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INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

APPRAISAL OF THE
GUJRANWALA AND SIALKOT INDUSTRIAL ESTATES
WEST PAKISTAN

October 24, 1962

Department of Technical Operations
CURRENCY EQUIVALENTS

1 Pakistan Rupee = US$0.21
1 million Rupees = US$210,000
1 US$ = Rs 4.76
# APPRAISAL OF THE
GUJRANWALA AND SIALKOT INDUSTRIAL ESTATES
WEST PAKISTAN

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MAP
APPRaisal OF THE
GUJRANWALA AND SIALKOT INDUSTRIAL ESTATES
WEST PAKISTAN

SUMMARY AND CONCLUSIONS

i. This report is an appraisal of a project to establish two estates for primarily small industries at Gujranwala and Sialkot, two towns located in north-eastern West Pakistan, near Lahore, for which the Government of Pakistan has asked the International Development Association to provide financial assistance.

ii. The proposed estates would each be about 100 acres. Each would be equipped with utilities and provide accommodations for 300-350 small to medium-sized enterprises. The bulk of the capital expenditures on the estates would be recovered from the occupants. The occupants would be expected to pay for their own factory buildings and the machinery to be installed, but would be given long-term financing. They would be given advice on production techniques, product quality and standards, management, marketing, etc., and assistance in obtaining credit and raw materials and in marketing their products. The estates have been planned and are to be constructed by the West Pakistan Industrial Development Corporation (WPIDC), which is 100% owned by the Government of the Province of West Pakistan.

iii. The proposed estates are among the 26 small industries estates which the Government of Pakistan plans to set up as part of an ambitious program of assistance to small industries included in the Second Five Year Plan (1960-65). Small industries employ over 80% of the workers in industry and account for over 40% of Pakistan's industrial production.

iv. The bulk of the small industries in Pakistan are rural processing or cottage-type industries, but a sizeable portion manufacture items that are produced in highly mechanized establishments in more industrialized countries. The output of these enterprises has been expanding significantly since Partition (1947). Although most of them use little machinery, much of it obsolete, and inefficient production methods, there is reason to believe that with better facilities, technical assistance and access to credit, they could become more efficient and profitable. It is for these enterprises that the estates are intended.

v. The estates would provide factory space better suited for productive purposes than is now available. Applicants would be selected for growth potential and required to meet specified technical and financial standards to gain admission to the estates. For these reasons and because the occupants would be concentrated around centers of technical advice and assistance, the government believes that the estates would provide the most effective means to assist small enterprises capable of mechanization and modernization to achieve their potential.
vi. Because of the importance of selection and technical advice, WPIDC would require the assistance of foreign experts, and the proposed IDA credit would include funds for such experts. Foreign assistance is required also for the elaboration of the over-all program of assistance to small industries of which the estates' program forms a part and its proper coordination with the program for the over-all development of the country. Such assistance would be welcomed by the Pakistan authorities responsible for carrying out the Small Industries' Development Program. It is likely that the Ford Foundation which is providing assistance of this type in India will also provide it in Pakistan.

vii. Gujranwala and Sialkot where the proposed estates would be established are both thriving centers of small industry which have been expanding rapidly since Partition. Gujranwala has a heavy concentration of light engineering and metal working industries. Sialkot is virtually the sole producer of sports goods (90% of which are exported) and also produces cutlery, other metal products and light engineering products.

viii. The sites for the two proposed estates have been selected and about 100 acres have been bought both at Gujranwala and at Sialkot. Layout plans have been prepared and the development of the estates, namely the installation of basic facilities, has started. The rate at which the estates will be occupied cannot be predicted at present but it seems probable that it will take a number of years to fill them. However, if there is not enough demand from small industries within a reasonable period of time, WPIDC would admit more medium and large-scale enterprises than it now plans to.

ix. Capital requirements for the factory buildings and machinery which would account for about 90% of the total cannot be estimated reliably in the absence of information on the type of enterprises that would actually settle on the estates, the size of establishments they would wish to set up at the outset, the proportion that would be going enterprises and the amount of machinery such going enterprises would bring with them. It is estimated very roughly that total capital requirements for the two estates including service centers through which the technical assistance would be given would amount to around Rs 103 million (US$21.7 million).

x. The program must be regarded as experimental. Only one other country, India, has an estates' program with the same aims and the same scope as that planned by the Government of Pakistan and its program has not been operating long enough to show clearly whether the results sought can be achieved. However, there is a reasonable basis for expecting the experiment to be successful, and the success of small enterprises admitted to the estates should induce others to modernize and thus accelerate industrialization. For this reason, the project seems economically justifiable.
xi. The project is suitable for an IDA credit of $6.5 million equivalent of which $5.7 million would cover about one fourth of the presently estimated capital requirements of the project, and $0.8 million most of the cost of the foreign technical assistance. It is due to the tentative character of the capital requirements and the difficulty of determining over how long a period expenditures would be made that the proposed IDA credit would be limited to the indicated amount. However, at a later date, if additional funds are required and are justified, an additional credit could be considered.

xii. The Government of Pakistan would see to it that all additional funds, including working capital for the occupants, over and above what they themselves could provide, would be made available as required in order to complete the project.

xiii. Up to the amount of the credit, foreign exchange expenditures, including those for technical foreign assistance, would be reimbursed in full, plus such part of the local expenditures as would bring total disbursements up to 50% of $13.0 million, or twice the amount of the credit. Disbursements would not be dependent upon the sources of financing for the capital expenditures of the private enterprises, but the part of the credit made available to them would cover less than their estimated non-equity requirements under the project.

xiv. The proposed IDA credit would be granted to the Government of Pakistan on the usual IDA terms; it would pass on the proceeds of the credit to the Province of West Pakistan on the same terms. These transactions would be covered respectively by a Credit and a Project Agreement.

 xv. The Province of West Pakistan would pass on the credit amount to WPIDC; an estimated $1.2 million of the proceeds of the credit would be given as a grant to cover IDA's contribution to the costs of the technical assistance facilities and foreign experts connected with the project and the remaining $5.3 million in the form of a loan, bearing interest of 4 1/2% per year for a period of 25 years, including a grace period of 5 years.

xvi. WPIDC would use part of the $5.3 million portion of the credit towards its own expenditures incurred in the development of the two estates and the construction of a small number of factory buildings of occupants that do not choose to construct their own; the bulk would be channelled through the Industrial Development Bank of Pakistan (IDBP) to occupants of the estates for the construction of factory buildings and the purchase of machinery and equipment. Any loans to estate occupants would be made available for various periods of time at 7% to 7 1/2% interest per year.
1. The Government of Pakistan has requested a development credit from the International Development Association to cover part of the cost of establishing two industrial estates for small industries to be located at Gujranwala and Sialkot in West Pakistan. (See Map).

2. The estates would be developed and operated by the West Pakistan Industrial Development Corporation (WPIDC) whose present Small Industries Division was the former West Pakistan Small Industries Corporation. Basic facilities - roads, electricity, water supplies, sewerage, service facilities through which the technical assistance would be extended and certain common production facilities would be provided by WPIDC; it would also assist the occupants in obtaining credit and raw materials and in marketing their products.

3. Factory buildings would be constructed by the occupants or at their request by WPIDC. The occupants would in the majority of cases, purchase their own machinery and equipment.

4. The estates are one feature of a program of assistance to small industries in Pakistan's current Five Year Plan. The aim of the program is to improve the efficiency of small enterprises with a view to accelerating the process of industrialization and diffusing its benefits more broadly than would be possible through a program limited to promoting the development of larger scale enterprises.

5. The following appraisal of the project is based on information supplied by the former West Pakistan Small Industries Corporation, an investigation in the field carried out by members of the Association's staff in September/October 1961, and by recent discussions in Washington with a team of the West Pakistan Industrial Development Corporation. The mission also spent some time visiting small industries estates and technical assistance service centers in India, whose Government has for several years been carrying on a program similar in scope to that of the Government of Pakistan. The reorganization of the administrative structure of authorities responsible for the execution of the project and the need for more detailed preparation delayed for several months the completion of the appraisal.
II. DEFINITION AND CHARACTER OF SMALL INDUSTRIES

Definition and Eligibility for Admission to Estates

6. In West Pakistan "small industries" (i.e. the industries eligible for assistance under the small industries program) are defined as those which (a) employ manual labor but use no motive power, or (b) use motive power but employ no more than 20 workers or have fixed assets of no more than Rs 100,000 ($21,000 equivalent). This definition is narrower than the one used in East Pakistan where enterprises that use power and employ up to 50 workers and have fixed assets of up to Rs 250,000 ($52,500) are considered "small industries", or in India, where power-using enterprises with fixed assets of up to Rs 500,000 ($105,000) are so classed.

7. The West Pakistan definition seems unduly restrictive as a criterion for admission to the estates, since the aim is to admit only enterprises of at least minimum economic size. WPIDC has agreed, however, that it will not limit admission to the two estates to "small industries" as presently defined, and in fact hopes to attract larger enterprises; it would also make available on the estates all the services independent of the size of enterprises. WPIDC has already asked the Government to change its statute by empowering it to also include assistance to medium scale industries in its activities.

8. While the present West Pakistan definition of "small industries" is too restrictive to serve as an appropriate criterion for admission to the estates in one respect, it is too broad in other respects. Probably well over half of all "small industries" are rural agricultural processors (raw sugar makers, rice huskers, grain millers, etc.) and another sizeable fraction are cottage-type establishments (e.g. hand-loom weavers). Neither of those enterprises is expected to settle on the estates. Admission is expected to be limited to small enterprises which produce non-traditional items (e.g. light engineering products) by partially modern methods, operate mainly in and around towns and sell in fairly broad markets both at home and abroad. An exception to this rule would be made with a maximum of 50 very small enterprises which do not fit into any of the above categories. They will be primarily small repair establishments serving the other enterprises on the estates.

Available Data on Small Industries

9. Information about small industries in Pakistan is meager and unreliable and does not distinguish between cottage-type and other small industries. An attempt has been made by the Small Industries Divisions of the Industrial Development Corporations in both West and East Pakistan to collect information from all industrial enterprises on employment, value of assets, and volume and value of output and raw materials consumption. Formerly, such information had been supplied only by enterprises registering under the Factories Act; that Act applies to all enterprises using motive power and employing 20 or more persons, but it is believed that many enterprises required to register in fact have not done so.
10. The surveys are now being evaluated. However, it seems optimistic to expect that they will provide a complete and reliable picture of small industry in Pakistan, both because of the inadequacy of the accounts maintained and of the reluctance of small entrepreneurs to give information that might be passed on to the tax authorities and enable them to estimate more accurately the earnings and financial position of the small enterprises. Techniques of collecting reliable information will take some time to devise.

Role of Small Industries

11. From such information as is available, it is possible to draw certain conclusions as to the role played by small industries in the Pakistan economy. At the time of Partition in 1947 there was virtually no large scale industry in Pakistan. Industrial production, which it was estimated accounted for about 7% of gross national product, was accounted for mainly by cottage-type and other small industries. There has been a substantial expansion of medium and large scale industry since Partition. Industrial production now accounts for an estimated 14% of gross national product. Medium and large scale industry alone account for an estimated 8%. The share of small industry in gross national product has remained at about 6%, but since Pakistan's gross national product is estimated to have risen by 25% since Partition, this would imply that the output of small industry has risen by 25% in that period.

12. In the period since 1954, however, it is generally believed that there has been no increase in the output of small industry. But all small industries have not fared alike. The output of cottage-type industries, notably the hand-loom weaving industry, has declined, and this decline has apparently been offset by an increase in the output of other small industries. The West Pakistan Industrial Development Corporation estimates that there has been an eightfold increase in the number of small enterprises in general engineering in West Pakistan (estimated at about 10,000 at present), that the output of sports goods and surgical instruments, most of which are produced by small enterprises, has doubled and that the output of musical instruments, produced entirely by small enterprises, has increased three and a half times.

13. Although small industries account for less than half of total manufacturing output, it is estimated that they employ more than five times as many workers as large and medium scale industry (2.5 million as against about 400,000 employed in large and medium scale industry). The bulk of the employment in small industries is, of course, accounted for by cottage-type industries.

Character of Small Industries

14. Small industries produce a wide range of items, including many produced by large scale enterprises in more highly industrialized countries. Among others, they produce machines and machine parts, machine tools, electrical equipment and components, foundry components, rerolled steel products, other metal products, simple chemical products such as soap, paints and varnish, construction materials such as bricks, ceramics and glass, sports goods, etc. With the methods employed, a high degree of skill is required for the production of many of these items.
15. Cottage-type industries are characterized by primitive techniques and poor working conditions. But even the small industries using partially modern techniques are backward and labor under grave handicaps. In most of the towns where they operate, proper factory space is limited, and they usually set up shop in old residential buildings in slum areas. Their quarters are too crowded for efficient operation as well as poor from the point of view of health and safety. Their machinery is obsolete, and they find it difficult to obtain imported spare parts and raw materials. They know little about modern techniques or work organization, and tend, uneconomically, to produce all the parts of their final product instead of specializing. For all these reasons, their costs are high and the quality of their products is poor and uneven.

16. They have little access to credit facilities. Because of their poor debt repayment records, small enterprises are generally unable to borrow from commercial banks. In any case, the banks lend only at short term against pledged inventories and for a small percentage of the value of the security offered. Medium and long-term loans are available only at high interest rates from money lenders. Until recently, there was no organized system for the hire-purchase of machinery.

17. Lack of credit and of storage space forces most small enterprises to sell on a day-to-day basis. They have little information about markets. Few of them have adequate arrangements for independent marketing and they have so far developed virtually no marketing cooperatives. They are, therefore, heavily dependent upon middlemen who exploit their weaknesses.

18. Although these handicaps have not prevented small industry from expanding, enterprises producing for export, such as the sports goods producers in Sialkot, have been handicapped in world markets in recent years by the uneven and occasionally substandard quality of their products and their inadequate marketing arrangements.

Prospects

19. Small enterprises play an important role in all economies, even the most highly industrialized, and Pakistan's small industries will certainly continue to make a sizeable contribution to the national economy for many years to come. That contribution could be greatly increased if their efficiency were improved.

20. Improvement is likely to be slow unless the small industries receive substantial assistance. Perhaps the most important contribution would be on the technical level. Large-scale industry in Pakistan has found it necessary to import foreign know-how and employ foreign personnel to train its staff and supervise production. Small industries find it difficult to do either. Technical assistance would serve to bring them in contact with modern technology and management methods. To enable them to make use of more advanced techniques, however, small industries must have better quarters, easier access to credit and raw materials, assistance in marketing, etc. A decisive improvement in the position of small enterprises can be achieved only through a broad and coordinated program.
III. THE SMALL INDUSTRIES DEVELOPMENT PROGRAM IN THE SECOND FIVE YEAR PLAN

Program

21. The Government of Pakistan initiated a limited program for small industry in the First Five Year Plan (1956-60). The Plan provided Rs 86.5 million for public expenditures in small industry, to be backed up by private investment of Rs 118.2 million. Provisions for small industry were only 6% of the provisions for medium and large-scale industry (Rs 1,395 million) and total planned investment in small industry (Rs 204.7 million) was less than 7% of total planned investment in medium and large-scale industry (Rs 3,010 million). Actual public expenditure on small industry in the First Five Year Plan period fell far short of even the modest target; it is estimated to have amounted to no more than Rs 10-20 million.

22. The Second Five Year Plan includes a much more ambitious program for small industry. Provisions for public and semi-public expenditure in small industry have been increased almost sixfold to Rs 500 million2/ and it is envisaged that another Rs 250 million will be invested privately. Provisions for small industry are 55% of the Rs 910 million provided for medium and large-scale industry, as against 6% in the First Plan. Total planned investment in small industry (Rs 750 million) is 27% of total planned investment in medium and large-scale industry (Rs 3,565 million) as against 7% under the First Plan.3/

1/ The Second Plan introduces the concept of the semi-public sector, by which is meant Government-sponsored corporations drawing their finance from public and private sources, such as the Industrial Development Bank of Pakistan (IDBP).

2/ The Plan has been revised. The allocation for public and semipublic expenditure on small industry has been increased by about 25%. The revised Plan states that there have been no significant increases in physical targets, and attributes the increased allocation mainly to price increases, but in part also to revisions of earlier rough estimate of the physical volume of work involved in the various projects. No breakdown of the revised allocation by purpose has yet been published, and the breakdown given in paragraph 24 below is derived from the original Plan.

3/ Total planned investment in medium and large-scale industry has also been revised upward to Rs 4,508 million (about 25%). Although no revised figure for planned private investment in small industry is yet available, the relationship between total planned investment in small industry and in medium and large industry will probably not be changed significantly.
23. The aims of the program are set forth as follows:

"(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 speed of modernization by encouraging growth of small industries in rural areas generally, and in particular wherever markets and resources are available;

(vii) to bring about a closer relationship between the small and larger 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."

24. Of the total planned public and semi-public expenditures of Rs 500 million, Rs 273 million are to be spent in East Pakistan and Rs 227 million in West Pakistan. The breakdown by type of services is as follows:

<table>
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<tr>
<th>Number of Schemes</th>
<th>Total Cost (Rs Million)</th>
<th>Average Cost per Scheme (Rs Million)</th>
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<tr>
<td>Technical and Management Services</td>
<td>184</td>
<td>192</td>
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<tr>
<td>Production Facilities</td>
<td>116</td>
<td>61</td>
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<tr>
<td>of which, Industrial Estates</td>
<td>(24)</td>
<td>(36)</td>
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<tr>
<td>Supply and Marketing Services</td>
<td>103</td>
<td>133</td>
</tr>
<tr>
<td>Credit Services</td>
<td>60</td>
<td>-</td>
</tr>
<tr>
<td>Other</td>
<td>54</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>500</td>
<td>-</td>
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25. Most of the services would be available to medium-scale as well as small-scale industry.
26. The Government is expected to provide Rs 250 million, in part as a grant. Another Rs 160 million of the planned expenditures would be financed through a revolving fund to be raised by borrowing from private financial institutions as well as from the Government and foreign and aid agencies. These expenditures would include Rs 100 million of the Rs 133 million earmarked for supply and marketing services which are expected to be spent for the purchase of raw materials and equipment and the Rs 60 million earmarked for credit services. Information is not available as to the source of the remaining funds required. Foreign exchange requirements are estimated at about Rs 114 million out of the total of Rs 500 million.

27. To date, actual public and semi-public expenditures on small industry have been well below planned levels. In the first Plan year (1960-61) only 3% of the Rs 500 million provided for the five-year period was spent; although exact figures for the second year of the Plan are not available, it is known that the spending rate has been significantly increased. In West Pakistan (excluding Karachi), 18% of the total for the five-year period had been spent on June 30, 1962. (See Annex 2).

Administrative Organization

28. To carry out its ambitious program, the Government set up in each Province a Small Industries Corporation with primary responsibility for developing small industry, and established a Directorate-General, Small Industries (whose head was also Joint Secretary to the Government of Pakistan in the Ministry of Industries) to direct, coordinate and assist the Provincial Corporations. Under such an administrative system, the central government's tasks were to determine national policies, coordinate activities and fix priorities of development, arrange for foreign assistance, conduct and arrange for training program and for the dissemination of information. In addition the Central Government was responsible for the following commercial activities: credit operations (liaison with financial institutions and advice on credit operations), inter-provincial trade, international marketing, foreign and national exhibitions, standardization and quality controls, and assistance to the Provincial Corporations in the purchase of equipment, machinery and materials. In actual practice, the Central Government's tasks and responsibilities were carried out by the Directorate-General, Small Industries, and by the National Small Industries Corporation, Karachi (which in addition dealt with all activities concerning small industry in the Karachi area).

29. The Directorate took an active part in the preparation of: (a) the Second Five Year Plan for small industries, in cooperation with the Planning Commission, the Investment Promotion Bureau, other government agencies and technical experts; and (b) the Small Industries Investment Schedule which sets out the limits for investment in the various branches of industry. The National Small Industries Corporation, Karachi, was made responsible for promoting exports and assisting small enterprises producing for exports. It did not attempt to become an exporting agency itself, but its activities aimed at the establishment of export cooperatives and of initial contacts between Pakistani manufacturers and foreign buyers.
30. The administrative set-up was recently reorganized. On August 15, 1962, the West Pakistan Industrial Development Corporation (WPIDC) took over the staff, assets and liabilities of the West Pakistan Small Industries Corporation (WPSIC); the National Small Industries Corporation, Karachi, had similarly been transferred to WPIDC on June 4, 1962. WPIDC was itself established on June 4, 1962, as a successor (for the Province of West Pakistan only) to the dissolved Pakistan Industrial Development Corporation; it has an authorized share capital of Rs 10 million, of which Rs 4.5 million fully paid by the Government of the Province of West Pakistan. The Directorate-General, Small Industries, was abolished; in the new administrative set-up, the Central Government's responsibilities with respect to small industries will be exercised by the Planning Cell within the Ministry of Industry and the Department of Trade Promotion within the Ministry of Commerce (export promotion activities).

31. These organizational changes were undertaken within the framework of the general policy of decentralization carried out under the new Constitution which came into effect on June 8, 1962. It is questionable whether the Planning Cell of the Central Government will be in a position to provide adequate over-all planning for small industries, and gather the information necessary for such planning. When the mission was in Pakistan in October 1961, it felt that the staff of the Directorate-General needed to be strengthened and assisted by foreign experts to collect this information and elaborate its plans. It is too early to pass judgment on the soundness of the recent reorganization.

The Small Industries Division of WPIDC

32. The West Pakistan Small Industries Corporation (WPSIC) has been transferred as a whole, and now forms the "Small Industries Division of WPIDC", which will construct and operate the proposed Project. It is hoped that under an experienced organization the efficiency of the Small Industries Division will increase. The Chairman and the Chief Development Officer of the former WPSIC were both competent men, but were hampered by little experience in the field, and by an inexperienced staff. Under the new set-up, the "Small Industries Division" will be able to use the personnel of other Divisions of WPIDC. This should prove very helpful, particularly in the technical field, since WPIDC has a staff of competent engineers. However, up to now, WPIDC has dealt only with large and medium-scale industries, and the Corporation needs the assistance of foreign experts on small industries.

33. As a successor to WPSIC, WPIDC is responsible for planning and carrying out programs for small industry, including industrial estates, in the West Wing. Its "Small Industries Division" has its headquarters at Lahore, and six regional offices at Peshawar, Rawalpindi, Lahore, Hyderabad, Quetta and Karachi. It has a professional staff of 93, and plans to expand it to nearly 200 as its activities grow.
Powers

34. With respect to small industries, WPIJC inherited the powers of the former WPSIC. It has therefore the authority, among other things to purchase and distribute to Small Industries raw materials, machinery and spare parts; to arrange for the marketing of their products and to maintain depots for the purchase of these products; and to make or guarantee loans to such industries.

35. The authority of the former WPSIC to make or guarantee loans (including loans granted in connection with the hire purchase of buildings, machinery and equipment) was limited in two respects by its ordinance. Unless specifically authorized by the government, WPSIC had to limit its loans and guarantees to any individual to a total of Rs 50,000 and to any other type of borrower to a total of Rs 100,000. These limits could be lifted by the Government, but only to Rs 100,000 and Rs 200,000 respectively. Since WPSIC was not originally expected to make or guarantee loans on a large scale, its Ordinance also required it to limit its loans, guarantees and subscriptions to the capital of subsidiary companies or corporations to an aggregate amount not exceeding 7½% of its paid-up capital (which was Rs 0.51 million). On the corporation's recommendation, the limit could be lifted to 15% by the government. Towards the end of 1961, WPSIC requested the government to amend the articles of its ordinance dealing with these limits on loans and guarantees; although the legislation was not formally amended as requested, an executive order of the government gave permission to WPSIC to disregard the limits.

36. It is at present not clear whether the limits apply, and if so to what extent, to the credit operations of WPIJC with respect to Small Industries. Moreover, WPIJC took over the powers and rights of the former Pakistan Industrial Development Corporation, which had no power to make or guarantee loans. The matter needs further clarification; one of the conditions of effectiveness of the IDA credit would be the enactment of legislation granting to WPIJC adequate powers to make or guarantee loans.

Activities - 1960-61 and 1961-62

37. Schemes approved by the Government, budget provisions and amounts actually spent in 1960-61 and 1961-62 are shown in Annex 2. In 1960-61, budget provisions amounted to Rs 5.75 million, but since the former WPSIC was established only slightly before the beginning of the Plan Period (July 1960), its actual expenditures amounted to only Rs 1.05 million. Of this amount, Rs 0.93 million was spent for projects prepared and sponsored by the Director of Industries which transferred responsibilities for them to WPSIC on January 1, 1961. Expenditures on schemes developed by the Corporation itself amounted to only Rs 0.12 million.
38. In 1961-62, budget provisions amounted to Rs 9.56 million and actual expenditures reached Rs 8.00 million. About 60% of the expenditures were for the purchase of the land for seven industrial estates at Peshawar, Gujrat, Gujranwala, Sialkot, Larkana, Sukkur and Quetta, and the initial development of four of them (Peshawar, Gujrat, Gujranwala and Sialkot). For 1962-1963, the Government has sanctioned expenditures of Rs 10.53 million, about half of which also for production facilities.

39. In addition to the Government-approved schemes, WFSIC carried on commercial activities. It entered into an agreement with the Habib Bank Limited (the largest private commercial bank in Pakistan) under which the latter arranged for and financed the import of raw materials on behalf of the Corporation. Up to December 31, 1961 raw materials valued at Rs 4.7 million were imported under this agreement; they were resold for Rs 5.5 million, leaving to the Corporation a net profit of Rs 430 thousand.
IV. THE INDUSTRIAL ESTATES PROGRAM

40. Of the Rs 500 million earmarked for public and semi-public expenditures on small industries in the Second Five Year Plan, Rs 36 million ($77.6 million equivalent) or 7% of the total were allocated for 24 industrial estates. Foreign exchange requirements for these industrial estates (excluding investments to be made by their occupants which are included in planned private expenditures) are estimated at Rs 4.8 million ($11.0 million). Six industrial estates, three in each wing of the country, were to have been set up in the first year of the Plan (1960-1961) but the scheduled start was delayed because preparatory work took more time than was expected and because adequate foreign exchange which is required mainly for machinery was not available (another factor for the delay in the case of West Pakistan is the fact that WFSIC was established only shortly before the beginning of the Plan period).

41. By the end of the first year of the Plan, however, work had been begun on five estates, one in West Pakistan (Gujrat) and four in East Pakistan (Comilla, Barisal, Rajshahi and Pabna). In October 1961, when the mission was in Pakistan, plans for four more estates in the West wing (Gujranwala, Sialkot, Bahawalpur and Sukkur) and eight more in the East wing (Dinajpur, Feni, Jessore, Rangpur, Sylhet, Chandpur, Cox's Bazaar and Kushtia) had either been approved by the Government or were being considered by it. In addition, three more estates in West Pakistan and four more in East Pakistan were under active consideration. At present development work has started on seven estates in West Pakistan, and the land for the remaining estate included in the program has been bought. In East Pakistan two more estates are under consideration.

42. The small industries estates that it is planned to establish in Pakistan are larger on the average than those in India. This should result in lower overheads and make it possible to operate without granting subsidies or with smaller subsidies than are granted in India.

43. Revised but still rather rough estimates indicate that the total cost of establishing all the estates, in the sizes now contemplated, might be more than twice the original allocation of Rs 36 million. (See Annex 3). However, it seems unlikely that the estates could be fully developed and occupied within the present Plan period. Moreover, part of the allocation for other production facilities could be used for industrial estates.

44. Besides the 24 estates included in the program, two small estates for artisans have been constructed, one near Karachi and the other near Lahore. Funds for the construction of these estates would come from sources other than the Rs 36 million provided for the 24 estates.

45. Responsibility for the development and operation of the estates
rests with the Small Industries Divisions of the Provincial Industrial Development Corporation (See Annex 4). Preliminary plans developed by the Central Government, still subject to revision, envisages that three-quarters of the cost of developing the estates would be covered initially by loans from the Central Government to the Provincial Governments, and that the latter would cover the balance. However, all expenditures, except those for planning (which would be covered by a grant from the Central Government) would be recovered from the occupants of the estates over periods varying with their ability to pay, but not exceeding 20 years in the case of land and buildings and 30 years in the case of basic facilities. If factory buildings were made available on a subsidized basis, the cost of the subsidy would be shared equally by the Central and Provincial Governments. The cost of operating the estates and providing general services would be covered by a charge levied on the occupants by the Estate Authorities.

46. The Central Government's directives lay particular stress on the importance of economical design and construction.

47. The Provincial Industrial Development Corporations have engaged engineering consultants to assist in the physical planning and development of the estates.
V. THE PROPOSED ESTATES AT GUJRANWALA AND SIALKOT

GUJRANWALA

a. Characteristics of the Town

40. Gujranwala, which is located about 40 miles northeast of Lahore on the Pakistan National Highway to Rawalpindi, is one of the leading industrial towns in West Pakistan. It has a population of about 200,000 or about two thirds more than in 1951, when it was about 120,000. It has an area of about 4,000 acres and the highest population density in Pakistan (33,000 per square mile).

49. Gujranwala is one of a group of towns noted for skilled craftsmanship. Nizamabad, about 20 miles away, is a cutlery and small tool center. Sialkot, about 30 miles away, specializes in sports goods and surgical instruments which have an international reputation. Gujranwala itself was an important center for the production of utensils (sold in Afghanistan and throughout the Middle East as well as in India), hardware, metal goods and textiles long before Partition, and is today the leading producer of light engineering products and the second most important center of hand-loom weaving and other small textile industries in Pakistan.

50. Most of the industrial activity in Gujranwala is carried on by small enterprises (defined here as those employing fewer than 50 workers). There are only ten enterprises in the Gujranwala district clearly identifiable as medium or large scale (the most important of which are a strawboard plant and a sugar mill), although there may be a few additional enterprises employing slightly over 50 workers. On the other hand, there are about 3,100 small industries employing about 57,000 workers; two thirds of these enterprises employ fewer than 20 workers each.

51. Roughly 70% of all Gujranwala's small enterprises are in the textile industry; a substantial proportion are hand-loom weaving establishments, some of them very small, which are not expected to settle on the estates. The balance are distributed among 80 different industries, with a heavy concentration in metal working and light engineering. Gujranwala has a sizeable output not only of utensils, hardware, cutlery and other metal products but of agricultural machinery and implements, textile machinery and parts, electrical equipment and parts (transformers, motors, electric fans, light fittings, etc.) small machine tools, etc. Some of these industries are new, notably electrical equipment. All of them have expanded substantially since Partition.

52. There is an ample supply of skilled labor in all the engineering crafts (molding, machine fitting, electroplating, forging, etc.) in Gujranwala and the surrounding villages.
Information about the output of small enterprises in Gujranwala is very limited. However, a survey conducted by WPSIC of 346 enterprises (not including any in textiles) employing about 3,500 workers in all showed that they had a total output in 1960 of about Rs 17.6 million ($3.7 million) or about $10,700 per unit on the average.

Most of the small industrial enterprises in Gujranwala operate in tiny crowded shops, although a number of the new medium-sized enterprises (e.g. those making fine electrical goods) which generally use more machinery occupy larger and better laid out quarters. Shops are scattered throughout the town, for the most part in former dwelling units ill suited for their present purpose. Little machinery, most of it obsolete, is used; work is organized poorly and techniques are inefficient. Costs are high and the quality of the products uneven. At the same time, the workers show an impressive degree of skill and ingenuity, and the enterprise of the small industrialists has been demonstrated by their willingness and ability to take advantage of the opportunities for expansion.

Site of the Estate

A good site has been chosen for the Gujranwala estate on the National Highway from Lahore to Rawalpindi, less than half a mile from the Gujranwala railway station and goods yard. The site is located about one mile north of the present but rapidly expanding town limits in an area reserved for industry, adjacent to a new model town being developed by the Gujranwala Improvement Trust. The site of about 100 acres has already been purchased. WPIDC intends to acquire first refusal rights on land adjacent to the estate as well as the right to be consulted on the establishment of any industrial plant on this land.

The site is on relatively high land, not subject to normal floods; it is virtually flat and does not present any serious drainage problems. There is abundant water at about 300 feet below ground level. An 11KV transmission line runs along the edge of the site and the Water and Power Development Authority (WAPDA) has indicated its willingness to erect a substation and to supply all the power required; maximum requirements are not expected to exceed 6,000 KW. The sewerage system of the estate will be linked to the outfall sewer of the model town adjacent to the estate, which will use the disposal works being constructed by the Gujranwala Improvement Trust. The only disadvantage of the site is an irrigation canal which runs across the estate and which WPIDC intends to bridge at appropriate points.

Factory Plots and Buildings

WPIDC's plans envisage the division of the estate into 305 factory plots distributed by size as follows:
In addition, the final layout plan provides for the construction by WPIDC of 50 very small industrial units (artisans' workshops), 600 sq. ft each. These very small enterprises are to benefit from their closeness to the other estate enterprises and will afford them maintenance and repair facilities.

58. There are to be a number of community buildings, including an administration building, a post office, banks, a fire-fighting station, a dispensary, a canteen and a cooperative store as well as a residence for the manager of the estate, a club and a guest house. In addition, there would be a Light Engineering Service Center to provide technical and managerial assistance and a raw material depot. A plot has been set aside for a mosque to be paid for by contributions from the occupants of the estate.

59. The planning of the estate was satisfactorily done by WPIDC civil engineering consultants (Republic Engineering Corporation, Lahore), and in the final layout plan certain suggestions which the mission made in the interest of economy were taken into account.

60. Since it may take several years before all factory plots on the estate are taken up, the mission suggested that the development of the estate should proceed in accordance with actual demand for the plots. The Pakistani authorities have, however, decided to develop the estate in one step claiming that development costs will thus be lower, due to economies of scale and the possibility of price increases in the coming years. The needed flexibility in plot sizes in accordance with actual demand should not seriously be affected, since to a certain extent they can still be rearranged.

61. Most of the contracts for the estate development and the community buildings have already been awarded and construction work has started. The development of the estate is expected to be completed by March 1963.

SIALKOT

a. Characteristics of the Town

62. Sialkot, which is 33 miles northeast of Gujranwala, has a population of about 170,000 in an area about as large as that of Gujranwala and, like that town, has been expanding rapidly. It, too, produces items requiring skilled craftsmanship.
63. Sialkot’s small industries generally use less machinery and employ more workers than Gujranwala’s. The number of small industries (i.e., those employing fewer than 50 workers) is estimated at 5,800 and their total employment at 63,500. As in Gujranwala, the vast majority of the small enterprises (78%) are in textiles; a substantial proportion are small handweavers, and average employment in textile enterprises is only five. The remaining enterprises are distributed among a large number of industries; the sports goods industry is by far the most important, with some 800 enterprises and some 25,000 workers.

64. A sample survey conducted by WPSIC among 344 enterprises (exclusive of textiles) showed that they had an average output in 1960 of Rs 27,800 ($5,840), a little over half the average output of the 345 firms surveyed in Gujranwala. The difference in output is probably related to the difference in degree of mechanization. Apart from this difference, Sialkot’s small industries resemble Gujranwala’s and share their problems.

65. Although Sialkot’s industries have, like Gujranwala’s, expanded substantially since Partition, its important sports goods industry has been experiencing difficulties since 1957. Its problems are discussed in greater detail below (see paras 7b to 74).

b. Site of the Estate

66. A tract of land of 100 acres has been acquired for the Sialkot estate. It is less than one mile west of the town on a good road and close to the railway line at Wazirabad. The site is level and not subject to flooding. There is abundant good water available at a depth of 300 feet and there are good power connections. WAPDA would be responsible for supplying electricity to the occupants of the estate and does not foresee any difficulty in meeting their requirements.

c. Factory Plots

67. The final layout plan prepared by WPIDC’s consultants calls for division of the 100 acres into 330 factory plots distributed by size as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Area per Plot (sq. ft.)</th>
<th>Number of Plots</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>18,000</td>
<td>71</td>
</tr>
<tr>
<td>B</td>
<td>10,000</td>
<td>95</td>
</tr>
<tr>
<td>C</td>
<td>5,000</td>
<td>164</td>
</tr>
<tr>
<td></td>
<td></td>
<td>330</td>
</tr>
</tbody>
</table>
As in the case of Gujranwala, WPIDC will also construct 50 artisans' workshops for very small industries on plots of 1,200 square feet. Construction work has just started, and the development of the estate is expected to be completed by June 1963.

Market Prospects

68. No detailed studies have been made of the market prospects for the scores of products manufactured in sizeable quantity in and around Gujranwala and Sialkot and most likely to be produced by enterprises on the estates. However, such information as the mission obtained indicated that, with certain exceptions noted below, demand for these products, mostly domestic, is rising rapidly. Unless there is undue expansion in certain lines - which WPIDC is expected to guard against - the enterprises on the estates should have no marketing difficulties, especially because they would, if the program of technical assistance is successful, become relatively low-cost and high-quality producers.

69. The exceptions are hand-woven cloth and sports goods. Pakistan's hand-loom weaving industry is being squeezed by the rapidly expanding mill textile industry, although demand for hand-woven cloth is not declining as rapidly as was feared. However, the problems of the hand-loom weaving industry would not concern the estates, because WPIDC does not intend to admit hand-loom weavers.

70. A problem is presented, however, by the sports goods industry which is expected to be heavily represented on the Sialkot estate. Pakistan's sports goods industry, which is concentrated in Sialkot, exports nine tenths of its output. The industry experienced a boom after devaluation in August 1955; from about Rs 5-6 million exports rose to Rs 13 million in 1957-58. From that peak level, however, exports fell to about Rs 11.0 million in 1959-60. It was only in the past two years that exports increased again to around Rs 13.0 million, in part undoubtedly as the result of the industry's realization that price cutting as practiced in the past few years was not the answer to its problems and the Government's introduction of minimum prices. Despite the recent increase in exports, there is no question that the competitive position of this significant export industry has weakened.

71. Sialkot produces all kinds of sports goods - tennis and badminton rackets, cricket bats, hockey sticks, cricket and soccer balls, ordinary rubber balls, leather gloves, chest and leg protectors, etc. - which compete in foreign markets with the products of India, Japan and mainland China, as well as with those of the importing countries. Pakistan's prices are competitive with those of other Asian countries and below those of U.S. and Western European manufacturers. The inability of its producers to go
on expanding their exports or even to maintain the level they had reached is due to the uneven and not infrequent substandard quality of their goods. Price cutting has not enabled them to sustain their competitive position against producers of standard quality items, even at higher prices.

72. The problems of the industry were discussed with Sialkot manufacturers and exporters, sports goods exporters in Karachi, WPIDC and the Provincial and Central Governments. The industry attributes its recent difficulties in large part to a deterioration in quality in the last few years due mainly to price cutting, but in part also to the industry's inability to get adequate supplies of certain imported raw materials needed for high quality products (e.g. wood for rackets). But the problem is more basic. Without machines (and the industry is relatively unmechanized) it is hard to achieve standard quality; the careful handwork required is difficult to obtain from the homeworkers (many of them children) who form a large fraction of the labor force. The Government is aware of the importance of conformity to standards, but many of the sports goods manufacturers, particularly the smaller ones, are not; they include substandard items in shipments for which higher standards were specified.

73. To solve its problems, the industry must be helped to mechanize, improve its techniques and product quality and learn how to conform strictly to quality specifications. This is the type of assistance that can be provided most effectively through service centers set up in connection with the estates. In the meantime, however, certain steps about to be taken, may enable the industry to hold its own and possibly recover some of the ground it has lost. In addition to the setting of minimum prices, the Government has recently established a system of strict control of raw material standards, and will introduce a compulsory inspection system for exports, if the industry does not set up a voluntary inspection system of its own.

74. On the marketing side, the industry itself has plans. The Sialkot Sports Goods Cooperative, with about 190 members, a little less than one quarter of all the sports goods producers in Sialkot, which now imports raw wood, seasons it and does some preliminary processing for its members, has established a subsidiary to undertake marketing. It recently asked the Pakistan Government for a foreign exchange grant of Rs. 500,000 ($105,000 equivalent) to enable it to open sales offices in London, New York and Singapore. The London office has already been opened.

Settlement on the Estates

75. Until a substantial number of small enterprises have made formal application and been definitely approved for admission to the estates, there is no basis for estimating how long it is likely to take to fill
them, what types of enterprises are likely to settle on them, the respective proportions of new and going concerns, etc. At this point, it is possible only to comment on the assumptions underlying WPIDC's development plans and estimates. At Sialkot, no formal applications for admission have yet been submitted. At Gujranwala, information was made public at the end of October 1961 about prospective charges, other conditions of occupancy and services to be supplied, and applications were solicited. One hundred and forty-three formal applications have by now been submitted. However, there is no way of telling whether this first batch includes the whole backlog of interested concerns that had been waiting for an opportunity to make application or is the beginning of a steady stream. Moreover, the first applications, which have been transmitted to the Bank by WPIDC, do not give enough information for a judgment as to what proportion of the applicants are likely to prove suitable occupants.

76. In attempting to estimate the rate at which the estates are likely to be filled, however, it must be borne in mind that present rentals for factory space in and around Gujranwala are in many cases well below the proposed charges for an equivalent amount of space on the estates. On the other hand, many of the small industrialists with whom the mission discussed the estates attached considerable importance to the fact that the shops on the estates would be more suitable for productive purposes than those now available, that there would be room for expansion, that technical and managerial assistance would be provided, and that the estate occupants would receive priority for credit, raw materials, etc. On balance, however, it seems prudent to assume that it may take several years to fill the estates.

77. WPIDC has assumed that as many as 70% of the enterprises settling at Gujranwala would manufacture parts or accessories for mechanically propelled vehicles (scooters, rickshaws, three-wheeled cars, etc.), agricultural and textile machinery, refrigeration equipment, etc. Such arrangements have proved economic in more industrialized countries, but have not yet been developed in India or Pakistan mainly because small enterprises in these countries have not yet achieved the habits and practices—uniformity in quality, adherence to delivery dates—required. It is hardly likely that several hundred small firms at Gujranwala can find markets for parts unless some medium or large-scale enterprises settle there and contract firmly for their production.

78. WPIDC has received inquiries, but no commitments, from foreign firms about the possibility of setting up assembly plants near Gujranwala and arranging for parts production with its small enterprises. WPIDC would be willing to let such enterprises settle on the estates themselves. It would undoubtedly be desirable to have medium or large-scale enterprises on the estates or near them. But even if arrangements can be worked out it will take time. At least for several years, therefore, it would not be prudent to expect a large-scale development of this type.
79. WPIDC has also assumed that 70% of the enterprises settling at Gujranwala would be going concerns, operating mainly in and around the town. However, about half of the 118 first applications came from persons, several from as far away as Lahore, planning to set up new enterprises. In our estimates this has been assumed to be the characteristic distribution, which should result in increasing financial requirements since existing enterprises are expected to bring along some of their machinery.

80. Of the first 118 applications, only about 30 state complete investment figures. Therefore, not too much weight should be applied to the estimates, but nevertheless some interesting data can be drawn from them. Both at Gujranwala (and at Sialkot, where informal inquiries have been made) the percentage of the applicants that requested large plots (18,000 sq. ft.) was considerably higher than originally assumed; this change has been incorporated into WPIDC's revised layout plans. On the other hand, at Gujranwala, the estimates of building costs per sq. ft. are only about half of the reasonable estimates of the cost of constructing to the standards required by the building by-laws for the estate. Awareness of financial realities may lead to a scaling down of space requirements or, very possibly, to a withdrawal of applications.

Criteria for the Selection of Occupants of the Estates

81. The Second Five Year Plan directs the Small Industries Corporations to give priority to industries:

a) required to support agriculture and increase the productivity of labor in rural areas;

b) processing agricultural products and other local raw materials;

c) producing essential consumer and producer goods;

d) required for the development of educational, health and transport services;

e) in light engineering and services;

f) in the traditional arts and crafts; and

g) producing for export.

82. In addition, WPIDC plans to apply special criteria for admission to the estates: size, willingness and ability to mechanize and modernize, market prospects, and ability to undertake the financial obligations.
required to permit establishment on a sound technical basis. Only enter-
prises of a minimum economic size would be admitted. Priority would be
given to firms that have made some progress toward modernization and are
willing and able to mechanize, improve their methods of operation, working
conditions, and product standards. WPIDC recognizes that unless the small
industries settling on the estates are large enough to operate on a sound
basis and are run by men willing to take advantage of the assistance pro-
vided, the estates will not serve their major function which is to promote
the development of sound and efficient industry.

83. In general, new enterprises settling on the estates would be ex-
pected to be fairly well mechanized. Existing enterprises moving to the
estates would probably be permitted to mechanize gradually in order to
minimize technological unemployment. Mechanization would be insisted upon,
however, even at the expense of some technological unemployment, since
there is reason to believe that any reduction in demand for labor due to
mechanization would be offset by the increased demand resulting from the
growth of the small industries on the estates.

84. The market prospects of each applicant would be appraised, taking
account of the potential increase in the output of his products likely to
result from increased mechanization in the industry and the entrance of
new enterprises. To the extent possible, priority would be given to enter-
prises producing items for export or substitutable for imports.

85. Finally, estimates would be made of the amount each applicant
would have to borrow for the building, machinery and working capital re-
quired for efficient operation and of his ability to service and repay these
loans. Preference would be given to those enterprises that could cover the
largest percentages of their financial requirements from their own resources.

86. The only enterprises barred from the estates would be those likely
to create nuisance through excessive noise, fumes, etc., and those being
fully unmechanized.

Screening Procedures

87. WPIDC's responsibility for selecting suitable occupants for the
estates would not be limited to making or arranging for personal, techni-
cal, financial and market appraisals of applicants for admission. Many
applicants who might prove suitable occupants would be unable by themselves
to select the proper machinery and equipment, plan methods of production,
or estimate their prospective production costs and general financial pros-
spects. Provision must be made not only for the assessment of plans but
for assistance to applicants in the formulation of plans. The task will
require tact and persuasiveness, for a large number of small industrialists
are not aware that they require assistance. WPIDC's Small Industries Div-
ision does not yet have the staff to prepare projects adequately or to make
satisfactory technical and market appraisals, although WPIDC's experience in
the establishment of large enterprises will certainly be helpful also in
the appraisal of smaller enterprises. For some time to come, it would
require the assistance of foreign experts if these tasks are to be perform-
ed satisfactorily.

88. WPIDC does not expect to make financial appraisals itself, but inste-
stead to rely on financial institutions. To the extent possible, the
assistance of commercial banks would be sought. It is expected, however,
that their activities would be limited to assessing the credit records of
existing enterprises. They have neither the facilities nor an interest in
preparing the estimates of financial prospects that are required to deter-
mine safe limits for loans to existing as well as new enterprises.

The bulk of the responsibility for financial appraisals is expected to be
borne by the Industrial Development Bank of Pakistan (IDBP), which was or-
organized in July 1961 as the successor to the Pakistan Industrial Finance
Corporation (PIFCO) with particular responsibility for assisting small and
medium-sized industry (See Annex 5). IDBP intends to operate along similar
lines as the Pakistan Industrial Credit and Investment Corporation (PICIC)
whose particular responsibility is the financing of relatively large enter-
prises with substantial foreign exchange requirements.

89. Although IDBP is already making the kind of appraisals which would
be required in connection with the project, it is only now building up its
staff to meet its new and increased requirements. Financial appraisals of
small enterprises are likely in any case to be difficult because of the
inadequacy of their accounting systems. In the next few years, therefore,
WPIDC would probably find it useful to have a foreign industrial engineer
with experience in financial analysis to advise it on financial appraisals.
Eventually, it is hoped that IDBP, assisted by the commercial banks, could
take over full responsibility.

90. The procedures to be followed in the preliminary selection of ap-
plicants, the development of their projects and the final approval of ap-
plicants for admission are expected to be as follows. When first making
formal applications, applicants would be asked to supply certain basic
information which would be outlined on a simple questionnaire. These ini-
tial applications would be reviewed by a screening committee consisting of
WPIDC officers, WPIDC's civil engineering consultants, and its foreign
industrial advisors, and a representative of IDBP, possibly with the help of
a representative of a commercial bank.

91. Applicants who passed the first screening would be assisted to de-
velop detailed technical and financial programs by the preliminary screen-
ing committee. Their financial programs would include estimates of their
financial requirements for operation on a technically sound basis, the
amounts they would have to borrow, and their prospective earnings. From
these estimates it could be determined whether they could safely borrow as much as it is estimated they would need. The preparation of these technical and financial programs is expected to take from three to six months.

92. To the extent possible and in particular for questions of highly specialized technical nature, WPIDC will also seek the advice from the AID-financed Pakistan Industrial Technical Assistance Center (PITAC), Lahore, which specializes in light engineering industries. So far the center has concentrated its technical assistance to medium and large industries and to existing enterprises. If this center's services could be used as needed they would be a good complement to the skills WPIDC would have at its avail.

93. Applicants who could work out technically and financially sound projects would then submit them to a final Allotment Committee consisting of the estate manager, two additional WPIDC officers, two industrialists operating in the branch of industry in which the applicant proposed to operate and the District Commissioner who would act as chairman. Decisions of this committee could be appealed to the Board of Directors of WPIDC whose decision would be final.

Assistance to Estate Occupants

94. The heart of the small industries estates program is technical assistance. Besides aid within the screening procedures described above the occupants of the proposed estates would need continued advice and assistance on technical and managerial matters to become efficient producers. The proposed project includes facilities and personnel to provide such assistance.

95. At the very outset, applicants admitted to the estates who chose to construct their own factory buildings instead of having them built by WPIDC, would be able to obtain technical advice and assistance from WPIDC's civil engineering consultants who are responsible for planning and supervising the development of the estates (constructing earthworks, roads, waterworks, sewage disposal facilities, etc.).

96. For enterprises settled on the estates, WPIDC would provide a broad range of assistance. The Corporation would establish a Small Industries Service Institute at Lahore and service extension centers at Gujranwala and Sialkot and on the other estates it is in the process of setting up. There would be a service center for each industry heavily represented on an estate or in an urban area, e.g., there would be a light engineering service center on the Gujranwala estate, a sports goods service center on the Sialkot estate and a cutlery and small tools service center at Nizamabad, a town where this type of industry is concentrated and which is some 30 miles
from Sialkot. The Nizamabad center is also to serve the cutlery and surgical instruments industries expected to come to the two estates.

97. The Lahore Institute would coordinate and supervise the work of the service centers, and thus would eliminate duplication of effort and facilitate the exchange of experience. In addition, it would work on problems common to all small industries, help elaborate and implement a program for their development within the country's over-all development effort and perform all such duties which do not require the direct and close assistance to individual enterprises which would be provided through the service centers.

98. The Lahore Institute and the service centers would provide services to industries - such as demonstrations of machinery and techniques, training programs, establishment of quality standards, etc. and assistance to individual firms - such as designs and drawings, advice on technical and management problems, assistance in instituting new methods of production, accounting systems, etc. In addition, they would make surveys of industries and markets, study the potential uses of indigenous raw materials, design special machinery for small industries in and around the estates, etc. Eventually, the service centers would help applicants to the estates prepare their projects and to screen applications.

99. The service centers would also serve as common facility centers, that is, each would be equipped with certain pieces of equipment too specialized and costly to be purchased by individual small firms which could be made available to all enterprises requiring their use. In addition to providing technical and managerial assistance and common facilities, WPIDC expects to assist occupants of the estates to obtain raw materials and to market their products.

100. Charges for the use of common facilities and for raw materials and marketing services supplied by WPIDC would be expected to cover costs fully. For all other types of assistance and service, charges would be nominal at the outset, but would be increased gradually until they, too, completely covered costs. If the small enterprises were to pay from the beginning a substantial part of the cost of the assistance, most of them would rather prefer not to benefit from it; this would greatly reduce if not totally defeat the desired effect of the assistance. At the outset, services would be made available mainly to the occupants of the estates, but enterprises off the estates would be permitted to avail themselves of them as and to the extent that it became feasible.

101. The proposed IDA credit would include the estimated foreign exchange expenditures and a small part of the local expenditures for the setting up of the Service Institute at Lahore and the service extension centers at Gujranwala, Sialkot and Nizamabad, and for the technical assistance to be provided by foreign experts, which is discussed further below.
Foreign Assistance

102. The Pakistani authorities would welcome the help of foreign experts to provide technical assistance and to help them elaborate their plans for assistance to small industries. The success of WPIDC's different schemes for the development of small industries depends not the least upon the working out of a sound over-all program for small industries coordinated with the over-all program for the development of the country. This aspect and the need for foreign assistance is presently being studied in Pakistan by a team of the Stanford Research Institute; the mission is financed by the Ford Foundation. There are prospects that, as a result of these studies, the Ford Foundation might finance a number of experts to go to Pakistan for a few years to assist in the elaboration of the development program for small industries.

103. To give assistance in the implementation of the proposed industrial estates' project with its more narrow scope, it is envisaged that foreign experts would be provided through an industrial consultant firm; they are to assist in the appraisal and screening of enterprises applying for admission on the two estates and the preparation of their individual projects, assist in promoting patterns of inter-related production between one or more larger scale enterprises and other enterprises on the estates and help in the establishment and initial operation of the Small Industries Service Institute, and the service centers on the two estates and at Nizamabad, through which the assistance described farther above would be given. Preference is given to a consultant firm over individuals, since a great deal of flexibility is required to effectively carry out the assistance; furthermore, it cannot yet be said with certainty what the specific qualifications of all the experts would have to be and how long everyone of them would be required to remain in Pakistan. The allocation provided in the credit would finance the estimated total foreign exchange and a small part of the local expenditures of about 36 man-years.

104. The assistance would be concentrated on the individual enterprises and the sectors of industries coming on the Gujranwala and Sialkot estates, although they would also be involved, to the extent possible, in advising on the Lahore Institute's wider functions, and in advice to enterprises outside the estates. In order to carry out the assistance economically it would be imperative that best use should be made of consultant services already available in Pakistan such as the PITAC center and of the back-stopping services the consultant firm is to give from its home headquarters. All the foreign experts would have Pakistani counterparts working with them from the outset who would be expected to take over the foreign experts' responsibilities when they had been trained.

105. It would be impractical and too costly to bring to West Pakistan foreign experts on a long-term basis in all branches of industry likely to be represented on the two estates. An expert for an industry should not be
brought in until there is a large enough demand from enterprises both on and off the estates to require his service full time. However, it is recognized that before an industry needs the full time services of a foreign expert it would need technical assistance that cannot be supplied through the service centers and by other experts locally available. Therefore, provision has been made in the proposed IDA credit for foreign experts required for assistance in specialized fields and for particular studies of relatively short duration, and for fellowships abroad of Pakistani personnel, primarily those working with the Institute and service centers.

106. A summary of the provision for technical assistance (facilities and services) that might be included in the proposed IDA credit is given in Annex 6. Requests for proposals for the consultant services have just been sent out by WPIDC, and a contract for such services between WPIDC and a consultant firm on terms and conditions satisfactory to IDA would be a condition of effectiveness of the proposed credit. WPIDC will, in the near future, start its preselection of applicants, but will not finalize plot allocations before the consultant firm has had a chance to review the applications and give its recommendations for possible modifications of the individual projects.
VI. ECONOMIC JUSTIFICATION

107. The proposed project to establish two estates for primarily small industrial enterprises at Gujranwala and Sialkot has several purposes. It is intended, first, to assist several hundred, small enterprises improve their productive efficiency and increase their earnings by providing them with more adequate working quarters than are now available in these towns, technical assistance, credit facilities and help in obtaining raw materials and marketing. This should also permit some of these small firms to grow into efficient medium sized enterprises.

108. The estates would be one feature of the program for small industries intended to make possible an increase in the exports and/or reduction in the imports of products of these industries. Pakistan's handicraft and other small industries are reported to have had exports of Rs 44 million ($9.2 million) in 1960. (Figures for earlier years do not distinguish between large and small industries.) The target of the National Small Industries Corporation, which was responsible for promoting exports of handicraft and small industries, was to double them by the end of the Second Plan period (1965). It may be difficult to achieve an increase of this magnitude in so short a period, especially because exports apparently rose in 1960 as a result of the introduction in 1959 of the export bonus scheme, under which exporters are permitted to retain for unrestricted use a portion of the foreign exchange they earn. However, active promotional efforts should yield some increase. The emphasis is on handicraft exports, but efforts are also made to promote exports of other small industries. Exports of the sports goods and surgical instruments industries alone are estimated at Rs 13.2 million (US$2.8 million) in 1959 (sports goods - Rs 10.8 million, surgical instruments - Rs 2.4 million). Improvements in the efficiency of these industries and promotional efforts should increase these figures.

109. Imports of selected items of the type produced by metal products and light engineering enterprises at Gujranwala and Sialkot amounted in 1959 to Rs 64 million ($13.4 million) for all of Pakistan and Rs 49 million ($10.3 million) for West Pakistan alone. (See Annex 7.) Small firms at Gujranwala and Sialkot would probably not be able to match import quality for some time, but improvements in their techniques should enable them to replace these imports in part as their production increases.

110. A modest increase in the output of export commodities likely to be produced on the estates (e.g. sports goods) or in import substitute commodities would in itself result in a reasonable economic return on the investment on this project. But the project has an additional and broader purpose - to demonstrate to entrepreneurs with limited financial resources and limited access to foreign technical skills the possibility of profitable utilisation of modern machinery and methods and of expansion. In Pakistan, as in most developing countries, industrialization has taken place mainly through the establishment of large-scale industries, requiring substantial
investment and the employment of foreign technical and management experts. If the large number of potential entrepreneurs with limited financial resources and knowledge of modern methods could be made aware that they, too, could employ these modern methods and expand, the process of industrialization could be accelerated.

III. The estates seem to offer the most economical as well as effective means for achieving the ends sought. Additional factory space is required at present in both Gujranwala and Sialkot. Quarters of the standard that would be provided on the estates could probably be made available at a lower cost there than through the construction of individual buildings which would require individual utility connections. More important, however, the estates offer a means through which the most promising enterprises - those able to make use of modern machinery and methods and willing to take advantage of the advice and assistance offered - could be brought together and induced to avail themselves of these facilities. Some of these enterprises might then expand into medium-scale enterprises, with economic benefits to Pakistan. In some cases, they might even expand to the point where they would have to seek larger quarters off the estates to provide for expansion, i.e., the estates would serve as nurseries for small enterprises.

112. However, the project must still be regarded as experimental. Experience is too limited to make it possible to estimate firmly the direct and indirect benefits of the estates to their occupants and to the economy as a whole.

113. On the other hand, the cost of the project would not be high. A substantial fraction of the expenditures would be for machinery and equipment. Most of the costs would be recovered from the occupants of the estates. There is no basis for a firm estimate as to how long it should take to fill the estates, but they should be filled in a reasonable time. If it proves difficult to attract enough small enterprises, WPIDC is prepared to admit more medium sized enterprises than it now plans to. There is a demand for space from medium sized enterprises and the estates, with their well-located sites and facilities, would undoubtedly be attractive to them.

114. Even a modest development would probably result in a reasonable return on the investment involved. There is a good chance also that the estates would serve to accelerate industrialization. For these reasons, the project seems economically justifiable.
VII. CAPITAL REQUIREMENTS FOR PROJECT AND RECOVERY FROM USERS

Capital Requirements

115. The capital requirements for the project include: (1) the requirements for the estates themselves, that is, the purchase price of the sites and the cost of preparing the land, installing basic facilities and constructing community buildings; (2) the cost of the factory buildings and the machinery to be installed in them; and (3) the requirements for the Small Industries Service Institute and the service centers.

116. The estimates of requirements for the estates are based on the estimates prepared by WPIDC's consultants, the Republic Engineering Corporation of Lahore. (For details, see Annex 8). Since the development of the two estates is expected to be completed by June 1963, it is unlikely that actual costs will exceed by a sizable margin the estimates which, for purposes of establishing charges to the estate occupants (discussed in paragraphs 120-125), include a contingency reserve of 10%.

117. Requirements for factory buildings and machinery cannot be estimated firmly at present. There is no basis for an accurate prediction as to the size of establishment enterprises would wish to set up at the outset or their industrial distribution, nor as to the amount of machinery they would bring with them. Moreover, information on the fixed capital requirements of small enterprises of the type likely to settle on the estates is meager and unreliable. However, rough estimates have been made, based on the opinions of the Small Industries Division of WPIDC and its consultants and such information as the mission was able to gather and from the first applications. (For details see Annex 9).

118. Since the exact requirements for floor space and machinery and equipment of the Small Industries Service Institute and the service centers will be firmed up by WPIDC at a later date with the help of the foreign assistance team, the estimated costs of the Institute and the centers (See following paragraph) should be considered as tentative.

119. Estimates of total capital requirements by major categories, excluding the cost of the foreign assistance, are given below (in million Rupees):

<table>
<thead>
<tr>
<th></th>
<th>Gujranwala (102 acres)</th>
<th>Sialkot (100 acres)</th>
<th>Total</th>
<th>Foreign exchange</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estate Development</td>
<td>3.58</td>
<td>3.80</td>
<td>7.38</td>
<td>0.95</td>
</tr>
<tr>
<td>Factory Buildings and Artisans' workshops</td>
<td>22.60</td>
<td>21.75</td>
<td>44.35</td>
<td>8.87</td>
</tr>
<tr>
<td>Machinery and equipment</td>
<td>24.30</td>
<td>23.40</td>
<td>47.70</td>
<td>23.85</td>
</tr>
<tr>
<td>Sub-total</td>
<td>50.48</td>
<td>48.95</td>
<td>99.43</td>
<td>33.67</td>
</tr>
<tr>
<td>Institute and centers</td>
<td>-</td>
<td>-</td>
<td>3.75</td>
<td>1.32</td>
</tr>
<tr>
<td>Total</td>
<td>-</td>
<td>-</td>
<td>103.18</td>
<td>34.99</td>
</tr>
<tr>
<td>(in million U.S.$ equivalent)</td>
<td>-</td>
<td>-</td>
<td>21.67</td>
<td>7.35</td>
</tr>
</tbody>
</table>
Charges for Plots and Rentable Community Buildings

120. WPIDC would lease the plots for 99 years instead of selling them outright in order to retain greater control over their use, but lessees would have the right to transfer leases, subject to prior approval by the corporation. Charges for leasehold rights to plots and rents paid for rentable community buildings would be the sources through which WPIDC would recover the bulk of its investment in the estates. 1/

121. The rentals for rentable community buildings would cover their full cost, including their share in land and basic facilities. The investment cost and the major portion of the operating cost of the service centers, at least for some time, would be borne by WPIDC, which would be reimbursed by the Government. The charges for leasehold rights to plots would cover the remaining capital expenditures, excluding expenditures on the water system, which would be covered separately. The costs to be recovered from lessees is estimated at Rs 2.63 million for Gujranwala and Rs 2.87 million for Sialkot. The amount to be paid by an individual lessee would be determined by the relationship between the area of his plot and the area covered by all factory buildings, artisans' workshops, rentable community buildings, and service centers. The charge as thus determined would be increased by 10%, to allow for vacancies. It is estimated that the charge for a 10,000 sq. ft. plot would be Rs 8,250 at Gujranwala and Rs 9,321 at Sialkot.

122. WPIDC would not recover the expenditures of its Small Industries Division for planning the estates. Its administrative expenses are covered by a grant from the Provincial Government. Interest during construction on loans incurred for the purchase of sites and their development would be covered by a service charge equal to 2.5% of the recoverable investment costs which would be included in the total charge or rental.

123. The lessee of a factory plot could pay the charge for his leasehold right in full on signing the lease agreement or over a period not exceeding 23 years thereafter, including a grace period of three years. A minimum down payment of 20% would be required. Based on present cost estimates, the lessee of a 10,000 sq. ft. plot, making a down payment of 20% and paying the balance over the maximum allowable period of 20 years would, assuming an interest rate of 7% per annum, have to pay Rs 51 ($10.71) per month at Gujranwala and Rs 58 ($12.18) at Sialkot.

124. The amount of the down payment and the period over which the balance would be payable would be determined in the light of the lessee's financial resources, the additional obligations he would be incurring for a factory building, machinery and equipment and his working capital requirements.

1/ List of rentable and non-rentable community buildings are given in Annex 8.
125. In addition to charges for leasehold rights, occupants of the estates would pay a monthly charge to cover the cost of administering and maintaining the estates. It is estimated at present that the charge would amount to Rs 320 per year for a plot of 10,000 sq. ft. on both estates; charges would be subject to modification as required. WPIDC's present plan is not to require payment of this charge for the first three years after the signing of a lease agreement.

**Credit for Factory Buildings and Machinery**

126. Enterprises settling on the estates would pay the full cost of their factory buildings, machinery and equipment but would be able to obtain long-term credit at 7 to 7½%, a reasonable rate for Pakistan, to finance construction and purchase. IDBP would make loans to enterprises constructing their own factories, as most are expected to. It is expected that such loans would be repayable in not more than 20 years and be limited to 70% of the estimated cost of the buildings. WPIDC would construct buildings for the remainder and sell on IDBP terms or those for the sale of leasehold rights.

127. Machinery and equipment are to be made available on a hire-purchase basis by IDBP. A down payment of 25% to 40% would be required as a minimum (the more specialized the machinery, the higher the down payment). The balance would be payable in a period shorter than the estimated life of the machinery or equipment, and in no case exceeding ten years. WPIDC has agreed to assume 75% of the bad debts arising from IDBP loans to estate enterprises.

**Credit for Working Capital**

128. IDBP is authorized also to make short-term advances or loans for working capital in an amount not exceeding 25% of IDBP's total advances to the enterprise. The commercial banks have indicated that they, too, are prepared to make short-term loans to the occupants of the estates provided that WPIDC (or the government) assumes 100% of the bad debts of such loans. An effort should be made to have commercial banks participate to the fullest extent possible in providing credit to the occupants of the estates. However, the request of the commercial banks that WPIDC should bear the whole risk is not reasonable and does not assure that the banks consider the credit-worthiness of the estate enterprises as carefully as they should. Negotiations to this effect are now in progress between WPIDC and the commercial banks.
VIII. PROPOSED IDA CREDIT

129. Inclusion in the IDA credit of $10.8 million equivalent to cover half of the estimated capital requirements for the project (about $21.6 million on the basis of the present estimates, see paragraph 119), might be considered appropriate. However, because of the tentative character of the estimates of capital requirements and the difficulty of determining over how long a period expenditures would be made, it is proposed that the present IDA credit include $5.7 million for that purpose or slightly more than one fourth of the estimated total cost of the project. If additional funds are required and appear justified, one or more additional credits could be considered at some time in the future.

130. It is proposed that the credit should also include $0.8 million for consultant services and fellowships. In all, the proposed IDA credit would amount to $6.5 million.

131. Up to the amount of the credit, foreign exchange expenditures would be reimbursed in full plus a portion of the local expenditures to bring disbursements up to 50% of the $13 million. Disbursements would not be dependent upon the sources of financing for the capital expenditures of the private enterprises and where rupees, but not foreign exchange, were otherwise available to the enterprises the foreign exchange included in the credit could be made available by purchasing such foreign exchange with rupees. Although there might be individual enterprises which could contribute more than 50% of the costs of their individual projects (defined as the costs of the plots, which include a proportionate share of the development costs of the estates, the costs of buildings, machinery, equipment and working capital), it is unlikely that enterprises would, on the average, contribute more than about 40% of these costs. On such an assumption, the credit would cover less than the enterprises' non-equity requirements under the project.

Channeling of the IDA Credit

132. The proposed IDA Credit of $6.5 million would be granted to the Government of Pakistan free of interest for 50 years with no repayment during the first ten years, and repayment of 1% of the principal in each of the next ten years and 3% of the principal in each of the last 30 years. There would be a service charge of 3/4% per year on the amount outstanding. The credit to the Pakistan Government would be covered by a Credit Agreement. The Pakistan Government would make the proceeds of the credit available to the Province of West Pakistan at IDA terms.

133. The Province of West Pakistan in turn would pass on the credit amount to WPIDC, of which an estimated $1.2 million would be given in the form of a grant to cover the estimated foreign exchange and part of the local costs of the foreign consultant services and fellowships ($0.8 million) and of the Service Institute and the service centers ($0.4 million),
and the remaining $5.3 million in the form of a loan bearing interest of 4% and for 25 years including a grace period of five years.

134. WPIDC would use part of the $5.3 million portion of the credit - an estimated $0.7 million - to cover its own foreign exchange and part of its local expenditures incurred in the development of the estates, the construction of artisans' workshops and the construction of factory buildings of occupants that do not choose to construct their own. WPIDC would receive 7% for credit it extended to estate occupants for the purchase of leasehold rights and factory buildings.

135. The remaining $4.6 million of the credit would be channelled through IDBP to occupants of the estates, for the construction of factory buildings and the purchase of machinery and equipment. Any loans for these funds would be made available for various periods of time at 7% interest per year. It is tentatively envisaged that of the interest spread of 3% (between 4 and 7%), IDBP would keep 1\% - 2\% while WPIDC would keep the remaining 1\% - 1\% to cover part of the expenses incurred by the latter in the technical screening of applicants. It is possible that for its loans for imported machinery, IDBP would charge 7% to cover foreign exchange fluctuations. Apart from such charge, the foreign exchange risk would not be borne by the estate occupants.

Conclusion

136. On the basis outlined, the project is suitable for an IDA credit of $6.5 million equivalent.

October 19, 1962
Assistance to Small Scale Industry in India

The mission spent five days in India visiting small industries estates and service institutes in and around Delhi and Calcutta. A study of Indian experience seemed useful because the Indian program of assistance to small industries, on which the Pakistan program is generally modeled, has already been in operation for several years.

Small Industries in India

The term "small industries" is defined more broadly in India than in either wing of Pakistan (it is defined differently in East and West Pakistan) and its scope has been progressively enlarged. In 1960, the term was defined to mean enterprises employing fewer than 50 workers if power was used, or 100 workers if no power was used. The employment limits were subsequently raised to 50 or 100 workers per shift, respectively. More recently, all employment limits have been eliminated, and the only requirement an enterprise must meet to be classed as a small industry at present is that its fixed assets amount to less than Rs 500,000.

According to the 1958 Census of Manufacturing Industries, 73% of all industrial units in India were small industries (probably defined as enterprises employing up to 50 workers if power was used, or 100 workers if no power was used); these enterprises employed about 80% of the workers but probably no more than 10% of the productive capital of industry.

Government Program for Small Industries

Public expenditures on small industries (including cottage industries) rose from an estimated Rs 50 million in the First Five Year Plan period (1951-56) to Rs 1,800 million in the Second Plan period (1956-61); the Third Plan provides for expenditures of Rs 2,750 million in 1961-66. Public expenditures on all mining and manufacturing industries (small, medium and large) amounted to Rs 800 million in the First Plan period and to Rs 8,800 million in the Second Plan period; the Third Plan provides Rs 15,000 million. Thus the share of total public expenditures on industry accounted for by small industries rose from 6.2% in 1951-56 to 20.1% in 1956-61 but is slated to fall to 18.3% under the Third Plan.

There are no figures for private investment in small industries, but Indian authorities estimate it at five to ten times public expenditure.

The Indian Government has relied heavily on service institutes in carrying out its program for small industries. There are 15 institutes, one in each state, which with their extension centers provide technical advice, assistance and training. Indian technical officers are aided by foreign consultants (21 in 1961) who advise on production methods, design of machinery and equipment and other technical matters. The number of persons receiving assistance from the centers has risen from 8,000 in 1956-57 to about 34,000 in 1960-61.
Industrial Estates

The small industries estates program, which forms an important feature of the overall program for small industries, has already reached substantial proportions. To the end of March 1961, expenditures on estates amounted to Rs 100.7 million, and there were 52 estates in operation, 20 completed but not yet functioning, 24 under construction and 29 where preliminary work (acquisition of land, preparation of detailed estimates, etc.) was under way. On the 52 estates already in operation, there were 1,000 enterprises, employing 13,200 persons and producing goods with an estimated annual value of Rs 140 million ($29.3 million equivalent).

The Indian estates differ from the proposed West Pakistan estates in several respects. In India, normally the Small Industries Corporations not only develop the land (i.e. clear it, install basic facilities, etc.) but erect factory buildings. In West Pakistan, small industries will be allowed to erect their own buildings if they choose and it is expected that most of them will do so. In India, rentals on most estates have been fixed at half the true economic rent for the first five years, and this concession is expected to be continued for some time longer on a number of estates. On the proposed Pakistan estates, charges are expected to cover all the costs of investment and maintenance; technical assistance would be provided for a nominal fee at first, although it is hoped that charges could be raised to cover most if not all of the costs eventually.

The Indian estates are generally smaller than the proposed Pakistan estates. Methods of development have been less economical in India than they are expected to be in Pakistan, mainly because the proportion of the total area used for factory plots has been rather low. The Indian Third Five Year Plan provides for the establishment of 300 new estates at a total cost of Rs 270 million, or Rs 900,000 per estate. This is only about one-quarter of the estimated cost of each of the proposed Pakistan estates at Gujranwala and Sialkot, and this despite the fact that the Indian figure includes, while the Pakistan figure excludes, the cost of factory buildings.

The Indian estates (even very small ones) have been developed in stages. An example is the Okhla estate near Delhi which the mission visited, and which is expected ultimately to cover an area of 110 acres or about as large an area as will be covered by each of the proposed Gujranwala and Sialkot estates. In the first stage, which ended in 1958, only 40 acres were developed and 35 factory buildings erected. The Small Industries Corporation is now developing another 140 acres and putting up another 40 buildings. No date has been set for the completion of the development.
At least on the Okhla estate, the enterprises are larger on the average than the enterprises on the Gujranwala and Sialkot estates are expected to be.

The Indian extension centers like the estates are more modest than the proposed Pakistan centers, however their fields of activities are not fully comparable.

Results of Indian Small Industries Estates Program

The aim of the Indian small industries estates program has been to aid industrial growth in areas outside the large cities where most Indian industry is now concentrated. At first, estates were established in middle-sized cities and satellite areas of large cities, but in the last few years the Government has begun to establish estates also in comparatively underdeveloped rural areas, in order to stem the movement to the cities which has resulted in serious overcrowding and pressure on all social facilities - water, electricity, sanitation, transportation, etc.

The estates in middle-sized cities and satellite areas of large cities have generally proved successful. At Okhla, which is a satellite area estate, the enterprises visited by the mission seemed generally well-run and all of them had expanded their operations considerably since they moved on to the estate. Operators of small enterprises off the estate are apparently eager to locate there. Although formal applicants have to pay three months rent in advance, 400 persons have applied formally for the 100 buildings now under construction. The number is not large compared with the number of small enterprises in the Delhi area, which is estimated at 25,000, but it is significant that 400 small industrialists have been willing to tie up funds merely to be considered for admission.

The appeal of these estates does not seem to be low rents. Although rents on the estates are generally only half the true economic rent, they are sometimes higher and are rarely significantly lower than rents for the same amount of space off the estates. The principal attraction seems to be the preference given to tenants by the Government for credit, raw materials and foreign exchange licenses.

The rural estates on which the Government is placing increasing emphasis (it plans to establish at least one estate in each of the 350 districts in India) have been less successful. On many of the estates already established, a number of factory buildings are still unoccupied. The difficulty seems to be the distance from sources of raw materials and markets.
More recently, the authorities have been experimenting with estates for small enterprises feeding components to larger firms. These estates have not yet proved successful. Large manufacturers have shown little interest in contracting for the manufacture of components outside their plants, in part because of the failure of small enterprises to meet quality standards and to keep promised delivery dates, in part because the large manufacturers do not yet appreciate the potential economic advantages of relying on other firms for some of their requirements.

Conclusions

Indian experience with estates suggests a number of points which might be useful to the Pakistan Government in its planning.

1) Mainly because of the small proportion of the total area of the estates used for factory plots (generally 30-55%), Indian development costs have been high. The decision of the Pakistan authorities to use about 65-75% of the estate area for factory plots should result in savings.

2) Experience at Okhla (and other Indian estates) indicates the feasibility of development in stages.

3) The poor results achieved to date by some rural estates and estates for small enterprises contracting to produce components for larger enterprises suggests that caution should be exercised in proceeding with such estates.

4) The important role played by the small industries service centers in the small industries program deserves particular attention. Both the scope of the services provided (they include technical advisory services, common facilities and training for all grades of workers, apprentices, supervisors and managers) and their high standard are impressive. The centers have served small enterprises off the estates as well as those located on them. At Okhla, for example, only 30% of the work of the Light Engineering Service Center is for enterprises on the estates.
WEST PAKISTAN SMALL INDUSTRIES CORPORATION

Schemes Approved by the Government, Allocations of Funds and Expenditures
(In Million Rupees)

<table>
<thead>
<tr>
<th>Name of Scheme</th>
<th>Estimated Cost</th>
<th>1960-1961</th>
<th>1961-1962</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Provision</td>
<td>Allocation</td>
<td>Expenditure</td>
</tr>
<tr>
<td>Development of sericulture industries</td>
<td>Not</td>
<td>0.88</td>
<td>0.23</td>
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<tr>
<td>Wool weaving and spinning centers</td>
<td>Available</td>
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<td>0.03</td>
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<tr>
<td>Pottery research development centers (Gujrat and Bhag)</td>
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<td>0.21</td>
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<tr>
<td>Eight carpet development centers</td>
<td></td>
<td>1.32</td>
<td>0.10</td>
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<tr>
<td>Twelve cottage industries development centers</td>
<td></td>
<td>1.54</td>
<td>0.26</td>
</tr>
<tr>
<td>Eight sales and display depots</td>
<td></td>
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<td>0.11</td>
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<tr>
<td>Rural industries extension service program</td>
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<td>1.45</td>
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<tr>
<td>Sports goods service center - Sialkot</td>
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<tr>
<td>Small industry survey organization</td>
<td></td>
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<tr>
<td>Eight Small Industries Estates</td>
<td></td>
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<td>Metal industries common facility center - Shikarpur</td>
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<td>West Pakistan design and publicity center - Lahore</td>
<td></td>
<td>0.73</td>
<td></td>
</tr>
<tr>
<td>Small textile service center - Multan</td>
<td></td>
<td>1.04</td>
<td></td>
</tr>
<tr>
<td>Light engineering service center - Gujranwala</td>
<td></td>
<td>2.46</td>
<td></td>
</tr>
<tr>
<td>Cutlery and small tool service center - Nizamabad</td>
<td></td>
<td>0.97</td>
<td></td>
</tr>
<tr>
<td>Sewing machine estate, Lahore</td>
<td></td>
<td>0.42</td>
<td></td>
</tr>
<tr>
<td>Matting development center - Kot Adu</td>
<td></td>
<td>0.10</td>
<td></td>
</tr>
<tr>
<td>Rural industrial service pilot project - Peshawar</td>
<td></td>
<td>1.45</td>
<td>0.45</td>
</tr>
<tr>
<td>Total Schemes</td>
<td>5.75</td>
<td>1.64</td>
<td>1.05</td>
</tr>
<tr>
<td>Headquarters and zonal officers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GRAND TOTAL</td>
<td>2.15</td>
<td>1.60</td>
<td></td>
</tr>
</tbody>
</table>

ANNEX 2
INDUSTRIAL ESTATES PROGRAM

<table>
<thead>
<tr>
<th>Original Allocation of the Second Five-Year Plan</th>
<th>East Pakistan</th>
<th>West Pakistan</th>
<th>Karachi</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of units</td>
<td>16</td>
<td>7</td>
<td>1</td>
<td>24</td>
</tr>
<tr>
<td>Total investment (in Rs million)</td>
<td>24.0</td>
<td>10.5</td>
<td>1.5</td>
<td>36.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Latest revised estimate for the Second Five-Year Plan Period</th>
<th>East Pakistan</th>
<th>West Pakistan</th>
<th>Karachi</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of units</td>
<td>18</td>
<td>8</td>
<td>-</td>
<td>26</td>
</tr>
<tr>
<td>Total investment (in Rs million)</td>
<td>66.0</td>
<td>18.3</td>
<td>-</td>
<td>84.3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Allocation of funds for the first two years (1960/61 and 1961/62)</th>
<th>East Pakistan</th>
<th>West Pakistan</th>
<th>Karachi</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of units</td>
<td>7</td>
<td>8</td>
<td>-</td>
<td>15</td>
</tr>
<tr>
<td>Amount (in Rs million)</td>
<td>24.3</td>
<td>4.1</td>
<td>-</td>
<td>28.4</td>
</tr>
</tbody>
</table>
THE WEST PAKISTAN INDUSTRIAL DEVELOPMENT CORPORATION

PIDC, the predecessor of the two provincial Industrial Development Corporations was established in April 1950. PIDC was created with the objective of promoting industrial enterprises, which private industry was either unable or unwilling to undertake. It has been the policy of the Corporation to supplement rather than to replace private enterprises. PIDC therefore, has refrained from establishing industries in fields in which private industry is active. Emphasis was put on the promotion rather than ownership of industries and PIDC followed the policy of selling its enterprises to private investors as soon as practicable. These general policies have not changed with the dissolution of the former PIDC, and the establishment on June 4, 1962, of the West Pakistan Industrial Development Corporation.

PIDC by early 1962 had established 54 projects in both wings, and had another 16 projects (13 in East Pakistan and 3 in West Pakistan) under consideration. PIDC's total investments by the end of 1961 have been about $300 million equivalent, of which some 30% were private participations.

According to its ordinance, WPIDC is responsible for planning, promoting, organizing and implementing programs for the development of the following industrial sectors: jute, paper, heavy industries, including iron and steel, shipbuilding, heavy chemicals, fertilizers, pharmaceuticals, dye stuffs, sugar, marine fisheries, industries based on forest products and cottage and small industries. WPIDC is also responsible for the exploration, and exploitation of minerals, including coal and peat.

The authorized share capital of WPIDC is Rs 10.0 million, of which Rs 4.5 million have been paid up by the Provincial Government. The Board of Directors is appointed by the West Pakistan Government, which also has to approve the projects proposed by the Corporation. All resources undertaken by WPIDC come from budgetary grants of the Province, such private capital as WPIDC is able to attract and foreign aid as well as loans and working capital obtained from Pakistani banks on normal commercial terms.
The Industrial Development Bank of Pakistan

The Industrial Development Bank of Pakistan (IDBP) was established by an ordinance of the Government of Pakistan of July 29, 1961, as the successor to the Pakistan Industrial Finance Corporation (PIFCO). The reorganization had been recommended by the Credit Enquiry Commission, in order to provide Pakistan with a credit institution with special responsibility for financing small and medium-scale industry and with the authority to provide foreign exchange as well as local currency financing.

IDBP has a share capital of Rs 30 million, fully paid up; 51% of the shares are held by the Government and the rest by commercial and cooperative banks, insurance companies, pension funds and individuals. The Bank is authorized to accept long-term deposits from the public, to borrow from the Government to issue and sell bonds and debentures, and, for the purpose of making loans in foreign currencies, to borrow such currencies from the IBRD or any other institution. The sum of its bonds and debentures issued and outstanding and its contingent liabilities in respect of guarantees or underwriting agreements may not exceed five times the amount of its paid-up share capital and reserves, but there is no limitation on its borrowings from the Government or its foreign exchange borrowings. IDBP is authorized to provide only for industrial development, but may make funds available both for modernizing and balancing existing enterprises and for establishing new ones. More specifically, the Bank is authorized to conduct the following types of transactions:

(1) Advancing and lending money and opening cash credits for the specific purpose of assisting an industrial concern;

(2) Guaranteeing loans, credits and debts raised or granted to or incurred by an industrial concern and repayable within a period not exceeding 20 years;

(3) Granting loans to or subscribing to debentures of industrial concerns;

(4) Selling and utilizing the proceeds of sale of all property whether movable or immovable;

(5) Underwriting the issue of stocks, bonds or debentures by industrial concerns;

(6) Drawing, accepting, discounting, buying and selling bills of exchange and other negotiable instruments;

(7) Borrowing and granting credits in foreign exchange;
8) Borrowing money for the purpose of its business and giving security for money so borrowed by pledging assets or otherwise;

9) Carrying out surveys of and research on industries and maintaining statistics;

10) Administering, as agent of the Central Government, such loans and in such a manner as the Central Government may direct.

IDBP may grant loans to limited companies, partnerships and sole proprietary concerns. All loans must be adequately secured by pledge, mortgage, hypothecation or assignment of property, including prospective assets, and loans for fixed assets may not exceed 70% of the estimated value of the assets offered as security. The terms of its loans may not exceed 20 years, and the amount of any individual loan or guarantee may not exceed Rs 1.0 million (or Rs 0.5 million in the case of foreign exchange loans) except with the approval of the Government. However, the Bank may finance without limit certain sectors of industry (mining, jute and cotton manufacture, and inland transport).

Although IDBP’s main responsibility is the financing of small enterprises, it is not required to confine its financial assistance to such enterprises. It is authorized to finance any technically and financially sound project within the framework of the investment schedules for the private sector. In granting credit, it must give preference to:

1) industries which use indigenous raw materials;
2) industries which earn or save foreign exchange;
3) small and medium-size industries which are expected to make the largest net contribution to national income per unit of investment.

IDBP’s staff makes technical, financial and economic appraisals of projects submitted for financing. Projects recommended by management for financing are reviewed by a Technical Advisory Committee, consisting of engineers, industrialists and representatives of the Government and the State Bank of Pakistan and those approved by the Committee will be submitted for final approval by the Board.

Besides appraising projects, IDBP’s staff inspects and appraises fixed assets offered as security and supervises the execution of its projects to insure that its funds are properly utilized. IDBP has a staff at present of about 50 engineers, economists and financial analysts; it expects to engage consultants as and to the extent necessary.
IDBP took over all the business of PIFCO when it began operations on August 1, 1961. Including loans made by PIFCO, the total amount of loans approved up to August 31, 1961, was as follows:

<table>
<thead>
<tr>
<th>Loans Sanctioned</th>
<th>Amount Disbursed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(in million Rupees)</td>
</tr>
<tr>
<td>Rupee Loans</td>
<td>17.42</td>
</tr>
<tr>
<td>Foreign Exchange Loans</td>
<td>13.08</td>
</tr>
<tr>
<td></td>
<td>30.50</td>
</tr>
<tr>
<td></td>
<td>15.00</td>
</tr>
<tr>
<td></td>
<td>7.14</td>
</tr>
<tr>
<td></td>
<td>22.14</td>
</tr>
</tbody>
</table>

At that date IDBP had under consideration applications from about 250 industrial enterprises for rupee loans totaling nearly Rs 8.0 million. The principal limitation on its lending activities is a lack of resources, especially foreign exchange.

IDBP has entered into an agreement with the West Pakistan Industrial Development Corporation (WPIDC) to undertake lending operations in furtherance of the Corporation's Small Industries Development Program. To date, Rs 5.0 million have been allocated to WPIDC for that purpose by the Government and have been placed by it at the disposal of the Bank.
Summary of Provision for Technical Assistance
(Facilities and Services) to be included in Proposed IDA Credit
for Two Industrial Estates at Gujranwala and Sialkot

<table>
<thead>
<tr>
<th>Facility Description</th>
<th>Capital Cost (In thous. Rupees)</th>
<th>Foreign Exchange (In thous. Rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Facilities (Capital Cost only)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Small Industries Service Institute, Lahore</td>
<td>1,100</td>
<td>350</td>
</tr>
<tr>
<td>Light Engineering Service Center, Gujranwala</td>
<td>1,450</td>
<td>600</td>
</tr>
<tr>
<td>Sports Goods Service Center, Sialkot</td>
<td>600</td>
<td>170</td>
</tr>
<tr>
<td>Cutlery and Small Tools Service Center, Nizamabad</td>
<td>600</td>
<td>200</td>
</tr>
</tbody>
</table>
<pre><code>                                                             | 3,750                           | 1,320                               |
</code></pre>
<p>| Estimated IDA Contribution                                |                                 |                                     |
| 788,000                          | 277,000                             |</p>

B. Consultant Services

1) Small Industries Service Institute, Lahore:
   - 1 Senior Advisor (Management Consultant) with economic and engineering background
   - 1 Industrial Economist with experience in financial analysis
   - 1 Expert in Industrial Engineering and productivity
   - 1 Expert in Cost Accounting

2) Service Centers on the Gujranwala and Sialkot Estates and at Nizamabad:
   - 1 Machine Tool and Workshop Expert
   - 1 Expert in Woodworking
   - 1 Expert in the manufacture of cutlery goods and small tools
   - Various medium to short-term technicians in specialised fields such as the manufacture of leather goods, specialised fabrics, knitted goods, heat treatment, electroplating, enamelling, anodizing, non-ferrous metal sheet rerolling, foundry work, etc.

IDA Contribution                                      | $750,000

C. Fellowships for Pakistani Personnel

IDA Contribution                                      | $50,000

$1,185,000
say $1,200,000

IDA would contribute 100% of the foreign exchange expenditures and an estimated 21% of the local expenditures.
Pakistan Imports in 1959 of Selected Metal Products, of Tools, and Machinery and Equipment, Parts and Accessories
(In thousand Rupees)

<table>
<thead>
<tr>
<th>Item</th>
<th>West Pakistan</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implements</td>
<td>1,600.5</td>
<td>2,195.1</td>
</tr>
<tr>
<td>Builders Hardware</td>
<td>182.7</td>
<td>362.1</td>
</tr>
<tr>
<td>Metal Lamps</td>
<td>101.5</td>
<td>183.3</td>
</tr>
<tr>
<td>Lamp Parts, miscellaneous</td>
<td>44.6</td>
<td>65.5</td>
</tr>
<tr>
<td>Domestic Hardware</td>
<td>144.0</td>
<td>232.8</td>
</tr>
<tr>
<td>Enamelled Ironware</td>
<td>119.5</td>
<td>322.7</td>
</tr>
<tr>
<td>Hardware, Miscellaneous</td>
<td>5,813.6</td>
<td>9,377.4</td>
</tr>
<tr>
<td>Oil Engine Parts</td>
<td>3,657.9</td>
<td>4,340.0</td>
</tr>
<tr>
<td>Typewriter Parts</td>
<td>376.9</td>
<td>524.3</td>
</tr>
<tr>
<td>Sewing Machine Parts</td>
<td>3,301.6</td>
<td>3,552.6</td>
</tr>
<tr>
<td>Bolts and Nuts</td>
<td>1,201.0</td>
<td>1,781.5</td>
</tr>
<tr>
<td>Nails, Rivets, Washers</td>
<td>3,295.3</td>
<td>3,799.3</td>
</tr>
<tr>
<td>Wire Nails</td>
<td>830.9</td>
<td>2,908.6</td>
</tr>
<tr>
<td>Cycle Accessories</td>
<td>1,824.0</td>
<td>2,590.0</td>
</tr>
<tr>
<td>Vehicle Parts</td>
<td>26,441.1</td>
<td>32,161.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>48,935.1</strong></td>
<td><strong>64,396.2</strong></td>
</tr>
</tbody>
</table>

Source: Central Statistical Office
The Cost of the Estates at Gujranwala and Sialkot

Land Costs

The cost of the land is based on actual prices paid by WPIDC: Rs 12,255 ($2,575) per acre for the Gujranwala estate and Rs 15,630 ($3,284) per acre for Sialkot.

Development Costs

The cost of development includes the cost of preparing the land (layout and leveling); constructing roads, landscaping and installing the water supply, sewage disposal and electricity systems; and the consultants' fee which is 5% of the cost of development, as described above, and of all community buildings. In the case of electricity, provision has been made only for street lights since the Water and Power Development Authority (WAPDA) will supply electricity directly to the occupants of the estates.

Community Buildings

Each estate would have the following non-rentable community buildings - an administration building, dispensary and a fire station, and the following rentable community buildings - a manager's residence, canteens, a post office, buildings for commercial banks and the Industrial Development Bank of Pakistan, a water works, a supply and marketing depot and a display center. A club house and guest house are expected to be constructed either by WPIDC or by the occupants of the estates.
### TABLE 1

**INDUSTRIAL ESTATE AT GUJRANWALA**

*Estimated Capital Investment (102 acres)*

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost (Rupees)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Land Acquisition</td>
<td>1,250,000</td>
</tr>
<tr>
<td>2. Development and Basic Facilities:</td>
<td></td>
</tr>
<tr>
<td>(a) Site Preparation</td>
<td>8,600</td>
</tr>
<tr>
<td>(b) Roads, Bridges, drainage works and culverts</td>
<td>471,400</td>
</tr>
<tr>
<td>(c) Landscaping</td>
<td>40,120</td>
</tr>
<tr>
<td>(d) Sewage Disposal System</td>
<td>353,800</td>
</tr>
<tr>
<td>(e) Electricity System</td>
<td>143,000</td>
</tr>
<tr>
<td>(f) Water Supply</td>
<td>583,800</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td><strong>1,600,720</strong></td>
</tr>
<tr>
<td>(g) Contingency</td>
<td>160,072</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,760,792</strong></td>
</tr>
<tr>
<td>3. Non-Rentable Community Buildings</td>
<td>119,000</td>
</tr>
<tr>
<td>Contingency</td>
<td>11,900</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>130,900</strong></td>
</tr>
<tr>
<td>4. Rentable Community Buildings</td>
<td>299,000</td>
</tr>
<tr>
<td>Contingency</td>
<td>29,900</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>328,900</strong></td>
</tr>
<tr>
<td>5. Consultant's Fees</td>
<td>111,030</td>
</tr>
<tr>
<td><strong>Total Investment</strong></td>
<td><strong>3,581,622</strong></td>
</tr>
</tbody>
</table>
# TABLE 2

**INDUSTRIAL ESTATE AT SIALKOT**

**Estimated Capital Investment**

(100 acres)

<table>
<thead>
<tr>
<th>Description</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Land Acquisition</td>
<td>₹1,563,000</td>
</tr>
<tr>
<td>2. Development and Basic Facilities:</td>
<td></td>
</tr>
<tr>
<td>(a) Site Preparation</td>
<td>₹16,000</td>
</tr>
<tr>
<td>(b) Roads, Drainage Works and Culverts</td>
<td>₹498,000</td>
</tr>
<tr>
<td>(c) Landscaping</td>
<td>₹40,000</td>
</tr>
<tr>
<td>(d) Sewage Disposal System</td>
<td>₹235,000</td>
</tr>
<tr>
<td>(e) Electricity System</td>
<td>₹156,000</td>
</tr>
<tr>
<td>(f) Water Supply</td>
<td>₹577,100</td>
</tr>
<tr>
<td>(g) Contingency</td>
<td>₹152,210</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>₹1,674,310</td>
</tr>
<tr>
<td>3. Non-Rentable Community Buildings</td>
<td>₹119,000</td>
</tr>
<tr>
<td>Contingency</td>
<td>₹11,900</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>₹130,900</td>
</tr>
<tr>
<td>4. Rentable Community Buildings</td>
<td>₹299,000</td>
</tr>
<tr>
<td>Contingency</td>
<td>₹29,900</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>₹328,900</td>
</tr>
<tr>
<td>5. Consultant's Fees</td>
<td>₹106,705</td>
</tr>
<tr>
<td><strong>Total Investment</strong></td>
<td>₹3,803,815</td>
</tr>
</tbody>
</table>
Assumptions for Estimates of Capital Requirements for (a) Factory Buildings and Artisans' Workshops and (b) Machinery and Equipment for the Proposed Industrial Estates at Gujranwala and Sialkot

Size of Estates and Area Used for Factory Plots

The sites selected for the Gujranwala and Sialkot estates have an area of respectively 102 and 100 acres. It is planned that about 72% of the total area of each estate (some 3.2 million square feet at Gujranwala and some 3.1 million square feet at Sialkot) would be usable for factory plots.

Floor Space for Factory Buildings

Regulations for the estates provide that factory buildings should occupy no more than 50% of plots of 18,000, 55% of plots of 10,000 square feet and 60% of plots of 5,000 square feet. WPIDC's consultants assumed that all buildings would be as large as permissible. However, the first applications for admission to Gujranwala and preliminary inquiries about Sialkot indicate that many prospective occupants plan to put up smaller buildings than would be permitted by the regulations. Based on these applications and inquiries, it has been assumed that the floor space of factory buildings on each estate would be equal to about 40% of the total area of land used for factory plots, or 1.30 million square feet at Gujranwala and 1.25 million square feet at Sialkot.

Cost of Factory Buildings

WPIDC's consultants estimated the cost of constructing factory buildings at Rs 20 per square foot of covered floor area. Estimates of current costs obtained by the mission in Pakistan ranged from Rs 8 to Rs 20 and averaged Rs 13-14 per square foot; in India, they averaged Rs 14 per square foot. Allowance has been made for possible increases in construction costs and it has been assumed that building costs would amount to Rs 17 per square foot of covered floor area on the average, or Rs 22.10 million at Gujranwala and Rs 21.25 million at Sialkot.

Cost of Artisans' Workshops

The cost of constructing a 600 square feet artisan's workshop has been estimated by WPIDC's consultants at Rs 10,000; in total, building costs of 50 workshops would amount to Rs 0.5 million for each estate.

Cost of Machinery and Equipment of Occupants

Republic Engineering estimated that the cost of machinery and equipment would be equal to the cost of the factory buildings (i.e., Rs 20 per square foot). Professor Bredo of the Stanford Research Institute
who has been advising the Pakistan Government on industrial estates estimated the cost of machinery and equipment first at Rs 15 per square foot and later at Rs 30 per square foot. All three estimates are conjectural; none of them are supported by studies of costs.

In an attempt to establish a firmer basis for this estimate, the mission made some inquiries about the value of machinery in place in representative small industrial establishments in Pakistan and India. It received estimates ranging from Rs 8 to Rs 24 per square foot and averaging Rs 15 per square foot. These estimates were of course depreciated values; the cost of new equipment would be higher. Although establishments on the estate would be expected to be more mechanized than establishments of existing enterprises, this would probably be offset by the fact that the former would be less crowded. Overall, therefore, an estimate of the cost (new) of machinery and equipment as Rs 22 per square foot of factory space seems adequate.

If all the machinery and equipment used on the estates were purchased new, the cost would thus be about Rs 28.6 million at Gujranwala and Rs 27.5 million at Sialkot. However, part of the machinery and equipment would be brought to the estates. WPIDC estimates that 70% of the enterprises on the estates would be already in operation and would bring half of their equipment with them. For our estimates, it has been assumed, more generously, that only half of the enterprises would bring machinery or equipment with them and that such machinery would constitute about 30% of their total requirements. On that assumption, the cost of newly purchased equipment would amount to Rs 24.3 million at Gujranwala and Rs 23.4 million at Sialkot.

A number of firms in Pakistan, notably the Batala Engineering Corporation, Lahore, produce relatively high quality machinery. It does not seem unreasonable to assume that as much as 50% of the new machinery to be installed on the estates could be purchased from domestic producers.
WEST PAKISTAN
INDUSTRIAL ESTATES FOR
SMALL INDUSTRIES
(TO BE ESTABLISHED DURING SECOND
FIVE YEAR PLAN)