the time of deposit and encashment.

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Deposit Certificates - Bearer

This is a bearer instrument and ownership is transferred by mere delivery. The scheme is simplest form of placing deposits and no formalities in respect of account opening forms, signatures, etc. are required. The scheme is developed for investors who want to maintain liquidity with maximum return.

The deposit is accepted for a 5 year period. However, certificates can be encashed at any time during the maturity period along with applicable profit.

No claim in respect of stolen, lost or destroyed certificates is entertained and no duplicate certificate is issued.

The holder is deemed and treated as absolute owner of the certificates for the purposes of payment of proceeds and for all other purposes (notwithstanding any notice of ownership or writing thereon or notice of any previous loss or theft or confiscation or any other similar act thereof).

The Deposit Certificates are available in the following denominations.

Rs. 10,000/=
Rs. 25,000/=
Rs. 50,000/=
Rs. 100,000/=
Rs. 250,000/=

The expected profit rates applicable to deposit certificates for the first half of the year 1990 are as follows:

Period	Rates
a) At maturity (i.e. 5 years from the date of issue)	14.0%
b) On premature encashment after:	
4 years	13.5%
3 years	13.0%
2 years	12.5%
1 year	12.0%
6 months	11.0%
3 months	10.0%
1 month	8.0%

Profit is payable at the time of encashment/maturity.

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Deposit Accounts:

This is a unique deposit scheme which allows multiple withdrawals and deposits without any limit. The salient features of the account are as follows:

Multiple withdrawals can be made through Withdrawal

Request slips which may be obtained from the Bank branch.

Minimum balance acceptable is Rs. 10,000/=.

Deposit to be kept with the Bank for a minimum period of 30 days.

Deposits below the minimum limit in any single day during the month will not attract any profit for the month.

Profit is calculated on the minimum monthly balance and credited to the account on half yearly basis.

Rate of profit is 8% per annum which is subject to change from time to time.

Deposit Account facility is available to the following:

- -indiviuals
- -sole traders
- -private limited company
- -public limited company
- -trusts, funds, societies, etc.

Identification of the account holder is necessary.

The account is liable to compulsory deduction of Zakat subject to the exemption provided in the Zakat and Usher Ordinance.

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GENERAL INFORMATION:

(point no. 1 to 4 below do not apply to our Bearer Deposit Certificates)

1. Clients desirous of placing funds with CresBank may do so by cash or cheques, demand drafts/pay orders drawn to the order of Crescent Investment Bank Ltd., crossed "ACCOUNT PAYEE", supported by completed Account Opening form, specimen signatures card and a copy of National Identity Card.

2. On maturity, Deposit Certificate will be repaid in accordance with the depositor's written instructions after a proper discharge on the reverse of the certificate.

3. CresBank may, at its sole discretion, authorise withdrawal of a deposit even before maturity subject to appropriate adjustment in (a) the profit paid before encashment and (b) the relative profit rate applicable thereon.

4. In the event of depositor's death, the deposit and profit accrued thereon will be paid on request of the legal heirs after the completion of prescribed legal formalities.

5. The profit is linked with the pretax profit of the CresBank and distributed on the basis of profit and loss sharing. The rate of the profit are subject to change from time to time according to the profitablity of the Bank.

6. Profit is calculated on the basis of 365 days a year.

7. No profit is payable if encashed if encashed within one month from the date of issue.

8. No profit is payable on Deposit Certificates after the maturity date.

9. Minimum deposit limit is Rs. 10,000/-.

10. The certificates are only to be encashed at the place of issue.

11. Zakat shall be charged and collected on a compulsory basis in accordance with the Zakat and Ushr Ordinance, 1980, and rules made thereunder. Deposit Certificates on which return is paid periodically, the Zakat will be deducted from the first payment made after the valuation date or on encashment whichever is earlier.

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12. Deposit Certificates on which return is paid on encashment or maturity, the Zakat will be collected on maturity or encashment if falling after at least one Valuation Date.

13. Persons exempted from the provisions of the Zakat ordinance are required to file necessary declaration with the concerned office/branch of CresBank with in a period of three months prior to Valuation Date.

14. It should be noted that Zakat is charged/ collected on the basis of hijra calendar year. Hence, incstance may arise when two Zakat Valuation Dates may fall in one Gregorian year and in that event Zakat will be collected twice in the same Gregorian year.

15. This brochure is for the general guidance of prospective depositors. The profit rates, specific features of the schemes are subject to change without any notice.

16. For further information, please contact our office / branch or one of the following officers:

Lahore:	Mr. Ali Sameer	Tel. 324110
	Mr. Mohsin Mehdi	" "
Karachi:	Mr. Mahmood Ahmed	Tel. 524677, 526094

ADDRESS:

Crescent Investment Bank Ltd.
45,' Shahrah-e-Quaid-e-Azam,
Lahore.
Tel: 324110, 324733
Telex: 44445 CGS PK.

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ANNEXURE 4

MARGIN FINANCE

One of the main area of activities of the CresBank is providing Margin Finance against the security of listed shares. The main objective for the financing is to contribute in the development of the capital markets in the country by increasing the liquidity of interested investors.

WHAT IS MARGIN FINANCE

The financing against the leveraged purchases of securities is called Margin Finance. Margin Finance collateralised by share purchases are made to individuals /firms /companies who wants to buy shares but do not have enough liquidity to the finance full cost of the purchases or wants to leverage themselves with the expectation of future rise in prices resulting in Capital gain. The expected Capital gain combined with dividend yield is expected to more than offset the financing cost. The total cost shares purchased is met proportionately from financing from the CresBank called Margin Finance and from the client's own sources called Margins.

HOW MARGINS ARE CALCULATED

Margins are normally calculated on the basis of maximum debt equity ratio of 60:40 as illustrated hereunder:

If 100 shares are bought by a client at Rs. 20 per share, the total cost disregarding commission will be Rs. 2000/-. Assuming that the client invests 40 percent, the margin finance will be Rs. 1200 and margin on purchase date will be Rs. 800. The shares purchased would be retained by CresBank as collateral. In the case of fall in price of shares, the Bank will call for additional margin to maintain the 60:40 ratio.

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WHO CAN APPLY

The target customers for Margin Finance are the individuals with a track record of dealing in capital markets and having good repute in meeting their commitments against purchase of shares.

The firms and companies engaged in the trading of securities at stock exchanges can also apply for margin financing facility.

COLLATERAL

Shares Purchased against the margins and margin finance are taken as collateral. CresBank at its sole discretion can call for additional security against any margin finance facility.

Not all the securities listed at the Stock Exchanges qualify for the margin finance. For a margin finance facility from CresBank, a list of acceptable shares with respective margin requirements is given in the Annexure 1.

RATE OF RETURN

The rate of return payable by the client on margin finance shall be arrived at, on case to case basis, with mutual consent.

GENERAL INFORMATION

1. Clients desirous of obtaining Margin Finance from CresBank may do so by applying for an allocation of a Margin Finance line on a standard form supported by references of stock brokers / bank managers and a copy of National Identity Card.
2. On approval of the facility the client is required to open a Margin Deposit Account with CresBank.
3. CresBank may, at its sole discretion, debit the deposit account for any margin against any authorised purchases or for any additional margin required to maintain the margin ratio against a particular collateral.

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4. CresBank may, at its sole discretion, at the time of falling share prices call for additional margin to maintain required ratio for a particular security or to sell the collateral without informing the client and adjust its financing and any other dues outstanding.

5. Withdrawal from a Margin Deposit Account is subject to prior clearance from the bank.

6. In the event of client's death, balance of the Deposit Account and profit accrued thereon after adjustment of all the outstanding contracts of margin finance, will be paid on request of the legal heirs after completion of the prescribed legal formalities.

7. The profit on Deposit Account is linked with the pretax profit of CresBank and distributed on the basis of profit and loss sharing on minimum balance during a calendar month. The rate of profit are subject to change from time to time according to the profitability of the Bank.

8. Profit is calculated on the basis of 365 days a year payable biannualy.

9. Minimum deposit limit is Rs. 10,000/-

10. Deposit Account is subject to Zakat which shall be charged and collected on a compulsory basis in accordance with the Zakat and Ushr Ordinance, 1980, and rules made thereunder. The Zakat will be deducted on the outstanding balance on the valuation date.

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11. Persons exempted from the provisions of the Zakat Ordinance are required to file necessary declaration with the concerned office/branch of CresBank with in a period of three months prior to Valuation Date.

12. It should be noted that Zakat is charges collection on the basis of hijra calendar year. Hence, instance may arise when two Zakat Valuation Dates may fall in one Gregorian year and in that event Zakat will be collected twice in the same Gregorian yearr.

13. This Brochure is for the general guidance of the prospective Margin Finance clients. The specific features of the scheme are subject to change without any notice.

14. For further information, please contact our office/branch or one of the following officers:

Lahore:	Mr. Ali Sameer	Tel. 324110 / 323882
	Mr. Mohsin Mehdi	Tel. 324110 / 62217
Karachi:	Mr. Mahmood Ahmad	Tel. 525677 / 526094

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LIST OF ACCEPTABLE SHARES

FOR MARGIN FINANCE

A. Finance Cos., Mutual Fund & Banks

Name Of The Companies	Margin %
1) Bankers Equity	40
2) Atlas BOT Lease	50
3) B.R.R Capital Modaraba	40
4) Crescent Investment Bank Ltd.	40
5) 1st Grindlays Modaraba	40
6) 1st ICP	40
7) 2nd ICP	40
8) 3rd ICP	40
9) 4th ICP	40
10) 5th ICP	40
11) 6th ICP	40
12) 7th ICP	40
13) 8th ICP	40
14) 9th ICP	40
15) 10th ICP	40
16) 11th ICP	40
17) 12th ICP	40
18) 13th ICP	40
19) 14th ICP	40
20) 15th ICP	40
21) 16th ICP	40
22) 17th ICP	40
23) 18th ICP	40
24) ICP S.E.M.F	40
25) LTV Capital Modaraba	40
26) Mod. Ali Mali	40
27) NDLC	40
28) Orix Leasing	40
29) PICIC	40
30) PIL Corp	40
31) 1st National	55

C. Cotton Textiles

Name Of The Companies	Margin %
1) Allawasaya	40
2) Alhamd	40
3) Ayesha	40
4) Bhanero	40
5) Burewala	40
6) Crescent	40
7) Crescot	50
8) Dawood Cotton	40
9) Dewan	40
10) Gul Ahmed	40
11) Gulistan	40
12) Gulshan Spinning	40
13) Hussain Industries	40
14) Ittefaq	40
15) Jubilee Spinning	40
16) Kohinoor Industries	40
17) Kohinoor Spinning	40
18) Mohammad Farooq	40
19) Mushtaq	40
20) Magna Cotton	40
21) Nafees Cotton	40
22) Nishat Mills	40
23) Quetta	40
24) Sana	40
25) Sapphire	40
26) Service (Tex)	40
27) Shadab	40
28) Shams	40
29) Shaheen Cotton	40
30) Star	40
31) Sunshine	40
32) Suraj Cotton	40
33) Zaman	40

H. Cement

1) Asbestos	40
2) Cherat	40
3) Gharibwal	40
4) Zeal Pak	40

I. Tobacco

1) Pakistan Tobacco	40

J. Fuel & Energy

1) Attock Ref.	40
2) Burshane Pak	40
3) Haroon Oils	50
4) Karachi Electric	40
5) National Refinery	40
6) P.B.S.	40
7) Pak Oilfields	40
8) Pak Refinery	40
9) Pak. State Oil	40
10) Sui Suothern Gas	40
11) Sui Northern Gas	40

N. Chemicals & Pharmaceuticals

1) Abbot Labs	40
2) Berger Paints	40
3) Boots Company	40
4) Ciba Geigy	40
5) Cynamid	40
6) Dawood Hercules	40
7) Exxon Chemical	40
8) Ferozsons Lab	40
9) Glaxo Labs.	40
10) Hoechst	40
11) ICI Pak	40
12) Otsuka	50
13) Pak Gum & Chem.	40
14) Parke Davis	40
15) Pak Oxygen	40
16) Reckitt & Colman	40
17) Sandoz	40
18) Sind Alkalis	40
19) Sitara Chemical	40
20) Smith Kline & French	40
21) Wah Nobel CHem.	40
22) Wellcome	40
23) Wyeth Labs.	40

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O. Paper & Board

1) Orient Straw Board	40
2) Packages	40
3) Pak. Paper Product	40
4) Pak. Papersack	40
5) Security Paper	40

P. Vanaspati & Allied

1) Associated Ind.	40
2) Fatima Ent.	40
3) Fazal Veg.	40
4) Kakakhel	40
5) Wazir Ali	40

Q. Construction

R. Leather & Tanneries

1) Bata Shoes	40
2) Hilal Tannery	50
3) National Tannery	40
4) Service (Shoes)	40
5) Universal Leather	40

S. Food & Allied

1) Brooke Bond	40
2) Lever Brothers	40
3) Millpak	40
4) Rafan Maize	40
5) Shezan International	40
6) National Foods	50

T. Glass & Ceramics

1) Emco Ind.	50
2) Prince Glass	40

U. Miscellaneous

1) Grays of Cambridge	40
2) Haji Dosa	40
3) United Distributors Pakistan	40

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ANNEXURE 5

ISSUES FACING INVESTMENT BANKS REGARDING DELAYS IN OBTAINING PERMISSIONS FOR ACTIVITIES THAT ARE PERMITTED UNDER THE GOVERNING STATUTORY REGULATIONS- SRO # 585 (I) / 87.

Investment Banking activities have been permitted under the Statutory Notification - S.R.O #585 (I)/87 issued by the Investment and Capital Issues Wing of the Finance Division of the Government of Pakistan (GOP).

These activities are classified into five major categories:-

a) Money Market Activities
b) Capital Market Activities
c) Project Financing
d) Corporate Financial Services &

These categories cover a very wide range of Investment Banking activities. Most of these activities are explicitly stated and permitted under the said SRO. Infact, the SRO is not a sealed regulation and is open to accommodate other Investment Banking activities which are listed in the SRO but can be discussed with the Controller of Capital Issues and may be permitted if found conducive.

As Investment Banking is new in Pakistan, the market as well as the bureaucracy do not understand it completely. Uptil now the only experience that the market has had with Investment Banking has been with the fraudulent Investment Finance Companies which brewed up in the past decade, offering tremendous returns and finally taking-off with the investors money. Therefore, the market is cautious and so are the regulatory bodies.

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As CresBank - Crescent Investment Bank is the first Investment Bank to start operations in Pakistan, it is in a position to specify such areas of business and activities where Investment Banks will counter problems. These problems if not removed will undermin the role of Investment Banks.

Investment Banks are expected to play a major role in the restructuring of the financial system in Pakistan. They have to mobilise new sources of funds and tap into those niches where Commercial Banks and Development Finance Institutions- DFI's have not ventured. Investment Banks are expected to develop the Capital market and Money Market operations, by first introducing instruments of varied nature and then increasing their marketability, by encouraging their discounting and trading on the stock exchanges and over the counters of financial institutions. Other responsibilities include sharing the burden of DFI's in providing financial assistance to projects and providing advisory services to investors.

Following is a list of the problems faced in various activities which are limit the scope of Investment Banking.

A) MONEY MARKET ACTIVITIES:

i) Trading in Government Securities:

The Section 5. (a) (ii) of the SRO permits Investment Banks to purchase and sell Government Securities on its own account and as a broker. Commercial Banks are the approved agents for the sale of WAPDA Bearer Bonds, National Saving Schemes and other such government securities. FCDC has approved CresBank as its brokers only for the sale of the third issue of WAPDA Bearer Bonds. However, it is desirable that sale and purchase of all government securities should also be allowed to Investment Banks, as is to commercial Banks.

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ii) Acting as a Broker or on its Own Account in the Call Money Market:
As per Section 5. (a)(iv) of the SRO, Investment Banks are allowed to borrow and lend in the Call Money Market. As this is the cheapest form of funding available to meet the current liquidity requirements it is a very essential source of funds available to all commercial banks and financial institutions. Investment Banks will require to lend and borrow in the Call Money Market to manage their liquidity position in the same manner as CBs and DFIs.

B) CAPITAL MARKET ACTIVITIES:

i) Trading in Listed Securities, both Equity and Non-Equity Instruments, Acting either as a Broker or Acting on its Own Account:
This activity has been allowed under Section 5.(b)(v) of the SRO. Investment Banks have been allowed to act as a broker on the stock exchange but they will not be issued new membership cards. The stock exchange does not want to increase the number of its members, therefore, Investment Banks will have ~~have~~ to purchase a card from an existing member. This situation has lead to a monopoly situation for the existing card holders. They have started quoting unrealistic prices for their membership cards. There is also an accounting problem involved under which the seller of the card wants to sell at an exorbitant price but bill the buyer of the card for a minimal amount, in order to avoid tax problems.

When Investment Banking is a government approved activity ans is expected to improve the economic environment of the country the stock exchange should allow fresh membership to all Investment Banks. Investment Banks have not allowed to act as a broker on the stock exchange. ~~This issue is under discussion with the Corporate Law Authority- CLA and the MoF~~.

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C) PROJECT FINANCING ACTIVITIES:

i) Issue of Short and Long-Term Participation Term Certificates-PTC's and Term Finance Certificates-TFC's:
This activity has been allowed under Section 5. (b) (vii) and 5. (c)(xi) of the SRO. As per the definition of redeemable capital in Clause 30-A of Section 2. of the Companies Ordinance 1984, redeemable capital includes TFC's.

The problem facing Investment Banks in this respect is that under Section. 120 of the Companies Ordinance, a company can issue any instrument in the nature of redeemable capital in favour of Schedule Banks, Financial Institutions or other persons as may be specified for the purpose by the Federal Government by notification in the Official Gazette.

The term 'Financial Institution' has been defined in Clause 15-A of Section. 2 of the Companies Ordinance . This term means "a Financial Institution set-up and controlled by the Federal Government or a Provincial Gover[illegible]t or a corporation set-up or controlled by such governm[illegible]d includes such other institutions or companies as the Federa[illegible]rnment by notification in the Official Gazette specifies for the purpose.

As an Investment Bank is neither a Schedule Bank nor a Financial Institution, companies governed by the Companies Ordinance cannot issue a TFC in favour of an Investment Bank. Therefore, an appropriate notification to this effect is required under Section 2. (15-A) and Section 120. of the Companies Ordinance 1984.

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ii) Guaranteeing and Counter-Guaranteeing Loans and Obligations:

The Section 5. (c) (xii) allows Investment Banks to undertake guaranteeing business. The problem faced in this activity is that, the large public sector corporate institutions, which are a major component of our target market resist the acceptance of guarantees issued by an Investment Bank. This follows from the absence of Investment Banks in the definitions of the Companies Ordinance 1984. Financial Institutions according to the Ordinance are only Schedule Banks and DFI's. Therefore, it is required that Investment Banks should be defined in the Companies Ordinance 1984.

Other Problems.

1) unregulated Competition:

The Investment Banks are working in an extremely regulated environment. The activities of Investment Banks are specifically defined in the SRO No. 585 (I)/87 and each activity is restricted in terms of percentages of the liquid net worth or such other ratios. Whereas, on the other hand, the activities of Leasing and Modaraba Companies are not defined under any government regulation. Due to this they are doing all Investment Banking activities without any control limits. They are investing in shares, discounting bills, giving margin loans, accepting large deposits & lending them out without any government control.

As a result of this lack of control and their high earning rates, Modaraba and Leasing Companies [illegible] able to undercut Investment Banks in rates and limits of assistance that can be offered to clients.

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Therefore, Modarabas should be either disallowed Investment Banking Activities or if Modarabas are to be allowed to do all Investment Banking Activities, they should be governed by specific regulations that should define their activities and similar limits in each activity should be applied to them as are applicable to Investment Banks. This will atleast bring Investment Banks, Modarabas and Leasing Companies on the same footing.

2) **Dealing in Foreign Exchange Through Letter of Credit Business:**
Leasing Companies along with CBs, are involved in the Letter of credit business. As this activity has a lot of potential in term of development of a customer base, and profitability, Investment Banks should also be given the opportunity to operate in this business.

Definition of Investment Banks should be Incuded in all Government Notifications, Regulations, Acts and Laws:
As Investment Bank is a new terminology, all previous government laws, acts and notifications need to be updated. At every place where the words Schedule Banks (Commercial Banks) and Development Finance Institution are used, the word Investment Banks should be added. This addition will solve many problems that Investment Banks might face in the future while dealing its clients (individuals, Public sector and Private sector Companies, Ministries and all other Government offices).

BEST AVAILABLE DOCUMENT

ANNEXURE 6

STRICTLY CONFIDENTIAL

FOR EPRU AND US AID ONLY

QUESTIONNAIRE

Interbank will commence business only after floatation of its shares on the Stock Exchanges. The ideas below will be subject to the test of the market and the regulatory environment, and therefore susceptible to substantial change and development.

How do you view the role of your Investment Bank (IFB) in the Financial Sector ?

As a private sector force we will exploit existing opportunities and seek to establish profitable new areas of business. Given liberalisation of the market and the setting of a regulatory framework conducive to capital market activities, we hope to be a leader in new areas and in the introduction of new products in Pakistan, thereby providing a substantial broadening of the financing options available to the corporate sector.

Please list the Products and Services your IFB proposes to offer.

Assistance in floatation of companies including underwriting of issues.
Arrangement and provision of short and long term finance through paper issues, musharias and mark-up arrangements.
Market making in corporate and government paper
Money market, treasury and foreign exchange activities.
Corporate and project advisory work.
Floatation of modarabas and mutual funds.
Introduction of investors and capital to Pakistani investment opportunities.
Loan and equity syndication. Leasing.

What other Products and/or services would you ideally like to offer ?

Do You see competition from other Institutions such as Nationalized Commercial Banks, Private Foreign Banks, Development Finance Institutions and Leasing Companies or Modarabas etc ? How ?

If conditions permit our securities issues to develop well, the nationalised and foreign commercial banks will under present interest rate conditions be capable of competing through rate reductions. Modarabas would be competition if a sufficient number were established, given their advantageous tax status.

Do you see any Policy constraints in the present charter that the IFBs have been granted ? (e.g needless overlap with functions of DFIs, NCBs etc)

The present charter is a brief guideline (as per SRO of 13 July 1987). The regulatory and legal framework presently constrains at every step as the SRO has no effect in terms of changing this environment, e.g. the approval process of capital issues, ability of investors to hold issues, stamp duty considerations, etc.

Could the above mentioned issues be streamlined by Ministry of Finance and/or State Bank of Pakistan ? Please suggest how ?

Yes. General approvals should be granted to the Investment Finance Companies to undertake issues on behalf of clients on their own books or by placement in the market. In those areas where the regulator wishes to retain specific control, there should be a "one window" swift approval process, which allows a transaction to proceed before market conditions change.

Have you been able to carve out a niche within the present guidelines ? If so, what do you see as your competitive advantage ?

We have not yet commenced business. Our advantage will be that we are a streamlined professional body with access to and knowledge of other markets and products, capable of introduction in Pakistan.

How can IFBs be encouraged to compete with NCBs and other Financial Institutions on a level playing field ?

1. IFB's must have access to the money markets as any financial institution (currently denied by the State Bank).
2. IFB's must have authorisation as FX dealers.
3. IFB's must be eligible for the remedies available to banks in cases of default.
4. IFB's must be able to take, hold and make markets in all kinds of paper without restriction or impediment.
5. IFB's should be permitted to raise funds for periods of less than 30 days.

What Financial Incentives could promote the above mentioned without disturbing the competitive environment of the private sector ?

Companies could be encouraged to raise funds by way of paper e.g. "Form 1" limits short term borrowings. If paper were excluded from this limit or incorporated as a sub-limit, this would encourage entry by companies, help develop markets and create liquidity. Liquidity of paper will allow companies to productively invest short term funds (less than 70 days) representing a real boost to the emerging capital markets.
Elimination of stamp duty on IFB paper products.

What procedure did you follow in obtaining a license to operate an IFB ?

Submission of application through appropriate channels, supported by substantial written and verbal exhortation.

What was the time lapse between application and approval for the setting up of the IFB ? Could you suggest ways to reduce the time involved.

Approximately 2 years. One window apolitical approval process.

Were there any other constraints ? Please elaborate.

BEST AVAILABLE DOCUMENT

What is the ownership structure of your IFB ?

How did you go about selecting appropriate partner(s) ?

Do you have a Private Foreign Bank as a partner ? Please also indicate if the Bank already had a representation in Pakistan.

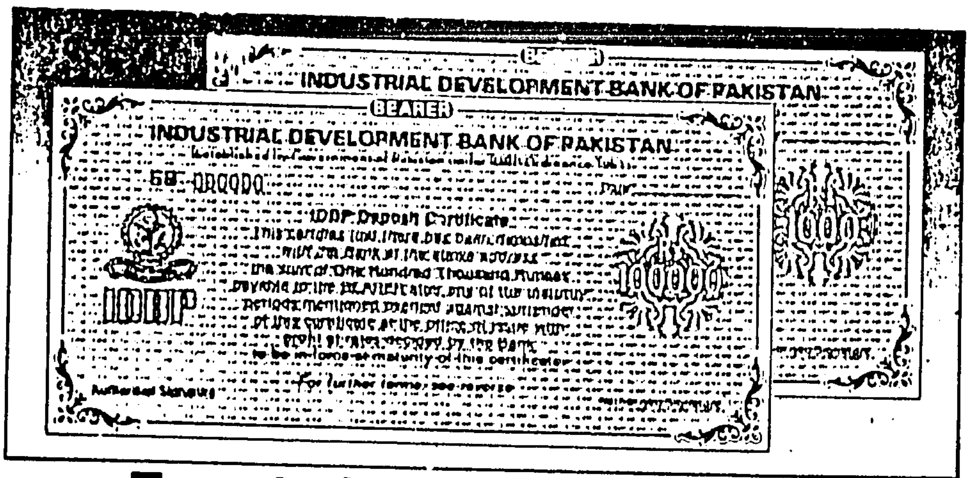
What rules and regulations govern IFB equi[illegible]holders with respect to repatriation of profits ?

Please feel free to use this space for any additional comments.

Thank You for your time and consideration!

ANNEXURE 7

IDBP
Deposit Certificates
(IDC)



Easy to buy - Easy to cash
With Highest Profit Rates.

A prosperous future is in your hands when you're a holder of an IDBP Bearer or Registered Certificate. Irrespective of denomination, Rs 1000/- or Rs. 100,000/- I.D.B.P. Deposit Certificates offer you the following benefits which really make your investment worthwhile.

- **Highest profit** – Maximum expected yield of 14.25% per annum
- **Flexible retention periods** – One month to a maturity of 5 years
- **Unlimited possession** – No restriction on value and number of certificates an investor can purchase
- **Ease of transfer** – Bearer certificates are transferable to others as cash
- **Acceptable as collateral** – By banks and financial institutions for short-term financing
- **Convenience** – Simple procedure for purchase and encashment

Maturity from date of issue	Expected Profit rate
5 years	14.25% per annum
4 years	13.75% "
3 years	12.75% "
2 years	12.25% "
1 year	11.75% "
6 months	10.75% "
3 months	9.25% "
1 month	7.00% "

So, why settle for anything less, when you can get so much more with IDBP Certificates.

INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

Invest in IDBP Deposit Certificates.

IDBP,7-90 P I D Islamabad

R-LINTAS

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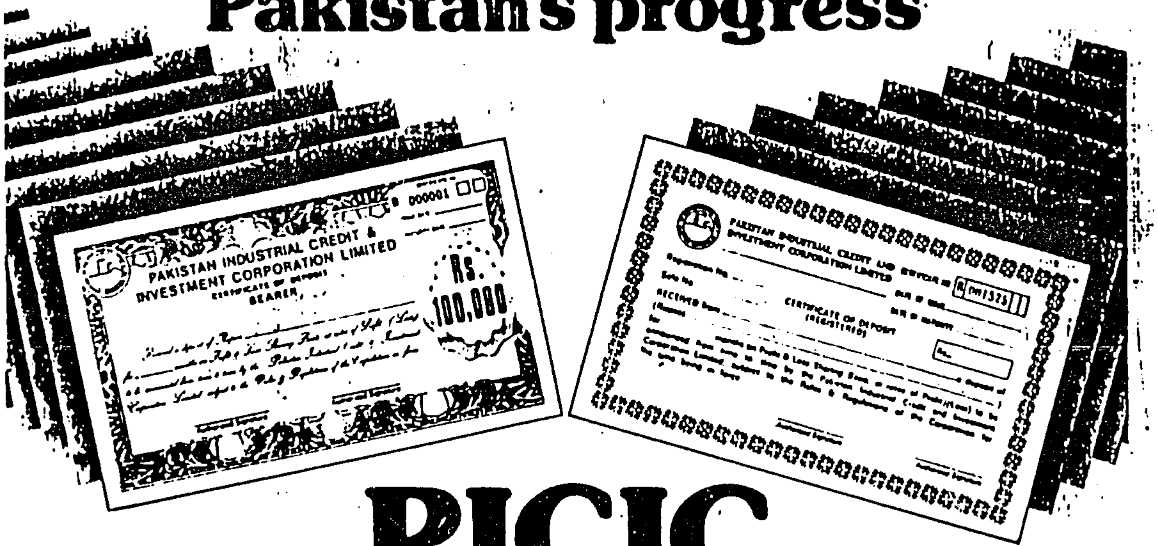
Profitably participate in Pakistan's progress



PICIC

CERTIFICATES OF DEPOSIT

Bearer & Registered

DENOMINATIONS:
Rs. 5,000/-, Rs. 10,000/-, Rs. 25,000/- Rs. 50,000/- and Rs. 100,000/-

MATURITIES:
1 month, 3 months, 6 months and 1 to 5 years

PROFITS:
Higher returns on Profit & Loss Sharing (PLS) basis

PICIC Certificates of Deposit (PCDs) Bearer and Registered offer not only total security of investment but also the promise of higher returns on PLS basis.

For the period ending 31-12-1989 the following profits have been declared:

Investment	Period	Rate per Annum
PCDs	1 Month	7.00%
PCDs	3 Months	9.25%
PCDs	6 Months	10.50%
PCDs	1 Year	11.50%
PCDs	2 Years	12.00%
PCDs	3 Years	12.50%
PCDs	4 Years	13.50%
PCDs	5 Years	14.00%

MULTIPLE BENEFITS

- Safe and sound investment
- Higher returns,
- Easily encashable and transferable
- Regular income
- More maturity options
- Acceptable as collateral by banks and PICIC
- Discounting facilities
- No limit on purchase

BEARER CERTIFICATES

Purchasable over the counter. No names, no forms, no signatures. Total secrecy. As good as cash and transferable by mere change of hands.

REGISTERED CERTIFICATES

Purchasable on completion of prescribed form. Replaceable in case of loss. Officially transferable at any time. Assurance of safe and regular income for individuals, corporate bodies, firms, societies and trusts

PICIC... Promoting Pursuits of Progress

PAKISTAN INDUSTRIAL CREDIT & INVESTMENT CORPORATION LTD.

Head Office: State Life Building No. 1, I.I. Chundrigar Road, P.O. Box No. 5080, Karachi-2
Telephone: 2414220 (Twenty lines). Cable Address: PICICORP, Karachi. Telex: 2710 PICIC PK.

Best Available Copy

For more details regarding purchase of PCDs please contact

KARACHI	LAHORE	ISLAMABAD	FAISALABAD	PESHAWAR	QUETTA	SUKKUR	MIRPUR (AZAD KASHMIR)
Gul Tower Ground Floor I.I. Chundrigar Road Karachi Phones: 2418768	19-A, Davis Road Lahore. Phones: 304964 304965	State Life Building No. 2 Blue Area Islamabad. Phones: 823625	Serena Hotel Q-733 Bazar Court Faisalabad Phones: 3X972-6	State Life Building The Mall Peshawar Cantt. Phones: 71232, 78480	M.A. Jinnah Road Quetta. Phone: 79168	C-431/I-C Queens Road Sukkur. Phones: 83141, 85102	67-A, Sector F-2 Main Road Mirpur (Azad Kashmir). Phone: 3242

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ATTENTION

IDBP DEFAULTERS

ALL IDBP clients whose accounts are in arrears are well advised in their own interest to clear IDBP dues by June 30, 1990, failing which their credit facilities may be frozen by the nationalised banks under the instructions of PBC. The defaulters will not only become liable to be black-listed by the IDBP for any future credit facilities but may also be deprived of support and facilities from the Federal/Provincial Governments and their allied agencies.

IDBP 6-90 R LINTAS

ANNEXURE 8

QUESTIONNAIRE

How do you view the role of your Investment Bank (IFB) in the Financial Sector ?

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Please list the Products and Services your IFB proposes to offer.

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What other Products and/or services would you ideally like to offer ?

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Do You see competition from other institutions such as Nationalized Commercial Banks, Private Foreign Banks, Development Finance Institutions and Leasing Companies or Modarabas etc ? How ?

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Do you see any Policy constraints in the present charter that the IFBs have been granted ? (e.g needless overlap with functions of DFIs, NCBs etc.)

Could the above mentioned issues be streamlined by Ministry of Finance and/or State Bank of Pakistan ? Please suggest how ?

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How can IFBs be encouraged to compete with NCBs and other Financial Institutions on a level playing field ?

What Financial Incentives could promote the above mentioned without disturbing the competitive environment of the private sector ?

What procedure did you follow in obtaining a license to operate an IFB ?

What was the time lapse between application and approval for the setting up of the IFB ? Could you suggest ways to reduce the time involved

Were there any other constraints ? Please elaborate.

What is the ownership structure of your IFB ?

How did you go about selecting appropriate partner(s) ?

Do you have a Private Foreign Bank as a partner ? Please also indicate if the Bank already had a representation in Pakistan.

What rules and regulations govern IFB equity holders with respect to repatriation of profits ?

Please feel free to use this space for any additional comments.

Thank You for your time and consideration!