

AGENCY FOR INTERNATIONAL DEVELOPMENT  
PROJECT IDENTIFICATION DOCUMENT  
FACESHEET (PID)

1. TRANSACTION CODE Revision No. DOCUMENT CODE  
 A = Add  1  
 C = Change  
 D = Delete

2. COUNTRY/ENTITY Pakistan 3. PROJECT NUMBER  
391-0501

4. BUREAU/OFFICE A. Symbol ASIA B. Code 04 5. PROJECT TITLE (maximum 40 characters)  
Commercial Humanitarian Initiatives  
in Private Sector (CHIPS)

6. ESTIMATED FY OF AUTHORIZATION/OBLIGATION/COMPLETION 7. ESTIMATED COSTS (\$000 OR EQUIVALENT, \$1 = )

|   |   |
|---|---|
| A. Initial FY <span style="margin-left: 20px;">8   7</span> | FUNDING SOURCE  |
| B. Final FY <span style="margin-left: 20px;">9   1</span>   | LIFE OF PROJECT   |
| C. PACD <span style="margin-left: 20px;">9   1</span>       | A. AID ESF Grant <span style="margin-left: 50px;">40,000</span> |
|   | B. Other U.S.   |
|   | 1.  |
|   | 2.  |
|   | C. Host Country   |
|   | D. Other Donor(s)   |
|   | TOTAL <span style="margin-left: 50px;">40,000</span>            |

8. PROPOSED BUDGET AID FUNDS (\$000)

| A. APPROPRIATION | B. PRIMARY PURPOSE CODE | C. PRIMARY TECH. CODE |         | D. 1ST FY |         | E. LIFE OF PROJECT |         |
|------------------|-------------------------|-----------------------|---------|-----------|---------|--------------------|---------|
|                  |                         | 1. Grant              | 2. Loan | 1. Grant  | 2. Loan | 1. Grant           | 2. Loan |
| (1) ESF          | 720                     |                       |         | 600       |         | 40,000             |         |
| (2)              |                         |                       |         |           |         |                    |         |
| (3)              |                         |                       |         |           |         |                    |         |
| (4)              |                         |                       |         |           |         |                    |         |
| TOTALS           |                         |                       |         | 600       |         | 40,000             |         |

9. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 10. SECONDARY PURPOSE CODE

|     |     |     |     |     |  |
|-----|-----|-----|-----|-----|--|
| 819 | 840 | 510 | 690 | 980 |  |
|-----|-----|-----|-----|-----|--|

11. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

|           |     |     |     |  |  |
|-----------|-----|-----|-----|--|--|
| A. Code   | BRW | BLW | BUW |  |  |
| B. Amount |     |     |     |  |  |

12. PROJECT PURPOSE (maximum 480 characters)

Primary purpose is to increase access of socially beneficial goods and services to thousands of Pakistanis through the proven strengths of Pakistan's commercial distribution channels. Secondary purposes are to finance social products and services eventually sustainable by businesses on a for-profit basis and to demonstrate the budgetary benefits of private sector mobilization to achieve social objectives.

13. RESOURCES REQUIRED FOR PROJECT DEVELOPMENT

**Staff:** The following consultants will be required for a period of one month to prepare the Project Paper:  
 one commercial financing expert  
 one social marketing expert

**Funds:** one commercial marketing expert with background in pharmaceuticals

Approximately \$61,850 for outside consultants out of PDI Fund (391-0470) and international and local travel and per diem for an AID/W technical backstop officer for a period of one month will be required.

|                                  |   |   |
|----------------------------------|---|---|
| 14. ORIGINATING OFFICE CLEARANCE | Signature<br><i>E.S. Staples</i><br>Eugene S. Staples | 15. DATE DOCUMENT RECEIVED BY AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION |
|                                  | Title<br>Director, USAID/Pakistan                     |   |
|                                  | Date Signed<br>MM DD YY<br>02 02 87                   | MM DD YY  |

16. PROJECT DOCUMENT ACTION TAKEN

S = Suspended      CA = Conditionally Approved  
 A = Approved      DD = Decision Deferred  
 D = Disapproved

17. COMMENTS

|                        |           |                      |                 |
|------------------------|-----------|----------------------|-----------------|
| 18. ACTION APPROVED BY | Signature | 19. ACTION REFERENCE | 20. ACTION DATE |
|                        | Title     |                      |                 |
|                        |           |                      | MM DD YY        |

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Project Identification Document

COMMERCIAL HUMANITARIAN INITIATIVES IN THE PRIVATE SECTOR  
(391-0501)

I. PROJECT SUMMARY

Commercial Humanitarian Initiatives in the Private Sector (CHIPS), will obligate \$40 million in AID grant funds to increase the availability of essential health care items, information and other social goods and services required to improve the quality of life in Pakistan. The CHIPS Project attempts to replicate the Mission's successful experience in the Social Marketing of Contraceptives (SMC) Project in a wide range of socially beneficial goods and services.

AID funds will be used to mobilize private sector capability to manufacture and distribute products like oral rehydration salts, water purification tablets and other basic social goods. CHIPS will use the business development capabilities of the National Development Finance Corporation (NDFC) to match up markets, products and firms suitable for cost-reimbursement and loan financing. Two types of activities will be funded: (1) marginally profitable products which will eventually be profitable enough to be sustained by the private sector and (2) products and services where the private sector clearly is more cost effective than the GOP-funded delivery channels.

The end results will be to increase the capability of NDFC to fund socially beneficial projects, to diversify firms' product lines with new socially beneficial products, to put five to ten social goods and/or services on the market and give thousands of people access to social goods and services which they previously have never had. The CHIPS Project may also demonstrate to the GOP areas where business can do a better job in meeting social needs, thus help to relieve the budgetary burden in the social sectors.

II. BACKGROUND OF THE PROJECT

A. Status of the Social Sector

In the development of Pakistan, the social sector has not kept pace with the advances made in other areas. Many quality of life indicators have shown increases but still remain below the level of much of the world. For example, life expectancy at birth remains at a relatively low 51 years, whereas in 1965 it was 45 years; infant mortality, as estimated by the World Bank in 1984 was 116 per 1000 live births, whereas in 1964 it was 150; 56 percent of the population does not have access to potable water systems; only about 20 percent of the population has access to adequate sanitation services; and female literacy continues to languish at 15 percent or less.

AID has joined others at the Paris Consortium meetings of donors in urging Pakistan to focus on the social sector, and recently the Government of Pakistan (GOP) has shown a desire to improve the social sector in issuance of Prime Minister Junejo's Five Point Plan. Nevertheless, in 1986 only 13.4 percent of the GOP's total budget was allocated to social sector activities (i.e. health, education, etc.), representing about 2.4 percent of GNP.

B. Public and Private Channels and the Delivery of Social Services

The portion of the GOP's national budget allocated to social

services all flows through public channels. This is consistent with the GOP's general approach of achieving development objectives mainly through publicly administered and implemented programs. However, public service-delivery channels are very costly. Staff salaries and infrastructure development rapidly absorb the bulk of the funds available, making the extension of new or additional services difficult to realize.

Another problem is that public social services typically reach only a small portion of the population in need. Many people simply do not have access to the public facilities providing services. This is true in both the health and education sector. In addition, especially in health, many people prefer to seek social services from private outlets. For example, a national survey conducted in 1983 by the Federal Bureau of Statistics showed that only 16 percent of interviewees reporting sickness sought health care services from public outlets. Over two-thirds sought services from private service-delivery outlets. Program statistics from the Population Welfare Division similarly indicate that up to 80 percent of current family-planning users seek services first from private channels. This suggests that even if privately offered services cost more, many users are willing to pay an additional cost for convenience or for a perceived increase in quality.

#### C. Potential of the Commercial Sector

In sum, service-delivery systems operated by the public sector generally reach only fractions of the total population of Pakistan. Furthermore, the private sector is preferred over the public sector for some social services. It is the Mission's belief that the private sector has dramatic potential to reach people in Pakistan with goods and services.

Pakistan's commercial sector is generally well developed. Several large, multinational firms are present and active in the market. These include Unilever, Reckitt & Coleman, Searle, Bayer, Wellcome and Johnson & Johnson, to name but a few. In addition, many indigenous companies such as Jaffar Bros. (Pvt), Ltd., Fakma Pharmaceuticals and United Distributors are active and often have very extensive sales networks in the country. Of particular relevance to the project are the companies (both internationally and domestically based) which typically deal with household consumer products. These companies, by the nature of their products, are strategically organized to reach a wide range of individuals and their homes in Pakistan.

Large manufacturing/marketing firms typically reach 40,000 to 60,000 consumer outlets. This is far in excess of any system of client-contact centers operated by the public sector. In the newly initiated AID-supported Social Marketing of Contraceptives (SMC) Project, the commercial sector has already shown that it is capable of introducing a family planning product as an acceptable consumer item within Pakistan's extensive marketing system. The SMC experience has also demonstrated the speed and efficiency in implementation that can result when the commercial sector is given the necessary autonomy of action and when commercial skills and expertise are effectively harnessed for a national objective.

Commercial firms are already active in promoting a variety of products and services of relevance to social sector development objectives. For example, Searle and Wilson's Pharmaceuticals produce oral rehydration salts (ORS), for commercial distribution and sale which decreases child mortality. Unilever and Reckitt & Coleman both manufacture a variety of soaps and

toothpaste for personal hygiene. Despite such undertakings, considerably more could be done. Commercial firms could, for example, provide an effective channel for reaching private health practitioners in order to promote oral rehydration therapy, immunization, water purification, adult education, and other public health technologies. The powerfully persuasive allure of modern marketing and product promotion could be used to popularize those technologies defined by the GOP and AID as being in the greatest need.

However, the delivery of social goods or services through the private sector in a manner designed to reach the widest number of people may not offer attractive profit opportunities, particularly when significant risk is perceived. To stimulate the commercial sector to become involved in a large scale with such goods and services, identification and promotion of specific business opportunities and in some cases, provision of financing will be necessary.

#### D. Development of Project Concept

This project has been jointly conceptualized by the National Development Finance Corporation (NDFC) and USAID/Pakistan. The NDFC, a parastatal, is the proposed GOP implementing agency for the project. Their involvement has been consistent and enthusiastic.

The NDFC was created in 1973 to appraise the economic, financial and technical feasibility of eligible enterprises which make requests for assistance in less developed areas of Pakistan; to make loans, advances and provide lease financing to eligible enterprises; to provide assistance for working capital requirements; and to operate as a financial institution in order to perpetuate its activity. NDFC started with a capital contribution of 10 million rupees (approximately \$600,000), which in 13 years it has increased to 9.5 billion rupees (\$560 million).

During 1985, NDFC approved 20 public sector loans and 68 private sector loans. The size of these loans ranged from 180,000 rupees (\$11,000) to 283 million rupees (\$17 million). Sources of foreign exchange capital for on-lending are derived from the Asian Development Bank (ADB) and the International Development Association (World Bank). Local currency sources for on-lending comes from the NDFC's own banking operations.

The NDFC's line operations consist of the Project Financing Department, which is responsible for developing and appraising potential projects from the time they are submitted until project approval; the Project Supervision Department, to manage project start-up from the time a project is approved until the concern is fully operational; and the Investment Management and Monitoring Department, to oversee a project from production starting until loan payback. To support the banking and loan operations the NDFC is equipped with a macro-economic analysis unit, corporate and legal office, engineering office, account division, and administration and personnel division. There is also a special technical unit which has the special capability to appraise, approve financing and start-up particularly complex projects. This technical unit recruited and monitored the commercial firm responsible for implementing the SMC Project.

NDFC traditionally has devoted its efforts to financing commerce and industry in both the public and private sectors. However, NDFC's involvement in the SMC Project provided an example of how a commercial firm

could effectively contribute to social sector development. Both the Mission and NDFC felt that the SMC experience offered a model which could be modified and expanded to stimulate the commercial sector to participate in a broader range of development endeavors.

After a careful review of the capacities of both the Mission and NDFC, the following project design was developed. The design reflects NDFC's considerable experience in financing commercial activities and the Corporation's broad knowledge of how to effectively involve commercial firms in special purpose financing. The project concept also builds on the lessons learned in the innovative SMC Project. By working together, NDFC and USAID have confidence that the Commercial Humanitarian Initiatives in the Private Sector (CHIPS) concept can be translated into an effective channel for private sector social service delivery.

### III. PROGRAM FACTORS

#### A. Conformity with Recipient Country Strategy

This project clearly conforms with two of Pakistan's announced economic development goals: to provide better health and education services to its population, and the larger role in national economical development for its private sector. Both goals are enunciated in Pakistan's Sixth Five Year Plan and have received repeated endorsements by Pakistan's top economic and political leadership. While in a number of economic areas Pakistan has performed well, its achievements in the social sector have been extraordinarily disappointing, and the quality of its public services delivery in the social sector has been far less than desired. In expanding its role, Pakistan's private sector must face formidable bureaucratic barriers which serve to negate their efforts, but such participation is clearly the most viable option in enhancing delivery of socially useful goods and services.

#### B. Relationship to USAID/Pakistan Strategy Statement

The CDSS prepared in 1984 acknowledged deficiencies in the social sectors as well the need for a more viable Pakistani private sector. The Mission's new FY 1988-93 CDSS is currently under preparation and will more intensely address the deficiencies of Pakistan's social sector, with particular emphasis upon the underlying threat to Pakistan's political and economic stability of continued poor performance in the sector. Additionally, Mission strategy will emphasize the use of the private sector as the motor of development in all phases of USAID activity in Pakistan.

#### C. Relationship to AID Policy

The CHIPS project includes three of AID's core policies and represents the Mission's desire to build on earlier efforts in supporting private sector delivery of social goods and services.

##### 1. Policy Dialogue

This project represents a continuation and intensification of USAID's earlier success in gaining GOP agreement that U.S. economic assistance funds could be channeled through the private sector on behalf of public sector objectives in meeting social needs. Development and implementation of the project implies a policy dialogue with the GOP in gaining recognition of (1)

inherent limitations in the effectiveness of Government delivery of goods and services, (2) recognition of the inherent greater performance and efficiency potential of the private sector to supply the same goods and services, (3) diminution of GOP regulatory/sanction barriers confronting private firms and (4) possible national savings in Government expenditures through the private sector investment in national objectives.

## 2. Technology Transfer

As this project is implemented, private sector firms, acting in their own self interest, will introduce new and better social goods and services which customers will use in their self interest. Painless technology transfer will result.

## 3. Private Sector

The essence of this project is to strengthen the private sector, and use its stronger performance capabilities to provide social sector goods and services for two reasons: (a) because private firms constitute a more efficient contracted instrument than public sector delivery agencies and, (b) because by building on free enterprise principles of self interest, the project will generate several self-sustaining and replicable private sector activities in the social good.

### D. Other Donor Input

USAID will examine the possibility of World Bank, International Finance Corporation (IFC), UNDP and Asian Development Bank collaboration in this project to increase capital resources and broaden the endorsement of the concept. UNDP representatives have already expressed an interest in collaborating with the CHIPS Project through private-sector technology exchanges or training opportunities, where necessary.

## IV. PROJECT DESCRIPTION

### A. Perceived Problems

The social sector in Pakistan urgently needs further development. The traditional public sector channels which fund most, if not all, social sector activity, are slow to change and reach only a small portion of the population which require social services. Further, inherent bureaucratic inefficiencies mean that public entities can rarely achieve the cost-effective service delivery possible for the private sector.

There are several segments of the social sector for which commercial firms could provide services for profit while filling the unmet consumer demand. The private sector has not responded to these opportunities for two reasons. First, the financing costs to initiate social sector activity have been prohibitively high. Second, the profits for social sector activities have been perceived as too low. This set of conditions is similar to the constraints which social marketing efforts typically address. The CHIPS Project modifies and expands a social marketing model of financial assistance to the private sector and, in doing so, is designed to more broadly overcome such constraints.

There are several reasons why a private sector firm, given

encouragement from the CHIPS Project, would participate in a venture which would not be profitable in the short-term. Here are a few examples. The first case is a company that has a surplus manufacturing capacity. Under utilized equipment is a costly factor of production; launching another product could help recover plant, machinery and labor costs. In this case the company would be looking for increased cash flow instead of increased profit. A second, similar example is a company that has a distribution network which is costly to support and is under utilized. By distributing other products they could recoup the fixed costs associated with their distribution network.

A third example is a company that perceives its vocation to be closely associated with a product or line of products that respond to a well defined need. Such was one of the prime motivating forces for Woodward's, the company that implemented the SMC Project. Woodward's parent corporation considers itself to be a world leader in condom marketing. If there was an opportunity to commercialize condoms in Pakistan, this firm wanted to be involved. Companies like these perceive themselves as the leaders in child care, personal hygiene, or any number of other corporate images. They survey the world for the first opportunity to participate in new products which might advance their "image" or create future markets. If they have the opportunity to be actually involved before the product is profitable, they could have a valuable edge over the competition.

Finally, the fourth example is a company which would participate in order to learn and grow in new areas. Investment in marketing, promotion and consumer education to launch a new product is costly. Given the economic and political context in less developed countries, the risk is far greater than merely commercial. Many times there are traditional cultural habits which, if changed, would make the difference between profit and loss. The opportunity to develop an unknown area with reduced risk or lowered cost, which eventually may lead to growth, such as the consumer behavior of rural people, represents a strong motivation.

These examples demonstrate how CHIPS will be able to tap private sector motivation to achieve its double imperative: to fund sub-projects which would not otherwise attract private sector investment and to launch products which will eventually be profitable enough for the private sector to sustain after AID financing ends.

#### B. Project Goal and Purpose

The project goal is to improve the quality of life of the people of Pakistan through greater access to social goods and/or services. The project purpose is to enhance the private commercial sector's role in social development and demonstrate the cost-effectiveness of its contribution. The project will support NDFC to provide financing to 1) arrange appropriate economic analyses and identify promising commercial opportunities, 2) promote these opportunities with representatives of the commercial private sector and 3) provide funds to commercial firms so that they can realize a significant role in the development of Pakistan's social sector.

#### C. Expected Achievements

The project will develop within NDFC a CHIPS management cell which will provide the analyses and financial data to ascertain the feasibility of any proposed commercial endeavor and administer the financing of commercial firms. Within the first year of the project, NDFC will create and staff this cell which

will coordinate all CHIPS related activity. It is anticipated that the cell will continue to function after project completion, as long as there is a demand for social sector activities that can most efficiently and cheaply be provided by commercial firms.

At the completion of the five year project, the following achievements are expected:

- A CHIPS cell will be functioning at NDFC
- 15 - 20 market assessments will have been completed and widely disseminated in the commercial sector
- 15 - 25 commercial firms will be participating in social sector activities
- 5 - 10 new social goods and/or services will be on the market, having been developed and distributed through commercial channels

#### D. Project Outline

The Mission plans to provide funds to be administered by NDFC in the form of concessional financing for commercial sector firms. NDFC is a parastatal corporation, established in 1973 to provide funds on a concessional financing basis to private firms and public corporations which showed a desire to engage in activities which promoted the policies of the GOP. It is NDFC's policy to develop projects with a loan value of at least 10 million rupees (approximately \$600,000). NDFC would prefer to offer a higher minimum loan amount of 50 million rupees or \$2.9 million, because of the administrative burden involved with assessment and related analyses. NDFC has been funded mostly by the GOP, private and commercial deposits, but has also received funds from the World Bank and the Asian Development Bank for specific programs.

The World Bank and Asian Development Bank (ADB) have been supplying NDFC with foreign lines of credit since the mid-1970s. Currently the World Bank offers NDFC a credit line of approximately \$23 million and ADB offers a credit line of \$93 million. These credit lines are used to procure foreign commodities. Approval for the use of these foreign lines of credit are sought by NDFC from the donor concerned before a project is brought before the NDFC Board for approval.

NDFC already has the experience, staff and structure needed to analyze the viability of a commercial activity, determine what level of financing is needed to attract a commercial firm's participation, administer funds for the private sector, and assist with the development of new market opportunities.

#### 1. Project Structure

NDFC will be the implementing agency of the project. NDFC will notify USAID at the start of any new sub-project analysis and USAID will initially review sub-project concepts for adherence to USAID policies, priorities and guidelines. A board composed of three NDFC officials and two USAID representatives will oversee NDFC's operation of the CHIPS Project and approve any loans or cost-reimbursement agreements proposed for funding by NDFC's CHIPS cell. Through this board, USAID will retain the right to veto any proposed activity that exceeds the available funds or is inconsistent with USAID's policies, regulations or guidelines.

Since the whole purpose is to stimulate the commercial private sector, the structure of the project must be adapted to standard business practices. Accordingly, the transferral of funds to NDFC should be done in a manner which promotes rapid expenditure is responsive to the needs of commercial firms in Pakistan, and adheres as closely as possible to NDFC's sound fund management procedures. In contrast to AID's usual procedures to fund governmental agencies, enhancing flexibility of operation and ensuring the needed working autonomy of private businesses are critical to achieving success. Toward these ends, the Project Paper (PP), design will explore several possible formats to provide funds to NDFC. One format may be modifications of the standard cost-specific financing mode the Agency commonly uses. In this instance transfer of funds to NDFC would be tied to specific sub-projects approved by the CHIPS Board. Cost-specific funding transfers could then be in a lump sum for the total estimated cost of sub-projects, or made incrementally. As another possibility, the NDFC could be considered an intermediate credit institution with funds transferred in a manner similar to the model developed in the PACT Project recently approved for India. NDFC would manage the disbursement of funds to the companies involved with sub-project implementation. Some foreign commodities will probably be required for the implementation of sub-projects. In these instances, the procurement of such commodities will be the responsibility of NDFC or a company receiving financing through a sub-project.

Host-country procurement is consistent with the Mission's need to reduce its management burden and with the capabilities at NDFC. Similarly, all contracting for goods and services will be the responsibility of NDFC or participating companies. For all procurement actions, flexible free-world source and origin will probably be required; if so such an authorization will be sought in the Project Paper.

Any revenues realized directly or indirectly from project funds, in the form of interest on loans, repayment of principal, or otherwise, will be kept in a specific CHIPS account at NDFC. These funds will only be used for project-related costs with the prior approval of USAID.

a. NDFC's Role

NDFC will carry out the following functions:

- Assess markets to identify new commercial opportunities;
- Determine the feasibility of specific products or programs;
- Attract suitable firms for receipt of funds;
- Administer actual transfer of funds to private sector firms;
- Monitor and audit the recipient's activity and operation;
- Review and report on progress of financed activities.

b. USAID's Role

The project is designed to minimize the Mission's management involvement. USAID's function will be to:

- Participate on the CHIPS Governing Board;
- Disburse funds to NDFC;
- Monitor project implementation;
- Provide an independent auditing firm to regularly audit all project activities.

## 2. Areas of Proposed Activity

Depending on the abilities of NDFC's staff, a variety of social sector activities will be reviewed for possible funding. The activities will range from social marketing of numerous products, such as oral rehydration salts, vaccines, water purification tablets, iodized salt or oil, etc., to services such as the promotion of female literacy, female employment and family planning for workers. The scope and definition of specific opportunities will be further developed during the PP preparation phase.

## 3. Types of Financing of Commercial Concerns

CHIPS could aid the private sector in any one or a combination of four financing methods. The first would be to supply limited-scale production equipment in order to reduce the initial capital costs required to begin marketing social sector products and/or services. A second method would be to supply commodities at a reduced cost which would allow the private sector to realize its normal profit of 20 to 30 percent. The third method would be to reimburse a firm for local costs incurred undertaking a new social sector activity. The fourth would be to offer financing at a reduced rate. The current commercial rates available to companies in Pakistan are 14 to 15 percent. Depending on the commercial viability of a specific sub-project's potential, the interest rate offered through the CHIPS Project could be lowered to 5 to 12 percent. It is anticipated that 5 percent will be the lowest rate which will be offered.

These four modes can be grouped into two basic categories or approaches. One is the conventional financing of products or services in the form of a type of loan (which would have to be repaid). The other would be cost-reimbursements of some element of a company's expense (financing which would not have to be repaid).

In the first category, NDFC would perform a complete market assessment and estimate potential profit for a specific social sector activity. On the basis of this assessment, financing will be calculated to allow a commercially acceptable internal rate of return (IRR) on a company's investment in the activity. Usually to interest a private sector firm, an IRR of at least 2 to 3 percent above the weighted average cost of funds would be required.

Some potential activities will not be attractive to private sector firms on a loan basis only. In these instances, cost-reimbursement financing will be used. USAID will provide cost-reimbursable funding in two basic formats. The first will involve the procurement of production equipment on a limited scale and/or the reimbursement of other start-up costs. This would be a one-time reimbursement to enable a private sector entity to enter into a new social sector marketing activity. The second method would involve the ongoing cost-reimbursement of socially beneficial commodities or other expenses to reduce the cost of the product or service which is being marketed. There will be some products and/or services, in the pre-profitability stage, which will need ongoing financial support to encourage private sector involvement. The rationale for USAID's support is based on the business analysis showing that the private commercial firm will be more cost effective and respond quicker to market forces than the GOP. Therefore goods and/or services will be provided at a cheaper cost by USAID and at the same time be supplied to the populace of Pakistan at a faster rate. The financing modes details will be further developed during PP preparation.

V. FACTORS AFFECTING PROJECT SELECTION AND FURTHER DEVELOPMENT

A. Social Considerations

1. Social Environment

The country of Pakistan represents a large complex society, composed of many varied sub-cultures and heterogeneous social traditions. Ethnic variety is closely linked to linguistic differences. There is a rigid, class structure formed by deeply ingrained feudal traditions. Weaving a thread of commonality through the varied social fabric is the religion of Islam, but in this predominant religion too, there are two versions, "Sunni" and "Shia".

Pakistan society also has a rich heritage of commerce and trading which reached into what is now China, the Soviet Union, Turkey, Iran and India. Commerce on a small and large scale has been a prevalent element of most of Pakistan's sub-cultures for centuries. Today, commerce and the marketplace in Pakistan is diverse and relatively well-developed.

2. Social Feasibility

The CHIPS Project basically relies on the marketplace of Pakistan as the medium through which socially desirable goods and services can be more effectively delivered and made more widely available. This reliance is based on a sound foundation of consumer behavior patterns and the current social organization of any Pakistani marketplace. The marketplace is open to all classes and income groups. Admittedly, there are some stores in larger urban or semi-urban areas which cater to a higher income, upper class clientele, however, every consumer in Pakistan has equal access to the marketplace.

Because of the practice of purdah (the seclusion of women), the vast majority of consumers in a marketplace are men. Virtually all retailers are also men. Point-of-sale promotional material for products therefore, must take this fact into account.

Consumer research and trade surveys have shown that retail price levels make a considerable difference in the access afforded to low income and low class consumers. Individuals in these socio-economic categories typically have limited disposable cash reserves and tend to purchase only immediate requirements of goods and services. Thus, the consumption pattern of low income families is of frequent, small quantity, low-priced buys. Given this consumption pattern, marketing schemes which would allow a lower consumer price could expect to achieve a greater outreach to lower-income, lower-class households.

3. Impact and Beneficiaries

The beneficiaries of this project would conceivably be everyone who has direct or indirect access to a marketplace. In Pakistan, given the extent of the market system, the beneficiaries would be the entire population. However, to realize the broadest extent of beneficiaries possible, products must be marketed in a manner to guarantee wide geographic distribution and low retail price. Maintaining a low retail price to maximize consumer access to a product, however, makes high profit to a commercial concern less likely. The CHIPS Project would offer financial packages to companies which

still could make a product with low retail prices an attractive business opportunity.

As noted above, surveys have shown that for goods and services, such as health care, the prevalent behavior pattern in Pakistan is for people to turn to the private sector. The CHIPS Project would build on this existing behavior pattern by providing the means to offer more social goods and services through the people's channel of first choice, the private sector. Consequently, the potential impact of an expanded range of social goods and services offered through the commercial private sector is indeed vast. Delivery of social goods and services through public channels may reach 15 percent of the population. In comparison, the marketplace reaches virtually everyone each day.

#### B. Economic Considerations

The proposed project can be justified on two different grounds. The first is the traditional test of the marketplace in which the financial analysis indicates that the revenues will be larger than costs. The revenues represent goods and services whose benefits to the economy will be at least equal to price. The second approach is cost effectiveness in which beneficial services will be provided to the economy at a substantially lower cost than public sector delivery currently costs.

Most of the project funds will be used for making loans to private companies. These loans will be made at less than commercial rates of interest, which are approximately 14 - 15 percent per annum in Pakistan. The borrowers expect to repay the loan and still make an acceptable return on their equity, investment of time and other inputs to the activity. Consumers will be free to buy the goods and services offered, and thus we will assume that the marginal utility from these expenditures is at least equal to the amount of money paid for them. The goods and services will be related to health, education and other social sector activities that are considered desirable. There will be little doubt that these are desirable investments because in many cases, the public sector is providing the services at lower cost to the consumers, and thus provision of them by the private sector on a profit-making basis guarantees the desirability of the activity.

Another category of activities under this project will be the provision of goods and services by private firms on a cost-reimbursable basis. These activities will be ones in which the revenues to be generated probably will be inadequate to cover costs. The justification for financing these types of activities is that the private sector can deliver the goods and services more efficiently than the public sector. The assessments that will be made of this type of activity will also look at the benefits rather than acting purely on a cost effectiveness basis.

The proposed project also will have significant macroeconomic effects because it will reduce pressure on the federal budget and thus will serve to reduce the budget deficit. Such a reduction will reduce inflationary pressure and leave additional funds in the private sector its use.

The above analysis does not indicate how the benefit-cost ratio will compare to other possible activities such as energy, agriculture, industry, etc. The justification is that this activity is economically feasible, will expand the role of the private sector, and will increase and improve the distribution of social sector goods and services that are woefully inadequate.

### C. Relevant Experience with Similar Projects

As stated in Section II, the concept of the CHIPS Project originated from the experience with the SMC Project. Both USAID and the GOP are very impressed with the implementing commercial firm's achievements in furthering the objective of wide contraceptive availability in Pakistan. The company involved with the SMC Project has clearly demonstrated the efficiency and cost-effectiveness of the commercial sector in making a social product more widely available.

NDFC and USAID examined the SMC experience as an example of how public resources were used to harness the strengths and skills of the private sector for a national development objective. The examination of the SMC model produced a modified concept of how public resources could be used to more widely tap the experience and abilities of commercial firms.

The knowledge NDFC and USAID acquired in the SMC Project helped to formulate the CHIPS concept. Market assessments undertaken in the SMC Project were used to make estimates of consumer demand and behavior. Similarly, during the SMC Project, the recruitment of a commercial firm to manage and market SMC products identified the proper means to approach and attract large companies to social marketing ventures. The SMC experience will be examined further during the preparation of the PP. In addition, the results of a commercial assessment funded by UNICEF of ORS production and distribution will be available for use in the design of the PP.

### D. Host Country Implementing Agency

Although commercial firms which receive financing under the project will undertake specific sub-project activities, the project will be implemented by NDFC. NDFC has had thirteen years of experience with the administration of loans to private and public corporations. NDFC already has the expertise to appraise the economic, financial and technical feasibility of eligible enterprises and to promote the objectives of the GOP.

The PP will contain a detailed analysis of NDFC's capabilities and how these capabilities will facilitate the goal and purpose of the project.

### E. AID Support Requirements

The proposed project will be managed by a Project Officer in the Office of Health, Population and Nutrition or in the Program Office. Because of the large role NDFC will play in this project no additional staff will be required for project implementation.

### F. Evaluation Considerations

The project will provide funds to evaluate the impact of the commercial private sector on the delivery of social sector services and/or goods. A combination of commercial assessments and consumer and market research analyses will be used to evaluate the performance of commercial firms within the social sector. These analyses will show to what extent the project has made an impact on developing access to social services and/or goods to previously unreached segments of the population.

NDFC will be evaluated by independent audits which will be periodically carried out, as well as by careful scrutiny of NDFC's records and reports.

The overall success of the project will be determined by the amount of project funds which are moved as well as by the number of new social goods and/or services which appear on the market. A complete evaluation design will be developed during the design of the PP.

G. Estimated Costs and Methods of Funding

| <u>Item</u>   | <u>Amount</u> | <u>Source</u> | <u>Management</u> |
|---|---------------|---------------|-------------------|
| Technical Assistance  |               |               |                   |
| -Short-term   | \$ 300,000    | USAID Grant   | USAID             |
| Training  |               |               |                   |
| -Short-term   | \$ 200,000    | USAID Grant   | USAID             |
| Commodities   | \$ 9,000,000  | USAID Grant   | NDFC              |
| Other Costs   |               |               |                   |
| -Market Assessments   | \$ 2,500,000  | USAID Grant   | NDFC              |
| -Financing Funds  | \$25,700,000  | USAID Grant   | NDFC              |
| -Staff Salaries of NDFC,<br>cost of office space,<br>communications, etc. | \$ 300,000    | USAID Grant   | NDFC              |
| -Contingencies  | \$ 1,000,000  | USAID Grant   | NDFC              |
| -Inflation  | \$ 1,000,000  | USAID Grant   | NDFC              |
| Project Total   | \$40,000,000  |               |                   |

Estimated Budget Expenditures  
( \$000)

| <u>Item</u>         | <u>1987</u> | <u>1988</u> | <u>1989</u> | <u>1990</u> | <u>1991</u> | <u>Total</u> |
|---------------------|-------------|-------------|-------------|-------------|-------------|--------------|
| STTA                | 60          | 70          | 60          | 50          | 60          | 300          |
| Short-term Training | 50          | 80          | 40          | 30          | 0           | 200          |
| Commodities         | 0           | 2,500       | 2,400       | 2,100       | 2,000       | 9,000        |
| Market Assessments  | 250         | 550         | 600         | 670         | 430         | 2,500        |
| Financing Funds     | 0           | 5,300       | 7,000       | 7,020       | 6,380       | 25,700       |
| Staff, Office Space | 150         | 150         | 0           | 0           | 0           | 300          |
| Contingencies       | 60          | 150         | 200         | 250         | 340         | 1,000        |
| Inflation           | 30          | 200         | 200         | 280         | 290         | 1,000        |
| Total               | 600         | 9,000       | 10,500      | 10,400      | 9,500       | 40,000       |

H. Design Strategy

The preparation of the PP will be a joint effort by USAID/Islamabad and NDFC. To assist in the design of the PP, additional information on financial ratios common in the commercial sector of Pakistan will be required. NDFC and USAID staff will solicit these and other data from a selection of large commercial firms operating in Pakistan.

Establishing criteria for defining the level of concessions required in financing commercial initiatives in the social sector will also require attention. A survey of commercial financing terms and, perhaps, some assistance from individuals with private banking experience may be required. The procedures for the financing of sub-projects will also have to be defined in

detail. Of course, the design of such procedures must include the disposition of loan revenues and returned principal.

Equally important to the project's design will be accounting and auditing requirements. To assist NDFC and USAID in this area, we propose to obtain the short-term services of an auditing firm with experience in commercial audits in South Asia.

The Mission intends to design the project especially adapted to the business environment of Pakistan and to the unique marketing approaches developed in South Asia to reach households with relatively low disposable income levels. Therefore, the design effort will also incorporate individuals with considerable marketing experience, especially with backgrounds in household consumer products.

I. Recommended Environmental Threshold Decision

The ANE/PD/ENV Coordinator has stated that the CHIPS Project is exempt from further environmental review under the "Categorical Exclusion" provisions of 22 CFR 216, "AID Environmental Procedures."

J. Gray Amendment Discussion

Opportunities for minority and women-owned firms to provide technical assistance appear to be scant at the PID stage. The design concept of the project relies on a highly skilled local Pakistan entity as the implementing organization. Only \$300,000 is foreseen for short term T.A., likely to be procured locally. Nine million dollars is currently planned for free world commodities procurements. As these commodities are identified, the Mission will try to assure that minority and women-owned manufacturers have a chance to compete or establish set-asides, provided that such firms can be identified and meet the required specifications. As procurement packages shape up it may be appropriate for minority or women-owned PSAs to participate.

K. Project and Programmatic Issues

1. Definition of Social Sector Objectives

NDFC has requested that criteria be developed for screening a potential sub-project activity for adherence to desired social sector objectives. Such a set of criteria would provide one standard for measuring the eligibility of such activities for funding as well. Presumably, these criteria could be prioritized and could be modified, if desired, at various phases throughout the life of the project.

During the development of the Project Paper, careful attention to the definition of these criteria must be made. These criteria will need to be established in conjunction with NDFC while taking into account long-term GOP development objectives and the potential of the commercial sector.

2. Pricing of Products

It is anticipated that the question of pricing any social good or service financed under the project may be an issue of design relevance. In the SMC Project, the GOP has demonstrated regular interest in having the consumer price of SMC products set at a level low enough to assure the widest

affordability among lower income groups. Similarly, the GOP currently maintains a carefully prescribed system of price controls for pharmaceuticals - in part, to increase the access of pharmaceuticals to poorer people.

USAID expects this interest in low prices, especially for social goods and services, to continue. Pricing may affect benefit incidence as noted in Section V. A. Political factors or non-market ceilings affecting prices may also affect the nature of the financing necessary to attract commercial firms to initiate activities under the project. Therefore, in the design of the PP, flexible financing terms, related to the pricing policies applicable to the good or service proposed, will be explored.

### 3. Obtaining an Appropriate Financing Mode

To make the proposed project successful, it is essential to define a financing mode through which AID can make funds available to NDFC and through NDFC to the commercial sector in an appropriate manner. There are three main factors that must be considered when determining what is an appropriate mode. First, there is the Mission's need to minimize its direct management role in the Project and to enhance swift disbursements. Second is the fact that NDFC is a mature, capable funding institution which has an established project-financing system. Lastly, the commercial sector necessarily operates in a flexible, autonomous decision-making environment conscious of the fact that "time is money." These qualities must be preserved if the strength of the commercial sector is to be fully utilized by the project.

Therefore, the Project must develop a financing mode that is responsive to these factors and yet also is acceptable to AID. The Mission strongly believes that the oversight and regulatory requirements common to standard AID, government-to-government, financing modes are ill-suited to a project like CHIPS.

Explicitly, project success depends on developing a funding mode that recognizes the categorical difference between the procedures required when AID contracts with a private sector organization and those which must be found if AID is to use private sector business as the engine of development. Commercial firms must be able to use funds flexibly to maximize efficiency in launching and sustaining the commercialization of a social service or product. We believe an ideal funding mode would be one that does not require NDFC and participating commercial firms to be burdened with the standard set of AID regulations and general provisions. Perhaps, one way to achieve this ideal would be to consider funds transferred to NDFC to actually be a disbursement -- thus addressing Mission concerns about funding pipelines as well as management demands. A critical PP design issue, therefore, will be the identification of such an appropriate financing mode.

**CHIPS PROJECT  
LOGICAL FRAMEWORK**

| NARRATIVE SUMMARY  | OBJECTIVELY VERIFIABLE INDICATORS   | MEANS OF VERIFICATION   | IMPORTANT ASSUMPTIONS  |
|--|---|---|--|
| <p>Program or Sector Goal: The broader objective to which this project contributes:</p> <p>Improve the quality of life of the people of Pakistan through the greater access to social services.</p> <p>A-1</p> | <p>Measures of Goal Achievements:</p> <ul style="list-style-type: none"> <li>- increase in P.Q.L.I.</li> <li>- reduction in disease and mortality.</li> <li>- increase in literacy levels</li> </ul> <p>A-2</p>   | <ul style="list-style-type: none"> <li>- GPO federal and provincial statistics.</li> <li>- Donor generated data.</li> </ul> <p>A-3</p>                                | <p>Assumptions for achieving goal targets:</p> <ul style="list-style-type: none"> <li>- Political stability is maintained.</li> <li>- GOP continues to place an emphasis on social sector development.</li> </ul> <p>A-4</p>   |
| <p>Project Purpose:</p> <p>To enhance the commercial sector's role in social development and demonstrate the cost-effectiveness of its contribution.</p> <p>B-1</p>  | <p>Conditions that will indicate purpose has been achieved, End of Project Status.</p> <ol style="list-style-type: none"> <li>1. Pakistani commercial firms which, for the first time, will successfully provide social services.</li> <li>2. Hitherto unreached segments of the population have access to quality and affordable social services.</li> <li>3. A proven mechanism and an institutional capacity within the GOP to cost effectively finance social sector development through commercial channels.</li> </ol> <p>B-2</p> | <ol style="list-style-type: none"> <li>1. Survey of commercial firms.</li> <li>2. Consumer and market research.</li> <li>3. Evaluation of NDFC.</li> </ol> <p>B-3</p> | <p>Assumptions for achieving purpose:</p> <ol style="list-style-type: none"> <li>1. Large commercial firms can reach a broad spectrum of Pakistan's population with social goods and services.</li> <li>2. GOP continues to support NDFC's mandate to finance private-sector activities.</li> </ol> <p>B-4</p> |

LOGICAL FRAMEWORK

| NARRATIVE SUMMARY  | OBJECTIVELY VERIFIABLE INDICATORS   | MEANS OF VERIFICATION  | IMPORTANT ASSUMPTIONS   |
|--|---|--|---|
| <p>Output:</p> <ol style="list-style-type: none"> <li>1. Market analyses of both commercial opportunities and viability of private sector activities in social services.</li> <li>2. CHIPS Management Cell created, staffed and functioning at NDFC.</li> <li>3. Concessional financing made to Commercial firms so that they may participate in new social sector endeavors.</li> <li>4. Social goods and services being distributed through commercial channels.</li> </ol> <p>C-1</p> | <p>Magnitude of Outputs:</p> <ol style="list-style-type: none"> <li>1. One social-sector finance cell established at NDFC.</li> <li>2. 15-20 market assessments completed.</li> <li>3. 15-25 commercial firm participating.</li> <li>4. 5-10 new social goods and/or services being distributed through commercial entities.</li> </ol> <p>C-2</p>  | <ol style="list-style-type: none"> <li>1. Market assessment reports.</li> <li>2. NDFC records/reports.</li> <li>3. Annual audit report.</li> <li>4. Minutes of board meetings.</li> <li>5. Records/reports of participating companies.</li> </ol> <p>C-3</p> | <p>Assumptions for achieving outputs:</p> <ol style="list-style-type: none"> <li>1. There is an unmet demand for social goods and services.</li> <li>2. Commercial firms can be attracted to undertake social sector-related activities.</li> <li>3. Sufficient profit margins can be maintained to retain the interest of commercial firms.</li> <li>4. NDFC's existing channels for financing commercial ventures can be successfully broadened to include the social sector.</li> <li>5. The GOP will allow sufficient implementation and autonomy to participating firms.</li> </ol> <p>C-4</p> |
| <p>Inputs:</p> <ol style="list-style-type: none"> <li>1. Funds for transferral to commercial firms.</li> <li>2. Local costs for fund management.</li> <li>3. Technical assistance for analyses, market assessments, monitoring and evaluation.</li> <li>4. Short-term training in financial services.</li> </ol> <p>D-1</p>  | <p>Implementation Target (Type and Quantity):</p> <ol style="list-style-type: none"> <li>1. \$25.7 million for financing.</li> <li>2. \$0.3 million for fund management.</li> <li>3. \$2.5 million for assessments.</li> <li>4. \$0.3 million for T.A.</li> <li>5. \$0.2 million for training.</li> <li>6. \$1.0 million for contingencies.</li> <li>7. \$9.0 million for commodities</li> </ol> <p>D-2</p> | <ol style="list-style-type: none"> <li>1. USAID records.</li> <li>2. NDFC records.</li> <li>3. Records of participating commercial firms.</li> </ol> <p>D-3</p>  | <p>Assumptions for providing inputs:</p> <ol style="list-style-type: none"> <li>1. Project design approval and agreement signed.</li> <li>2. Funds continue to be available as planned.</li> </ol> <p>D-4</p>   |



UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT  
MISSION TO PAKISTAN

Cable: USAIDPAK

HEADQUARTERS OFFICE  
ISLAMABAD

THE DIRECTOR

2 FEB 1987

Mr. Charles W. Greenleaf  
Assistant Administrator  
Bureau for Asia and Near East  
Agency for International Development  
Washington, D.C. 20523

Dear Charlie:

I am pleased to enclose the PID for the Commercial Humanitarian Initiatives in the Private Sector (CHIPS) Project and the PARD for the Special Development Fund (SDF) Program. These two documents represent the first of three or four social sector initiatives we are considering. The other two are still on the drawing board. One may be an initiative in primary education and the other a policy level performance fund. All four share a common objective: to align Pakistan's allocation of resources, both government and private, with the huge unmet demand for social services.

We are asking the Bureau to look at each as a discrete PID level proposal, but we are actively considering combining them into one large social sector initiative at the project paper stage, similar to the Agricultural Sector Support Program. There are both advantages and disadvantages to this approach, and we have not yet sorted out whether combining them is the optimum way to go. The principal advantage is the greater leverage inherent in a single activity commanding several hundred million dollars. The key to significant impact in the social sectors is a major reordering of priorities on the part of the Government of Pakistan. We might stand a better chance of facilitating policy reform with a big ticket activity. A second advantage would be the flexibility inherent in being able to treat transfers between the activities as mere budget realignment within a single activity. We could quickly move resources against a subsector activity where progress is being achieved, without the need to deobligate and reobligate. Similarly, we could move away from nonstarters and slow movers as soon as prudent management dictates, without the need for substantively unnecessary paperwork.

A major disadvantage is that a number of government agencies and approval points will have to be involved if the activities are folded together. This could well complicate, rather than simplify, the approval process on the GOP side.

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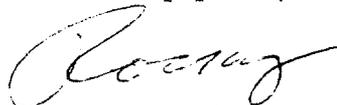
Combining the four activities into one program would be especially attractive to us if it resulted in a lighter management burden for the USAID Mission. Of course, we would have only one project paper or PAAD instead of four, but that one would be substantially more complicated than one representing a more traditional size and shape activity. Similarly, the analytical effort required would be the same whether we have one document or four. Also, it is not clear that the combination would have any significant effect on workload during implementation. The fact is, we would still be dealing with four discrete activities, each demanding a certain amount of attention.

These are the types of issues with which we will grapple as we proceed to the project paper or PAAD stage. The purpose in mentioning all this to you is to put the Bureau on notice that four PID level documents may result in either four or one PP level document, and to solicit guidance from the Bureau on this point.

Pakistan's social services sector has been badly neglected for a long time, and this is reflected in the low literacy rate and status of women, and relatively dormant state of NGOs in Pakistan. Whether we go with one activity, four, or some number in between, we want to maximize the beneficial impact of our resources on the sector without biting off more of a management workload than we can effectively handle.

I look forward to the Bureau's reaction to the enclosed documents, to the two that I expect to follow, and to your thoughts on how best to proceed to the PP and PAAD stage.

Sincerely yours,



Eugene S. Staples

Enclosure  
PID for CHIPS  
PARD for SDF

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