

Durham E-Theses

The provision of long-term capital for large-scale industry in Pakistan

A. H. M. Habibur Rahman

How to cite:

Rahman, A. H. M. Habibur (1969) The provision of long-term capital for large-scale industry in Pakistan. Doctoral thesis, Durham University.

Use policy

The full-text may be used and/or reproduced, and given to third parties in any format or medium, without prior permission or charge, for personal research or study, educational, or not-for-profit purposes provided that:

- a full bibliographic reference is made to the original source
- a <https://etheses.durham.ac.uk/id/eprint/8006/> is made to the metadata record in Durham E-Theses
- the full-text is not changed in any way

The full-text must not be sold in any format or medium without the formal permission of the copyright holders.

Please consult the [full Durham E-Theses policy](#) for further details.

THE PROVISION OF LONG-TERM CAPITAL FOR LARGE-SCALE
INDUSTRY IN PAKISTAN.

A Thesis Submitted
for the Degree of Doctor of Philosophy
in the University of Durham.

by

A.H.M. HABIBUR RAHMAN.

B.Com. (Hons), M.Com.,
Dacca University;
Post-graduate Diploma
in Business Management,
Brunel College (now
Brunel University),
London.

DURHAM
1969

The copyright of this thesis rests with the author.
No quotation from it should be published without
his prior written consent and information derived
from it should be acknowledged.

ACKNOWLEDGEMENTS.

I wish to express my sense of indebtedness to Dr. M.K. Chowdhury, my Supervisor, and to my teachers in the Department of Economics, in particular to Professor E. Allen and Professor W. Elkan for their assistance in all spheres of study since my admission into the University of Durham.

I am grateful to the Government of East Pakistan for awarding me a scholarship which enabled me to undertake this study. My thanks are due to the University of Durham and the Fancy Foundation of Pakistan for supplementing a part of my study-tour expenses in Pakistan.

In the course of my field-study in Pakistan, I had the opportunity to meet, and consult with persons at various levels closely associated with the capital market institutions and industrial concerns whose assistance has been an enormous help to me in the preparation of this thesis. I wish to record my acknowledgements to all, official and unofficial alike, for their cooperation and encouragement.

The Graduate Society,

February, 1969.

A.H.M.H. Rahman

TABLE OF CONTENTS

Acknowledgements	ii
Contents	iii
List of Tables	viii
List of Figures	xii
Abbreviations	xiii
Introduction	xiv

<u>CHAPTER ONE</u> : AN INTRODUCTORY OUTLINE OF THE MANUFACTURING SECTOR IN PAKISTAN.	1
1. Industrial Policy.	3
2. A Review of the Manufacturing Sector with some detail of its Main Constituent Industries.	10
3. Impact of Industrialisation on the Economy.	27
4. Investment in the Industrial Sector.	33
 <u>CHAPTER TWO</u> : ANALYSIS OF CAPITAL STRUCTURE OF PUBLIC LIMITED COMPANIES.	 42
1. Methodology.	42
2. Structure of Capital.	45
3. Use of Funds.	56
4. Comparison of Capital Structure of Pakistani Companies with those in India and the U.S.A.	59
5. Capital Structure by Group of Industries.	600
6. Capital Structure by Size.	67

<u>CHAPTER THREE</u> : ROLE OF THE STOCK EXCHANGE IN PAKISTAN.	77
1. Relevance of a Stock Exchange to the Economic Position in Pakistan.	77
2. Growth and Development of the Karachi Stock Exchange.	78
3. Factors influencing the Stock Market.	87
4. Stock Exchange and the Managing Agency System.	105
5. Institutional Investors and the Stock Exchange.	109
6. Summary.	114
 <u>CHAPTER FOUR</u> : A STUDY OF INSTITUTIONAL INVESTORS.	 119
A. Insurance Companies.	120
1. Introduction.	120
2. Review of Activities.	121
(a) Total Investments.	121
(b) Investment in Industrial Stocks.	123
(c) Investment Policy and Appraisal.	126
B. The National Investment Trust.	139
1. A Short Historical Background.	139
2. Review of Activities.	141
3. National Investment Trust and the Capital Market.	150
C. Investment Corporation of Pakistan.	156
1. Establishment.	156
2. Objectives and Functions.	156
3. Review of Activities.	159
(a) Underwritings.	159
(b) Investments.	162

	(c) Investors' Scheme.	163
	(d) Closed-End Mutual Fund.	164
<u>CHAPTER FIVE</u>	: FOREIGN PRIVATE INVESTMENT IN PAKISTAN.	167
	1. Flow of Foreign Private Investment.	167
	2. A Review of Industries Developed in Collaboration with Foreign Private Investors.	174
	3. Policies and Problems.	179
<u>CHAPTER SIX</u>	: THE CONTRIBUTION OF SPECIALISED CREDIT INSTITUTIONS TO CAPITAL FORMATION IN THE INDUSTRIAL SECTOR.	188
	A. Industrial Development Bank of Pakistan.	191
	1. A Short Historical Background.	191
	2. Objectives, Functions, Criteria and Priorities in Lending of the Bank.	195
	3. Review of Activities of Industrial Development Bank of Pakistan.	199
	(a) Lending Operations.	199
	(b) Size of Loans Sanctioned.	202
	(c) Classification of Loans by Industries.	204
	(d) Regional Distribution of Loans.	206
	4. Sources and Kinds of Resources of I.D.B.P.	209
	(a) Rupee Resources.	209
	(b) Foreign Exchange Resources.	213
	B. The Pakistan Industrial Credit and Investment Corporation.	219
	1. Origin.	219
	2. Objectives and Functions, Criteria and Priorities in Lending of the Corporation	220

3. Review of Activities of Pakistan Industrial Credit and Investment Corporation.	224
(a) Lending Operation and Assistance Provided.	224
(b) Size of Loans.	230
(c) Classification of Loans and Assistance by Industries.	231
(d) Regional Distribution of Loans.	233
4. Sources and Resources of the Corporation.	235
(a) Rupee Resources.	237
(b) Foreign Exchange Resources.	238
5. Evaluation.	241

CHAPTER SEVEN : THE TECHNIQUE OF PUBLIC SECTOR

FINANCING.	245
1. A Short Historical Background.	245
2. Objectives and Functions.	246
3. Review of Investment Activities.	249
(a) P.I.D.C.'s Investments (1952-62).	249
(b) E.P.I.D.C.'s Investments (1962-66).	251
(c) W.P.I.D.C.'s Investments (1962-66).	254
4. Returns on Investments in Corporations' Managed Undertakings.	257
(a) E.P.I.D.C. Managed Undertakings.	257
(b) W.P.I.D.C. Managed Undertakings.	264
5. Financing of Public Sector Projects.	265
(a) E.P.I.D.C. Sponsored Projects.	265
(b) W.P.I.D.C. Sponsored Projects.	271

6.	Disinvestment Policy of the Industrial Development Corporations.	274
<u>CHAPTER EIGHT</u>	: SUMMARY AND CONCLUSIONS.	288
<u>APPENDICES:</u>		298
Appendix A.	Notes on Price Factor.	299
Appendix B.	List of 70 Companies and 10 Background Tables.	302
Appendix C.	The Managing Agency System.	317
<u>BIBLIOGRAPHY:</u>		323

LIST OF TABLES.

Table	Page	
1.1	Index of Industrial Production (Manufacturing), 1950 to 1965-66.	15
1.2	Industrial Production, 1949 to 1965-66.	17
1.3	Gross National Product at Constant Factor Cost of 1959-60.	28
1.4	Major Imports, 1954-55 to 1964-65.	30
1.5	Foreign Exchange Earnings, 1954-55 to 1964-65.	31
1.6	Employment in Manufacturing Sector, 1950 to 1965.	32
1.7	Investment in Large-Scale Industry, 1947-1966.	34
1.8	Sectoral Distribution of Gross Investment in Large-Scale Industries, 1947-1966.	39
2.1	Capital Structure of Selected Public Limited Companies 1961-63 and 1964-66.	46
2.2	Asset Structure of Selected Public Limited Companies, 1961/63 and 1964/66.	57
2.3	Comparison of Capital Structure of Pakistani Companies with those in India and the U.S.A.	59
2.4	Capital Structure of Selected Public Limited Companies by Group of Industries, 1961-63 and 1964- 66.	61
2.5	Capital Structure of Cotton Textile Undertakings, 1961 to 1966.	62

Table	Page	
2.6	Capital Structure of 70 Selected Public Limited Companies by Size between 1964 and 1966.	71
2.7	Some Significant Ratios in the Quoted Companies 1964-1966.	73
3.1	Number of Companies Listed and their paid-up Capital, 1949 to 1966.	81
3.2	Response to New Shares offered on the Karachi Stock Exchange, 1955-59 to 1966-67.	83
3.3	General Index Number of Share Prices and Security.	86
4.1	Structure of Life-Fund Assets of the Insurance Companies, 1965.	122
4.2	Holdings of the Insurance Companies in Industrial Stocks on 31st December, 1965.	124
4.3	N.I.T.'s Operation from 1963 to 1967.	142
4.4	Statement of N.I.T.'s Investment, 1967.	143
4.5	N.I.T.'s Income, 1963-1967.	148
4.6	Performance of Underwritten Public Issues Offered on the Market from February 1966 up to June 1967.	161

Table	Page	
5.1	Investment in the Manufacturing Sector, Local and Foreign Private Investment during the First and Second Plan Periods.	168
5.2	Foreign Private Investment in Pakistan, 1957-65.	170
5.3	Flow of Investment in terms of countries of origin.	172
6.1	Loans Sanctioned and Disbursed by the I.D.B.P. 1961/62 - 1965/66.	200
6.2	I.D.B.P. Loans Sanctioned by Size.	202
6.3	I.D.B.P. Loans Sanctioned by Industry 1961/62 - 1965/66.	205
6.4	Regional Distribution of I.D.B.P. Loans, 1961/62 - 1965/66.	207
6.5	Sources of Rupee Resources of I.D.B.P. as on 30th June, 1966.	209
6.6	Foreign Exchange Resources Position of I.D.B.P. as on 30th June, 1966.	214
6.7	Loans and Assistance provided by P.I.C.I.C. 1958-1966.	225
6.8	P.I.C.I.C. Loans Sanctioned by Size up to 31st December, 1964.	230
6.9	Industry wise Classification of P.I.C.I.C. Loans and Assistance as on 31st December, 1966.	232

Table	Page	
6.10	Regional Distribution of Loans Sanctioned by P.I.C.I.C. 1958-66.	234
6.11	Resources Position of P.I.C.I.C. as on 31st December, 1966.	236
6.12	Foreign Currency Resources Position of P.I.C.I.C. as on 31st December, 1966.	239
7.1	Investment Position of P.I.D.C. Sponsored Projects as on 30th June 1962.	250
7.2	Industry wise Investment Position of E.P.I.D.C. as on 30th June, 1966.	252
7.3	Industry wise Investment of W.P.I.D.C. as on 30th June, 1966.	255
7.4	Returns on Investment in Corporations' Managed Undertakings, 1962/63-1965/66.	258
7.5	East Pakistan Government Development Loan to the E.P.I.D.C.	267
7.6	Summarised Statement of Development Loans from West Pakistan Government and Central Government to W.P.I.D.C. up to 30th June, 1966.	271
7.7	Government Funds Advanced to, and Repayments by the E.P.I.D.C. and the W.P.I.D.C. up to 30th June, 1966.	276

LIST OF FIGURES

Fig. 1 Total Flow of Foreign Private Investment in
Pakistan, 1957-1965. 171A.

Fig.2 Flow of Foreign Investment in the
Manufacturing Sector in Pakistan, 1957-1965. 171B.

ABBREVIATIONS.

A.I.D.	Agency for International Development.
C.S.O.	Central Statistical Office.
E.C.A.F.E.	Economic Commission for Asia and Far East.
E.P.I.D.C.	East Pakistan Industrial Development Corporation.
F.F.Y.P.	First Five Year Plan.
G.A.T.T.	General Agreement on Tariffs and Trade.
G.N.P.	Gross National Product.
I.B.R.D.	International Bank for Reconstruction and Development.
I.C.F.C.	Industrial and Commercial Finance Corporation.
I.C.P.	Investment Corporation of Pakistan.
I.F.C.	International Finance Corporation.
I.D.B.P.	Industrial Development Bank of Pakistan.
K.F.W.	Kreditanstalt fur Wiederauban.
K.S.E.	Karachi Stock Exchange.
N.I.T.	National Investment Trust.
P.C.	Per Cent.
P.I.C.I.C.	Pakistan Industrial Credit and Investment Corporation.
P.I.F.C.O.	Pakistan Industrial Finance Corporation.
P.I.D.C.	Pakistan Industrial Development Corporation.
S.F.Y.P.	Second Five Year Plan.
T.F.Y.P.	Third Five Year Plan.
W.P.I.D.C.	West Pakistan Industrial Development Corporation.

INTRODUCTION.

It is a main aim of economic activity in underdeveloped countries to raise per capita income which is typically desperately low. The specific manifestation of this feeling can be found in the various development programmes sponsored by the public authorities in the shape of Five Year Plans. While the role of agricultural development has been recognised, there is increasing evidence that industrialisation has assumed greater importance in the development processes of developing countries.

The structure of most of the developing economies is dominated by a massive and traditional sector such as agriculture, generally contributing something of the order of 50 to 60 p.c. to Gross National Product. In such a context, it is commonly felt by the planners and development economists that for an accelerated growth rate industrialisation is an inescapable necessity. As Meier has pointed out, "industrialisation offers substantial benefits of a dynamic character that are important for changing the traditional structure of the economy".⁽¹⁾ The structural change in the economy can, therefore, be

(1) Meier, Gerald M., Leading Issues in Development Economics Selected Materials and Commentary (Oxford University Press, 1964), p.285.

visualized as on involving the transfer of resources from the traditional agricultural sector and quickening the pace of industrial growth. It has been further observed that "industrialisation is an inescapable part of the process of change accompanying a gradual improvement in per capita income".⁽²⁾ The advocacy of industrialisation on the above lines is convincing due to the fact that primary exports are susceptible to wider fluctuations so far as the foreign demand is concerned.

Like many a developing nation, Pakistan, after being created in 1947, found itself faced with a predominantly traditional economy and its accompanying problems such as low income per capita, balance of payment difficulties and, unemployment and underemployment. Given such conditions the Government found it necessary to accord a high priority to industrialisation so as to strengthen the economy with regard to employment, income, saving, and earning of foreign exchange. Industrialisation is therefore, an attempt to transform the economy to attain a higher and yet higher growth rate. It may, however, be pointed out that industrialisation in Pakistan has not been given priority to such an extent as to weaken the contribution the agricultural sector can make. Since the beginning

(2) Ibid. p.286.

of the planning era, almost equal stress and importance has been accorded to both production sectors, even in the allocation of resources. Despite this, however, planners, reflecting the current thinking of the Government, have made it clear that "whatever may be the shifts of emphasis between agriculture and manufacturing on the short run, the long run objective of the development policy must be industrialisation both as a means of increasing per capita income to a satisfactory level and as a field of employment". (3)

Having gone through the process of the planned development over a decade and a half, the Pakistan economy has now reached what, in an Asian context, is a semi-industrial stage. The country has now a thriving capitalist sector, side by side with the traditional agricultural sector. To this process of transformation of the economy, the manufacturing sector has made a substantial contribution. The share of agriculture to Gross National Product declined to 49 p.c. in 1965 compared with 60 p.c. in 1950 while that of the manufacturing sector rose to 12 p.c. as against 6 p.c. in 1949.

It would appear that industrialisation in Pakistan has not been in the direction of merely emulating the examples of other developed or developing countries; rather it was

(3) National Planning Board, The First Five Year Plan 1955-60, (Government of Pakistan, December 1967), p.395.

strongly guided by the necessity for making the economic structure more viable from the point of view of raising per capita income, which is one of the lowest in the world.⁽⁴⁾ Starting as an import-fed economy (industrialisation being insignificant) the economy of Pakistan has made tremendous strides to enable the country to be self-sufficient in a number of consumer as well as intermediary goods.

With the launching of the Five Year Plans since 1955, the requirements of foreign exchange have increased appreciably to meet the foreign exchange components of development projects.⁽⁵⁾ Pakistan, because of its balance of payments difficulties could hardly finance its development imports out of its own resources without foreign aid and loans. Therefore, the development plans have included the aim of making the country less dependent on foreign assistance in future. An essential strategy of this policy is evidenced in developing import-substituting and export-orientated industries.

Industrialisation was vitally important in a populous country like Pakistan to reduce the pressure on land. The land, per capita, works out to be less than one acre in

(4) Rs 311 in 1949-50.

(5) For example, foreign exchange components of the First and Second Plans' outlay were 47 and 38 p.c. respectively. The foreign exchange requirements of the Third Five Year Plan are estimated to be 32 p.c. of the Plan outlay.

East Pakistan and a little more than one acre in West Pakistan.⁽⁶⁾

The disguised unemployment for the country as a whole has been estimated at 20 to 25 p.c. of the labour force.⁽⁷⁾ The surplus labour is required to be successively withdrawn from the agricultural to the industrial sector by providing gainful employment. During the last decade and a half there has been a shift of labour from the agricultural sector but it has not been quite as evident as otherwise it would have been because of a higher population growth rate.

The industrial sector in Pakistan has registered an annual growth rate of nearly 13 p.c. over the period under study. This growth rate might be regarded as quite high by any standard; it must seem particularly so when viewed in the perspective of the underdeveloped condition of the economy.

The process of industrial growth required an adequate supply of funds, especially long-term capital. Adequate availability of capital is a basic requirement for the development of industry. Economists of all types have recognised the fact that economic development rests generally on the establishment of those conditions that encourage the growth of capital. All new and existing industrial establishments

(6) Central Statistical Office, Statistical Pocket-Book of Pakistan 1967, (Government of Pakistan), pp. 62, 52 and 53.

(7) Haq, Mahbubul., The Strategy of Economic Planning : A case study of Pakistan, (Oxford University Press, Karachi, 1966), p.248.

require funds for their continuing prosperity. For this reason the problem of capital supply has come to the forefront in economic discussion since the achievement of Pakistan.

It is generally contended that industrial growth is accompanied by a structural change in the capital market as well. The change is inevitable in the sense that demand for long-term funds increases *pari passu* with industrial development. To meet this demand the capital market tends to expand with institutional change consistent with the aims of the Government, or with the flow of funds or both. But unfortunately, there seems to have been a wide gap between the demand for and the supply of capital. Since the announcement of industrial policy in 1949, the demand for long-term capital in Pakistan by the private sector, for industrial financing, has increased considerably. To meet the demand effectively, the Government, in collaboration with private enterprise has developed a number of institutions to strengthen the capital market in the country.

The capital market in Pakistan includes the Industrial Development Bank of Pakistan, the Pakistan Industrial Credit and Investment Corporation, institutional investors such as insurance companies, the National Investment Trust and the recently established Investment Corporation of Pakistan. The Karachi Stock Exchange and a relatively smaller exchange at

Dacca have provided the marketing facilities of stocks in the country. Until 1966, there existed no investment bank, although an underwriting function, in the limited insurance sense of guaranteeing the absorption of unsold stocks, has been performed to a certain extent by the larger commercial banks, the Pakistan Industrial Credit and Investment Corporation and the National Investment Trust. Underwriting facilities by these institutions have however, proved to be inadequate.

The problem of raising the initial capital has been particularly difficult since 1963 despite the fact that some new issues, all of which were floated by well-known industrial houses, were oversubscribed. This situation warranted a better operational efficiency of the Stock Exchange and effectiveness of the capital market. In contrast, many issues floated by comparatively unknown entrepreneurs were not fully subscribed and in some instances remained grossly undersubscribed. Professor Louis Loss of Harvard University was invited by the Government to investigate the causes of this state of affairs on the Stock Exchange. In his report "Securities Market in Pakistan" he pointed out that the problem was the result of the absence of institutions performing investment banking functions in Pakistan. As a remedy, he suggested the establishment of an investment bank in order to provide expert advice to the public about the securities, and to assist the entrepreneurs to raise capital

through new issues, thereby stimulating wider public participation in equity investment.

As regards oversubscription of some issues, Professor Loss observed that "such oversubscription often resulted from the fact that a relatively small number of wealthy investors was able to obtain bank credit to finance 90 p.c. of their subscription. On the other hand, small investors were unable to obtain bank credit on equal terms".

The findings of Professor Loss were further examined by a committee of experts appointed by the Government. The Committee observed that "the stock market lacks depth and listed shares are closely-held by a few persons. They felt that there was a need to mobilise the savings of the growing middle class to help constrain inflationary pressure and to provide capital to growing industrial undertakings. The Committee particularly emphasised the need for the provision of equity capital through the stock market to medium-sized undertakings, hitherto excluded from access to the capital market and to obtain the fullest utilisation of entrepreneurial talents in the country.

Plan of the Study:

The importance of long-term capital for rapid industrialisation is self-evident. The importance of such capital is enormously greater in Pakistan as it requires large amounts of

foreign exchange to finance its developmental projects. There has been discussion on the problem of industrial finance at different levels and recent depression in the stock market has attracted considerable attention. But very little has been done to analyse the workings of the capital market institutions and their problems in making investment in industrial securities as well as problems of industrial finance in general.

The present study will be concerned with the modes of industrial financing in Pakistan both in the private and public sectors, with particular reference to the nature and problems of financing the long-term capital requirements of the large-scale industrial sector.⁽⁸⁾ For this purpose, the role of the main financial intermediaries and other sources of industrial finance has been studied. This study is necessary to evaluate the growth of industrial financing functionally related to the stages of development.

The study will be spread over eight chapters. To begin with, we will evaluate the development of the manufacturing sector in Pakistan. We will then proceed to discuss the capital structure of selected companies listed on the Karachi Stock Exchange.

(8) The 'Large-scale Industry' (1) refers to factories and plants required to register under section 2(j) of the Factories Act., 1934, by virtue of twenty or more employees and using power.

While studying the financial aspect of their capital structure we will consider the uses of capital funds as seen in various types of financial assets. The sources of capital and their relative importance in the capital structure will be discussed in terms of groups of industries and the size of undertakings. The average capital structure of Pakistani companies will then be compared with those of developed and developing countries.

In the Third Chapter we propose to discuss the role of the Karachi Stock Exchange in mobilising private savings into the corporate sector, with particular emphasis on the problems of raising long-term capital through new issues. We shall make an attempt to explain the behaviour of the stock market in the light of fiscal and monetary policies and its effectiveness in raising share capital for industrial concerns.

Chapter Four can be regarded as a corollary to Chapter Three. It will seek to explain the role of institutional investors in providing equity capital directly to industrial undertakings as compared with their roles on the stock exchange.

In Chapter Five, efforts will be made to make an assessment of the role of foreign private investors as suppliers of industrial finance.

The Sixth Chapter will deal with some aspects of the long-term credit which is provided by the specialised credit institutions viz., the Industrial Development Bank of Pakistan and the

Pakistan Industrial Credit and Investment Corporation. The main purpose of these institutions is to meet the long-term credit requirements of industries in the private sector, particularly in foreign exchange. In this connection, the general problems relating to institutional financing and its effectiveness in providing long-term credit will be examined.

In Chapter Seven the techniques and instruments of mobilising public funds into the industrial sector will be discussed. The Provincial Industrial Development Corporations (formerly Pakistan Industrial Development Corporation) are the main instruments of developing industries in the public sector. The objectives, achievements and failures of these state-sponsored Corporations will be analysed in the light of their past performance. The failure to achieve satisfactory results in respect of the disinvestment policy will be examined at some length.

They will then follow a chapter - Chapter Eight - in which such conclusions as seem to be supported by this study will be summarised. Illustrative and supporting detail has been set out in various appendices.

CHAPTER ONE.

AN INTRODUCTORY OUTLINE OF THE MANUFACTURING

SECTOR IN PAKISTAN.

Pakistan came into existence as an independent state in 1947 with a predominantly traditional economy. Like most other developing countries, the composition of her national income was such that about 60 p.c. of the Gross National Product (G.N.P.) came from primitive agriculture with manufacturing contributing less than 6 p.c. Due to low productivity in agriculture, insignificant industrial capacity, undeveloped conditions of other sectors of the economy and the size of her population, the average income was only 311 rupees per head.⁽¹⁾ According to the census of 1951, 90 p.c. of the total population lived in rural areas with the remaining 10 p.c. in urban areas.⁽²⁾

On the partition of British India, Pakistan inherited a very modest manufacturing capacity. Out of 14,569 industrial units in British India, 1,406 units fell to the lot of

(1) Ministry of Finance, Pakistan Economic Survey 1966-67, (Government of Pakistan, Rawalpindi) Statistical Section, Table 1, pp.2-3.

The per capita income has been shown at constant factor cost of 1959-60.

(2) The First Five Year Plan, op.cit., p.10.

Pakistan. Of these, 832 factories were perennial and the remaining were seasonal in nature. Amongst the 832 units, only 35 were of any significance. These were 16 cotton textile mills, 7 sugar factories, 4 glass factories, 5 cement factories, one large shoe factory, one chemical and one woollen factory.⁽³⁾ The remaining units were very small, mainly engaged in processing raw materials for exports or converting food crops into consumable form. In addition, a few units of ore smelting, rerolling mills and printing presses were present in the country. The rated capacity of these units was far below the total requirements of the country. This implied that Pakistan having 25 p.c. of the population, 6.5 p.c. of civilian labour force had got only 10 p.c. of the manufacturing capacity of British India.⁽⁴⁾ The country had not only to contend with a meagre supply of foreign exchange, but also with the problem of a low rate of capital formation since the region falling to the lot of Pakistan was predominantly agricultural and under-developed.

Pakistan appeared to have a great potential in developing agro-based industries in view of the availability of raw materials such as, jute, cotton and wool for textile industries; bamboo, grass and straw for paper and board manufacturing; sugar

(3) Industrial Development in Pakistan : A brochure by the Ministry of Information and Broadcasting (Government of Pakistan, 1965), p.2.

(4) Ibid, p.4.

cane and tobacco for sugar and cigarette industries and limestone and clay for the manufacture of cement needed for physical infrastructure. In addition, certain minerals like gas and gypsum were also available for the production of fertilizers.⁽⁵⁾ The possibility of generating power from water also looked promising.

1. Industrial Policy.

Industrialisation was considered desirable by the Government with a view to using domestic raw materials gainfully, to meet the demand for the home market, to provide more employment and finally to increase the standard of living. Moreover, it was expected that industries would contribute more to the G.N.P. and bring larger foreign exchange benefits per unit of investment. To achieve these objectives, the Government decided in the first industrial conference held in December, 1947 to develop 27 more urgently needed industries and to provide the necessary assistance for the promotion of industrial growth through the provision of training, research and credit facilities, protective tariffs, tax relief incentives and generous depreciation allowances.⁽⁶⁾

(5) Andrus, J.R. and Mohammed, A.F., The Economy of Pakistan, (Oxford University Press, 1958), p.166.

(6) Industrial Development of Pakistan, op.cit., p.4.

The first industrial policy aiming at providing general guidelines for industrial development was announced in April 1948.⁽⁷⁾ According to this, the Central Government assumed the direct responsibility for planning the development of 27 important industries while provincial Governments were asked to be associated in the formulation of development plans. The policy emphasised the development of industries like jute, cotton textile, leather, sugar, cement and paper for which raw materials were available locally. It was clearly indicated in the policy that the private sector would be allowed free play and given necessary assistance for establishing all types of industries with the exception of a few which were reserved for the public sector.⁽⁸⁾

The encouragement to be given to foreign private investment in industry was another important feature of the industrial policy. For this purpose the Government guaranteed repatriation of capital and remittance of profit without restriction. Liberal tax concessions were also granted to foreign enterprise.

Basically, there has not been much change in the industrial policy of the Government over the past two decades,

(7) Statement of Industrial Policy, Government of Pakistan, 1948.

(8) The exceptions were: (i) arms and ammunitions of war.
(ii) generation of hydro-electric power and (iii) manufacture of railway wagons, telephone and telegraph equipments.

though it has been supplemented by the addition of further statements in November 1948, November 1954 and February 1959.⁽⁹⁾ The supplementary statement in 1954 spelt out in greater detail the policy of encouraging foreign capital in an attempt to increase the inflow of foreign investment. Among other things, the statement made it clear that fair compensation would be given in the event of the nationalisation of any foreign enterprise. Further, foreign capital in approved industries, set up after 1st September 1954, could be repatriated at any time to the extent of the original investment. The ploughed back profit in approved undertakings would also be treated as investment for the purpose of repatriation.⁽¹⁰⁾

The third policy statement came in February 1959. In this statement, the importance of medium, small and cottage industries was recognised and measures were taken to develop these sectors. Further, the establishment of more sophisticated and heavy industries was considered most vital for sustained economic growth and henceforth the Government decided to give priority to the development of these industries.

(9) E.C.A.F.E., 'Regional Symposium on Industrialisation for Asia and Far East, 1965' - Country Report, Pakistan, (unpublished) p.2.

(10) The Department of Investment Promotion and Supplies, Industries for Foreign Investment in Pakistan, (Government of Pakistan, January, 1967) p.8.

The extension of the range of policy beyond this was indicated by emphasising the aims of expanding production, giving maximum scope to private enterprise, paying special attention to activities which would be likely either to earn or to save foreign exchange, and of establishing industries in less developed areas. In this statement, the Central Government with certain exceptions, shifted responsibility for industrial development to two provincial Governments. The exceptions were, first, industries located in the Federal Area of Karachi; second, industrial undertakings owned partly or wholly by the Central Government; and third, a group of activities covering minerals including oil and gas, and marine fisheries. (11)

To encourage private investment in industry, the Government intended to exercise minimum control over privately owned and operated industry. The Government, however, reserved the right to exercise its control in fixing targets, selecting location, allocating materials in short supply and regulating labour. The policy ensured assistance to industries in procurement of capital goods, machinery, raw materials, technical know-how, scientific research, land, water, power etc. At the same time, it was decided to provide financial assistance by increasing the sources of

(11) E.C.A.F.E. - op.cit., p.4.

long-term credit facilities to the private sector.

The announcement of industrial policy led to the formulation and execution of economic development plans in which industrialisation was assigned a significant place.⁽¹²⁾

Industrial programming was based on physical targets set in the economic development plans. However, the development plan for this period viz., 1948 to 1951 could not achieve the desired results due mostly, to an inadequate supply of human and material resources.

A beginning towards comprehensive planning was made after 1951. Meanwhile, the Colombo Plan came into being and its Consultative Committee was entrusted with the responsibility of surveying the needs of the region and assessing the resources and resources required, so that international co-operation could be used to assist the countries of the area in their struggle for a higher standard of living.

Under the provisions of the Colombo Plan, a development board prepared a 6-Year Development Plan (1951-57) for overall

(12) In 1948, a Development Board and a Planning Advisory Board were set up. The cost of the schemes sanctioned by the Development Board did not exceed Rs 1,123 million. The Development Board was replaced by the Planning Board in 1953. Again in June 1959, Government re-organised the Planning Board and re-designated it as Planning Commission. The Commission was given a new charter of authority and responsibility to overcome certain shortcomings that arose in co-ordinating planning and implementation.

development of the economy within the framework of the Colombo Plan. The attempt by this board was the first of its kind in Pakistan; it was designed to apply the planning techniques to the problem of resource allocation. Further, in order to avoid dissipation of limited resources and to make the country self-sufficient in respect of her immediate needs, Government evolved, working within this 6-Year Plan, the 2-Year Priority Programme. (13)

The 6-Year Plan was replaced by the First Five Year Plan (1955-60) in July 1955, and this was marked with the beginning of the second phase of Economic Planning in Pakistan. In 1960 the First Plan was followed by the Second Plan (1960-65). The second was followed by the Third Plan in July, 1965. In all these plans, substantial resources were allocated for the purpose of accelerating industrial growth. The Third Plan continues to give a prominent place to the development of producer goods industries. There is indeed a shift in emphasis from consumer goods to capital goods industries and export-orientated industries. The emphasis on capital intensive industries during the Third Plan is reflected in its overall capital output ratio. The capital-out-put ratio during 1960-65 is estimated as 2.5

(13) First Five Year Plan, op.cit., p.9.

whereas in the Third Plan it is set down as 3.5.⁽¹⁴⁾

In addition, the Government, either alone or in association with others, has set up several developmental, financial and promotional institutes for encouraging rapid industrialisation. Among these institutions, the most important ones are the P.I.D.C. (later bifurcated into E.P.I.D.C. and W.P.I.D.C.), the Pakistan Industrial Finance Corporation (now I.D.B.P.), the Pakistan Industrial Credit and Investment Corporation and the Investment Promotion Bureau.

Over and above this, the Government has from time to time, announced annual policies which, inter-alia, make physical and monetary provisions for the industrial sector. Simultaneously, the Government has also issued the Industrial Investment Schedules which spell out the industries which are intended to be developed in the private sector.⁽¹⁵⁾ The Schedules

(14) Planning Commission, The Third Five Year Plan (1965-70), (Government of Pakistan, June 1965), p.447.

(15) The first Schedule announced by the Government in 1960 was related to the Second Five Year Plan, viz., from July 1960 to June 1965. The Schedule set forth capital outlay targets, both in local currency and foreign exchange, in respect of 107 items against which industries were to be established. The Schedule provided for a total investment of Rs 2,840 million including foreign exchange component of Rs 1,700 million. The progress made in the implementation of the Schedule during the first two years of the Second Plan period showed, that as against a total provision of Rs 2,840

also prescribe financial resources in terms of local currency and foreign exchange in capital outlay for various industries in both the wings of Pakistan.

2. A Review of the Manufacturing Sector with some detail of its main constituent Industries.

Within the framework of these policies which were designed to create a favourable atmosphere for industrial development in Pakistan, the Government succeeded in channelling

footnote (15) continued from previous page:-

...million, the actual sanctions issued by various sanctioning agencies amounted to Rs 4,070 million. In order to keep up the buoyancy shown by the private enterprise, the Government announced a Revised Industrial Investment Schedule in February 1963. The Revised Schedule provided an investment provision of Rs 1,530 million inclusive of a foreign exchange component of Rs 890 million. All in all, against a total target of Rs 4,370 million in two Schedules, investments approved, aggregated to Rs 6,590 million. This indicates that the strategy of planning through the Industrial Investment Schedule has been very successful in implementing the planned objectives.

The Third Plan envisages an investment of Rs 12,880 million in the industrial sector of which Rs 8,300 million have been earmarked for the private sector. The Industrial Investment Schedule for the Third Plan has provided for an investment of Rs 10,880 million and included 200 items. (Industrial Investment Schedule for the Third Plan).

private and public investment to the industrial sector. For comparative study let us divide the period into the Pre-Plan period (1947-55); the First Plan period (1955-60); and the Second Plan period (1960-65). The first year of the Third Five Year Plan (1965-70) is also included in the study.

Pre-Plan industrial growth was rapid in the sense that the rate of growth in terms of value of production (Current Prices) was estimated to be 16.4 per cent per annum.⁽¹⁶⁾ This conclusion is not disturbed even if a correction is applied to allow for changes in the value of money over the period. The growth rate would then come out at approximately 13 p.c. per annum which is still high. Rapid industrial growth during the pre-plan period (1947-55) is also shown by the index of industrial production. The index of industrial production rose from 38 in 1950 to 127 in 1955 (1954 = 100) ; this is shown in Table 1.1 below. But due to the absence of co-ordinated plans with a perspective, the growth was not balanced since private investment seemed to have gone into those industries which assured the higher profits in the short run, the least organisational effort, and, minimum investment. As a result,

(16) First Five Year Plan, op.cit., pp.399 and 400.

investment in the manufacturing sector was in three categories of industries : agricultural raw materials processing, food manufactures and textile industries.⁽¹⁷⁾ This, however, led to the emergence of an unbalanced industrial structure. To introduce balance, the Government had to intervene directly in industry. The Government did this through the establishment of the Pakistan Industrial Development Corporation (P.I.D.C.) in 1950, under the P.I.D.C. Act of 1950. The P.I.D.C. later was bifurcated into two regional units, the East Pakistan and the West Pakistan Industrial Development Corporations. The object of the P.I.D.C. was to promote those industries which private industrialists were either unable or unwilling to undertake.

The First Plan placed more emphasis on the development of intermediate goods production than on consumers' goods industries.⁽¹⁸⁾ The First Plan set a target of 65 p.c. increase

(17) These three groups of industries together accounted for production of value of about Rs 2,570 million out of a total large-scale industrial production of about 3,410 million rupees or 75 p.c. of the whole. This is an indication of the dependence of the country's industry on agricultural raw materials. (See F.F.Y.P. op.cit., p.402).

(18) For example, out of the proposed investment of Rs 3,000 million, about Rs 1,600 million was allocated to producers' goods like cement, heavy chemicals, fertilizers, newsprint and shipbuilding. This would raise the share of investment in producers' goods industries from around 40 p.c. at the beginning of the Plan period to 45 p.c. at the end. (See F.F.Y.P. op.cit., p.416).

in the production of large and, medium-scale industries. Despite the shortfall in financial targets in the industrial sector, the target for production was fully realised.⁽¹⁹⁾ By 1960 the index of industrial production stood at 192.4. A number of industries were developed, which were virtually non-existent in the country, including cotton spinning, jute manufactures, and the production of woollen and worsted goods, art-silk fabrics, hydro-generated oil, cigarettes and matches, leather and rubber goods. In the case of cotton and jute goods production the country not only attained near self-sufficiency but also was earning a substantial amount of foreign exchange through exports. Factories producing fertilizers, dyes, D.D.T., penicillin, paper and cardboard came into production during the later part of the Plan period.⁽²⁰⁾ In addition, steel re-rolling mills and industries producing a great variety of electrical and engineering products were established.

The large-scale industrial sector attained a remarkable degree of progress and diversification during the Second Plan period. By this time the country almost replaced imports of a number of consumer and producer goods. The production levels of

(19) Second Five Year Plan, op.cit., p.221.

(20) Planning Commission, The Second Five Year Plan (1960-65), (Government of Pakistan), p.220.

manufactured goods like cotton textiles, jute manufactures, paper and newsprint, leather goods and processed fish were raised to such an extent as to yield an exportable surplus during the Second Plan period. Moreover, a beginning was made towards the development of industries like machine tools and iron and steel. The Plan target of 60 p.c. increase in the quantum of industrial production was exceeded by a substantial margin. Taking 1959-60 as base year the quantum index of industrial production rose to 201.7, as is indicated in Table 1.1 on the next page.

During the first year of the Third Plan the progress of industrial development seemed to have been well maintained. The quantum index of industrial production went up to 214.2 in 1965-66 from the level of 201.7 in 1964-65. As adopted during the Second Plan period, the Government continued to support industrialisation through the policy of liberalisation of imports to meet the growing needs of industry, granting of tax-holiday facilities for profit and capital remittances, measures for avoidance of double taxation (in case of foreign investment) and liberal credit facilities both in local and foreign currency. (21)

(21) Planning Commission, Evaluation of the First Year of the Third Plan, (Government of Pakistan, May 1967), p.64.

Table 1.1. : Index of Industrial Production (Manufacturing).
1950 to 1965-66.

Base Period : 1954 = 100.

Year		Quantum Index
1950	...	37.7
1955	...	126.9
1960	...	192.4

Revised Quantum Index of Industrial Production* .

1959-60 (July-June) = 100.

(July-June)		Quantum Index
1959-60	...	100
1960-61	...	118.7
1961-62	...	138.8
1962-63	...	159.5
1963-64	...	181.3
1964-65	...	201.7
1965-66	...	214.2

* The index of industrial production has since been revised as previously it covered only production trends of 32 items. The revised index includes 200 items covering 94 p.c. of production as against 75 p.c. of earlier coverage. This gives an idea of industrial expansion in Pakistan.

Source:- Ministry of Finance, Pakistan Economic Survey 1964-65, for figures up to 1960, p.392. Central Statistical Office, Statistical Year Book 1965-66, for Revised Index, p.115.

The growth of major industries in terms of physical output from 1949 to mid June 1966 can be seen from Table 2.2. below.

Food Manufactures:

The food-processing industry seems to have made remarkable progress in respect of a number of items during the period under review. The production of hydro-generated vegetable oil rose from 2.5 thousand tons in 1949 to 100.0 thousand tons in 1965-66. It can be seen from the table below that the tobacco industry has made spectacular progress in the sense that the production of cigarettes increased to 26,450 millions in 1965-66 from 2,410 millions in 1949.⁽²²⁾ This industry, primarily a post-independence development, ranked 8th in terms of employment in 1959-60, providing employment to 4,108 persons in 14 concerns located all over the country. As much as 25 p.c. of the Government excise revenue income is derived from the cigarette and tobacco industry.⁽²³⁾ By 1970 the annual production of cigarettes is expected to be 30,000 millions.

(22) Unit = 1 cigarette.

(23) Haidari, I. and Khan, A.H., Stock Exchange Guide of Pakistan, (Economic and Industrial Publications, Revised and Enlarged Edition, 1968), p.145.

Table 1.2. : Industrial Production, 1949 to 1965-66.

Major Items	Units	1949	1954-55	1959-60	1964-65	1965-66
1. Hydrogenated Vegetable Oil.	000 tons	2.5	13.0	30.0	97.0	100.0
2. Cigarettes	Million Nos	2,410.0	4,760.0	9,280.0	19,840.0	26,450.0
3. White Sugar.	000 tons	38.6	87.0	145.0	232.0	445.0 (P)
4. Cotton Yarn.	M.lbs	34.0	232.0	403.0	518.0	501.0
5. Cotton Cloth.	M.yds	92.0	387.0	606.0	764.0	691.0
6. Silk and Rayon Cloth.	M.sq yds	nil	9.7 (a)	25.0	32.2	35.0
7. Woollen Worsted yarn.	M.lbs	nil	3.7 (b)	6.4 (c)	5.8 (d)	7.0 (e)
8. Jute goods.	000 tons	nil	103.0 (b)	265.0 (c)	289.0 (d)	409.0 (e)
9. Upper leather.	M.sq ft	1.1 (a)	9.1 (c)	19.8 (d)	n.a	n.a
10. Tyres and Tubes.	M. Nos	1.3	1.8	3.1	6.4	4.6
11. Fertilizers (all sort).	000 tons	nil	nil	43.0	235.2	n.a.
12. Paper and Board.	000 tons	nil	19.2	40.8	65.0	65.5
13. Newsprint.	000 tons	nil	nil	12.8 (f)	38.2	33.8
14. Cement.	000 tons	422.0	690.0	1,030.0	1,690.0	1,650.0

Notes on Table: (P) Provisional. (a) Data relate to one month. (b),(c),(d),(e) data relate to Calendar year. (f) data relate to eleven months total. M = millions.

Sources:

For 1949 data, Pakistan Economic Survey 1965-66, p.19.

For 1954-55 to 1965-66 figures : Pakistan Economic Survey 1966-67, Statistical Table 9, p.18.

Sugar:

The production of white sugar was 445 thousand tons in June 1966 as compared with 38.6 thousand tons in 1949. There were 10 sugar mills with production capacity of about 200 thousand tons in West Pakistan and 9 sugar mills with production capacity of 107 thousand tons in East Pakistan during 1964-65.⁽²⁴⁾ During the first year of the Third Plan three more sugar mills have been set up and 6 sugar mills were in various stages of construction. With the establishment of a few more sugar mills and the expansion of the existing ones, it is estimated that sugar production by 1970 would be in the vicinity of 685 thousand tons as against the Third Plan target of 640 thousand tons.⁽²⁵⁾ If this is done, it is expected that the country would reach near self-sufficiency as far as sugar is concerned.

Textile Industries:

Cotton Textiles:- The Cotton Textile industry occupies the first position in the whole of the manufacturing sector of the economy. Total investment in this industry was estimated as Rs 1,500 million up to June 1964. It accounted for 15 p.c. of the total investment in the manufacturing sector. The

(24) Ibid, p.145.

(25) Ibid, p.145.

working force engaged in this industry was about 400,000. It also accounted for 25 per cent of the industrial sector's contribution to the G.N.P. and a significant amount to the national exchequer as excise duty which amounted to 17.3 per cent of total revenue collections from excise duties during 1963-64. (26)

At the time of independence, Pakistan had only 17 textile mills with a total installed capacity of 177,418 spindles and 4,824 looms, which rose to 1.68 million spindles and 26,000 looms by 1954-55, just before the beginning of the First Plan. During the First Plan period the installed capacity further increased to 1.95 million spindles and 30,000 looms. The Second Plan's target was to raise the installed capacity to 2.50 million spindles and 40,000 looms against which realisation was to the extent of 2.58 million spindles and 35,767 looms. (27) The Third Plan's target is to raise the installed capacity to 4 million spindles and 70,000 looms respectively. (28)

(26) Stock Exchange Guide of Pakistan, op.cit., p.213.

(27) Planning Commission, Final Evaluation of the Second Plan (Govt. of Pakistan, December 1966), p.63.

(28) Evaluation of the First Year of the Third Plan, op.cit., p.65.

A study of Table 1.2. indicates that the production of cotton yarn has increased from 34 million pounds in 1949 to 518 million pounds in June 1965. During the same period, cotton cloth production has risen to 764 million yards. As a result of this development, present production capacity of cloth in the large-scale industrial sector is capable of yielding 6.8 yards of cloth per head compared with 1.4 yards per head in 1949.

The production of artificial silk and rayon cloth started in 1955 and the annual production capacity has risen to 35 million square yards by June 1966. Until mid 1964 this industry was dependent on imported raw materials, the shortage of which forced them to operate below capacity level. As a result, production was inadequate in relation to the domestic demand, resulting in higher prices. With the establishment of the Viscose Rayon Plant at Kaptai in East Pakistan and the Acetate Rayon Plant near Lahore in West Pakistan, the problem of raw materials supply has largely been solved. As to woollens, the production of woollen worsted yarn has increased from 3.4 million pounds in 1954-55 to 7 million pounds in 1964-65 as is shown in Table 1.2.

Jute Industry:

This industry has now emerged as the second largest in the country, although, there was no jute mill in Pakistan at the time of partition. During the initial years of independence this industry did not receive much attention from private investors because of the relatively high establishment cost and longer gestation period involved. But Pakistan being one of the largest producers of raw jute in the world could not afford to leave this industry undeveloped for long. Therefore, the Government decided to pioneer the setting up of a jute industry and asked the P.I.D.C. in 1952 to take the initiative to promote this industry. Meanwhile, the Adamjee Jute Mills Ltd., the first in the country, was established with the initiative of Adamjee House and the Government. By the end of the Second Plan there were 20 jute mills in production and 11 more were in various stages of construction. The number of installed looms at the end of June, 1965 was 12,376 compared with 8,000 looms during 1959-60. Third Plan provides for an estimated investment of Rs 732 million including Rs 277 million on account of looms under implementation at the commencement of the Plan period. By 1970 it is expected that 25,000 looms will be in full operation. In addition, the target for the setting up of broad looms is projected at 2,500 looms involving an investment of Rs 400 million

including Rs 140 million on account of looms under negotiation.⁽²⁹⁾

The production of jute goods increased from 256,278 tons in 1959-60 and it rose to 331,000 tons in 1963-64. But production in 1964-65 declined to 289,112 tons because of a strike by the workers. During 1965-66, production of jute goods reached a record level of 409 thousand tons. The export earnings from jute goods were estimated to be Rs 290 million in 1964-65 as against Rs 227 million in 1959-60. It has created gainful employment opportunities for not less than 100,000 workers.⁽³⁰⁾

Both public and private sectors took part actively in the development of this vital industry. The Government through medium of the E.P.I.D.C. undertook to finance the major cost of the jute mills in association with groups of private investors.

Engineering and Electrical Industries:

In June 1955, there were only about 549 units of the engineering and electrical industries ; this represented a capital investment of Rs 209.3 million.⁽³¹⁾ The First Plan

(29) Final Evaluation of the Second Five Year Plan, op.cit., p.64.

(30) Stock Exchange Guide of Pakistan, op.cit., p.175.

(31) First Five Year Plan, op.cit., p.433.

investment target was Rs 385.4 million while the Second Plan allocation was Rs 638 million,⁽³²⁾ in engineering and electrical industries. By the closing year of the First Plan, there were 969 units producing engineering and electrical goods.

During the Second Plan emphasis was placed on the development of capital goods industries, particularly on that of steel and machine tool industries. In the absence of an iron and steel industry the entire demand for steel was met by imports. The level of import was progressively increasing until it reached 830,000 tons during 1963-64. However, a beginning was made during the Second Plan for the establishment of two steel mills - one at Chittagong and the other in Karachi, with a rated capacity of 150,000 and 450,000 tons of ingots per annum respectively. The Chittagong Steel Mill started production in 1967, while the Karachi Steel Mill is scheduled to be completed by 1970.⁽³³⁾

The Second Plan target with regard to the development of engineering and electrical industries was over-fulfilled both in terms of financial target and physical output. The export earnings of this industry increased from Rs 13.9 million to Rs 26.1 million in 1964-65.⁽³⁴⁾

(32) Stock Exchange Guide of Pakistan, op.cit., p.119.

(33) Third Five Year Plan, op.cit., p.476.

(34) Stock Exchange Guide of Pakistan, op.cit., p.119.

Cement:

The production of cement, which was 422 thousand tons in 1949, increased to 1,690 thousand tons by the end of the Second Plan as against the total demand of 3 million tons. (35)

Incidentally, the Second Plan target of production was 3 million tons. The difference between demand and domestic production was, however met by imports. The required amount of investment per ton is estimated on the basis of the Second Plan experience at Rs 2,500. The Third Plan makes a provision of Rs 540 million to realise the plan production target of 6 million tons in 1969-70. (36)

Paper, Board and Newsprints:

Pakistan is now almost self-sufficient in paper. The output of paper, including newsprint, has gone up to 103.2 thousand tons in 1964-65 compared with 19.2 thousand tons in 1954-55. The Second Plan target was 105 thousand tons per annum. (37) Pakistan is now in a position to export 9 to 15 thousand tons of newsprint per annum.

(35) Third Five Year Plan, op.cit., p.475.

(36) Ibid, p.476.

(37) Final Evaluation of the Second Five Year Plan, op.cit., p.64.

Fertilizers:

The rated capacity of fertilizer production at the end of the Second Plan was 550 thousand tons in terms of ammonium sulphate, 21 per cent nutrient, and 18 thousand tons of single superphosphate. Production rose to 235 thousand tons at the end of 1965 from 43 thousand tons in 1959-60. Total demand for fertilizer was estimated for 1965, the last year of the Second Plan at 889 thousand tons. (38)

Chemicals and Pharmaceuticals:

Pakistan had virtually no chemical industry at the time of independence. The only chemical being produced in the country was soda ash, at a rated capacity of 18 thousand tons per annum. The progressive growth of this industry has made the country self-sufficient in a number of items like paints, mineral acids, sulphur, aluminium sulphate. The production of sulphuric acid and soda ash was 11.6 thousand and 12.6 thousand tons respectively at the end of 1964-65. (39)

There were only 6 pharmaceutical units in Pakistan in 1947 and the number of units rose to 28 units producing goods

(38) E.C.A.F.E., op.cit., p.142.

(39) Pakistan Economic Survey 1966-67, op.cit., (Statistical Section), pp. 18-19.

worth over Rs 1.4 million. By the end of the Second Plan, production capacity had increased to an annual output value of over Rs 67.0 million.

Oil and Gas:

The oil and gas industries have made a good progress over the last two decades. Indigenous oil production recorded an increase of over 560 per cent over the 1948 production level.⁽⁴⁰⁾ Gas production rose from 25,750 million cubic feet in 1959-60 to 62,896 million cubic feet in 1965-66.⁽⁴¹⁾ The gas industry has enabled Pakistan to save foreign exchange up to as much as Rs 485 million during the period 1955 to 1966.⁽⁴²⁾ Pakistan is now almost self-sufficient in its lubricating oil requirements.

In addition to the industries mentioned above, a large number of miscellaneous industries such as, building materials, industrial waste conversion plant, jute baling, cotton ginning, surgical and other instrument making, sports goods, services, glass and ceramics have also made considerable progress.

(40) Stock Exchange Guide of Pakistan, op.cit., p.197.

(41) Pakistan Economic Survey 1966-67, (Statistical Section), op.cit., p.24.

(42) Stock Exchange Guide of Pakistan, op.cit., p.199.

The overall industrial growth in Pakistan has been satisfactory in the sense that the country has become self-sufficient in a number of consumer goods besides making any exportable surplus in some goods over the last two decades. Initially, light industries comprising food processings, textiles, matches and other, based on indigenous raw materials and involving simpler technology were developed mainly by the private sector. However, the development of capital intensive industries like jute, sugar, cement, got underway with the initiative of the Government. The First Plan which was in operation over the period 1955-60 laid emphasis on the development of import substitution industries while in the Second Five Year Plan (1960-65), the emphasis was shifted to the development of intermediary and capital goods industries.

3. Impact of Industrialisation on the Economy.

The overall industrial growth has brought certain changes in the economy of Pakistan. Table 1.3. gives the structural change in the components of G.N.P. from 1949-50 to 1964-65.

Table 1.3. : Gross National Product at Constant Factor Cost
of 1959-60.
(Million Rupees)

Sectors	1949-50		1954-55		1959-60		1964-65	
	Rs	p.c. of total	Rs	p.c. of total	Rs	p.c. of total	Rs	p.c. of total
I	2	3	4	5	6	7	8	9
1. Agriculture	14,669	60.0	15,654	56.1	16,753	53.3	19,761	48.1
2. Manufacturing	1,433	5.9	2,220	7.9	2,930	9.3	4,711	11.5
(i) Large-scale	(346)	(24.1)	(1,002)	(45.1)	(1,565)	(53.4)	(3,156)	(67.0)
(ii) Small-scale	(1,087)	(75.9)	(1,218)	(54.9)	(1,365)	(46.6)	(1,555)	(33.0)
3. All others	8,364	34.1	10,034	36.0	11,756	37.4	16,586	(40.4)
Total	24,466	100.0	27,908	100.0	31,439	100.0	41,058	100.0
Per Capita Income Rs	311		316		318		365	

Source: Pakistan Economic Survey 1966-67, Statistical Table No.1, pp.2-3.

The industrial sector on the whole has shown a change in respect of the contribution to G.N.P. which has risen from 5.9 p.c. in 1949-50 to 11.5 p.c. in 1964-65. From 1949-50 to 1959-60, the contribution increased by 3.4 p.c. whereas it rose by 2.2 p.c. during the Second Plan ending June 1965.

A substantial change is also noticeable in respect of the import composition of Pakistan. Table 1.4. below shows that import of consumer goods has progressively declined. Taking into account the other features of the general economic situation this may be taken as an indication that genuine expansion has taken place in the industrial sector. The relative decline in consumer goods import signifies the extent of import substitution in the country and goes some way to indicate the progress towards the overall viability of the economy. The import of capital goods whose value was 463 million in 1954-55 has increased to Rs 2,628 million in 1964-65. Similarly, as further evidence of the changed structure, the import of industrial raw materials is seen to have achieved a manifold increase over 1954-55. The import of capital goods and industrial raw materials now account together for more than 75 per cent of total imports, thus showing a movement of the economy towards greater diversification.

Table 1.4. : Major Imports.
(1954-55 to 1964-65). (Million Rupees)

Period	Consumer goods	Raw materials	Capital goods	Total including others.	Consumer goods % to total Imp.	Raw materials % to total Imp.	Capital goods % to total Imp.
1	2	3	4	5	6	7	8
1954-55	118	171	463	922	13	19	51
1959-60	721	314	1036	2460	29	13	42
1964-65	1292	1531	2628	5451	23	28	48

Sources: Pakistan Economic Survey 1965-66, (Statistical Appendix) p.32.
Final Evaluation of the Second Five Year Plan, p.166.

Table 1.5. below gives the structural change in Pakistan's foreign trade since 1954-55.

Table 1.5. : Foreign Exchange Earnings.

(1954-55 to 1964-65).

(Million Rupees)

As at the end of	Primary goods	Manufacturing goods	Total (including others)	Manufacturing as p.c. of total.
1954-55	1125	37	1169	3
1959-60	1315	526	2160	24
1964-65	1507	964	3083	29

Sources:- (i) Central Statistical Office, Statistical Year Book, 1964, pp.194 and 195.

(ii) Final Evaluation of the Second Five Year Plan, p.164.

(iii) Pakistan Economic Survey 1965-66, p.78.

It can be seen from the table that there has taken place a fundamental change in the export base in respect of manufactured goods. The manufactured goods which accounted for only 3 p.c. of the foreign exchange earnings in 1954-55, came to contribute 24 p.c. in 1959-60 and 29 p.c. in 1964-65. The relative decline in the export of primary goods has been fully matched by the relative increase in the export of manufactured goods. The volume of export trade has also undergone substantial change during the period under review.

Total earnings, which stood at Rs 1,169 million in 1954-55, increased to Rs 3,083 million in 1964-65 (net increase being 164 per cent) over a decade.

The impact of industrialisation on employment seems to be significant. Table 1.6. shows the total labour force employed and the numbers employed in the manufacturing sector from 1950 to 1960.

Table 1.6. Employment in Manufacturing Sector (1950 to 1965).

(In Millions).

1	Total Labour Employed	Industry			5 as percentage of 2	3 as percentage of 5
		Large	Small	Total		
	2	3	4	5	6	7
1950	20.3	0.1	1.2	1.3	6.4	7.7
1955	21.7	0.3	1.4	1.7	7.8	17.6
1960	22.9	0.4	1.7	2.1	9.2	19.1
1965	25.5	0.6	2.0	2.6	10.2	23.1

Source: Huq, M. Table A - 28, p.248.

The above table reveals that the total size of the labour force employed in the large and small-scale industries increased to 2.6 million in 1965 from 1.3 million in 1950. This means that industrial employment accounted for 10.2 p.c. of the total number employed in 1965 as against 6.4 p.c. in 1950.

Secondly, the table shows that within the industrial sector itself, the large-scale sector accounted for 23.1 p.c. in 1965 compared with 7.7 p.c. in 1950.

4. Investment in the Industrial Sector.

The above discussion has made it clear that the large-scale industrial sector has made good progress over the period under study. Investment up to June 1966, in terms of productive capital⁽⁴³⁾ employed in large-scale industry amounted to Rs 10,775 million, of which the fixed investment (gross) accounted for Rs 8,835 million which was more than four-fifths of the total investment. The remaining Rs 1,940 million was invested in permanent net working capital. Out of this total of Rs 10,775 million, Rs 2,828 million had been invested before July 1955, i.e. before the start of the comprehensive planned development era in Pakistan.

The figures in the following Table 1.7. show the gross investment at 1959-60 factor cost in the large-scale industrial sector to during the period 1947-66.

(43) Productive capital means fixed and net working capital. The net working capital is defined as the excess of current assets over current liabilities. (See Chapter Two).

Table 1.7. : Investment in Large-Scale Industry,
1947-1966.

(1959-60 Prices*).

(Million Rupees)

Capital	Pre-Plan period (1947-55)	First Plan period (1955-60)	Second Plan period (1960-65)	First year of the Third Plan (1965-66)	Total
A. Fixed	2319	1655	4021	840	8835
B. Working	509	363	883	185	1940
Total (A+B)	2828	2018	4904	1025	10,775
Annual Average	354	404	981	1025	599

* The total expressed in terms of current prices have been adjusted by the application of an appropriate index number of prices, with base 1959-60 = 100. For further explanation see Appendix A. p.299.

Sources:- Pre-Plan Period, First Five Year Plan, p.416.

First and Second Plan Periods (i) Third Five Year Plan, pp. 103-104.

(ii) Evaluation of the Second Plan, pp.189-190.

First Year of the Third Plan, Evaluation of the First Year of the Third Plan, pp. 162-163.

Before the launching of the First Plan in mid-1955, investment in the industrial sector was made on the basis of ad-hoc sanctioning of schemes by the Government. The approach was largely on a project-basis; that is to say, individual schemes were considered without their being looked at as parts of a comprehensive plan. During this period investment in consumer goods was higher than in producer goods; about 60 p.c. of the total investment carried out over this period was in consumer goods as against 40 p.c. in producer goods industries. As mentioned earlier, this resulted in an unbalanced development within the industrial sector.

However, the Government soon intended to bring about a balanced structure of growth of the industrial sector through the instrument of comprehensive development plans such as the current series of the Five Year Plans. The First Plan, which was inaugurated in July 1955, envisaged an investment of Rs 3,215 million in the large-scale industrial sector, this being 24 p.c. of the total plan outlay. The realised investment was however less, being of the order of Rs 2,018 million indicating a shortfall of 37 p.c. of the Plan provision. The reasons for this gap in investment were foreign exchange stringency, political instability and recurrent food shortages, which had to be met by imports. However, the execution of the Second Plan target was satisfactory. As against an original investment target of Rs 4,468 million for

the entire plan period, the actual investment was Rs 4,904 million and this shows that the plan target was exceeded by

10 p.c. (44) During the first year of the Third Plan

(1965-70) actual investment has been estimated to be Rs 1,025 million out of the plan provision of Rs 10,444 million. (45)

The realisation of the Third Plan target in the initial year was not fully satisfactory compared with the total industrial investment target. That increase in investment outlay in this

(44) The Second Plan envisaged an investment in fixed assets of Rs 2,578 million in the private sector and Rs 1,015 in the public sector. These sums do not include the investment in the Karachi Oil Refinery amounting to Rs 113 million, which was sanctioned before July 1960, and the investment in Karachi Steel Mill amounting to Rs 613 million which was originally proposed to be set up in the public sector, but was later transferred to the private sector. Including these two projects the Second Plan target of fixed investment in the private sector comes to Rs 3,304 million. In addition, there was a provision of Rs 875 million investment in working capital (mostly private sector). By the end of the Second Plan, an amount of Rs 5,498 million was sanctioned in the private sector of which utilization has been made to the extent of Rs 3,185 million. On the other hand, public sector investment was amounted to Rs 844 million compared with the Plan provision of Rs 1,015 million. Assuming one hundred per cent realisation of the working capital, actual investment amounted to Rs 4,904 million. (Third Five Year Plan, pp.103, 108).

(45) This amount does not include investment target in industrial estates and small industries.

sector of the economy was, on the whole, well maintained however is indicated by the sequence of figures which show the average amount of investment per annum. Expressed in terms of constant prices an average annual outlay of approximately Rs 600 million for the whole of the period is built up from an annual average of approximately Rs 350 million for the Pre-Plan period to an average of not far short of Rs 1000 million (Rs 981 million to be precise) for the last Second Plan period.

Fixed and Working Capital:

Neither in the First nor in the Second Plan was working capital defined precisely. As commonly understood, net working capital stands for the excess of current assets over current liabilities and a substantial part of this is usually met from long-term capital resources (especially for maintaining minimum inventories). In the Second Plan, a provision of Rs 875 million was made for working capital. Assuming a hundred per cent realisation of the Plan provision, it is possible to calculate the proportion of investment in working capital to total investment which comes to about 18 p.c. (46)

(46) As it was a projection.

Table 1.7. above shows the amount of working capital in total investment over the period on the basis of the above reckoning. The planners' estimate of working capital was not, however quite realistic in the sense that the requirement of working capital of gross fixed investment, as is shown in Table 2.2. normally ranges from 24 to 29 per cent. The assumption of the planners regarding the provision of working capital, was that once an enterprise succeeded in meeting its long-term capital, it should be able to obtain working capital from the commercial banks.

This assumption does not appear to be justified because, as we have seen, a part of working capital is needed to finance inventories which are of a long-term nature. The commercial banks do not provide credit for this part as can be seen from the balance sheet analysis. It is, therefore, necessary to provide for a part of the working capital out of the sources of long-term investment.

Investment in Private and Public Sectors.

Both private and public sectors have played an important role in the development of the large-scale industries in Pakistan. The private sector has been largely responsible for the impressive growth of industrial development in the country. This is in line with the industrial policy of the Government which

has placed the major reliance on the private sector for the development of industries since the inception of Pakistan. The sectoral distribution of investment has been shown in Table 1.8. below.

Table 1.8. : Sectoral Distribution of Gross Investment in Large-Scale Industries, 1947-1966.

(1959-60) Prices.

(Million Rupees)

Sector	Pre-Plan (1947-55)	First Plan (1955-60)	Second Plan (1960-65)	First Year of the Third Plan (1965-66)	Total (2+3+4+5)
1	2	3	4	5	6
A. Private	2788	1268	4060	777	8893
B. Public	40	750	844	248	1882
Total (A+B)	2828	2018	4904	1025	10,775
Source: Same as Table 1.8.					

It would be seen from the above table that out of a total investment of Rs 10,775 million up to June 1966, investment by the private sector accounted for Rs 8,893 million or approximately 83 per cent of the total investment. The balance of Rs 1,882 million (17 p.c.) was invested in the public sector mainly through the P.I.D.C. and subsequently the E.P.I.D.C. and the

W.P.I.D.C. During the Pre-Plan period investment in the industrial sector was mainly carried out by private enterprise and the investment by the public sector was relatively small (1.4 p.c.) The First Plan allocated Rs 3,225 million for investment in the industrial sector of which Rs 1,735 million and Rs 1,480 million (47 p.c.) were in the private and public sectors respectively. The actual investment in the private sector was of the order of Rs 1,268⁽⁴⁷⁾ million indicating a shortfall of 27 p.c. In the same period, investment in the public sector amounted to Rs 750 million - indicating about 49 p.c. shortfall in the Plan provision. The Second Five Year Plan contained proposals for an investment of Rs 5,194 million in the manufacturing sector, of which Rs 4,179 million was expected to be in the private sector. During this period actual investment was to the extent of Rs 4,060 million (Table 1.8.). During the Second Plan period, out of a total allocation of Rs 1,015 million in the public sector, an investment to the value of Rs 844 million was actually undertaken. In the first year of the Third Plan, which is currently in operation, total investment amounted to Rs 1,025 million - Rs 777 million and

(47) Second Five Year Plan, op.cit., pp.220-221.

Rs 248 million in the private and public sectors respectively. The Third Plan (1965-70) has allocated Rs 7,685 million (65 p.c.) to the private sector out of a total investment outlay of Rs 11,824 million⁽⁴⁸⁾ including industrial estates and small industries. This again shows the significant role of the private sector in the industrial development of Pakistan. The role of Government, both at the Central and at the Provincial levels, seems to be designed to promote industrialisation through the creation of the climate and the infrastructure required for investment in manufacturing industries. This shows from the fact that the Government has made clear that public industrial investment will be undertaken only in those cases into which private capital may not venture, or where joint ventures cannot be organised.

(48) Third Five Year Plan, op.cit., p.458.

CHAPTER TWO.

ANALYSIS OF CAPITAL STRUCTURE OF

PUBLIC LIMITED COMPANIES.

The preceding Chapter has traced the development of large-scale manufacturing industries in Pakistan. We have shown in that Chapter, the gross amount of fixed investment in the industrial sector during Pre-Plan and Plan periods. The main purpose of this Chapter is to show, the pattern of capital structure of industrial undertakings listed on the Karachi Stock Exchange (K.S.E.). After this is done, an effort will be made to explain the reasons for changes which have taken place in the structure over the period 1961-66.

1. Methodology.

Industrial development in Pakistan was accompanied by the growth of a corporate sector. The number of limited companies listed on the Karachi Stock Exchange increased from 13 in 1949 to 187 in 1966. (See Chapter 3). For the purposes of our empirical study, we have selected 46 (covering 56 p.c. of the total paid

up capital) out of 102 companies listed on the K.S.E. up to 1963.⁽¹⁾
For the second period, 1964-66, we have taken 70 (covering 62 p.c.
of the paid up capital) out of 151 listed companies until 1966.⁽²⁾

Basically our main sources of data are the Stock Exchange Guide of Pakistan⁽³⁾, and the balance sheets of manufacturing concerns. However, the summarised balance sheets presented in the Stock Exchange Guide in some instances lack certain information, especially in respect of long-term loans. In order to make the study representative, we have adjusted and corrected the data on the basis of unpublished information whenever possible, though we are aware that data obtained by these methods may introduce a certain margin of error.⁽⁴⁾ Despite this, however, it has been possible to assemble the data in a logical order so that certain conclusions can be drawn regarding the capital structure of industrial undertakings in Pakistan.⁽⁴⁾

-
- (1) The industries included in the First Period:- 14 textiles, 5 rayon silk and woollen, 4 Jute, 6 food manufacturing, 5 engineering and construction, 2 chemical, 4 fuel and power and 6 miscellaneous industries.
- (2) The industries included in the Second Period:- 14 cotton textiles, 7 silk and woollen, 7 Jute, 9 food manufacturing, 6 sugar, 7 engineering and construction, 5 chemical, 4 fuel and power and 11 miscellaneous industries.
- (3) Haidari, I, and Khan, A.H., co-editors of the Stock Exchange Guide of Pakistan', have compiled financial data of listed companies from 1961 to 1966 mainly from the Annual Reports of the Companies.
- (4) See Appendix B. p.302.

The study relates to the structure of public limited companies and no attempt has been made to indicate the capital structure of private limited companies.⁽⁵⁾ The former companies are those which on giving notice of intention to be listed on the K.S.E. have to disclose certain facts about their financial position. In addition, they have to submit their annual balance sheets to the Registrar of Joint Stock Companies. From these, it is possible to obtain an idea about the sources of funds and capital structure of these companies. In contrast, information regarding private limited companies is not available and this is the reason why we have had to limit our study to public limited companies. It may however, be added that the capital structure of private limited companies represents mostly owners' equity and funds borrowed from institutional sources.

A large number of companies listed on the K.S.E. were initially private limited companies. They were later converted into public limited companies through the public offering of shares. From time to time the Government has also shown a preference in favour of public limited companies in the shape of

(5) A private limited company is under no legal obligation either to publish annual accounts or to submit them to the Registrar of Joint Stock Companies. It restricts the right to transfer shares, the issue of prospectus for public subscription and limits the membership to 50 shareholders only.

providing some incentives such as tax concessions and tax holiday. It may also be relevant to note that for the analysis we propose to carry out, the corporate sector is most representative, since the private limited companies seem to be on the decline. (6)

2. Structure of Capital.

The capital structure of public limited companies in Pakistan seems to have been built up out of share capital, retained earnings, long term loans and debentures. Amongst these components the proportion of owners' equity has been the most important item. However, it will be seen from Table 2.1. below that the ratio of share capital to total capital structure is gradually declining.

On the other hand, the proportion of long term loan has risen. The share capital and the retained earnings together formed 89 p.c. of the total capital during 1961-63 but during 1964-66 the proportion declined to 78 p.c. The rate of increase in the ratio of long term loan in the overall capital structure

(6) The Capital Issues Control is being used in Pakistan as an instrument of economic policy. Through this Control, companies having capital more than Rs 2 millions were persuaded to change their status to that of public companies. In pursuance of this policy, most of the large industrial undertakings are organised as Public Limited Companies. (See E.C.A.F.E., Regional Symposium of Industrialisation for Asia and Far East, 1965, Country Report, Pakistan, p.49).

Table 2.1. : Capital Structure of Selected Public Limited Companies,
1961-63 and 1964-66.

	1961-63			1964-66				
	Share Capital	Retained earnings	Long-term* Loans	Total	Share Capital	Retained earnings	Long-term** Loans	Total
1. Capital (Million rupees)	717	336	127	1,180	1,160	630	502	2,292
2. Capital (in percentage)	61	28	11	100	51	27	22	100

* includes debentures to the extent of Rs 11.14 million representing less than 1 p.c. of the total capital.

** includes Rs 13.28 million debentures representing less than 1 p.c. of the total capital.

Source:- Tables 1 and 2 in Appendix B.

suggests, that in the period under review, there may have been a growth in the provision of institutional credit facilities in Pakistan. More evidence than this, covering a longer series of observations, would, in the absence of other sorts of evidence, be necessary before a stronger generalisation than this could be made. But the statistical evidence available is at least consistent with this presumption.

Capital Stock:

The study reveals some important characteristics of the capital structure of manufacturing industries. Firstly, the capital stock is mainly composed of ordinary shares, the contribution of preference shares being relatively small. The holders of preference shares are guaranteed a prior right to dividend over equity holders and do not carry a right of vote. Out of the 70 companies, only six have used preference shares for raising long-term capital. The outstanding amount of this stock totalled Rs 41.5 million representing 3.1 p.c. of the total paid up capital in 1966. With the exception of one company⁽⁷⁾ these shares were issued with a denomination of Rs 100 per share. They carried a fixed dividend rate ranging from 6 to 8 p.c. per annum.

(7) Face value was Rs 10 per share.

The issues were redeemable at par and were cumulative in nature to be redeemed after a certain period at the option of the company itself. These characteristics make the dividend income on preference shares appear as interest. It is for this reason that preference shares are not popular with companies in Pakistan and the same is true of debentures. Another possible reason for the unpopularity of preference shares is that the suppliers and users of industrial finance often happened to be the same persons or family groups. This is possible because the family groups being the major share-holders of a company do not like to become committed to any fixed dividend payment. Moreover, the company is generally committed to pay a fixed rate of interest on the borrowed fund (mostly foreign exchange) without which the company could not be established in the present circumstances of Pakistan.

Ordinary Shares: The major part (about 97 p.c.) of the share capital consists of ordinary shares. It has been observed that most of the enterprises have preferred to issue shares at a face value of Rs 10 per share. Only a small number of companies has issued shares with a denomination of either above or below Rs 10 per share. The face value of shares at Rs 10 may be considered convenient in Pakistan in the sense that investors with

small means may be encouraged to invest in industrial shares.

The companies having foreign participation have a share classification of A and B, B class shares normally being issued to foreign participants.

The subscribers to these shares are ordinary shareholders or equity holders.⁽⁸⁾ A study of the base of equity ownership of manufacturing industries reveals that listed shares are closely held by a group of families who are generally sponsors of the company. Besides the sponsors, the general public, institutional investors like Insurance Companies, National Investment Trust, Investment Corporation of Pakistan, Pakistan Industrial Credit and Investment Corporation, Provincial Industrial Development Corporations, and foreign investors hold shares in the equity capital of manufacturing concerns. The true ownership of the company lies with the equity holders. They are residual claimants on earnings and realise proceeds on winding up in the sense that they can participate in earnings only when all creditors and other suppliers of funds have received their interest payments. As such, equity funds are subject to the greatest risk among all types of capital. Consequently equity funds are forthcoming only when profit prospects seem sufficiently attractive to compensate

(8) Owners' equity is defined as the sum of share capital plus retained earnings.

for the risk involved in the investment.⁽⁹⁾ During the last decade and a half, investment in industries was highly profitable which influenced the sponsors to design the capital structure in such a way as to consist predominantly of equity type assets.

Any seven persons or more can form a public limited company under the Companies' Act of Pakistan. According to the listing rules of the K.S.E. a company wishing to be listed on the Exchange is required to offer a minimum of 60 p.c. issued shares⁽¹⁰⁾ to the general public for subscription.⁽¹¹⁾ The sponsors, their friends and relatives generally subscribe 40 p.c. of the share capital. As can be seen from the findings of the Committee for the setting up of an investment bank affiliate, 75 p.c. of the listed shares were held by the members belonging to a few family groups.⁽¹²⁾ Such a large holding in the company was possible for the sponsors of the company through the purchase of shares in the names of friends and relatives.

(9) Merret, A.J. and Sykes, Allen., The Finance and Analysis of Capital Projects, (Longmans, London, 1965) p.69.

(10) For a long time listing rules of the K.S.E. required only to issue 30 p.c. of issued shares to the public. Only recently efforts have been made by the Controller of Capital Issues to issue 60 p.c. of total capital issued to the general public.

(11) For details see Chapter 3.

(12) See Chapter 3.

Foreign Participation: Only 10 out of 70 companies had foreign participation in equities in 1966. Foreign investment amounted to Rs 93.2 million representing 37 p.c. of the paid-up capital of companies having foreign participation, and 7 p.c. of the total capital invested in all the companies. These companies were sponsored under the joint entrepreneurship of local and foreign investors. Generally shares were issued to foreign participants as part payment of the machinery supplied by them.

Subsidiary Companies: There are six subsidiary⁽¹³⁾ companies falling within our study, such as Glaxo Laboratories Ltd., Pakistan Tobacco Company Ltd., Pakistan Services Ltd., Imperial Chemical Industries (Pakistan) Ltd., Attock Oil Company Ltd., and Pakistan Oxygen Ltd. The paid-up capital of these companies amounted to Rs 173.7 million in 1966.

Retained Earnings: The next important source of industrial
(14)
finance is the retained earnings of the undertakings. Many concerns have met the requirements of finance for expansion out of their

(13) Subsidiaries of foreign based parent company.

(14) See Table 2.1.

retained earnings as well as investing in new enterprises. Reinvestment of earnings provided over half of the capital invested by private local enterprise during the fifties.⁽¹⁵⁾ The investment climate prevailing in the country over that period was favourable to this practice. Firstly, investment in industrial undertakings was highly profitable because of a vast sheltered domestic market accompanied by price-rise. Secondly, the entrepreneurial class, belonging to a few family groups, could have reinvested the entire earnings for the reason that they hardly required current income for consumption purposes. The desire to have control over a large number of industrial units and to earn management commission encouraged them to invest in new industries. The system of managing agency enabled them to fulfill these objectives. Thirdly, the Government encouraged the reinvestment of profits by providing tax concessions,⁽¹⁶⁾

(15) Papanek, Gustav F., 'The Development of Entrepreneurship in Pakistan', American Economic Journal : Vol. LII, (May 1962, Number 2, p.56.

(16) For example, during the period from 1947-48 through 1954-55, an implicit rebate was granted to the retained earnings of companies. An additional super tax at progressive rates was levied on distributed profits which exceeded 30 p.c. of total profits and at the same time exceeded an amount equivalent to 5 p.c. of the capital of the company. The additional super tax which was applicable only to local companies was in the following progressive rates: (i) 18.75 p.c. when distributed profit exceeded 30 p.c. but not more than 40 p.c. of the total income; (ii) 31.25 p.c. when distributed profit exceeded 40 p.c. but did not exceed 50 p.c. of the total profit; and (iii) 43.75 p.c. when distributed profit exceeded 50 p.c. This implicit rebate system was replaced by a flat rate of 6.25 p.c. in 1955-56 and continued until the year 1959. Since then no rebate is granted on retained profits. (See Rab, Abdur., unpublished Research Report Series No.45, Income Taxation in Pakistan, (Pakistan Institute of Development Economics, Old Sind Assembly Buildings, Bunder Road, Karachi, p.54).

and generous depreciation allowances. Fourthly, the specialized credit institutions have made available the foreign exchange component of the capital if the local investors could provide the rupee component of the capital. The limited number of investors had gainfully utilised the facilities extended by the credit institutions by making fresh investment. Fifthly, as there has not been any pressure from minority share holders on the management to declare satisfactory dividends, the management distributed only a fraction of profit as dividend. Alternatively they transferred a major amount of the profit to the reserve fund. In explaining the high rate of industrial growth in Pakistan G.F.Papanek has rightly said that, "the high rate of industrial growth was sustained from reinvestment of a very large proportion of all earnings." (17) Further, he said that support for this contention lies at least partly, in the high rate of returns expected, and the limits placed on consumption by import and other restrictions.

The slight decrease in the proportion of retained earnings may perhaps be explained by the fact that the enterprises are shifting from those lines of production which enjoy a longer period (i.e. tax holiday) to those having relatively shorter period of tax exemption. Moreover, all enterprises enjoying the

(17) Papanek, G.F., op. cit., p.53.

privilege of tax holidays are now required by law to distribute 60 p.c. of the profit after tax. There was no such legal requirement in the earlier period. The reason for this legal provision seems to be that the shareholders or the general public need encouragement for the purchase of stocks and shares; and unless dividend rates are increased, this may not happen.

Long-Term Loan:

Borrowing from specialised institutions, both national and international, is another important source of industrial finance in Pakistan. Sometimes long-term loan capital is also advanced to the company by the managing agents (who are appointed by the company to manage the affairs of the company), or by the parent company, if the borrowing concern is a subsidiary. With the exception of subsidiaries of foreign companies and the companies having foreign participation, all other companies have to a greater or lesser extent, borrowed funds. The funds especially in terms of foreign exchange were necessary and will continue to be so to finance the import of capital goods from abroad, either for the setting up of a new concern or the balancing and modernisation of existing units. The financing of such imports is possible through the country's own resources or foreign aid and loans. As can be seen from Table 2.1. the contribution of

long-term loan to the total capital structure rose from 11 p.c. in 1961-63 to 22 p.c. in 1964-66. This was possible because of a more realistic industrial policy pursued in matters of credit facilities during the later period. It is estimated that every rupee of investment in the industrial sector is required to be matched by a unit of foreign exchange investment. Therefore, to meet the increased ratio of foreign exchange component of industrial finance, the foreign exchange resources of the specialised institutions like P.I.C.I.C., I.D.B.P. were strengthened.

Debentures: The other important source of meeting the long-term need of industry is the issue of debentures. It appears that the issue of debentures has not yet become an important means of raising long-term capital for manufacturing industries in Pakistan. Amongst 70 companies, only three, namely, Attock Oil Company Ltd., Adamjee Industries Ltd., and Spencer and Company (Pakistan) Ltd., have had recourse to debenture issues for raising funds. Outstanding debentures in 1966 amounted to Rs 6.1 million and represented less than 1 p.c. of the total capital of the manufacturing industries. Besides, industries having already a high gearing ratio cannot borrow further amounts without improving their equity base.⁽¹⁸⁾ A bond market has yet to be

(18) Gearing ratios of 70 selected companies being 21, 25, 37 p.c. for 1964, 1965 and 1966 respectively.

developed in Pakistan.

3. Use of Funds:

Table 2.2. indicates the proportions of various forms of assets in the total asset holdings of manufacturing industries during the periods 1961-65 and 1964-66.

As is well known, the funds received from various capital sources do not themselves produce an end-product. What they do is to give entrepreneurs command over certain assets to be used for productive purposes. There is a difference between the sources of capital funds and capital formation. The capital formation is expressed in real terms while the sources of capital are expressed in financial terms. The real assets acquired are subject to change from time to time because of loss in the value of assets due to depreciation. Therefore a provision for depreciation⁽¹⁹⁾ is made every year to arrive at book value i.e. the book value of fixed assets like plant and machinery, buildings, furniture and fixtures minus depreciation. There is an implicit assumption that long-term capital ought to match roughly the long-term investment in fixed assets.⁽²⁰⁾ As a general business practice

(19) The ratios of depreciation to gross fixed assets work out at 40 p.c. in 1961-63 and 34 p.c. in 1964-66. It seems that the rate of accumulation of depreciation is declining.

(20) Tew, Brian and Henderson, R.F. (ed)., Studies in Company Finance, (Cambridge University Press), 1959, p.64.

Table 2.2. : Asset Structure of Selected Public Limited Companies,

1961-63 and 1964-66.

(In Percentages)

Industries	1961-63				1964-66				
	Fixed Assets	Investment	Total Assets	Working Capital	Total Assets	Investment	Total Assets	Working Capital	Total
1. Textiles	58	13	71	29	69	9	78	22	100
2. Jute	73	6	79	21	72	2	74	26	100
3. Food Products	37	15	52	48	37	13	50	50	100
4. Sugar & Allied	90	-	90	10	76	1	77	23	100
5. Engineering & Construction.	58	-	58	42	70	-	70	30	100
6. Chemicals	62	-	62	38	75	-	75	25	100
7. Fuel & Power.	70	2	72	28	79	4	83	17	100
8. Miscellaneous	85	-	85	15	99	3	102	-2	100
Average	67	4	71	29	72	4	76	24	100

Sources:- Tables B-1 and B-2 in Appendix B.

fixed investment is normally required to be financed out of long-term capital funds.

The current assets or short-term capital include both liquid and circulating assets. There are two characteristics of current assets. Firstly, they must be readily convertible into cash or its equivalent without significant loss in value. Secondly, the management must intend to convert the assets into cash in the ordinary course of business. Assets satisfying the first condition, are cash in hand and bank-deposits, government and corporate certificates, and savings-banks and unit trust certificates. The short-term capital is also called working capital. Normally the demand for working capital is met by short-term borrowing from commercial banks. However, a part of the working capital, namely net working capital⁽²¹⁾, remains blocked for a long time in the form of minimum inventories, and this part of the investment is required to be financed from long-term resources.

It could be seen from Table 2.2 that net fixed assets including investment have constituted 76 p.c. of the total assets in 1964-66 as against 71 p.c. in 1961-63. The proportion of working capital has declined by 5 p.c. in the later period compared with the previous period, although no significant change in the components of assets is revealed over the two periods compared with the change in the capital structure shown in Table 2.1.

(21) In ascertaining the net working capital we have assumed that an amount of current assets is cancelled out with the equivalent amount of current liabilities.

4. Comparison of Capital Structure of Pakistani Companies with those in India and the U.S.A.

The capital structure of Pakistani companies is similar to the capital structure of companies in India but differs considerably from that of the U.S.A. The following table gives the comparative ratios of sources to total capital.

Table 2.3. : Comparison of Capital Structure of Pakistani Companies with those in India and the U.S.A.

(In Percentages)

	Share Capital	Retained Earnings	Long-term Loans
Pakistan (1964-66)	51	27	22
India (1962)	45	33	22
U.S.A. (1960)	25	48	27

Source: Pakistani Companies, Table B-2 in Appendix B.
India and U.S.A. : Corporate Finance - (unpublished study) by Dr. M. Uzair.

It may be seen from the table that capital structure of Pakistani and Indian companies does not differ much. The ratio of retained earnings to capitalisation is 27 p.c. in Pakistani companies as against 33 p.c. in India. The owners' equity comprising share capital and retained earnings constitutes 78 p.c. of the capital in Pakistan and India. The reasons for the larger retained

earnings of Indian companies seem to be that these companies were older than Pakistani companies and were able to accumulate larger amounts of undistributed profits. The equal proportion of long-term loans suggests that credit facilities available in both India and Pakistan are more or less the same. This comparison may not be very accurate however, in the sense that there is a difference of some years between the relevant dates in the table. It indicates, however, that the capital structure of Pakistani companies which is taking shape is similar to the capital structure of Indian companies. The capital structure of Pakistani and Indian companies sharply contrasts with the capital structure of the U.S.A. companies. In the U.S.A. share capital constitutes a lesser share in the total capital structure whereas the ratio of retained earnings to capitalisation is highest. The ratios of share capital, retained earnings and long-term loans are 25 p.c., 48 p.c., and 27 p.c. respectively in the capital structure of the U.S.A. companies in 1962.

5. Capital Structure by Group of Industries.

Table 2.4. shows the capital structure of various groups of industries during the periods 1961-63 and 1964-66.

Table 2.4. : Capital Structure of Selected Public Limited
Companies by Group of Industries,
1961-63 and 1964-66.
(In Percentage).

Group of Industries	1961-63			1964-66		
	Paid up capital	Retained earnings	Long term loan	Paid up capital	Retained earnings	Long term loan
1. Textiles Excluding Jute	53	40	7	42	31	27
2. Jute	68	18	14	50	29	21
3. Food Products	57	39	4	55	40	5
4. Sugar and Allied Products	90	7	3	53	21	26
5. Engineering & Construction.	70	24	6	49	25	26
6. Chemical and Pharmaceutical	64	36	-	49	38	13
7. Fuel & Power	56	12	32	58	16	26
8. Miscellaneous	66	29	5	57	22	21
All Industries	65	28	9	52	26	21

Source: Tables B - 1 and 2 in Appendix B.
Note : Discrepancies between this table and Table 2.1. are due to rounding off.

The Textile Industries excluding Jute:

Their capital structure indicates that a substantial amount of profit from business was retained. The ratio of retained earnings was 40 p.c. in the period 1961-63, falling to 31 p.c. in 1964-66. On the other hand, the share of long-term loans rose over the full period from 7 p.c. to 27 p.c. The textile industry, particularly cotton textiles, was very considerably renovated during the later part of the Second Plan by importing new plant and machinery from abroad which was mainly financed by institutional credit.

Cotton Textiles: Of the textile industries, cotton is the largest and the oldest industry in the country. Its capital structure has been shown in a separate table given below.

Table 2.5. : Capital Structure of Cotton Textile

Undertakings, 1961 to 1966.

(In Percentages)

Year	Share Capital	Retained Earnings	Long-term Loan	Total
1961	54	41	5	100
1962	51	43	6	100
1963	48	44	8	100
1964	44	45	11	100
1965	42	45	13	100
1966	41	44	15	100
Average	47	43	10	100

Source: Computed from Stock Exchange Guide of Pakistan.

It appears from Table 2.5. that substantial amounts of profit retained in the business either for the expansion of existing units or the setting up of new ones. The proportion of retained earnings to total capital rose from 41 p.c. in 1961 to 45 p.c. in 1964. It is interesting to note that from 1964 onwards retained earnings have provided more funds than the share capital. In 1966 retained earnings constituted 44 p.c. of total capital as against 41 p.c. capital stock and 15 p.c. long-term loan.

Jute:

Jute is the second largest industry in Pakistan. Out of the industrial sector's contribution to the G.N.P. this industry accounts for 15 per cent. The ratios of share capital, retained earnings and long-term loans to capitalisation were 68, 18 and 14 per cent respectively during the period 1961-63. During the later period 1964-66, these ratios stood at 50, 29 and 21 per cent respectively. The significance of these changes is that this industry with the passage of time is relying more on retained earnings and long-term loans for financing long-term investment.

The Food Industries: Study of Table 2.2. reveals that the food industries require more funds for financing working capital relative to total capital than is generally the case in industry. This industry is particularly dependent on share capital and retained earnings compared with other types of industries. The ratio of long-term loan to total capital is increased by only one p.c. over the two periods of the study. It is also interesting to note that there has not been any significant change in the capital structure.

Sugar and Allied Products: This industry generally requires large amounts of capital and incurs large foreign exchange costs. But investors have been reluctant to provide the capital to the required extent. The development of the sugar industry has remained relatively slow up to 1962-63, but later, with the availability of foreign exchange loans from the P.I.C.I.C. and relaxation in the control of sugar prices, it has gained some momentum. The capital structure of the sugar industry as seen in Table 2.4. mainly consists of share capital (90 p.c.), while retained earnings and long-term loan account for only 7 and 3 p.c. respectively in 1962-63. However, the ratio of share capital to total capital has sharply declined to 53 p.c. in 1964-66. On the other hand, the proportion of retained earnings rose from 7 p.c. in 1961-63 to 21 p.c. in the later period. This signifies the

subsequent development in the sugar industry and indicates its capacity to earn profit and appropriate substantial amounts to reserve funds. The rise in the proportion of long-term loans from 7 p.c. in 1961-63 to 26 p.c. in 1964-66 indicates that this industry was benefited from large long term credit facilities from institutions such as the P.I.C.I.C. during the later period.

Engineering and Construction: The engineering and construction industry has largely flourished with the pace of economic development. The paid-up capital, which was 70 p.c. in the total capital declined subsequently to 49 p.c. with the increase in long-term loans which were made available to this subsector through the specialised credit institutions. The retained earnings however, do not show any significant variation over the two periods.

Chemical and Pharmaceuticals: This industry is distinguished by the fact that it had no loan capital during the first period of our study. This was so because undertakings under this sub sector were subsidiaries of foreign companies and, therefore, their foreign exchange requirements were met by foreign equity investors. However, with the establishment of some local enterprises such as Indus Chemical and Alkalis Ltd., ⁽²²⁾ and Ferozsons Laboratories Ltd.,

(22) Indus Chemical and Alkalis Ltd has foreign participation to the extent of 25 p.c. in the total share capital.

the capital structure has changed significantly during the later period under review. It will be seen from Table 2.4. that the share capital was largely counter-balanced by an increase in retained earnings (13 p.c.) and long-term loans.

Fuel and Power: A significant progress has been made in the development of the fuel and power industry in Pakistan. The use of natural gas as fuel, and chemical raw materials, has brought about significant results by way of foreign exchange savings. From 1955, when gas was put to use for the first time, till the end of 1966, it has helped to save Rs 485 million foreign exchange equivalent which would otherwise have been spent on imported fuels. (23)

A study of the capital structure of the fuel and power industries shows that, contrary to the situation in all other industries listed in Table 2.4. its paid-up capital has gone up during the later period under review. The reason for this increase in paid-up capital is foreign participation at a later stage which was also responsible for the subsequent decline in the long term loan in the total capital structure. The industry is progressing in the sense that its retained earnings have increased by 4 p.c. in 1964-66 over the period 1961-63.

(23) Stock Exchange Guide of Pakistan, op.cit., p.197.

Miscellaneous Industries⁽²⁴⁾: The structure of capital shows more or less the same trend as we have noticed in respect of other industries - a decline in paid-up capital associated with an increase in long-term loan (from 5 p.c. to 21 p.c.).

Before concluding the analysis of capital structure it may be relevant to point out that after 1963 institutional credit financing has assumed a very important role in industrial investment. The ratio of long-term loan to total capital has been doubled during 1964-66.

6. Capital Structure by Size:

The concerns included in our study are large-scale concerns only. Large-scale concerns include all those with fixed assets amounting to Rs one million and above. Enterprises within the large-scale sector may further be classified into small, medium and large. Although there are no definite criteria to classify concerns in the above manner yet some basis may be taken as a criterion for this purpose. Such classification is useful for the purpose of planning and identifying problems relating to a particular concern. The amount of fixed assets, the number of persons employed, the volume of turnover or any other device may be taken as a basis for grouping concerns according to size.

(24) This group of industries include textile, cold storage, paper and board, tanneries, glass and services industries.

Of all these devices, fixed assets and labour employed seem to be the most popular. The fixed assets criterion has been used in many countries for classifying concerns in accordance with size. For example, in India, concerns having fixed assets within the range of Rs 0.5 million and 2.0 million, and concerns having fixed assets over Rs 2 million, are considered as medium and large respectively. In Japan, small and medium enterprises are defined on the basis of the number of employees under the Law on Formation of Small and Medium Business Organisations and Law on Incorporation of Small and Medium Enterprises. The Small and Medium Enterprise Credit Insurance Law in Japan defines the small and medium enterprises in terms of number of persons and capital employed. Moreover, the fixed assets criterion as applied to industry groups may also vary from country to country. A medium concern in one country may be considered as a large concern in another country. For instance, concerns having fixed assets within the range of Rs 0.10 to 1.00 million are included in medium-sized concerns in Pakistan while in India concerns having total fixed assets between Rs 0.50 million and Rs 2 million are included in the medium category. (25)

The Credit Enquiry Commission of Pakistan has classified the size of concerns according to the borrowing capacity of each

(25) Govt. of Pakistan, Credit Enquiry Commission Report, (The Manager of Publications, Karachi 1960), pp.121-122.

enterprise. Industrial undertakings requiring loans between rupees one million and above and between Rs 50,000 and Rs 1 million were considered as of large and medium size respectively. All other enterprises having borrowing capacity of less than Rs 50,000 were classified as small.⁽²⁶⁾ This definition is subjective in nature because the borrowing capacity of an enterprise depends on a number of factors. Firstly, the capacity to borrow to a certain limit or the credit worthiness depends on the financial soundness, profitability and sound management of the firm. A considerable time is taken by a new industrial unit to acquire basic pre-requisites for commanding financial stability. Secondly, some credit institutions in Pakistan demand personal guarantee from directors or a bank apart from securities deposited before loans are granted. Thirdly, demand for a larger loan has become inevitable in recent years due to the rising prices of capital goods. Consequently, a concern which is medium today may be treated as large tomorrow. Finally, credit institutions prefer to grant large-sized loans rather than medium or small-sized loans. The administrative cost of large-sized loans is comparatively less than that of small loans.

The main purpose underlying the classification of concerns in size is to show whether the capital structure varies on account of the size of the concern or not. Here we propose to group enterprises on the basis of gross fixed assets, as under:

(26) Ibid, p.122.

1. Small :- those with fixed assets of a value of less than Rs 10 million.
2. Medium :- those having assets of a value of Rs 10 million but less than Rs 30 million.
3. Large :- those with fixed assets of Rs 30 million and over.

This classification has been made on the basis of fixed assets as available from the balance sheets of the companies concerned in 1966. A comparison of the structure of capital between 1964 and 1966 is given in Table 2.6. The scope of this study has, however, been limited within this period due to the non-availability of information for a similar number of companies beyond this period. Therefore, we have taken into consideration only 70 companies for purposes of the proposed analysis.

It appears from the table below, that the size of a concern may not be without some influence on its capital structure. Small firms tend to rely more on share capital in comparison with the medium and large concerns. The ratios of share capital in 1964 to capitalisation were 65 p.c. for small concerns, 53 p.c. for medium and 54 p.c. for large concerns. In the same period, retained earnings were an important source of capital for all types of

Table 2.6. : Capital Structure of 70 Selected Public Limited Companies

by Size between 1964 and 1966.
(In Percentages)

SIZE	1964			1966		
	Capital Stock	Retained Earnings	Long-term Loans	Capital Stock	Retained Earnings	Long-term Loans
Small	65	21	14	57	30	14
Medium	53	30	17	49	34	17
Large	54	29	17	44	26	30
All Industries	57	27	16	50	30	20

Sources: Tables B-3 to B-6 in Appendix B.

undertakings. But the extent of retained earnings to capitalisation was comparatively less in the case of small firms (21 p.c.) than medium (30 p.c.) and large (29 p.c.). Long-term loans constituted 14 p.c. of the capital in small and 17 p.c. in medium and large undertakings in the year 1964. In fact, owners' equity has provided 86 p.c. of capital in the case of small concerns in contrast, with 83 p.c. for large and medium concerns. But the difference is not significantly large and no very strong generalisation would seem to be suggested by the figures. It is interesting to note here that the capital structure of medium and large concerns was identical in 1964.

There has been a change in capital structure in 1966 compared with 1964. It will be observed from Table 2.6. that the paid-up capital in respect of all concerns (classified) has declined in 1966. But the extent of decline is greater in the case of large-sized concerns, followed by small-sized. The reason for this decline is largely the increase in retained earnings in small and medium concerns and augmented long-term loans in large-sized concerns. However, a 3 p.c. decline in retained earnings in the large-sized concerns was mainly due to better distribution of dividend in the later period. The rise in the proportion of long-term loans suggests that larger firms have comparatively greater borrowing capacity than concerns of small and medium size. This seems to be quite consistent with the findings of the Credit Enquiry

Commission that "the credit facilities available in the country were available to the undertakings which were called large industries, ⁽²⁷⁾ and small and medium-sized industries were deprived of due facilities provided by the credit institutions". ⁽²⁸⁾

Having discussed the capital structure of quoted companies we shall now examine the credit worthiness of these companies on the basis of financial ratios. Table 2.7. shows some significant ratios in the quoted companies under study.

Table 2.7. : Some significant Ratios in the Quoted Companies, 1964-1966.

(In Percentage)

	1964	1965	1966	Average
1. Long term debt to Net worth	20.8	24.8	37.0	27.5
2. " " " " Net assets	17.1	19.9	27.0	21.3
3. Current Assets/Current Liabilities.*	1.5	1.4	1.5	1.5
4. Pre-tax profit to Paid-up Capital.	29.6	24.2	26.6	26.8
5. Net profit to Paid-up Capital	16.7	14.8	17.6	16.4
6. Net profit to Net worth	10.8	9.6	11.0	10.5
7. Dividend to paid-up capital	7.1	8.5	9.2	8.3
8. Depreciations to Gross Fixed Assets	34.7	34.2	34.0	34.3

Source: Table B 10 in Appendix B. * Not in Percentage.

(27) This is the term used in the Credit Enquiry Commission Report.

(28) Credit Enquiry Commission Report, op.cit., p.133.

The criterion for measuring these standards is generally expressed in terms of financial ratios. Naturally, industrial undertakings have to maintain a certain level of acceptable ratios so that their credit worthiness is not prejudiced with regard to future borrowing. Moreover, these ratios indicate the extent of the borrowing capacity of the individual firm.

1. Ratio of long-term debt to Net worth:- Generally the amount of long-term loan that a firm can raise is restricted to 30 to 35 per cent of its net worth. But it may vary from country to country and industry to industry. It would appear from Table 2.7. that in the case of Pakistan the annual average ratio comes to 27.5 per cent, which is quite good relative to the general rule. The long-term debt to net worth ratio has been gradually rising from 20.8 per cent in 1964 to 37.0 per cent in 1966. The relevance of this ratio is that it is an indication of the extent to which the assets of a company could fail to realise their book value in the event of liquidation but still realise in aggregate, sufficient funds to meet outstanding debt. (29)

The debt/equity ratio is higher in Pakistan especially in the case of newly established concerns. The reason for this high ratio (approximately 50:50) is the credit financing in foreign exchange for the import of capital goods. The credit institutions

(29) Merret and Sykes, op.cit., p.11.

usually care to see 50 per cent of share capital to loan capital before granting loans. In a country like Pakistan where foreign exchange is a scarce factor the traditional debt/equity ratio can hardly be maintained either by the borrowing concern or by the credit institutions. However, once a company is established with loan capital its capacity to borrow further comes to a halt because of the higher debt/equity ratio. A newly established company however, is not expected to embark upon long-term loans during the first few years of its operation. Even though the initial debt/equity ratio may be quite high the borrowing enterprise may not be concerned as the debt/equity ratio will go down gradually with the repayment of loans at half yearly instalments.⁽³⁰⁾ A higher debt/equity ratio in later stages suggests that many concerns financed by long-term credit have just started to repay the loans and some old concerns may have borrowed fresh funds for balancing and modernisation of the worn out equipment. By and large, specialised credit institutions operate in Pakistan in pursuance of the national policy and make advances to a project in the light of its feasibility and profitability while overlooking the strict principles of debt/equity ratio.

(30) The loans obtained from specialised credit institutions are generally repaid at half yearly equal instalments.

2. Current Ratio : The current ratio of an undertaking indicates its short-term borrowing capacity from commercial banks. A current ratio acceptable to the lender is 1.5 which implies that Rs 2 of short term loans could be raised for every Rs 3 of current assets but strict adherence to this rule may not always be possible. From Table 2.7. it is seen, however, that the average current ratio corresponds with the conventionally acceptable current ratio of 1.5. The practical significance of adhering to this convention concerning the ratio is that it serves to indicate that concerns which satisfy the rule have the required credit worthiness for borrowing short-term credit from the commercial banks of the country.

CHAPTER THREE.

ROLE OF THE STOCK EXCHANGE IN

PAKISTAN.

It has been found in the last Chapter that the capital structure of the public limited companies in Pakistan is formed of stocks, retained profits and long-term loans. Of these three components, the proportion of share capital has been found to be the highest. In this Chapter we shall turn to the consideration of the question of raising share capital in the country. As is well known, one of the ways by which such capital can be raised is the offering of shares to the public through the stock exchange. The purpose of the present Chapter is to provide such an examination with a particular reference to the role of the Karachi Stock Exchange (K.S.E.), which is the biggest of its kind in the country. Later an attempt will be made to explain the market conditions resulting from different fiscal and monetary measures as adopted by the Government from time to time.

1. Relevance of a Stock Exchange to the Economic Position in Pakistan.

In a country like Pakistan where there is evidence of imbalance the stock exchange is one of the instruments for equating

the supply and demand of investible funds. The total potential supply of investible funds in a developing economy does not easily come forth, partly due to a low rate of capital formation, income inequality and partly due to the unorganised nature of capital market. This is a natural consequence of the persistence of the traditional society which has dominated the economic scene for a very long time. Till recently very few people knew anything about corporate financing and its profitability. The small savers knew very little about how to put their savings into productive uses yielding relatively higher profit or dividend.

The low rate of saving and its restricted mobilisation have necessitated the creation of institutions which could mobilise small savings for productive investment. The country is passing through a period of transition and this transition is positive in the sense that the economy (mainly after the introduction of planned development) has manifested successive increases in the growth rate. With the rapid growth of the economy, industrial activity is expected to expand further and require more capital. The services of a well-organised stock exchange to help maintain investment activity are a necessary and indispensable requisite in the context of the growth of the Pakistan economy.

2. Growth and Development of the Karachi Stock Exchange.

At the time of independence, Pakistan had virtually no stock exchange since the two Stock Exchanges functioning in West

Pakistan closed down as a result of the exodus of their non-Muslim members to India. The present Karachi Stock Exchange was organised in September 1948 with an initial membership of 72.⁽¹⁾ Since then the membership and business transactions of the K.S.E. have multiplied and the companies listed at the end of June 1966 numbered 187. Later a smaller Stock Exchange was established at Dacca in 1954 but it started functioning properly only from 1958.⁽²⁾ The number of companies listed on the Exchange rose from 45 in 1962 to 122 in 1966. However, the volume of business traded on the Dacca Stock Exchange is very low and the market is still very much in the early stage of development.

The Karachi Stock Exchange is the main centre of financial activity where almost all Government securities, shares and debentures of important industrial concerns and financial institutions are traded. The corporate shares include both fixed dividend and variable dividend shares. The dealings in preference shares and corporate bonds are not significant in the sense that out of a total paid-up capital of Rs 2433 million of the listed companies at the end of 1966, the share of preference capital (outstanding) came to only Rs 44 million, or 1.8 p.c. of the paid up capital. The value of outstanding debentures issued by four companies added up to Rs 7 million.

(1) Meenai, S.A., Money and Banking in Pakistan, (Allius Book Corporation, Karachi, 1966), p.131.

(2) Due to lack of technical staff and investors' response the Exchange did not function until 1958.

Apart from the corporate stocks, central and provincial government securities are also traded on the K.S.E. The municipal bonds or the bonds issued by the public corporations are also transacted in the market, (the Local Bodies' bonds are limited only to Karachi Municipal Corporation). Over and above these, bonus vouchers, N.I.T. units are transacted on the K.S.E.

Stocks are sold as public issues on the Stock Exchange including private limited companies' stocks not listed as "over the counter transactions". Under the provision of the Companies Act of Pakistan only public limited companies are authorised to make public issues in conformity with the rules and regulations of the Stock Exchange. The Board of Directors⁽³⁾ of the Exchange reserves the right to accept or reject any application for dealing in shares in the market.

Before a company is granted enlistment, the Board of Directors must be satisfied that a company has a minimum issued and paid-up capital of Rs 1 million, that its stocks are held at least by 250 outside shareholders (previously 200); that a minimum 60 p.c. of the total issued capital be offered to the general public for subscription in equal proportion as to the class and kind and the

(3) The K.S.E. is organised and managed by a Board of Directors consisting of fourteen members. The members are elected by the members of the Exchange. The Board of Directors appoint several Committees to look after different aspects of its business. The day to day activities are generally performed by the Secretary.

shares will be allocated fairly and unconditionally. Listing rules also require that a prospectus with application forms should be published in a Karachi newspaper at least 15 days before the company intends to receive applications for shares. The promoters or the managing agents, directors and officers of the company shall not subscribe for any shares offered to the general public. Moreover, the company must supply adequate information about the company's affairs to the Board for enlistment of its shares on the Exchange.

Table 3.1. : Number of Companies Listed and their Paid-up Capital, 1949 to 1966.

Year	Number of listed Companies			Paid-up Capital (Rs million)			6 as percent of 5
	Total	Manufacturing	Others	Total	Manufacturing	Others	
1	2	3	4	5	6	7	8
1949	13	6	7	108	19	89	18
1955	44	31	13	466	341	125	73
1960	81	55	26	1008	761	247	75
1965	182	146	36	2310	1899	411	82
1966	187	151	36	2433	1968	465	81

Source: The Karachi Stock Exchange Limited, 1968 (Diary)
pp. 3 to 6.

The table shows a small volume of paid-up capital of industrial enterprise in 1949. But as industrialisation gained momentum, as the necessary infrastructure was built up during the First Plan period(1955-60) the paid-up capital listed on the Stock Exchange for manufacturing companies rose to 75 p.c. of the total paid up capital. This tremendous increase was due to an accelerated rate of industrialisation over the initial years of independence and to the fact that industrialisation started from scratch. It will be seen later that during the Second Plan period the extent of paid-up capital of listed companies was in the neighbourhood of 7 p.c. over 1960. During the first half of the Second Plan period the Stock Exchange made good progress in respect of turnover and the listing of companies but later the situation became less favourable because of the introduction of credit control and fiscal measures which will be discussed in greater detail later in the Chapter. The need for financing large enterprise through the issues of shares has substantially increased as the capital intensity of industrial undertakings has increased significantly with the shifting of emphasis towards the development of heavy industrial complex. In the Third Plan with an emphasis on the development of iron and steel, machine tools and fertilizer industries the capital intensity has become higher than in the previous two plans. (4)

(4) See Chapter One, pp.8-9.

The shares floated on the Exchange by public limited companies seem to have met a rather mixed response from the general public as can be seen in Table 3.2. which gives a break-up of the response to new shares offered on the K.S.E. during the period 1955-67.

Table 3.2. : Response to New Shares offered on the

Karachi Stock Exchange 1955-59 to

1966-67.

(Million Rupees)

Period	Capital Invited	Capital subscribed	Capital over/under subscribed	Capital actually raised
1955-59	230	100	- 130 - 32.5	100
1960-65	454	1919	+1465 + 213	454
1965-66	49	204	+ 155	49
1966-67	80	18	- 62	18
Total	813	2241		621
Sources: For 1955-59 Second Five Year Plan, p.74. For 1960-65 Final Evaluation of the Second Plan, p.20. For 1965-66 and 1966-67 The Karachi Stock Exchange.				

It would appear from the table that new flotation of shares during 1955-59 did not meet with any marked degree of response from the general public but the overall response during the Second

Plan period was quite encouraging. Then during the Second Plan period a total subscription of Rs 454 million was invited through the K.S.E. and these issues were oversubscribed to the extent of Rs 1465 million. However, the extent of oversubscription during the last two years of the Second Plan declined to one-sixth of what it was in the Mid-Plan period. In the first year of the Third Plan the issues were oversubscribed considerably. But this trend of oversubscription does not reflect the general behaviour of the market. It is interesting to point out that the issues of Kohinoor Chemical Limited were oversubscribed to the extent of Rs 167 million against the issues of Rs 23 million. On the other hand, the rest of the issues to the value of Rs 26 million remained undersubscribed to the extent of Rs 12 million.⁽⁵⁾ The reason for oversubscription in the case of Kohinoor Limited was that this enterprise was organised by the highly reputable Saigol Brothers group. Another reason for such oversubscription seems to have been the fact that a relatively small number of wealthy investors were able to obtain bank credit to finance 90 p.c. of their subscriptions.⁽⁶⁾

During the year 1966-67 new issues remained heavily undersubscribed. Thus, out of the total issues of Rs 80 million,

(5) Information obtained from the Karachi Stock Exchange.

(6) Professor Louis Loss of Harvard University reported this possibility in his report on the 'Securities Market of Pakistan', dated July 1st, 1964.

only 18 million were subscribed by the general public including the N.I.T. N.I.T.'s absorptions were however, quite insignificant.⁽⁷⁾ The ratio of non-corporate savings in corporate shares declined from 32 p.c. in 1961-62 to 5 p.c. in the year 1965-66.⁽⁸⁾ The volume of turnover of shares on the Karachi Stock Exchange represented only 0.07 p.c. of the total number of listed shares.⁽⁹⁾ This state of affairs on the Stock Exchange clearly shows the inability of the Stock Exchange to mobilise private savings for the corporate sector or to create a favourable investment climate helpful to meet the ever increasing demand for industrial finance.

The depressing market activity and declining trend of the K.S.E. are also seen in the general index of share prices. Table 3.3. below gives the indices of share and security prices.

Looking at the general index of share prices, it appears that the market reached its peak level of 123 by the end of June 1963. After that date the index has been continuously declining and in June 1967 it stood at 105. These tendencies clearly

(7) See p. 152.

(8) This information is obtained from Investment Corporation of Pakistan.

(9) The date refer to the quarter ending September 1966.

Table 3.3. : General Index Number of Share Prices and Security* Base: 1959-60 = 100.

Base: 1959-60 = 100

End of	General index number of shares	Securities Index Number
July 1960	92.62	99.87
June 1961	95.33	99.80
" 1962	108.43	99.94
" 1963	123.23	100.07
" 1964	115.14	100.13
" 1965	109.85	100.23
" 1966	108.68	100.22
" 1967	104.71	100.33

Source: Department of Statistics, Index Numbers of Stock Exchange Securities. State Bank of Pakistan.

* Index for earlier period is not available.

seem to point to the fact that market conditions, especially those relating to corporate dealings, have remained relatively depressed since 1963; they have shown no general improvement, the exception being occasional improvements in the prices of some selected scrips. (10)

(10) For example share prices of concern managed by reputed big industrialists went up for some points specially after the declaration of handsome dividends. However, this did not improve the overall prices of the ordinary stocks.

The index of Government securities was not affected much by the unfavourable conditions of the share market; government securities are rarely purchased by the general public. Moreover, the return on securities is fixed.

3. Factors influencing the Stock Market.

Having outlined the general conditions of the K.S.E. we may now analyse the underlying reasons for the declining trend of the market. The expansion of the share market largely depends on the level of capital formation, per capita income and increasing industrial activity in the country. But despite a rise in per capita income and saving in the economy, the flow of funds to the capital market has been significantly smaller since 1963.⁽¹¹⁾ A study of market activities would reveal that a number of factors like fiscal policy, credit control measures of the Government on the one hand, and the conflict of interests between small and big investors on the other, are largely responsible for this situation. For analysis we shall divide the entire period into two phases - the period 1949-63 witnessing steady progress, and the period 1963-67 showing the declining trend of the market.

(11) The investment and savings as proportions of G.N.P. work out at 15.8 and 9.5 p.c. in 1964-65 as against 10.8 and 5.9 p.c. in 1959-60. (Reference T.F.Y.P. p.7, 1959-60 prices). The ratios stood at 13.3 and 9.0 p.c. (Current prices) as at 1966-67.

During the period between 1951 and 1963 market activity increased progressively and was marked by a record increase in the listing of public limited companies on the Stock Exchange. In the same period steady appreciation of equity values was also registered. The share market responded (in terms of price change) quickly to the change in the money market conditions prevailing in the country. Credit-control measures restricting bank advances and related industrial and commercial policies usually create unfavourable conditions for the capital market. It has been observed that whenever import policy is liberalised, more funds are absorbed by the trade sector; the opposite happens if import policy is restricted. The K.S.E. has reacted ever since it started operation to changes in the money market conditions. The business activity of the Exchange up to the middle of June 1952 was relatively weak mainly because, due to liberalised import policy⁽¹²⁾, the trade sector had dominated the economic scene. As a result, share market activity witnessed a bearish tendency during this period. But after the declaration of import policy by late June 1952 the volume of business was increased appreciably. Due to the restricted import policy a sizeable fund had been built up in the hands of traders available for investment in the industrial sector.

(12) Report of the Central Board of Directors for the year ended 30th June, 1951. (State Bank of Pakistan), p.28.

The Korean War boom enabled Pakistan to earn a large amount of hard currency through the export of raw materials. At the same time the Government liberalised the import policy⁽¹³⁾ for capital goods with a view to accelerating industrial development. The Korean boom was, however, short-lived, so that when it was over, demand for raw materials fell sharply and necessitated the restriction of imports. By the later period of 1952 imports under Open General License were altogether suspended and this ended the liberal import policy era of Pakistan.⁽¹⁴⁾ The restrictive import policy gave an impetus to the development of domestic industry. However, the Government continued to give priority to importing capital goods within the framework of a restrictive import policy. Consequently industrial activity increased substantially; the stock market reacted favourably and showed a greater promise in providing strength to the capital market. The trading in stocks remained active throughout 1953-54.

During this period the market received strong buying support from investors and dealers; textile shares particularly, registered large gains.⁽¹⁵⁾ Several new flotations were oversubscribed

(13) The import policy for the last six months of 1952 allowed 85 p.c. of the total private imports under Open General License.

(14) Andrus and Mohammed, The Economy of Pakistan, op.cit., p.26.

(15) Annual Report of the State Bank of Pakistan, 1951, p.20.

and substantial capital gains were realised.⁽¹⁶⁾ Attracted by the prospect of earning larger dividends in share investment, a considerable fund was diverted from other fields to the stock market. Dealings for speculative purposes resulted however in an unhealthy boom in the market. The pressure of these dealings reached such a level that it was necessary to close the market for 9 days in November 1953 to avoid further speculative dealings. By the later part of 1953-54, export trade activity rose in the country and the traders gradually mobilised their funds in the trade sector. Buying support for shares on the Stock market was inadequate and share prices began to decline. Meanwhile, some industrial undertakings incurred heavy losses resulting from a further decline in share prices. By the middle of 1954, share values started to settle down at a more realistic level. The devaluation of the Pakistani rupee in 1955 provided a stimulating fervour in the share market.⁽¹⁷⁾ In addition, with prospects of earning high profits by industrial undertakings, due to the rise in domestic prices, share dealings again went up. The cheerful activity of the market continued up to January 1958.

(16) Andrus, J Russel, and Mohammed, Azizali F, Trade, Finance and Development in Pakistan, (Oxford University Press, Karachi, 1966) p.177.

(17) The devaluation of Pakistani currency resulted in larger exports and an increase in foreign exchange earning. Consequently industrial activity rose considerably.

The share market again became bearish in February 1958 partly due to the restrictions imposed by the State Bank of Pakistan on advances against shares of the companies and partly due to budgetary uncertainties. It has been observed that before the presentation of annual budgets a certain amount of sluggishness prevails on the stock market. This results from the fear that additional taxes may be imposed on corporate profits leading to a fall in share prices. Another reason is that operators in the market require some funds to hold shares during the lean period. Normally they expect to meet this demand by borrowing from commercial banks so the restriction on loans against shares largely affected the market activity. Subsequently, with the removal of restrictions on advances, share prices started to improve again.

The market showed temporary weakness in October 1958 when Martial Law was promulgated in the country. The reasons for a perceptible depression in the stock market were some of the stringent control and measures taken by the Martial Law Administration. These included compulsory declaration of hidden wealth and foreign exchange held by Pakistani citizen abroad. These measures thus brought a sudden change in the investment atmosphere and generally speaking, a sense of fear and insecurity for an appreciable time. The new regime however, took a number of economic measures for accelerating the growth of the economy. The main measures were the introduction of an export bonus scheme and liberalisation of the import of essential

consumers goods, industrial raw materials and spares. The bonus scheme, particularly, assisted the export-based jute manufacturing industries to increase their earnings through the sale of bonus vouchers in the open market. Other industries were also benefited through the increase in their earnings and they were encouraged to carry out balancing, modernisation and expansion through the utilization of bonus voucher earnings. These measures resulted in increasing investment and production in the industrial sector. This subsequently led to increased market activity on the K.S.E.

The 1959-60 budget introduced a few fiscal measures for the encouragement of more investment in the private sector. One of these was the abolition of the business profits tax : this induced a significant buoyancy on the stock market. In addition, the budget reduced the corporation tax from 55 p.c. to 45 p.c. and raised the minimum taxable limit of income from 5000 to 6000 rupees. (18)

With relatively stable market conditions during 1960-61 the market activity showed significant buoyancy during the following two years 1961-63. After that, dealings in share market began to decline and this trend has persisted in varying degrees up to the present day. The budget for 1960-61 contained several measures which had a disincentive effect on the general growth of investment. The long-held practice of the grossing up of

(18) Stock Exchange Guide of Pakistan, op.cit., p.9.

dividend income⁽¹⁹⁾ was abolished and dividend income in the hands of shareholders, beyond the exemption limit, was brought under income tax. As a result, the share market activity developed a bearish tendency. Apart from this, the bearish tendency was accentuated by the diversion of large funds into the import sector due to liberalised imports. Later, a firmer trend in the activity was observed from November 1960 when the Government lifted the price and distribution controls from cotton textiles and yarn and a further 29 items. This tendency remained unabated till April 1960 when market activity again became subdued and remained so up to August. Subsequently, however, for various reasons, a recovery in market conditions set in. First, an amendment was made in the Insurance Act, 1938, in early August, broadening the scope of investment of life insurance funds in "approved investment" from 40 p.c. to 60 p.c. Further amendment was made in the Insurance Act in October 1961, allowing the investment of insurance funds in the equities of those companies which declared dividends 5 out of 7

(19) Grossing up dividend income:- Under the Income Tax Act, the company is supposed to pay income tax on behalf of the shareholders. Under the grossing up procedure, the income tax paid on its distributed profits by the company was added to the dividend income accruing to the shareholder and the gross amount so worked out, was added to the income of the shareholder from other sources. The difference between the gross and actual amount of dividend was the tax already paid by the company on behalf of the shareholder and this difference was offered to the shareholder as tax credit in his assessment. The greatest beneficiaries of the grossing up procedure were the shareholders whose income was so low that they did not qualify as income-tax payers at all and could claim refund of tax dividend. This provided inducement to invest by small income groups who had lesser chances of assuming entrepreneurial responsibilities.

(formerly 7 out of 9) years. Second, the State Bank withdrew the credit restriction during the same month which had limited bank advances against shares of existing companies to 60 p.c. of their market value. Third, the companies declared handsome dividends. All these factors provided a distinct stimulus to the market leading to very high prices for some scrips.

The bullish tendency of the market was maintained for most of the period 1962-63. It was stimulated by several factors. Firstly, the budget for 1962-63 extended the exemption limit to cover 20 p.c. of dividend income over and above Rs 1000. A few months later, this technique of assessing dividend income for tax purposes was withdrawn and the exemption limit was raised to Rs 2000. Secondly, the emergence of the N.I.T. at the end of 1962 provided encouragement to market sentiment as it was believed that by the presence of N.I.T. on the investment scene stock market activity would not be likely to go down for lack of buying support. Thirdly, the declaration of good working results by some enterprises encouraged the inflow of private savings into the stock market. (20)

In addition to these, the declaration of more shares as "approved investment" by the Government presumably attracted more life insurance funds onto the stock market. There was also

(20) Finance and Industry: 'Price Trends on the Stock Exchange During Second Plan', Finance and Industry, vol.5, No.5,(May 1966.) pp.29-33.

larger investment support to new share flotations declared eligible for investment allowance under Section 15-C of the Income Tax Act. Buoyancy prevailed up to April 1963 when share prices of some undertakings rose remarkably high. The State Bank general index rose to an all-time high level of 127.97 in April 1963 compared with 108.43 in June, 1962. After that, market activity declined mainly due to (i) opinion that the increase in the prices of shares had gone higher than was warranted by their intrinsic value or yields, (ii) the diversion of some funds to new flotations, and (iii) pre-budget uncertainty.

After the presentation of the budget for 1963-64, stock market activity declined further. The depression began with a reduction in the proportion of over-subscription (Table 3.3.) and then in the shape of under-subscription of newly floated shares. The volume of business declined and many scrips incurred capital losses. This induced apathy towards corporate investment amongst investors, and, as a result the mobilisation of private savings diminished. The budget for 1963-64 introduced certain fiscal devices aiming at diffusing equity ownership and preventing the concentration of wealth in few hands. Among the measures the most important were (i) the re-definition of "public company" for tax purposes; (ii) compulsory declaration of dividend by private companies and (iii) the introduction of a wealth tax, a capital gains tax, and a tax on

bonus shares.⁽²¹⁾

The new definition of "public company" in the budget for 1963-64 was effected by amending section 23-A of the Income Tax Act. Under this amendment, a "public company" was defined as the company in which a minimum of 50 p.c. of paid-up capital should be held by the general public. Moreover, the affairs of the company should not be under the control of less than 20 persons nor should such persons hold more than 50 p.c. of the voting rights in the company. It was implied that the listed companies not fulfilling the above conditions would be treated as private companies and would be liable to pay 5 p.c. higher corporate tax than the "public company" within the meaning of section 23-A of the Income Tax Act. In addition, the private companies would be obliged, under the new law, to declare 60 p.c. of their net profit as dividend.

The impact of these measures on the Stock Exchange was serious in the sense that many of the listed companies were thus converted into "private companies" and subjected to higher tax. In pursuance of this law some closely-held companies made an attempt to convert themselves into "public companies" by means of the unloading of the shares which were held in excess of 50 p.c. On the other hand, small investors relying on the impression that share prices would go down further, began to dispose of their holdings also.⁽²²⁾ The effect

(21) Ibid.

(22) Stock Exchange Guide of Pakistan, op.cit., p.10.

was a sharp fall in share prices and loss of capital values especially for the small investors. As a result, the market started to move into decline from the middle of 1963. Thus the Government objectives allegedly designed to strengthen the depth of the capital market through the diffusion of equity ownership had produced quite the reverse effect.

The 1963-64 budget imposed a wealth tax for the first time on private companies. Tax was levied at the rate of 1.5 p.c. per annum on the slab of net wealth exceeding Rs 3.4 million subject to a maximum of 15 p.c. of total income. This levy discouraged investment in several ways. First, the big investors who paid tax on their personal wealth could receive a rebate of the wealth tax payment made by private companies in which they held shares. Small investors were not entitled to such a rebate since their wealth did not normally come within the purview of rebate entitlement. As a result, this levy amounted to a deduction of dividend income for small investors. Second, the valuation of shares for wealth tax purposes was originally proposed to be based on break-up values in the case of shares not quoted on the exchange and on closing prices in the case of quoted shares. The valuation of shares at the closing prices quotation could have motivated the management of the company who held major shares in the enterprise to keep the price down to avoid a certain amount of the wealth tax. Arising from this practice,

there was the distinct possibility that small investors might be involved in capital loss.

The ill effects of the wealth tax on the activity of the stock market were, however, realised very soon and certain amendments were subsequently made. The first amendment made in November 1963, exempted private companies from wealth tax provided the enterprise concerned gave an undertaking to the Government that it would convert itself into a "public company" by June 1964. The time limit for conversion was later extended to June 1967. Later in the budget for 1964-65, the Government provided further concessions to investors in respect of the wealth tax.⁽²³⁾ The concessions were (i) the withdrawal of wealth tax on private companies,⁽²⁴⁾ (ii) the valuation of shares of all companies on the basis of break-up value. In the same budget the Government extended the Tax Holiday period till the end of the Third Plan period. Despite these measures, the market continued to retain a bearish tendency during the major part of 1964-65. This was mainly attributed to lack of public confidence in the maintenance of market activity and was mainly derived from the fiscal measures of the Government. Further depression was induced by the tightening up of quota restrictions by the State Bank of Pakistan in January 1965.

(23) The rate of Wealth Tax on individuals had been raised from 1.5 p.c. to 2 p.c. in respect of assets valued at over Rs 3.4 million to compensate for the loss of revenue resulting from the exemption of private companies.

(24) During the later part of 1964-65, maximum ceiling of wealth tax 15 p.c. of total income was withdrawn in pursuance of the recommendations of the Commission on Tax and Tariff.

Apart from these, the introduction of tax on bonus shares and capital gains tax was also partly responsible for the worsening situation of the stock market. Bonus shares issued by a company to its existing shareholders were subject to a tax of 12.5 p.c. Companies enjoying the privilege of a tax holiday were however, declared to be exempted from this tax until 1964-65. (25)

Although the rate of this tax was moderate, yet it was believed that it discouraged the progressive plough-back of profits. Similarly the tax on capital gains was thought to provide a disincentive effect on the flow of private savings into the stock market because many investors approached investment in shares largely in order to make capital gains.

The 1965-66 budget contained additional fiscal measures which were received with mixed feelings on the market. A new tax was imposed on bonus shares issued by the companies enjoying a tax holiday. In the same budget the exemption limit for dividend income was raised to Rs 3000. (26) Although this measure did not affect small shareholders seeing that the exemption limit of dividend income was raised, large shareholders, particularly managing agents, were affected adversely. (27)

(25) Rab, Abdur, op.cit., pp.30-31.

(26) Stock Exchange Guide of Pakistan, op.cit., p.10.

(27) 'Survey of Fiscal Measures Affecting Stock Market'.
Finance and Industry, Vol.5, No.5. (May 1966), pp.45-50.

The combined effects of all these measures produced a renewed bearish activity on the stock market and induced an unfavourable investment climate in the country. There did not seem any improvement in the market activity inspite of some measures undertaken by the Government intended to be corrective. The Indo-Pakistan War in September 1965 depressed the stock market further. The depression could have been much larger if share prices had not been kept limited within pre-war values by means of a self-imposed curb on transactions. This further added to the nervousness of small and medium investors. In view of the situation, the Government, immediately after the cease-fire, felt the urgency of reviewing the fiscal measures affecting the stock market adversely. The revised policy announced in mid-October 1965 introduced the following changes. (28)

1. The compulsory distribution of dividend at 60 p.c. by private companies was suspended till June 1970.
2. The super-tax payable by the private companies was reduced by 5 p.c. provided the companies concerned gave an undertaking to the Government before 31st December 1965 that they would convert themselves into 'public companies' before 30th June 1970. If they failed to fulfill the undertakings, the unpaid tax equivalent to 5 p.c. of total net profit would be recovered with retrospective effect.

(28) 'Survey of Fiscal Measures Affecting Stock Market', Finance and Industry, vol.5, No.5, May 1966, pp.45-50.

These amendments, however, did not improve the situation as the measures proposed were actually held in abeyance. The capital market, being extremely sensitive, could hardly react favourably in face of these uncertainties. Thus, for a number of years, a series of irrational fiscal measures in respect of direct taxes lay at the heart of an unprecedented depression in the stock market.

The yield of investment in terms of dividend per share has remained comparatively lower since 1963-64. More than 50 p.c. of the listed companies on the K.S.E. did not declare a dividend at all. Out of a total of 182 listed companies in 1965 only 87 companies declared dividend. ⁽²⁹⁾ Our study of seventy listed companies reveals that the annual average rates of dividend from 1964 to 1966 were within the range of 7 to 9 p.c. ⁽³⁰⁾ Considering the extent of the risk involved in share investment and the prevailing market rate of interest, such rates of yield would appear to be very unsatisfactory. Since dividend is the main incentive for investment in shares, the shyness of the public towards shares can easily be understood. This shows that despite the incentives introduced by the Government, the rate of return in Pakistan is not yet attractive enough for the investors.

(29) The Karachi Stock Exchange, 1968 (Diary).

(30) See footnote 33 below.

The reasons for a lower rate of dividend are attributed to the conservative dividend policy of the companies and the creation of large reserves out of unappropriated profits. The growing tendency among companies to plough back large portions of their unappropriated profits means that either they pay small or no dividends to the shareholders. There was no check on this except the market quotation of these scrips for which profit was low, which would tend to be correspondingly low. Moreover, the Government's fiscal measures encouraged the transfer of more profits to the reserve fund as discussed in Chapter Two (p. 51). There are other reasons for the conservative dividend policy of the companies. The dividend income in the hands of shareholders is taxable with the exception of the exemption limit.⁽³¹⁾ The managing agents, being potential holders of large amounts of dividend have been inhibited from declaring handsome dividends as they are thereby involved in paying more tax. The managing agents are less concerned to share large dividends as they receive substantial amounts from various companies which are managed by them in the form of management commission. Instead of paying large dividends they prefer to re-employ the unappropriated profit in another concern so as to earn

(31) In 1960-61 budget, dividend income in excess of Rs 1000 exemption level was brought under income tax. The exemption limit was extended to cover 20 p.c. of dividend income in addition to first Rs 1000 in 1962-63. But later on it was withdrawn and the exemption limit was limited to Rs 2000 and then to Rs 3000 in 1965-66.

more commission. Even if dividend is declared, a considerable delay may be involved in distribution. Meanwhile, the divisible fund is used for meeting working-capital needs. All these factors produced a disincentive effect with respect to the investment climate in the country.

Recently, the Government has introduced a new set of measures with a view to encouraging distribution of dividend at a more attractive rate and to the issuing of bonus shares. The measures are expected to exert a beneficial impact on the stock market. The measures are: (32)

1. An extra income-tax of 10 p.c. will be levied on such portions of free reserves exceeding the paid-up capital of the company.
2. An additional tax of 5 p.c. is to be imposed on undistributed income while distributable income is offered a rebate of 15 p.c.
3. Tax-holiday companies are henceforth to be required to distribute as dividend 60 p.c. of their net profit and could carry 40 p.c. to a special reserve fund. The position had previously been the reverse of this.

It can be observed that in the immediate past, from about 1964, say, there has been a tendency for dividends to rise. (33)

(32) Stock Exchange Guide of Pakistan, op.cit., p.10.

(33) Ratios of Net Profit and Dividends to Paid-up capital for 70 companies:- ... continued

As we have stated earlier, the credit policy of the State Bank has considerable impact on the activities of the stock exchange. The availability of credit against shares enables the market operators and the small investors to hold shares during the lean period of the market. The State Bank restricted the borrowing of the scheduled banks by introducing a quota system in July 1963.⁽³⁴⁾ This restriction raised the rate of interest on bank credit to 8.5 p.c.

Generally, bank credit was not available against shares and even if available, it was at a relatively high interest rate of 8.5 p.c.⁽³⁵⁾

(33) - footnote continued from previous page:

	Year			Average
	1964	1965	1966	
Net profit to paid-up capital.	16.7	14.8	17.6	16.4
Dividend to paid-up capital.	7.1	8.5	9.2	8.3

Source: Table B-10 in Appendix B.

(34) The State Bank of Pakistan introduced some quantitative credit restraints. Each scheduled bank was assigned a quota to half of its reserve requirement. Borrowings up to the quota would be at bank rate. In excess of the higher rates were applied in a four tiered structure reaching a maximum of 2 p.c. over the bank rate for amounts exceeding six times the quota. (Andrus and Mohammed, Trade, Finance and Development in Pakistan, op.cit., p.99).

(35) Chamber of Commerce and Industry, Karachi - Annual Reports, 1965-66, p.160.

Moreover, it was not gainful borrowing when the average yield of dividend was so low. Although the quota system was abolished in October 1965, the market did not show any improvement whatever. The bank rate was raised to 5 p.c. in 1965-66 (budget) which further restricted bank credit for the market operators and other small investors. (36)

4. Stock Exchange and the Managing Agency System. (37)

Some observers of the capital market in Pakistan are inclined to believe that the Managing Agents (38) are largely responsible for the present uncertain state of the stock market. It is argued that they manipulate the affairs of the company to their best advantage

(36) Stock Exchange Guide of Pakistan, op.cit., p.10.

(37) The Managing Agency, a unique organisational pattern, has been closely associated with industrial development of India and Pakistan. It is generally a well established management firm, the support of which is vitally important for securing funds from banks and investors. For providing management services to the company it receives commission on the basis of minimum percentage of profit or a flat sum or both. Since the day to day management of the company is vested on the managing agent it receives a strong representation on the Board of Directors of the relevant company.

For further details on the Managing Agency System see Appendix C, page 317.

while overlooking the rights of minority shareholders. Recently, there has been some severe criticism against this system and some critics have advocated an early abolition of the managing agency system. The Government also blamed the system for not supporting the market at the time of depressed conditions. While addressing the representatives of the Karachi Stock Exchange in December 1965, the then Finance Minister of Pakistan remarked that, "there was no need for managing agencies if they could not support the market during the lean period".⁽³⁸⁾ He asked the Stock Exchange to find out whether there was any justification for having a managing agency in the country. This statement seems to be contradictory in the sense that the system was legally prohibited from participating in shares beyond the prescribed limits. In the absence of a sufficient number of investors in the market the managing agents were theoretically able to avert wide fluctuations in share prices which would have otherwise arisen; success in this respect would, however, depend upon them providing support at the required time.

There are reasons to believe however, that managing agents can declare a minimum dividend, delay the publication of annual reports and cause undue delay in distributing dividend. But the fact remains that whatever fund is available in the hands of the agency, it will tend to be put back for employment in productive

(38) The Dawn, December 21, 1965.

purposes. The managing agency system has provided useful entrepreneurial services for a rapid industrialisation and capital formation in the country. The industrial growth of the country has been partly financed by the reinvestment of profits. While small investors are indifferent to the affairs of company management, the utility of specialised groups like the managing agency cannot be ignored even today. A professional management class has not yet developed in the country and under these conditions hasty measures to abolish the system may not be much good to the country.

As share ownership widens the managing agency system would lose much of its validity. The Government has not been able to make a clear-cut decision whether the system should continue or not. The system has been allowed a respite for five years which has now been extended for another five years.

The lack of any clear-cut policy regarding the managing agency system has not only created confusion in the minds of the people but also it has made the managing agency groups hostile towards Government policies. Managing agents are a powerful element in the market and, as such, they do not always conform to Government policy, especially one which goes against their interest. While there can be no question of the Government yielding to this element, it remains a question which needs a careful consideration. It may be pointed out however, that since the introduction of fiscal measures in 1963-64, and subsequently, the desired improvement in

share market activity did not in fact come about.

The above considerations suggest that until an alternative system is developed, it would not be wise to abolish this system. Instead some modifications might be made in the operational functions of the system to check the malpractices of the managing agents in so far as these may be defined. The Government has already introduced some measures in this respect. Some of the restrictions imposed by the Government are as follows:

1. The managing agency commission has been restricted to 5 p.c. of the net profit,⁽³⁹⁾ and it should not exceed the rate of dividend declared by the company in a particular year.
2. The managing agent shall not be allowed to act as the sale or purchase of the managed companies nor shall they receive any remuneration for sales and purchases made on behalf of the company.
3. The managing agent shall nominate only one Director on the Board of Directors of the managed company.
4. On a premature termination of the managing agency agreement the company shall be liable to pay compensation equal to one year's average remuneration (received in previous years) for every four years of unexpired period.

(39) Previously managing agency commission was at 7.5 p.c. of the net profit per annum. Further, the managing agent shall not be entitled to any commission at all for a year in which dividend is not declared.

5. During the tenure of the managing agency agreement the company shall not appoint any chief executive on remuneration and after the expiration of the tenure, the chief executive shall be appointed subject to the approval of the Controller of the Capital Issues.

In addition, it is laid down that the appointment of managing agents and the terms and conditions of their agreements shall be subjected to the approval of the Controller of Capital Issues.

In so far as these policies primarily aim at providing protection to the interest of the small investors, they are likely to improve the investment atmosphere in the country. The ceiling fixed on managing agency commission is expected to increase the rate of dividend declared by the companies. At present Pakistan has no equivalent of the U.S. Securities Exchange Act with its enforcement commission. A similar form of Government regulation to control the stock market would no doubt help to build up public confidence in the stock market.

5. Institutional Investors and the Stock Exchange:

The capital market in Pakistan lacks the support of an adequate number of institutional investors such as normally play an important role in industrially developed countries in mobilising private savings into the corporate sector through the stock exchange.

The main institutional investors of importance to the Stock Exchange in Pakistan are the Insurance Companies, the National Investment Trust and the Investment Corporation of Pakistan. Total investment in industrial stocks by these institutions is estimated to be Rs 200 million⁽⁴⁰⁾ constituting about 10.5 p.c. of the total paid-up capital of manufacturing concerns listed on the K.S.E. up to 1966. The insurance companies are the oldest of these, although they have not yet developed to a stage where they can play an important role in capital formation. As a result, their influence on the general business activity of the Karachi Stock Exchange seems to be relatively less significant.

The National Investment Trust was set up at the end of 1962 with a view to mobilising private saving into corporate investment through the Stock Exchange. It was generally felt that the presence of the N.I.T. in the stock market would provide buying support when market turns subdued due to lack of demand for shares in the market. The establishment of the Investment Corporation of Pakistan, an investment bank, early in 1966, provided an encouraging spurt to market sentiment since it was hoped that it will increasingly lend support to the market. However, limited resources

(40) The break down of Rs 200 million is as follows:

1. Insurance Companies	Rs 50 million	(up to 31st Dec 1965)
2. N.I.T.	Rs 90 million	(up to 30th June 1967)
3. I.C.P.	<u>Rs 60 million</u>	(up to 30th June 1967)
	<u>Rs 200 million</u>	

at their disposal seem to have set an upper limit to what they can do by way of providing equity finance to the new industrial projects which are being set up in Pakistan on the one hand, and supporting the market on the other.

Before the establishment of the I.C.P. Pakistan did not have any issue market similar to that in Great Britain. The industrial entrepreneurs had been facing difficulties in formulating financial plan, and designing the best form of capital structure for their undertakings due to lack of proper guidance from a specialist investment banker. The slow growth of a capital market in Pakistan is also attributed to the fact that adequate facilities for under-writing of new issues in the market have been lacking.

However, the underwriting function of investment banks in the limited insurance sense of guaranteeing the purchase of unsold stocks (which excludes merchandising stocks) has been performed, to a limited extent, by the large commercial banks, P.I.C.I.C. and N.I.T. The commercial banks, because of the short-term character of their liabilities, invest very limited funds in stocks. The P.I.C.I.C.'s underwriting function is mostly concentrated on relatively large and successful enterprises. Its underwriting activity is done primarily with the object of obtaining an equity position in the projects to which it has granted long-term loans so that it can secure its loan capital. The P.I.C.I.C.'s direct investments in stock constitute about 6 p.c. of its assets.

The N.I.T. which performed an underwriting function by exercising its option of subscribing 20 p.c. for every new issue has virtually become inoperative in this field in view of its anxiety to earn a reasonable return for its unit holders; and new projects do not offer assurance of this for some years. Although authorised to act as underwriters, the insurance companies play a very limited role in this field.

The I.C.P. is performing underwriting as its primary function but its ability to meet the equity gap is dependent on its own resources. The underwriting take-ups of the Corporation suggest that 80-90 p.c. of new capital issues have practically to be financed out of a Corporation's own resources. These indicate limited underwriting facilities in Pakistan and without these at the requisite level, the development of a sound capital market is bound to be held back.

Apart from the factors discussed above, the operators and the members of the Stock Exchange do not seem to have discharged their responsibility in developing sound stock market. It has been observed that some of the stock brokers participate in the market transactions mainly to serve the interest of vested interest-groups rather than looking into the interest of the minority shareholders who attach so much importance to them. They need to pay more attention on accruing long-term benefits rather than looking for short-term gains from speculative dealings.

It has also been observed that with the exception of a few distinguished brokers, others largely depend on outdated methods of information and rumours, and advise their clients accordingly.⁽⁴¹⁾ The consequence of such ill founded advice may bring disastrous effect in the sentiment of the market activity. Thus, there is an urgent need to develop a professional integrity in the brokers class. Their advice to the clients should be based on facts. The brokers community by their honest and rational activities can, therefore, make an outstanding contribution towards the development of a sound Stock Exchange.

The members and directors of the Stock Exchange who have had a far reaching influence on the development of the stock market, have not yet made enough efforts to educate the public about the advantages of corporate investment. In addition, the management has not been able to get rid of the market from the hands of manipulators where small investors could participate in equity of an enterprise safely and share the benefits of industrialisation. The organisers of the K.S.E. have failed to create a public image of complete impartiality which is so essential for a successful and growing stock market.⁽⁴²⁾ The general

(41) Jafarey, N.A. 'What Government Cannot do for Stock Market', Finance and Industry, Vol.6, No.4, April 1967, pp.23-25.

(42) Ibid.

investors have to be convinced and re-assured again, that the management of the Stock Exchange is completely free from all influences emanating from those whose stocks are traded on the exchange. Therefore, efforts should be made by the Stock Exchange in order to bring back the public confidence on the activities of the stock market.

6. Summary:

In summing up the discussion so far, it would seem that the K.S.E. enjoyed a smoothly increasing business activity until April 1963 but that its activities have shown a certain sensitiveness of response to fiscal and monetary measures and the general investment climate in the country. The period commencing from May 1963 can be described as the declining period of the K.S.E. The evidence of the study seems to be that the behaviour of the market has mainly reflected the Government's fiscal policies which have been adopted from time to time. This may seem to be a sweeping statement, as it is difficult to separate one single factor from a large number of factors which rule the stock market, but the trend of the share prices is so closely linked with the presentation of the budgets that this conclusion appears inescapable. The activity of the Exchange has shown weakness on almost every occasion when import policy has been liberalised and

tight credit control policy has been pursued. Pre-budget uncertainty has moved market activity either this way or that way, depending on circumstances.

The pace of industrialisation in the country during the fifties, the dismantling of price and distribution controls in the early sixties, rationalisation of corporate tax structure, the granting of fiscal concessions to corporate enterprises and to investors, investment allowances, all had a highly favourable impact on market activity. On the other hand, premature withdrawal of certain concessions like the abolition of grossing up of dividends, the introduction of certain fiscal devices to broaden share ownership and the imposition of new taxes, like the wealth tax and the capital gains tax and the tax on bonus shares, all had a strong bearish impact on market activity. Another factor which partly contributed to the depressing trend of the market was the conservative dividend policy of certain industrial undertakings.

The fiscal devices adopted in the budget for 1963-64 particularly the new definition of "public company" have harmed the market activity to such an extent that the market has not since revived to a satisfactory level. The counter measures for saving the market have failed to bring about a change in investment atmosphere, as these failed to be understood by investors. The postponement of the provisions of Section 23-A has increased the uncertainties instead of eliminating them. It would seem therefore, the proper thing to do is to devise such a fiscal policy as would help

the growth of the stock market. Further depression may be even greater if the hope of low taxation encourages the private companies to be converted into "public companies." One way to prevent this would be to apply the new definition of "public companies" to new companies only.

The strong investing class has yet to be developed in Pakistan. Moreover, institutional facilities for mobilising private savings into corporate shares are not adequate. In such a situation, the abolition of the managing agency system seems to be unjustified. The active co-operation of the managing agents could be useful in reviving stock market activity. Moreover, the insurance companies, the N.I.T. and the recently formed I.C.P. have provided very limited service in this respect. They do not have sufficient resources at their command to support the market during the lean period. This suggests that the activities of these institutions need to be widened and their resources strengthened, since, with sufficient resources they would be able to buy shares on the K.S.E. The I.C.P. being an investment bank can resell the shares purchased on the K.S.E. on the Dacca Stock Exchange where dealings are too limited for lack of shares. In this way the Dacca Exchange could be given more effective support for development.

There is a great need for institutions in Pakistan to deal in shares on a wider scale. This could be done by allowing

the formation of investment companies in the private sector, and so far this has not been done. The apprehension of the Government is that it would again lead to the concentration of shares in few hands. The chances of such concentration can be reduced, however, by introducing a suitable system of safeguards. There should be healthy competition between official and unofficial investment companies in order to increase the operational efficiency of the Government sponsored corporations.

Despite the fact that the K.S.E. has provided marketing facilities for stocks over the period under study, it has not been able to create a healthy investment atmosphere in the country. For one reason or another the K.S.E. has not been able to safeguard the interests of the minority shareholders who have invested in the stocks of the listed companies. The Exchange has no power to guarantee to shareholders that listed companies will operate for the interest of both majority and minority shareholders. It has been observed that the Stock Exchange can in effect do nothing when the management of an undertaking declares low dividend inspite of the large profit available for distribution.

In the absence of an investment bank in the country, the Exchange has had to grant enlistment to a company based on information supplied by the enterprise concerned. Enlistment without proper appraisal of the concern's financial and economic

potentiality has produced some adverse repercussions on the investment climate of the country. Non-declaration of dividend by some of the undertakings in the time promised in the prospectus has made small investors and institutional investors reluctant to subscribe to any new issue without discrimination. The Exchange has no research department able to analyse the financial soundness of the undertakings proposed to be listed. Thus the K.S.E. should have a research department so that it is possible to evaluate the potentiality of a project both from the yield and economic points of view before enlistment is granted.

The standard of accounting system in Pakistan is not yet up to the mark. The annual and financial statements do not supply that amount of information that needs to be made available to the public for a correct appraisal of companies' affairs. It would also be desirable to improve the standard of accounting and auditing practice; at times criticism has been expressed of the existing standards in both.

However, since there are many factors relevant to the efficient operation of a stock market, one should consider the totality of the situation along with the individual factors, if all round improvement is desired. An all-out effort needs to be made to evoke the necessary confidence and awareness among investors. Once the people begin to realise the profitability and importance of corporate investment, the activities of the share market could hardly fail to be stimulated.

CHAPTER FOUR

A STUDY OF INSTITUTIONAL INVESTORS.

It has been seen in the last Chapter that there are three institutional investors on the Karachi Stock Exchange, the insurance companies, the National Investment Trust and the Investment Corporation of Pakistan. So far, their contribution to industrial finance and their role on the Stock Exchange have tended to remain slight as compared with the contribution of similar institutions in the developed countries. In so far as the development of a sound stock market is dependent upon the growth of institutional investors, it is most desirable that the participation of the institutional investors on the Stock Exchange should increase. The continuously unstable conditions of the K.S.E. have been attributed to the rather uncertain support from institutional investors. In this Chapter we propose to discuss the growth and development of institutional investors paying a particular attention to their objectives, policies, achievements and failures. We shall first discuss the insurance companies and the N.I.T. which will be followed by a discussion on the I.C.P.

A. Insurance Companies.

1. Introduction:

The insurance companies play an important role in the economic development of a country by means of collecting savings from individuals and canalising them into productive investments. The main objective of an insurance is coverage of risk and this is done by collecting contributions or premiums from many and paying the losses to a few as the cases arise. There are two types of insurance - general insurance covering the risk of losses to property and life insurance dealing with life. General insurance, by affording protection against the losses of property arising out of fire, flood and storm, embezzlement, forgery, burglary, theft and accident provides valuable services to the commercial and industrial organisations. But general insurance is left with only a small fund out of its premium income after meeting the claims of losses and paying premiums for re-insurance purposes. As a result, the role of general insurance compared with life insurance is relatively unimportant in the process of capital formation.

Life insurance companies accumulate funds from the contribution of policy-holders with a promise to pay a fixed amount to the beneficiaries of the insured persons in the event of his death or to the persons themselves on maturity. There is a time-lag between the receipt and the payment of the amount during which the fund is profitably invested by the insurance companies.

In Pakistan the number of insurance companies operating by the end of 1965 was 73. Of these, 40 were Pakistani and 33 were Foreign companies. It may be noted that 32 of the indigenous and 4 of the foreign companies were doing life business either exclusively or along with other forms of business.⁽¹⁾ The total life funds⁽²⁾ accumulated in Pakistan at the end of December 1965, was Rs 538.62 million of which the share of local insurers was Rs 289.24 million (53.7 p.c.) and that of foreign insurers was Rs 249.38 million (46.3 p.c.).

2. Review of Activities.

(a) Total Investments:

The asset holdings of the insurance companies amounted to Rs 463.6 million as against life funds of Rs 538.6 million in December, 1965. Table 4.1. shows the total asset holdings in various forms by the year ending 1965.

(1) Government of Pakistan, The Pakistan Insurance Year Book, 1966, (The Manager of Publications, Karachi 1967), pp.1-12.

(2) Excludes postal life Insurance Funds and Pension Funds which are exempted from the provisions of the Insurance Act, 1938.

Table 4.1. : Structure of Life Fund Assets of the
Insurance Companies.
As on 31st December, 1965.

Form of Assets	Million Rs*	Per Cent
1. Central Government Securities	144.9	31.2
2. Provincial " "	73.5	15.9
3. Debentures of Statutory Corporation	75.6	16.3
4. Shares and Debentures of Joint Stock Company.	69.5	15.0
5. Loans on Mortgages of Property (a).	36.0	7.8
6. Real Estate (b).	25.4	5.5
7. Cash Deposits other than Current A/c.	15.4	3.3
8. Loans on Insurers' Policies within their surrender value.	23.3	5.0
Total	463.6	100.0
<p>Source: <u>The Pakistan Insurance Year Book, 1966. pp.16-18.</u></p> <p>* Face value of the securities.</p> <p>(a) Loans outstanding as on 31.12.65.</p> <p>(b) Construction cost.</p>		

The table above shows that central and provincial government securities together accounted for 47 p.c. of the total investment while another 16 p.c. was invested in debentures of statutory corporations. The shares and debentures of joint stock companies

constituted 15 p.c. of the total life fund assets. The remaining 21.6 p.c. was held in loans on mortgages (7.8 p.c.), real estate (5.5 p.c.), cash deposits other than current account (3.3 p.c.) and loans on insurers' policies within their surrender value (5.0 p.c.). The residual (Rs 538.6 million - Rs 463.6 million) amount of Rs 75.0 million was deposited in current accounts.

(b) Investments in Industrial Stocks;

It can be seen from the table above that until the end of 1965 investment in the shares and debentures of joint stock companies was Rs 69.5 million out of a total investment of Rs 463.6 million. These holdings were distributed in four groups of joint stock companies - industrial enterprises including fuel and power (Rs 50.43 million), banking (Rs 12.51 million), N.I.T. Units (Rs 2.86 million) and transport and communications (Rs 3.72 million). Industrial holdings amounted to Rs 50.43 million or 72.54 p.c. out of a total holdings of Rs 69.52 million. Table 4.2. provides a break-down of the industrial holdings of insurance companies on 31st December, 1965.

About 71 p.c. of industrial holdings were concentrated in four groups of industries - electric power including fuel, jute textiles, cotton textiles and miscellaneous. The miscellaneous group included a variety of industries such as services, paper, tobacco, tea, glass and fruit canning. This group alone accounted for 23.64 p.c. of the industrial holdings. Fuel and power including

Table 4.2. : Holdings of the Insurance Companies in
Industrial Stocks on 31st
December, 1965.

Industry	Insurance Companies holdings		Total Paid up Capital	
	Rs in millions	%	Rs in millions	2 as % of 4
1	2	3	4	5
1. Cotton Textiles	5.31	<u>10.52</u>	201.57	2.63
2. Synthetic Rayon and Textiles.	1.85	3.66	87.89	2.10
3. Jute	5.74	<u>11.38</u>	220.46	2.60
4. Sugar and Allied.	4.93	9.78	208.93	2.36
5. Cement	3.61	7.16	102.54	3.52
6. Engineering	3.00	5.94	79.12	3.79
7. Chemical and Pharmaceutical.	1.41	2.80	82.75	1.70
8. Fuel and Power.	8.93	<u>17.71</u>	282.99	3.16
9. Electrical - (Karachi and Rawalpindi).	3.73	7.40	47.05	7.93
10. Miscellaneous.	11.92	23.64	366.17	3.25
Total	50.43	100.00	1679.47	3.00

Source: The Pakistan Insurance Book 1966, pp.289-311.

electric, cotton textiles and jute textiles accounted for 25.11, 11.38 and 10.52 p.c. respectively. In addition, investments in sugar and allied activities, cement, and engineering industries were also

significant. On the whole, the insurance companies participated in the equity capital of 100 manufacturing concerns by providing 3 p.c. of the paid-up capital⁽³⁾ of those concerns. From Column 5 in Table 4.2, it may be observed that the ratio of share capital subscribed by the insurance companies in each group of industries to the total paid-up capital of that group does not reveal any marked degree of preference for the stocks of one group over another, with the exception of electric power supplying concerns, where the ratio was 7.93 p.c. The ratios in the cases of the sugar and allied, cement, engineering, fuel and power and miscellaneous industries were within the range of 3.16 to 3.79 p.c. whereas in other cases the ratios were below that range but not lower than 1.70 p.c. On the whole, however, the role of insurance companies in Pakistan as a supplier of industrial finance has remained very poor compared with India where such institutions had provided at least 12 p.c. of the paid-up capital of 16 industries in 1957-58.⁽⁴⁾

The form of the industrial holdings was mainly ordinary shares. Investments in preference shares and debentures were very small. Out of a total industrial holdings of Rs 50.43

(3) The paid-up capital of 100 manufacturing concerns amounted to Rs 1679.47 million. However, the total paid-up capital of all industrial undertakings listed on the Karachi Stock Exchange was slightly higher amounting to Rs 1791.15 million and the contribution of insurance companies was estimated at 2.80 p.c.

(4) Rosen, G., op.cit., p.75.

million the contributions of preference shares and debentures were Rs 2.12 and Rs 3.65 million respectively. Such lower ratio in these securities reflects the pattern of capital structure in manufacturing industries in the country which is predominantly based on ordinary share capital.

(c) Investment Policy and Appraisal:

The investment policy of an insurance company is guided by certain statutory provisions which prescribe the general principles of investment. In Pakistan, section 27 of the Insurance Act of 1938 prescribes a minimum amount of adjusted liabilities⁽⁵⁾ that must be covered by investment from each insurance company in some approved securities of the Government. The Act was amended from time to time with a view to affording protection for the policy holders' money and to channel funds into the direction where it was thought to be most needed. The insurance companies in Pakistan are now required to maintain 40 p.c. of their assets (previously 60 p.c.) in Government bonds.⁽⁶⁾ The remaining

(5) Adjusted liabilities as defined under section 27 of the Act are the sum of the amount of the liabilities of an insurance company to the holders of life insurance policies in Pakistan on account of matured claims and the amount required to meet the liability on policies maturing for payment in Pakistan less (i) the amount of any statutory deposit made under section 7 in respect of life insurance business (ii) any amount due to the insurance company for loans against surrender value of policies. (Andrus and Mohammed, Trade, Finance and Development in Pakistan, op.cit., p.163.)

(6) The amendment was made in 1961. Under this amendment 30 p.c. of assets should be kept in Government securities, which means central and provincial Government loans, defence bonds, income tax bonds issued in connection with refundable surcharge etc, and another 10 p.c. in

/continued:

60 p.c. may be invested in approved securities or approved investments. Approved investments may include ordinary shares, preference shares and debentures of public companies, mortgages and real estates. Under the same ordinance of the amendment, the Government has also assumed power to declare any issue of both new and existing industrial undertakings to be an approved investment. This has been done to divert more funds into sectors such as industry.

As a result of these measures, the Government expected that a substantial amount of insurance funds would be diverted to the industrial sector, but the result did not appear to have matched the expectation. This may be seen from the fact that during the period 1956-60 annual average investment in Government and approved securities was 36 p.c. more than the stipulated level of investment.⁽⁷⁾ The extent of the excess was 68 p.c. during the period 1961-65. The higher average during the later period was in fact, due to the reduction of the legal limit by 20 p.c. However, if we assume that 60 p.c. of the adjusted liabilities was legally necessary to invest in Government and approved securities in the later period also, and compare the actual pattern of investment, we may be able to visualise the real

footnote (6) continued from previous page:-

... approved securities - means Government securities and any other securities charged on the revenues of the central and provincial Governments, or guaranteed fully as regards principal and interest by the central or a provincial Government.

(7) The minimum required investment was 60 p.c. in Government and approved securities during the period 1956-60.

impact of the change of investment priorities. On this basis, we find that an average excess of actual investment over the required investment was 17 p.c. during the period 1960-65. This suggests that there has been a growing tendency on the part of the insurance companies to invest more in Government securities than in other forms of investments. In fact, this policy was pursued not only because these securities were safe investment outlets but also for the reason that there was an inadequate supply of reasonably secured industrial stocks in the market. It is also revealed from the study that in recent years, a change in investment policy has been taking place and the trend of investment in Government securities is gradually declining.

When selecting investment portfolios the management of an insurance company has to take into account certain considerations which are deemed to be important for the safety of the investment. The intention of such investment is always to realise maximum possible income on the one hand, and to avoid any undue risk in respect of the investment on the other. Obviously, a detailed analysis of a particular security is essential from the point of view of both yield and risk before any final decision is made for investment in that security. From the insurance companies' point of view, Government securities are the most protected investment although they are not lucrative as far as income is concerned. Since the scope for investment in the corporate stocks was limited, the

insurance companies have remained satisfied by employing larger funds in Government securities. The rate of interest on the securities has also increased in recent years. In 1965 the average rate of interest was 4.5 p.c.

Insurance companies have been provided through the statutory provisions with ample opportunities for investment in approved corporate securities. The Insurance Act allows the Government to declare any issue of existing and new companies as approved security provided it fulfils certain pre-requisites for approved investment. Amongst the corporate stocks, the fixed return preference shares and debentures are the most favourite to the insurance companies. But with the exception of a few manufacturing concerns the paid-up capital of the industrial undertakings is in ordinary shares.⁽⁸⁾ Although investment in ordinary shares is protected through legal measures yet there is, for reasons mentioned below, little scope for investing policy holders' money in those variable yield shares.

In the first place, insurance companies are restricted through statutory provisions from investing in such companies which are not listed on the stock exchange. Even if, the companies are listed, insurance companies do not have confidence in the issues of newly floated industrial undertakings. Past experience shows that

(8) For details see Chapter 2.

a large number of new enterprises are not in a position to declare dividends in due time as envisaged in the prospectus issued to the public for subscription. This situation not only undermines the investors' hope for earning profit but also encounters possible capital loss due to fall in share prices in the market. Many new industrial undertakings in Pakistan are now being organised by new entrepreneurs who are entering into this field for the first time. The insurance companies are particularly reluctant to subscribe to the issues offered by the less known entrepreneurs. However, if shares are offered to the public by a reputed big industrial group, there is a record of over-subscription and in such a case shares are allotted on a reduced proportion of shares than applied for.⁽⁹⁾

Insurance companies may increase their industrial holdings by purchasing more shares of the existing industrial undertakings. The shares of existing successful companies are available at high premium rates. It may be observed from the fact that the Habib Textile Mills Ltd, in 1962, offered 270,000 shares of Rs 10.00 each to the general public for subscription at an enhanced share value of Rs 15.50 each. The issue was over-subscribed.⁽¹⁰⁾

(9) Shares to the general public are now allotted on the following basis : (i) 50 p.c. to the applicants of up to 100 shares.
(ii) The remainder of the shares on a flat rate basis amongst applicants who apply for more than 100 shares.

(10) Stock Exchange Guide of Pakistan, op.cit., p.234.

The company declared dividend at the rate of 10 p.c. in 1963 which was in effect 6.5 p.c. return to those who purchased shares at premium price. The Olympia Textile Mills Ltd, made a similar offer at an appreciated value of Rs 6.00 per ten rupee shares ⁽¹¹⁾ in 1961, which was again over-subscribed. But this company did not pay any dividend until 1966 when it declared a maiden dividend at 5 p.c. Similar instances are not rare in corporate sector of the economy of Pakistan. This shows that notwithstanding uncertainty, the insurance companies feel more confident in investing in the shares of existing companies. But this means that the width of the market is small and prices consequently high, a fact which resists the purchase of industrial stocks.

Insurance companies are not investment banks and they are not expected to have the facilities of the special financial institutions to evaluate and judge industrial investment. What they are expected to do is to keep under close observation the activities of other institutional investors and the share market conditions in the country, and finally come to a decision on the investment by applying their own judgement. As discussed in the chapter on the stock market, the share market has remained prone to frequent fluctuations throughout the period since 1963-64. Unstable market conditions have been a serious problem to the insurance companies in investing in corporate shares. In addition, uncertainty

(11) Ibid, p.244.

in the flow of income from ordinary shares, inadequate information about companies' financial matters, declaration of poor dividends by existing companies, delay in the distribution of dividends have impeded the flow of insurance funds into the corporate sector considerably.

Since preference shares and debentures provide an assured fixed return on investment, the insurance companies prefer to invest in securities of this type. However, these securities constitute an insignificant proportion of the long-term capital of the manufacturing industries. The preference shares and debentures have provided only 3.1 p.c. and 1 p.c. respectively of the total capital of 70 selected industries in Pakistan.⁽¹²⁾ Investment in preference shares and debentures by nine insurance companies stood at Rs 3.65 and Rs 2.12 million respectively by the end of 1965.⁽¹³⁾

A substantial part of life business is still held by foreign companies. The share of foreign companies in the total life funds at the end of December 1965 was Rs 249.4 million, (i.e. 46.4 p.c. of the total life funds). As far as investment is concerned foreign and local companies have invested 88 and 85 p.c. of

(12) See Chapter 2, pp.47, 48 and 55.

(13) Nine Companies:- Adamjee Insurance Company Ltd., Eastern Federal Union Insurance Company Ltd., Ideal Life Insurance Company Ltd., Mercantile Mutual Insurance Company of Pakistan Ltd., Muslim Insurance Company Ltd., Premier Insurance Company of Pakistan Ltd., Habib Insurance Company Ltd., Prudential Assurance Company Ltd., American Life Insurance Company Ltd.,

their respective life funds at the close of the year 1965. As regards the nature of investment, it appears that foreign insurance companies persist in the practice of investing more in Government securities compared with local (insurance) companies. The foreign companies' holdings of Government securities totalled Rs 111.0 million, which was 15 p.c. higher than investment made by local companies in Government securities in 1965.⁽¹⁴⁾ On the other hand, local companies have a more balanced investment portfolio in the sense that they have also invested relatively more funds in equities and land mortgage. By the end of 1965, in the case of foreign companies, approximately 11 p.c. of the holdings were of preference and ordinary shares, 5 p.c. were of debentures whereas in the case of local companies 24 p.c. of the assets were of preference and ordinary shares and 2 p.c. were of debentures. These facts reveal that local insurance companies are more inclined to invest in the stocks of joint stock companies than are their foreign counterparts in Pakistan.

To sum up this discussion, investment in the shares and debentures of joint stock companies formed only 15 p.c. of the total asset holdings of the insurance companies at the close of the year 1965, and they were 13 p.c. of the total life funds. Investment in the stocks of industrial concerns was Rs 50.43 million (71 p.c.) out

(14) Insurance Year Book 1966, op.cit., pp.13-36.

of a total investment of Rs 69.52 million in the securities of joint stock companies.⁽¹⁵⁾ We have also seen that the scope for direct investment in industrial securities is limited owing to a number of factors such as uncertainty in earning income from variable yield shares, absence of adequate preference shares and debentures issued by industrial concerns, unstable share market conditions, and an inadequate supply of good shares in the market. However, insurance companies, particularly local insurance companies, appear to be prepared to invest more in the securities of the industrial undertakings if they are reasonably secured and profitable. More life funds might conceivably be directed towards the industrial sector if certain improvements could be introduced.

First of all the wide fluctuations of share prices in the existing share market should be eliminated as far as possible.⁽¹⁶⁾ The timely distribution of reasonable dividend should be a regular feature rather than an exception. Industries in Pakistan have a good record of profit which has not been brought to the notice of outside investors like institutional investors and small investors in the country. The conservative dividend policy of the management of a company has continuously discouraged the general public from investing in industrial shares. Although the Government has already taken some steps in these directions yet further measures would seem to be

(15) Table 4.2.

(16) See Chapter 3.

necessary to evaluate and consolidate the effectiveness of these measures.

Secondly, the corporate sector in Pakistan is dominated by private limited companies in which, because of legal restrictions, insurance companies cannot invest their funds. Evidently, the scope for including more shares as "approved investments" is limited. In recent years, the Government has adopted a number of measures in order to encourage the conversion of private limited companies into public companies. These measures are expected to enable the Government to approve more shares. But indiscriminate approval of industrial shares might bring in a more disastrous effect on the investment atmosphere than even exists today. So precautionary measures should be taken so that only safe and profitable industrial securities are approved for investment.

It may be possible for the insurance companies to provide more finance to industries if the capital structure of the industrial concerns consists of preference shares and debentures. The expansion of existing units can easily be financed by issuing debentures. On the other hand, new undertakings may raise a part of their capital fund by issuing fixed return preference shares. If these issues are approved by the Government after considering the merits and demerits of an individual issue, then insurance companies might feel a sense of growing confidence in investing funds in these stocks. If institutional investors invest a sizeable portion of their funds in industrial stocks, some amount may be available in the

hands of promoters to invest in new industries.

The insurance companies in Pakistan invest their funds in large-sized industries and investment in small and medium-sized industries is almost non-existent. There is some scope for investment in these industries in some indirect ways. There are a few well-organised financial institutions like I.D.B.P., P.I.C.I.C., I.C.P., and Small Industries Corporations in two wings of the country, which provide long and medium-term funds to large, medium and small-scale industries. These institutions faced shortage of rupee resources several times in the past. Normally they borrow from the Government to meet their requirements of rupee resources. Since a considerable fund is provided by the State Bank, they tend to be inflationary. Instead of borrowing directly from the Government, specialised financial institutions may raise funds by issuing debentures in the market. Alternatively they can borrow a certain amount from the insurance companies when funds are required. Insurance companies may be prepared to buy their debentures or provide loans to them up to a certain proportion of life funds. If these securities are guaranteed by the Provincial or Central Government, they may be regarded as safe investment by the insurance companies and hence they might be considered as an alternative to straightforward Government securities.

There is another possible way through which insurance companies might be able to supply more funds to industry. Both existing and new industrial concerns have to spend a substantial part

of their capital fund in providing housing accommodation for their employees. Insurance companies may finance social overhead capital requirements like housing via mortgage debt. This debt can be paid off safely and quickly over a period of time from the collection of rents irrespective of the company's earning any profit.

Insurance companies grant loans against the life policy for constructing houses and laying conveyances but no loan is allowed for starting new business or buying shares and debentures of joint stock companies. A provision for loans against life policy to start a new business could possibly be a very important step towards the growth of small-scale industries in Pakistan.⁽¹⁷⁾

The measures suggested will not be effective unless life insurance is expanded considerably so that more life funds are available for investment. Both from the point of view of social justice which envisages some kind of security against hazards and from the purely economic point of view expansion of insurance is of utmost importance as it is a great mobilizer of savings which eventually can be channelled into productive investment and therefore can constitute an important source of capital. That there is enough scope for the expansion of the insurance industry can be seen from the fact that per capita insurance (being Rs 24) and the proportion of insurance to national income (being 6.4 p.c.) are of

(17) Rosen, G., op.cit., pp.81-82.

the lowest in the world.⁽¹⁸⁾ The annual per capita premium paid comes to Rs 1.3 and life insurance covers only 0.3 p.c. of the population as on June 1965. Insurance funds work out to be 1.18 p.c. of the gross domestic savings during the First Plan period and 2.73 p.c. during the Second Plan period.⁽¹⁹⁾ These figures indicate the poor state of the insurance industry in Pakistan. Because of the low base increase in the growth should be possible at a much faster rate for some years to come.

Among many difficulties that the insurance industry faces today, the most important ones are a low level of per capita income, difficulties in extending business in rural areas, hostile attitude because of the high lapses ratio, high management expenditure, a lack of efficient and technically qualified insurance personnel and high premium rates. In order to encourage life insurance, the Government has provided income tax benefits to the extent of 10 p.c. of sums invested in life insurance and permitted utilization of the contribution to the provident fund to finance life insurance policies. Income-tax relief benefits only the higher income group. The lower income groups in many instances withdraw 90 p.c. of the provident fund for meeting temporary expenses. Provident fund rules may be amended in such a manner that

(18) The per capita insurance and the proportion of insurance to national income have been estimated on the basis of sum insured in force as on June 1965. (The Pakistan Insurance Year Book, 1966, p.6).

(19) Third Five Year Plan, op.cit., p.7.

the employers' portion of the fund must be utilized to finance the insurance policy and thinking that it should be made compulsory.

At present insurance covers only a limited section of the urban population and rural areas are completely ignored. Efforts should therefore be made to provide insurance facilities to the rural population. But it may be argued that the rural areas are not linked with the cities through better means of communication and any effort by an individual insurance company to bring the areas under insurance coverage may not be economically feasible. A safeguard might be for all life insurance companies to form 'a consortium' to procure and administer the business of specified rural areas on the pattern of the existing National Co-insurance Scheme. In order to increase the life insurance fund it is undoubtedly requisite that the rural areas should be brought under insurance schemes.

B. The National Investment Trust (N.I.T.) Ltd.

(1) A Short Historical Background:

The role of trust companies in mobilising private savings into the investment of the corporate sector has been impressive in western countries. The unit trust movement became particularly popular in most of the Asian and European countries after the Second World War. It greatly contributed to the post war

economic reconstruction of countries like Japan and Germany. (20)

There were 648 unit trust companies (including one in Pakistan) in 32 countries of the world up to the 30th September 1967. The total net assets of these companies amounted to \$ 41,110 million. (21)

In most of these countries, unit trust companies have been developed by the private sector while the N.I.T. of Pakistan has been organised by the Government in association with leading banks, industrial finance institutions and a few prominent industrialists. This was done in order, mainly, to make it more acceptable to the common people and to avoid competition with institutions during the early stages of its growth. However, it has not lost private business characteristics altogether, since private institutions are associated with it.

The N.I.T. was set up in December 1962 by the Government in collaboration with leading industrial and financial institutions of the country. It aims at encouraging savings and investment by people of modest means. The N.I.T. accumulates investors' funds through the sale of its own securities (Trust Units) which it reinvests in stocks and bonds of listed companies on the stock market. The successful operation of this institution is expected to lead to

(20) Qarni, M.A.H., Five Years of National Investment Trust, (National Investment Trust Ltd., Dacca 1968), p.1

(21) Jafarey, N.A., 'Unit Trust - The Saving Media for the Masses.' Finance and Industry, Vol 5, No.1 (January 1967), p.24.

a broadening of corporate share ownership which, so far, has been concentrated in the hands of a small number of industrialists.

2. Review of Activities:

The N.I.T. completed four and a half years of operation on June 30th 1967 and the total fund collected from the sale of units by that time amounted to Rs 107.4 million. Out of this, a sum of Rs 91.87 million was invested in the stocks of 105 enterprises. Investment in industrial shares, covering 94 issues, aggregated to Rs 78.69 million and accounted for 85.65 p.c. of the total investment of the Trust. The remaining amount of Rs 13.18 million was invested in 4 commercial banks (Rs 6.98 million), 5 transport and communication enterprises (Rs 4.26 million), 1 debenture (Rs 0.50 million) and in Government securities (Rs 5.20 million). Thus the average annual volume of fund accumulation and investment worked out at Rs 23.90 million and Rs 20.40 million respectively. This achievement may not appear remarkable but considering the investment atmosphere in Pakistan, especially the base of equity ownership, the progress is encouraging. Table 4.3. shows the N.I.T.'s progress from year to year in respect of fund accumulation and investment from 1st January to 30th June 1967*.

* The data used in this page is taken from Five Years of N.I.T. and N.I.T. Annual Report 1967.

Table 4.3. : N.I.T.'s Operation from 1963 to 1967.

(Million rupees)

As on	Number of units in millions	No of Unit Holders	Unit Sale Proceeds in million Rs.	Marginal amount of units sale.	Investment in million Rs
1	2	3	4	5	6
Dec 1963	4.09	6.392	40.80	-	-
Dec 1964	6.65	10.148	69.80	29.00	68.01
June 1966	8.37	19.736	89.30	19.50	89.93
June 1967	10.01	24.275	107.40	18.10	91.87

Source: Five Years of N.I.T. - A brochure, p.13.

The total investment of Rs 78.69 million in industrial shares up to the middle of 1967 was distributed among industries as shown in Table 4.4. below.

Table 4.4. : Statement of N.I.T.'s Investment as on

30th June, 1967.

(Million rupees)

Industry	Market Value of shares	Percentage
1	2	3
1. Cotton Textile.	9.24	11.74
2. Woollen Textile.	0.58	0.74
3. Synthetic Rayon Textile.	7.55	9.59
4. Jute.	14.94	18.98
5. Chemical and Pharmaceutical.	2.68	3.40
6. Sugar and Allied.	4.58	5.82
7. Paper and Board.	1.75	2.22
8. Vegetable and Allied.	0.61	0.78
9. Cement.	5.55	7.05
10. Tobacco.	3.16	4.01
11. Fuel and Power.	15.91	20.22
12. Engineering and Construction.	2.94	3.74
13. Miscellaneous.	9.20	11.69
Total	Rs 78.69	100.00

Source: Annual Report of N.I.T., 1966-67.

The Trust investment portfolio included all groups of industrial companies listed on the Karachi Stock Exchange. Out of a total investment of Rs 78.69 million, fuel and power accounted for Rs 15.91 million (20.22 p.c.) followed by jute for Rs 14.94 million (18.98 p.c.) cotton textiles for Rs 9.24 million (11.74 p.c.) and miscellaneous for Rs 9.20 million (11.69 p.c.) and so on. On the whole the N.I.T. has provided 4.65 p.c. of the total paid-up capital⁽²²⁾ of all these industrial undertakings. This proportion presents, it must be admitted, a somewhat unimpressive picture of the progress of the Trust's activities over the period under study. A close study of the Trust's potential resources for investment or its ability to accumulate funds and the capital market condition in which it has to work reveals certain interesting facts. It may appear paradoxical that the N.I.T. in recent years has abstained from subscribing 20 p.c. of each public issue which generally is kept reserved for the Trust and from underwriting any new issue.⁽²³⁾ This has been mainly due to inadequate resources.

In the first place, the resources of the Trust are too inadequate to pursue an aggressive investment policy. The primary source of its funds is sale proceeds of units. There is small amount

(22) Total paid up capital of companies in which N.I.T. has investment amounted to Rs 2031.36 million. With the exception of Rs 0.52 million entire investment was in ordinary shares.

(23) The N.I.T. underwrites very limited issues.

of undistributed income, namely, that generating from price differentials between sale and repurchase prices of the units. Such income has little significance to N.I.T. as it is still in the early stages of development.

It has therefore to depend on the sale proceeds of units for making any further investment. The performance of the Trust in mobilising private savings through the sale of units has not been satisfactory during the period under review inspite of the fact that it stepped up its sales promotion campaign. It is interesting to note that the marginal amount of unit sales has declined since 1966 instead of increasing. The total sale of units amounted to Rs 18.10 million during the period 1966-67 while it was Rs 29.00 million during the period 1963-64 as shown in Table 4.3.

This kind of situation requires an examination of the investors' attitude towards unit investment on the one hand and the profitability of the units on the other. An investor, while choosing the investment media, would first consider security of the capital and second, the profitability and liquidity of the investment. In Pakistan per capita income is so low that a vast majority of the population can hardly save. Even if there is a saving, it is usually invested in gold, land, houses, rather than in corporate shares. A few of the recent studies on the saving and investment habits of the people of East Pakistan have brought out

several interesting points on this. Firstly, the rate of net capital formation per capita in the rural areas varies from 2 to 22 p.c. of the per capita income.⁽²⁴⁾ About 3 to 5 p.c. of the saving is kept in gold and an equivalent proportion goes into other forms of investment. A similar study on the investment habits of the urban population shows that people's preference for investment in buildings and land property is higher than for investment in shares and bonds of the corporate sector. However, the studies have also revealed that if profitable investment opportunities were made available to them, they might save more and invest in shares.⁽²⁵⁾

The N.I.T. has provided opportunities to the common people for investing their savings in industrial shares with a fair sense of security and some hope of profit. Investment in N.I.T. units seems to be fairly secured both as to capital and as to liquidity and dividend. The Trust invests its fund in first class stocks of joint stock companies listed on the stock exchange. The Trust is very selective in choosing shares for investment and for this purpose there is a nucleus of qualified research staff to undertake financial analysis of the companies in which N.I.T. has

(24) Habibullah, M., Rural capital formation in East Pakistan, (Bureau of Economic Research, Dacca University 1963) p.74.

(25) Habibullah, M., Pattern of Urban savings, (Bureau of Economic Research, Dacca University, 1964), p.89.

larger interests or substantial investments. The Trust, in order to avoid fluctuations in earning capacity, pursues a diversified investment policy. Moreover, the Trust being a Government sponsored institution has been able to ensure greater safety of the 'unit holders' funds.

As regards profitability of the units, it appears that they are not yet very attractive. The Trust for the first time distributed income at 0.50 rupee per unit in 1965 and 0.75 rupee per unit in 1966 (for eighteen months). In the period ending June 1967 the Trust further distributed income at 0.70 rupee per unit. The rate of income distributed during the period 1966-67 is 40 p.c. higher than that of the previous year.⁽²⁶⁾ The figures in Table 4.5. indicate the earnings from investment over the period under review.

A study of the table below indicates that the total income of the Trust has risen by 70 p.c. during the period 1966-67 over the previous year. The yield from the investment should be viewed with the proviso that about one fourth of the total investment did not provide any income since these investments were made in new issues. Considering the income

(26) N.I.T. Annual Report for 1966-67, p.2.

Table 4.5. : N.I.T.'s Income, 1963-67.

(Million Rupees)

Period	Yearly Income		Income available for distribution	Income Distributed.	Unit Sale Proceeds	4 as p.c. of 6
	Amount	Growth in p.c.				
1	2	3	4	5	6	7
1.1.1963-1.12.1963	1.32	-	1.32	-	40.80	3.23
1.1.1964-1.12.1964	2.87	117	4.19	3.33	69.80	6.00
1.1.1965-30.6.1966	6.01	39	6.85	6.27	89.30	7.67
1.7.1966-30.6.1967	6.81	70	7.39	7.00	107.40	6.88

Notes on Table: (i) Columns 3 indicates yearly growth.
(ii) Column 4 shows income including interest and element of income.

Source: N.I.T. Annual Report for 1966/67.

earning capacity of the N.I.T. units, from another angle, it may be noted that the rates of return on units, for instance, 3.23 p.c. in 1963, 6 p.c. in 1964 and 7.67 p.c. in 1966 are not discouraging. A slight decline in the rate of return on units during 1966-67 was due to investments in new issues.

As far as liquidity is concerned N.I.T. units are easily encashable. Since units are re-purchased by the Trust itself, they can be disinvested at any time during the working hours of the institutions dealing with units.

Although the income distributed per unit so far does not indicate a high return on the investment, the possibility is there for better return in future. Even at the present rate of return, the N.I.T. units provide a higher yield of income compared with the returns accruing from Postal Fixed Deposits and Defence Savings Certificates. From an equal amount of investment, N.I.T.'s income was higher by Rs 73.74 ^{and Rs 221.60} as compared with Defence Savings Certificates and Postal Deposit Schemes respectively. (27) Of course, it is true that investment in such schemes is well secured as far as capital is concerned, yet they are a little insecure economically if the index of prices goes up. In contrast, investment in the shares of first class industrial concerns is not affected by such changes in the sense that a rise in prices would tend, considered generally, to lead to a corresponding rise in profit and share prices. Over and above, there is a chance of capital appreciation if the amount is invested in the units. In spite of its attractiveness in terms of earning potential, a large number of investors could not be attracted to investment in units. These circumstances remind us of the Trust's inability to sell substantial number of units in East Pakistan.

(27) For example an investment of Rs 1000 for ten years would provide return on the following basis. Postal Fixed Deposits Rs 1652.14, Defence Savings Certificates Rs 1800, N.I.T. Units Rs 1873.74

In this context, it may be observed that so far only 12.2 p.c. investment in units has come from East Pakistan and 87.8 p.c. from West Pakistan. (28) This reflects the lower per capita income in the eastern part of the country. But in view of the stepping up of the growth of the province in recent years, there may now be better prospects for the sale of N.I.T. units there.

It may also be noted that despite the fact that the overall investment in units has been quite low in East Pakistan, the resale and transfer of units have not been so frequent as in West Pakistan. It may be due to the fact that general consumption is not very broad-based in East Pakistan, as compared with West Pakistan where disinvestment is a frequent occurrence. The other reason for disinvestment in West Pakistan arises from the propensity to transfer funds to the channel where maximum profit is attainable. In East Pakistan the channel of investment is not very wide. So, in view of the low tendency of disinvestment in East Pakistan N.I.T. may yet mobilise larger savings from this area. Efforts therefore, should be made to popularise N.I.T. units more widely in East Pakistan.

3. National Investment Trust and the Capital Market:

We have pointed out earlier that the N.I.T. invests its fund in the shares and bonds of joint stock companies listed on the

(28) The data relate to the period ending January 1968, Five Years of N.I.T. op.cit., p.40.

Karachi Stock Exchange. The primary objectives have been such that it would encourage small investors to invest in industrial shares who have hitherto not taken a great deal of interest in equity investment. This would lead to the realisation of the policy of broadening the base of industrial ownership on the one hand and the promotion of a sound capital market in the country on the other. It was also believed that the indirect benefit from N.I.T.'s operation i.e., of creating investment consciousness in the small income group, would be even greater.

The beginning of N.I.T.'s operations in January 1963, coincided with the depression on the Karachi stock market. This depression continued to exist with its inevitable impact on the prices of shares throughout the later period of our study. The bearish tendency reached its lowest point at the beginning of June 1967. The index of share prices which stood at 127.54 in April 1963 went down to the level of 102.97 on 7.6.67. and thereafter slightly improved ; by the end of June 1967, the index was at 104.71. (29) As a result of this long depression the N.I.T.'s net loss and depreciation in book value in terms of the market prices of the investments amounted to Rs 1.62 million during the period 1966/67. However, this was much less than the loss and depreciation incurred in 1965-66 when the figure for the same was Rs 5.80 million.

(29) Department of Statistics, Index Number of Stock Exchange Securities, (State Bank of Pakistan, December 1967), p.17.

This is an indication of the improved stock market conditions during 1966-67. By far the largest amount of the Trust funds has been invested in the shares of larger industrial concerns. Since the large-sized and better established concerns suffered much more than the smaller concerns from the long depression in the stock market, the Trust's investment portfolio has been under a constant strain ever since it started operation.

The Trust was experiencing the same kind of difficulties which were faced by the insurance companies in selecting stocks for investment. Unlike insurance companies the N.I.T. was given option (under the laws governing the Control of Capital Issues) to subscribe 20 p.c. of each public issue. By exercising this option for every new issue, the N.I.T. also performed underwriting function. Initially, the Trust made considerable investment in new issues by exercising the right of option. In the case of new issues the promoters of the company used to promise that they would declare a maiden dividend within a year or two, after the commencement of the undertaking's operation, which did not always materialise. As a result, the N.I.T. has changed its policy of subscribing to new issues without discrimination. This means that it has now refrained from exercising its right of option, leading to a temporary suspension of its underwriting activity.⁽³⁰⁾ Needless to say, the

(30) Out of a total shares offered to N.I.T. during the periods 1964-65, 1965-66 and 1966-67 it has subscribed only 54 and 9 p.c. respectively. (Information supplied by the Karachi Stock Exchange).

parties, who are likely to be adversely affected by this decision are the prospective entrants the encouragement of whom is a part of the public industrial policy.

The present unwillingness of the N.I.T. to subscribe to new issues in the stock exchange has produced a mild depression in the investment climate of the country: for the small investors' attitude to new issues seems to have been influenced by the policy of the N.I.T. This seems to be confirmed by the state of the market in 1966-67 when most of the new issues remained heavily undersubscribed. (31)

As resources of the N.I.T. are limited, its success in realising its objectives is primarily dependent upon its ability to collect more funds through the sale of units. It can obtain more funds only by ensuring that the units are sufficiently attractive both as regards profit and capital appreciation. The ability of the Trust to pay more return on units, is linked with the extent of dividend paid by the concerns in which it holds stocks. As stated in Chapter 3, (page 101), the industrial undertakings in Pakistan have been following a rather conservative dividend policy for one reason or another. Most of the companies have persistently distributed low dividends despite the fact they have earned quite high profits, transferring the balance to a reserve fund which in

(31) See Chapter 3, page 83.

some cases exceed the share capital.⁽³²⁾ The conservative dividend policy of the industries has acted as a disincentive for the general public so far as purchasing share is concerned. The holdings of minority shareholders in a company are usually very small, and as such they cannot influence the activities of a company even its affairs are conducted against their interests. In the present Company Law there is no provision for representation of the minority shareholders through the appointment of a member in the Board of Directors of a company.

The N.I.T. being the largest single outside investor in the corporate sector has been largely affected by the conservative dividend policy of the companies. This is because it must show that the units, which it wants the members of the public to take up, are profitable in view of what has been mentioned earlier on. Yet because of the low dividend policy of the concerns in which it has a financial stake, the N.I.T. cannot pay dividends on the units held by the members of the public. As a result, the flow of funds into the coffers of the N.I.T. has been relatively small. But being a minority shareholder, it cannot control the dividend policy of a concern. Unless the relevant clause of the Companies Act is changed so as to include a representative of the minority shareholders on the board, there seems very little that the N.I.T. can do about the

(32) For example the reserve fund of Burewala Textile Mills Ltd., was more than double of its paid-up capital in 1966.

dividend policy. In this respect the N.I.T.'s position is no better than an individual shareholder.

Bearing in mind that there is low saving, lack of share-consciousness among small and medium savers in the country, the N.I.T. can play a vital role in mobilising small savings both from rural and urban areas. For this purpose programmes for popularisation of units should be launched through the banking channels and rural organisations such as union councils. The N.I.T.'s present units sale promotion campaign through newspapers, leaflets, radio and television should be widened. At the same time, measures should be taken to improve the earning capacity of the units, after all profitability is the main criterion for investment. More important is to get people to understand that, considered generally they can earn reasonably steady income from the investment in N.I.T. units.

Under a Presidential Ordinance in 1965, units have been included in the definition of "trust securities" thus making it possible for provident funds and other financial institutions to invest in units. Investment in units and income derived from units to the extent of Rs 5000 have been made tax free. These are no doubt steps in the right direction towards encouraging investment in units. But unfortunately, no such institution has come forward voluntarily to invest in N.I.T. units. Therefore, it may be suggested that under some statutory provision the Government may allow salaried people like the public servants, to invest a part of their provident

fund in N.I.T. units.

(c) Investment Corporation of Pakistan : (I.C.P.)*

1. Establishment:

The I.C.P. was established under a Presidential Ordinance in February 1966 with a paid-up capital of Rs 50 million subscribed by financial institutions like insurance companies including the Pakistan Insurance Corporation and commercial banks including the Industrial Development Bank of Pakistan. In addition to its paid-up capital the Corporation obtained a loan of Rs 100 million (interest bearing) from the Government repayable over ten years.

2. Objectives and Functions:

The objectives of the Corporation are to eliminate any monopolistic tendency in the control of industries; to encourage and broaden the base of equity investment and to develop the capital market by providing institutional facilities and thereby enabling the people to participate in the economic development of the country. The I.C.P. is the first institution of its kind established in Pakistan and it was necessary in view of the low depth of the capital market.

* The figures in this discussion are based on I.C.P.'s First Annual Report, 1966-67, unless otherwise stated.

There was no investment banking institution prior to the establishment of the I.C.P., although an underwriting function in the limited insurance sense of guaranteeing the purchase of unsubscribed shares was performed to a limited extent by some business houses, larger commercial banks, P.I.C.I.C. and N.I.T. Their operation as underwriters was very limited because underwriting was an ancillary function of these institutions.

During the later part of the Second Five Year Plan investors' enthusiasm to subscribe to new issues declined progressively and at the beginning of the Third Plan the problem of raising equity capital had become serious. Earlier, in a report on the "Securities Market of Pakistan" Professor Loss⁽³²⁾ observed the absence of institutions performing an investment banking function in Pakistan and suggested, "the establishment of an investment institution to advise the public about securities and to encourage the public in equity investment. This organisation would underwrite public issues in all senses of the term".

(32) Professor Louis Loss of Harvard University was invited by the Government of Pakistan through the courtesy of I.B.R.D. to investigate the causes of the lack of depth of capital market in Pakistan. He submitted the Report on 1st July 1964. Professor Loss's proposal was examined by a Committee appointed by the Government of Pakistan in the middle of 1965. The Committee observed that the existing pattern of shareholding was such that 75 p.c. of the equities of the most of the companies listed on the Stock Exchange was held by 19 or fewer persons as defined in Section 23-A of the Income Tax Act, institutional investors including N.I.T. held 20 p.c. and the remaining 5 p.c. held by small investors.

Further investigations was made by the Government and it was found that the stock market was operating on a thin front and was vulnerable to fluctuations in share values. The underwriting functions performed by the existing constituents of the capital market were found to be inadequate compared with the demand for equity capital in the country. All this pointed to a need for an institution like the I.C.P.

It may be added that industrial growth in Pakistan has led to a monopolistic tendency in so far as corporate financing is concerned. An image has been created in the minds of investors in terms of big, and experienced, industrial groups and small and relatively unknown groups, and for this reason the issues offered by the latter group did not receive sufficient response from the general public. For a successful flotation of new issues, a big name was needed in order to attract investment from the public.

Functions: The I.C.P. was established to perform the following functions:

- i) To underwrite new issues which it will distribute later. It will carry out this function by organising underwriting consortium of commercial banks and insurance companies.

- ii) The Corporation was to open and maintain investors' accounts, make advances for the purchase of shares, buy and sell shares for the account holders over the counter and provide professional advices to issuers and investors.
- iii) The Corporation was to help closely-held companies,⁽³³⁾ as defined under Section 23-A of the Income Tax Act, to become public by liquidating their excess holdings. This was intended to broaden the base of share ownership and save the market from the pressure of heavy liquidation of excess holdings.
- iv) The Corporation was also empowered to deal in stocks and securities to stabilise stock prices and then bring about a depth in the market.

3. Review of Activities:

(a) Underwritings:

The Corporation started operation immediately after its establishment in February, 1966. During the first period of its operation ending June 1967, the Corporation received 85 applications for underwriting - 68 for shares, and 17 for debentures valued at Rs 330 million and Rs 72 million respectively. The Corporation, however,

(33) See Chapter 18. A Company is considered as closely-held when a minimum of 50 p.c. of its shares are not subscribed by the general public. This often means the ownership of the Company is concentrated in a few hands, its members mostly belonging to a family group. In contrast, in the case of a "public company" at least 50 p.c. of the shares are held by the general public (see page 96).

approved 28 applications, deferred 33 and rejected 24 applications. Of the 28 approved applications, 21 were concerned with public issues and 7 were connected with the placement of debentures. The amount involved in the underwriting commitment was Rs 175.43 million of which I.C.P.'s share was Rs 72.53 million, 41 p.c. of the total underwriting commitments. The remaining amount of Rs 102.90 million was underwritten by associate institutions.⁽³⁴⁾ Of the total, 21 public issues were underwritten, 13 had been offered to the public for subscription by 30th June 1967.

The public response to these issues was insignificant. The table below gives details of the public response and underwriters' acquisitions during the period under review.

It would appear from Table 4.6 that the general public subscribed only to the extent of Rs 9.714 million (11.78 p.c.) out of total issues of Rs 82.430 million. This is indicative of the thinness of the stock market in Pakistan. The underwriters had to take up 88 p.c. of those issues. The I.C.P. alone took 35.66 p.c. of the issues involving a sum of Rs 29.394 million and the rest of Rs 43.322 million was taken by other institutions. The I.C.P.'s role was even more important as a managing underwriter. Had there

(34) Associate Underwriters were: (1) Habib Bank Limited., United Bank Ltd., Commerce Bank Ltd., Muslim Commercial Bank Ltd., P.I.C.I.C. and N.I.T.

Table 4.6. : Performance of Underwritten Public Issues

Offered on the Market from February

1966 up to June 1967.

(Million Rupees)

Industry	No of issues	Subscribed by			Total
		Public	I.C.P.	Other Under writers	
1	2	3	4	5	6
1. Jute Textiles	2	1,406	4.443	9.951	15.800
2. Cotton Textiles	1	0.005	1.496	0.599	2,100
3. Paper	1	0.019	1.789	1.192	3,000
4. Sugar	4	3,650	15,146	23,205	42,001
5. Glass and Ceramics.	1	0.173	1,175	0.452	1,800
6. Chemical & Pharm.	1	0.066	1,349	0.385	1,800
7. Engineering.	1	0.736	0.344	-	1,080
8. Construction.	1	0.004	1.048	1.048	2,100
9. Oil and Gas.	1	3.655	2.604	6.490	12,749
Total	13	9.714	29.394	43322	82.430

Source: First Annual Report as at 30th June 1967.

Investment Corporation of Pakistan.

been no I.C.P. these industries would have faced serious difficulties in offering their shares for public subscription. The Corporation examines the soundness of the projects under certain rigid criteria, ⁽³⁵⁾ before an underwriting commitment is granted. The observance of these conditions resulted in the rejection of 24 projects on grounds of bad management, unsound financial planning, impaired stocks, low profitability or unacceptable corporate set up. It was expected that if a government corporation like I.C.P. is seen to participate in underwriting functions, public confidence might be instilled in the issues and out of this confidence the public might be induced to buy more shares.

The underwriting facilities provided by the Corporation were expected to realise a total investment of Rs 545 million.

(b) Investments: During the short span of its operation the Corporation has made an investment of Rs 56.64 million on its own account and another of Rs 2.72 million on investors' accounts. The Corporation performs its investment operation in the stock market with the following objectives:

- i) To obtain information normally available to common shareholders it would register itself as a nominal

(35) The conditions are being good management, financial soundness, acceptable corporate set up.

shareholder of a company listed on the Stock Exchange.

- ii) To support a falling market it would build up its investment portfolios with good scrips of diversified industries.
- iii) To create depth in the capital market it would subsequently distribute its holdings to medium and small investors.

The Corporation, however, does not sell shares on the Stock Exchange mainly to avoid depression in the market. The major recipients of the Corporation's fund were the sugar and allied industry which accounted for 43 p.c. of its total investment. Such a large proportion of investment in one industry was, in fact due to a larger acquisition of sugar shares because such shares were not readily absorbed by the investing public. Jute textiles, paper and board, fuel and power accounted for 10.3., 9.6 and 9.6 p.c. respectively. The Corporation has adopted the policy of careful selection, reasonable diversification, stability of yield and growth prospects in managing investment portfolios.

(c) Investors' Scheme: With a view to developing share-consciousness amongst savers and to promote investment activity on the capital market, the Corporation introduced an Investors' Scheme

on January 25th 1967. Under this Scheme a person with a modest income could open either fixed income or flexible income accounts with the Corporation. The Corporation would provide loan facilities to the account holders at concessional interest rates (the upper limit on loans being 3 times the deposits) in order to strengthen the depositors' fund for investment in shares. In addition, the Corporation would provide free professional services for managing investors' portfolio. During the five months of its operation ending June 1967, I.C.P. was successful in opening 328 accounts into which a sum of Rs 2.08 million was deposited. On the other hand, an amount of Rs 2.83 million was granted as loan to the depositors by the Corporation, the deposit/loan ratio being 1:1.36. The low deposit/loan ratio was attributed to the low absorbing capacity of the borrowers.

(d) Closed End Mutual Fund: The flotation of the First I.C.P. Mutual Fund on June 15th 1966 was another important step in mobilising savings into industrial shares. The response from the public was very encouraging as the offer was oversubscribed to the extent of eight times the value of the offer of Rs 5 million. Stocks against this fund are carefully selected in advance keeping in view their income potentiality. In the initial operation of the Mutual Fund the Corporation issued fund certificates at a loss of Rs0.26 million.

The figures relating to I.C.P. operations cover only a year, hence it is not possible to evaluate its working efficiency and effectiveness in providing underwriting facilities and finance for the future. However, it may be surmised that future effectiveness and operating efficiency will largely depend on the availability of funds at its disposal. It may be observed that during the initial year of operation it has committed itself to an investment of Rs 56.64 million. In addition to this, Rs 2.82 million have been provided as loans to depositors. Thus total investment up to June 30th 1967 amounted to Rs 59.46 million which came to nearly 39 p.c. of the total initial resources of Rs 150 million.

The Corporation's resources might be supplemented in future by the income derived from investments. But the prospect of earning significant dividends is not very bright because of the fact that the investment has been concentrated mainly in the new issues. In the light of the experience of N.I.T. such investment has proved very disappointing as far as income earning is concerned. There is the possibility of collecting more funds through the more vigorous operation of the Investors' Scheme. The progress of N.I.T. in collecting funds through the sale of units does not show a good record. Therefore, it may be said that unless the financial resources of the I.C.P. are strengthened it will face greater difficulties in underwriting new issues due to inadequacy of funds. The solution to

the problem is not that institutional investment should be provided but what is more important, that savings for corporate financing should be mobilised. The actual public response to new issues was very weak during the initial year of I.C.P.'s operation and from this it is apprehended that if the same state of affairs continues, the underwriting function of I.C.P. will come to a halt. It is therefore suggested, that some budgetary allocations should be made by the Government to the I.C.P. of the type granted for a long time in the case of the P.I.D.C. The aim needs to be to provide sufficient funds to the Corporation to underwrite new issues on a selective basis, keeping in view the prospect of the project from the standpoints of both income and growth.

CHAPTER FIVE

FOREIGN PRIVATE INVESTMENT

IN PAKISTAN.

The discussion of the previous Chapters has been centred round the question of raising equity capital through the medium of the Stock Exchange. The discussion has thrown some light on the problems of raising long-term capital on the one hand, and the difficulties faced by the individual as well as institutional investors in making investment decisions on corporate shares on the other. The purpose of the present Chapter is to have a look at another group of investors, namely, the foreign private investors.

1. Flow of Foreign Private Investment.

The total volume of foreign private investment in Pakistan does not seem to be very large compared with the total volume of investment in the manufacturing sector. Table 5.1. below shows the proportions of foreign private investment in the total, and the aggregate private investment in the manufacturing sector during the First and Second Plan periods.

Table 5.1. : Investment in the Manufacturing Sector, Local and Foreign Private Investment during the First and Second Plan Period.

Period	Total Investment	Private Investment		4 as percentage of 2	4 as percentage of 3
		Local	Foreign		
1	2	3	4	5	6
First Plan (1955-60)	2018	1268	100	5.0	7.9
Second Plan (1960-65)	5198	4309	219	4.2	5.1
Total	7216	5577	319	4.4	5.7

Note on Table: It is recognised that the changes in the value of money as between one date and another will strictly, not make direct comparison possible between dates, but the point of Table 5.1. as well as Table 5.2. is to show what changes have taken place in the ratios of certain totals expressed in money; what is being compared is the change in the ratios over the years indicated and for a calculation of this sort the change in the value of money does not introduce a distortion.

Sources: Column 2 and 3, Third Five Year Plan, pp.103-105.

Column 4 (i) Balance Sheets of Joint Stock Companies - Having Foreign Participation, pp.18-19.

(ii) Table 5.2.

The table above shows that out of the realized total of Rs 2018 in the manufacturing sector, the contribution of foreign private investment was Rs 100 million during the First Five Year Plan (1955-60), thus amounting to no more than 5 p.c. of the aggregate. The corresponding figures for the Second Five Year Plan period were Rs 5198 millions and Rs 219 millions respectively. This shows that although there has been a more than 100 p.c. increase in foreign private investment in absolute terms, its proportion in the total has been less than in the earlier period (being of the order of 4.2 p.c.). With regard to the position of aggregate private investment in industries, the table shows a greater relative reduction for foreign private investment for the Second Plan period as compared with the earlier one. The foreign private investment accounted for 5.1 p.c. of the private investment during the Second Plan period as against 7.9 p.c. during the First Plan period.

The table below shows the flow of foreign private investment and the proportion going into the manufacturing sector for the period 1957-65 (both the years inclusive).

Table 5.2. : Foreign Private Investment in
Pakistan, 1957-65.

(Million Rupees)

Year	Total	Manufacturing including construction.	Others	2 as p.c. of 1.
	1	2	3	4
1957	89.7	23.9	65.8	26.6
1958	67.5	16.1	51.4	23.9
1959	86.4	8.4	78.0	1.0
1960	76.6	27.1	49.5	35.4
1961	90.6	39.6	51.0	43.7
1962	70.6	38.6	32.0	54.7
1963	76.7	26.9	49.8	35.1
1964	134.2	82.3	51.9	61.3
1965	86.7	31.6	55.1	36.1
Total	779.0	294.5	484.5	
Yearly Average	86.6	32.7	53.8	35.2

Source: Department of Statistics, Foreign Liabilities and Assets and Foreign Investment in Pakistan : 1957-60, 1959-62, 1960-63 and 1963-65. (State Bank of Pakistan).

Notes on Table:

(i) 90 p.c. of the foreign private investment is in the form of equity capital. The remaining 10 p.c. is in the form of other long-term obligations such as creditors capital.

(ii) In case of manufacturing including construction the share of equity is about 97 p.c.

It may be seen from Table 5.2. that during a period of nine years from 1957 to 1965, total foreign investment in Pakistan was Rs 779 million. Of this total, the manufacturing sector accounted for Rs 294.5 million or 35.2 p.c. Although the figures do not show any regularity, it is possible to discern a long term trend in the flow of foreign private investment in the country. As can be seen from the following graphs, despite the irregularities, the flow of foreign private investment did show an upward trend over the period of observation. A trend line has been fitted on the data by the method of least squares. It shows that the annual rate of growth of foreign private investment or the trend of investment has been Rs 2.8 million in the case of total investment and Rs 4.6 million in the case of the manufacturing sector. The drop in the flow of foreign investment in 1965 from the peak level of 1964 can be explained by the abnormal situation created by the Indo-Pak war of 1965.

Foreign investment in Pakistan generally seems to have been available mainly in three forms :- (i) cash brought in, (ii) capital equipment brought in, and (iii) re-investment of business profits.⁽¹⁾ In addition to direct investment, foreign

(1) Department of Statistics, Foreign Liabilities and Assets and Foreign Investments in Pakistan, 1963-65. (State Bank of Pakistan), pp.12-13.

TOTAL FLOW OF FOREIGN PRIVATE INVESTMENT IN
PAKISTAN, 1957-1965

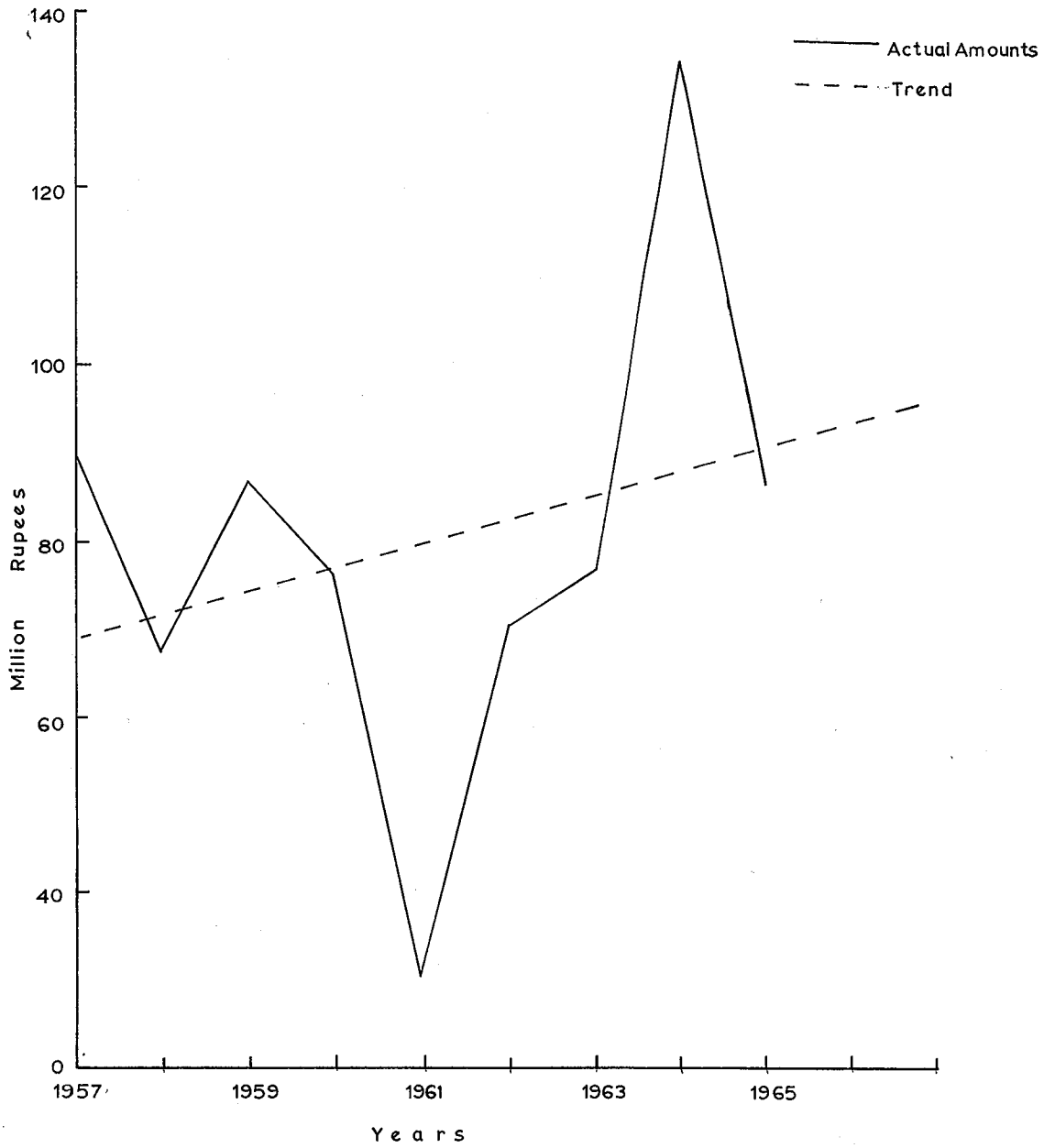


Fig. 1.

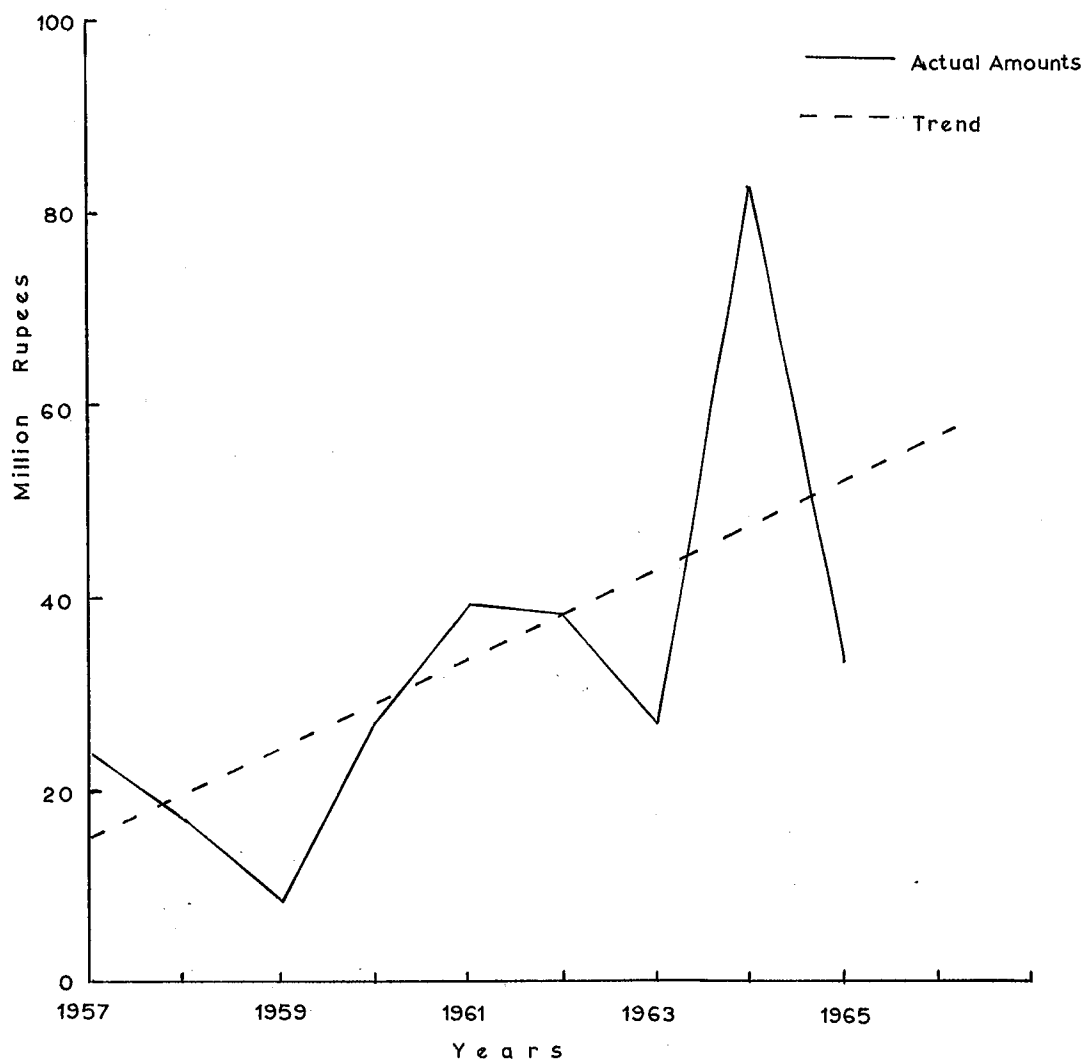
FLOW OF FOREIGN PRIVATE INVESTMENT IN THE MANUFACTURING SECTOR
IN PAKISTAN, 1957-1965

Fig. 2.

private enterprise brings with it a number of useful side effects and by-products, such as technical know-how, managerial skill, education facilities and employment. Of the three forms of investment, cash component and capital equipment account for 22.4 and 38.1 p.c. respectively.

The policy of the Government of Pakistan in this field has been to welcome foreign investment from any country of the world. By 1965 Pakistan had received foreign investment from as many as 32 countries. However, the major part of the investment came from countries like the U.K., U.S.A. and West Germany. A country wise distribution of investment is given in Table 5.3. for the period 1957-60 and 1961-65.

Table 5.3. : Flow of Investment in terms of countries
of origin.

(Million Rupees)

Country	1957-60		1961-65		Total	
	Amount	%	Amount	%	Amount	%
U.K.	214.2	66.9	223.9	48.9	438.1	56.3
U.S.A.	31.8	9.9	132.0	28.8	163.8	21.0
Others	74.2	23.2	102.4	22.3	176.6	22.7
Total	320.2	100.0	458.3	100.0	778.5	100.0
Source: Same as Table 5.2.						

A study of Table 5.3. reveals that the U.K. is the largest single investor in Pakistan with an aggregate investment of Rs 438.1 million during the period 1957-65. Its holdings represent 56.3 p.c. of the total investment. Of the remainder, the U.S.A. and other countries accounted for 21 p.c. and 22.7 p.c. respectively. The predominance of the U.K. seems to be the result of traditional channels existing since pre-independence days. However, the table suggests that Britain's stake in Pakistan is now declining while that of the U.S.A. is rising. Investment by the U.S.A. investors, which was Rs 31.8 million during 1957-60, rose to Rs 132.0 million during 1961-65, representing an increase of Rs 100.2 million over the last period. At the same time, investment by the U.K. investors increased by only Rs 9.7 million. In other words, the proportion of investment by the U.S.A. increased from 9.9 p.c. in 1957-60 to 28.8 p.c. in 1961-65 while that of the U.K. declined from 66.9 p.c. to 48.9 p.c. over the previous period.

It may seem strange that British investors should be losing interest in Pakistan. It may possibly be explained by the fact that Pakistan has no 'Investment Guarantee Agreement' with the U.K. as is the case with the U.S.A. and the Republic of Germany. Under this agreement the Governments of the U.S.A. and Germany guarantee the private investors against losses arising from investment in Pakistan - the kind of losses which might arise

from future devaluation of the rupee or nationalisation.⁽²⁾
Another reason for the relative decline in British investment in the Pakistani market appears to be the aggressive policy of American and German investors as far as investment in Pakistan is concerned.

2. A Review of Industries Developed in Collaboration with Foreign Private Investors.

While no completely published data are available on how much foreign investment there is in each industry, yet it is possible from the information available to make a general review of the industries developed in association with foreign participants. By the end of 1962, there were 313 Joint-Stock companies in Pakistan having foreign participation. Their total assets amounted to Rs 3964 million in which the manufacturing sector's share was Rs 2395 million. Out of this amount the contribution of the foreign participator was Rs 214 million or 9.0 p.c.⁽³⁾

Oil and Gas: Most of the oil and gas undertakings in Pakistan have foreign participation in the equity. These industries

(2) The Department of Investment Promotion and Supplies, Guide to Investment in Pakistan, (Govt. of Pakistan, Karachi), pp.5-6.

(3) Department of Statistics, Balance Sheets Analysis of Joint Stock Companies Having Foreign Participation, (State Bank of Pakistan, Karachi), pp.18-19.

involve larger capital, a complicated process and specialised knowledge in the operation. For these reasons, foreign participation was desirable. By 1966 investment for exploitation and gas purification was estimated at Rs 1000 million, besides a substantial amount invested in distribution undertakings. The foreign participation varies from company to company. For instance, the Attock Oil Company Ltd, has foreign participation to the extent of 70 p.c. as against 46 p.c. in Sui Gas Transmission Co.Ltd.⁽⁴⁾

As a corrolary to the oil and gas industry a petro-chemical industry is also being developed. This industry also requires large investment, sophisticated technical know-how and highly skilled operators. Again, foreign collaboration is vitally needed in this field. Efforts to associate foreign private investors in the projects of the petro-chemical industry have been made by industrial development agencies in Pakistan. Foreign investors have also participated in the marketing and distribution activities of undertakings in Pakistan.

At present there are two companies in the country, manufacturing industrial gases, of which one has foreign participation. Of the two concerns producing welding electrodes, one has been set up in collaboration with foreign private investors.

(4) Stock Exchange Guide of Pakistan, op.cit., pp.198 and 208.

Electrical and Electronic Industries:

These industries have been developed in Pakistan mainly with the active participation of foreign investors. A large number of industries such as Alcan Asia Ltd, Associated Electrical Industries (Pakistan) Ltd, British Industrial Callender's Cables Ltd, English Electric Ltd, General Electrical Ltd, Greaves Crompton (Pakistan) Ltd, Johnson and Philips (Pakistan) Ltd, Pakistan Cables Ltd, and Siemens Pakistan Engineering Co.Ltd, have been established in collaboration with foreign investors. These are all subsidiaries and branches of foreign companies. In all these cases however, a sizeable amount of capital has been subscribed by the local investors.

The electronics industry has gained ground in Pakistan on the basis of the expertise and financial resources provided by foreign private investors. In 1955 there were only seven manufacturing units in the country:by 1966 this had increased to 25 units. Internationally famous companies like Philips of Holland, Telefunken of Germany and E.M.I. of the U.K. have joined with local investors to set up local units. In addition to these, a number of foreign brands such as Pye, Murphy, Grundig, Sanyo, National are marketed in the country without involving foreign investment. Foreign participation in the equity of joint ventures ranges from 20 to 80 p.c.⁽⁵⁾

(5) Trade and Industry 'The Dynamic Role of Foreign Private Investment in the Electric Industry'. (Trade and Industry Publications, Karachi, September 1967), pp.879-880.

Starch Industry:

The growth of the Starch Industry in Pakistan owes a great deal to foreign private enterprises. In 1962 the Rafhan Maize Product Co. Ltd, has been established in Lyallpur in collaboration with Knorr Zurich A.G. and a Swiss subsidiary of the Corn Products Company of New York. Another enterprise, Glaxo Laboratories (Pakistan) Limited, has substantial foreign participation in the equity.

Pharmaceutical Industry:

This industry has been primarily organised in Pakistan as a subsidiary unit of internationally known enterprises of pharmaceutical products. Out of a total of nineteen units presently operating in Pakistan, eight are British, seven are American, two are German and two are Swiss. The total capital in terms of paid-up capital and reserve amounted to Rs 865 million at the end of 1966.⁽⁶⁾ This industrial group has been successful in attaining self-sufficiency in a number of pharmaceutical products.

Tobacco Industry:

Amongst the four major tobacco concerns, two have foreign participation. The Pakistan Tobacco Company, established

(6) Trade and Industry, (Foreign Private Investment Supplement, September 1967), p.886.

in 1949, was a wholly-owned subsidiary of the World wide British-American Tobacco Company Limited. Later, in 1955, the Company had associated local participation by offering shares to the general public. Foreign investors now hold 35 p.c. of the total paid-up capital of Rs 88 million. The other concern which has foreign participation is the Premier Tobacco Company Ltd; Godfrey Philips of London has provided 36 p.c. of the equity capital of Rs 5 million, besides providing technical know-how and assistance.

Over and above these, there are other units like Habib Sugar, Indus Chemical, Steel Corporation of Pakistan, Kohinoor Rayon Ltd, which have a small amount of foreign investment. On a casual look at the general nature of industries one would find that foreign investment has been mostly concentrated on consumer goods industries such as cigarettes, electrical goods, pharmaceutical goods, starch industries, oil and gas industry : basic type industries have remained completely neglected. It also appears that so far only the big internationally known undertakings have come forward to invest in Pakistan. These undertakings, having a market for their products in Pakistan, were inspired to set up their subsidiaries presumably due to (i) fear of losing the market, (ii) the possibility of producing product at a lower cost and (iii) prospect of enjoying the benefits of incentives provided by the Government of Pakistan. As we shall see

later, the investment climate in Pakistan, especially for foreign investment, is reasonably good compared with other developing countries.

3. Policies and Problems:

Going back to Table 5.2, one can see that the manufacturing sector has been able to attract more foreign investment since 1961. But the overall picture is certainly not satisfactory for it constituted only 4.2 p.c. of the private investment during the Second Plan period as against 5 p.c. during the First Plan period. In view of this lower flow of foreign private investment, we shall now turn to the discussion of the industrial policy of the Government as regards foreign private investment and the problems relating to it.

The general policy for encouraging foreign private investment in Pakistan has on the whole been satisfactory. For example, except for a few years, there has been political stability in the country. Secondly, the Government has provided time and again assurance against nationalisation. In this connection, it may be pointed out that industrial growth in Pakistan is based more or less on a capitalistic model - by providing maximum freedom, reasonable tax concessions to private enterprise etc. The fear of nationalisation, even in the distant future is a matter to be seen in context to political development.

However, in the event of nationalisation under any special circumstances, the Government has given an assurance that fair and just compensation will be paid. (8)

Further, the Government has made it clear that foreign capital invested in approved industries after September 1st, 1954 may be repatriated at any time, to the extent of the original investment, to the country from which the investment came. Any part of the profit reinvested in approved projects and also appreciation of capital investment would be considered for repatriation purposes. The current profits from investment can be transferred to the country of origin of the capital without any restriction. (9)

Practically the whole range of industries, with few exceptions, is open for investment for local and foreign private enterprise. But foreign investment is particularly welcomed in technically complex and sophisticated industries such as special tools, stationary and marine diesel engine, textile machinery and spares, machine tools, manufacture of miscellaneous machinery, heavy chemicals, basic manufacture of drugs and pharmaceuticals, and insecticides and pesticides, oil and gas prospecting and development and natural gas transmission and distribution. There is no hard and fast rule as to the proportion of local equity

(8) and (9) Guide to Investment in Pakistan, op.cit., p.5.

participation in joint ventures : it is accepted that a foreign investor may have control of his investment and 60 p.c. of foreign participation is often considered acceptable. Foreign investors are even allowed to establish wholly-owned industry, but they are generally welcomed as partners for local investors, whom they may assist with finance, equipment and technical and managerial know-how. As can be understood, know-how may often be more important than finance. (10)

In order to assist foreign private investors the Government of Pakistan has established an Investment Promotion Wing in the Department of Investment Promotion and Supplies under the Ministry of Industries. The Department on request by the foreign enterprise provides all sorts of help including effecting contact with suitable local partners, and the determination of the terms of participation for setting up joint-ventures in Pakistan. The services rendered by the Department have enabled foreign investors to set up industries with less difficulty than might otherwise have been encountered.

Secondly, in Pakistan labour management relations are generally good. Trade unions are weak and wages are low. However, it is argued that labour productivity is very low and there is scarcity of skilled labour. As regards productivity of labour it is to be viewed in the context of wages which are very low, which more than offset the productivity differential between Pakistani labour and its foreign counterpart.

(10) Federation of British Industries, Pakistan - An Investment Survey
(May 1964) p. 5

In Pakistan taxation law does not make any distinction between foreign and local investors. Foreign enterprise enjoys the same privileges as are enjoyed by local investors. Corporate income is subject to income tax at 30 p.c. and another 30 p.c. as super tax. However, a corporate body, if it satisfies conditions discussed in chapter three, is entitled to a 15 p.c. rebate on super tax. Thus, in effect, an undertaking may be required to pay 45 p.c. corporate tax. Bonus shares declared by a company to its existing shareholders which result in an increase in paid-up capital are taxed at the rate of 12.5 p.c. But this is not taxable in the hands of the shareholders.

Inter-corporate profit is now taxed at the rate of 15 p.c. if the recipient concern is a "public company"⁽¹¹⁾ within the meaning of section 23-A of the Income Tax Act. In all other cases, the rate of tax is 20 p.c. At present the Government has agreement for the avoidance of double taxation, with the U.S.A., the U.K., West Germany, Japan, Sweden, Switzerland and Denmark and India.⁽¹²⁾ Similar agreement may be made with other capital exporting countries in order to encourage investment from these

(11) See for details Chapter 3, p.96.

(12) Guide to Investment in Pakistan, op.cit., p.6.

countries. Foreign technicians employed in an industrial enterprise under a contract approved by the Central Government are also exempted from income tax. The Government realises that tax concessions provide an incentive to foreign investors and it intends to continue a tax concession policy in the future. The newly established undertakings are eligible for tax holiday ranging from 2 to 8 years depending on their location and nature.

The provision for depreciation allowances is most liberal in Pakistan. The normal rates of depreciation for most machinery range from 7 to 15 p.c. In addition to the normal depreciation allowance, an initial depreciation allowance of 25 p.c. is provided on plant and machinery not previously used in Pakistan. Double the normal rates of depreciation are allowed on plant and machinery installed before 30th June 1970. An extra allowance of 50 p.c. is allowed for double shift and 100 p.c. for triple shift working. Over and above, tariff protection is granted according to the nature of the industry. (13)

The rate of return on investment in Pakistan is moderate in the sense that the average rate of net profit to paid-up capital works out at 16.6 p.c. for 70 selected companies over the period 1964-66. There is the possibility to earn

(13) Ibid, p.10.

higher profit through the running of the project at full capacity and so increasing the operating efficiency. The vast potential domestic market should keep the demand for products at an increasing level.

As far as credit facilities are concerned, there are two well-organised specialised credit institutions in the country for meeting the long-term credit requirements of industrial enterprise. They grant loans to the industry both in terms of local and foreign currencies. The commercial banks are sufficiently developed to meet the working capital needs of industries. Besides, local investors are prepared to supply the rupee components of the capital as equity if the project is initiated as a joint venture.

Although the climate for foreign private investment in Pakistan seems to be favourable, yet exchange control regulation the level of corporate tax⁽¹⁴⁾ and import restrictions are thought to be restraints for the free flow of foreign capital in the country. But by examining closely the economic features of the country and the problems of a developing economy faced with such controlled measures would appear a little justified for allocating scarce factors - essentially needed for developmental purposes.

(14) The level of corporate tax is considered high by some of the foreign investors. Frequent changes in tax rates give rise to apprehension about long-term tax instability.

The Government of Pakistan has to follow a restricted import policy due to balance of payment difficulties, yet industries established based on imported raw materials, semi-finished product and spare parts will genuinely be handicapped if import restrictions do not allow them to import these items. It has been observed that many industrial undertakings had to run, in the past, below capacity level, due to non-availability of sufficient licences to import these inputs. Further, genuine difficulties have been encountered by the manufacturer when he is granted a licence against a tied loan; for instance, a firm requiring to import British components or materials might be issued with a licence to import from other sources which may well be unable to supply what is required. Foreign investors are also afraid that the Government's policy of sanctioning more units of similar industries to promote competition may create further difficulties for the established industries in acquiring the required import licences.⁽¹⁵⁾ In this connection what is needed is the rationalisation of import policy and some standing provision designed to allocate foreign exchange to already established industries with foreign participation.

(15) Pakistan - An Investment Survey, op.cit., pp. 3, 6, and 7.

Furthermore, it has been maintained that the Government has ensured the interest of the foreign investors through the provisions of Executive Ordinances, there is as yet no statutory provisions to safeguard their interests. As a result, foreign investors feel, that there ought to be legal legislation to protect their rights and privileges.

Despite certain limitations, the terms and conditions on which foreign investment are admitted into the country seem sufficiently attractive. Even so, the flow of capital does not appear to be satisfactory as one would have thought. This may be attributed to the fact that the developed countries prefer to invest in developed countries under different agreements like common market arrangements. Secondly, the formation of controls in these countries, through the amalgamation and mergers of big industries, has required vast investible funds to initiate rationalisation programmes. In the western countries, amalgamation of industrial undertakings is taking place on international levels. In some cases investment is more profitable in the capital exporting countries than over-seas.

However, the Government recognises the need for foreign private investment to give the necessary fillip to industrial development in Pakistan and as such liberal policy has been adopted towards foreign private investors, who can start any of the approved industries in the private sector.

These days Pakistan is putting emphasis on heavy complex industries with high capital intensity and therefore, it will require much larger investment and would be greatly relieved if such investment came in the form of foreign private investment.

CHAPTER SIX.

THE CONTRIBUTION OF SPECIALISED CREDIT

INSTITUTIONS TO CAPITAL FORMATION

IN THE INDUSTRIAL SECTOR.

The importance of specialised financial institutions for supplying industrial finance has been well recognised in both developed and developing countries. They play a particularly vital role in developing countries where the capital market is not organised. As a matter of fact, the need for specialised institutions as a source of long-term capital, especially for industrial financing, was realised in 1919, when an enormous amount of capital was needed for the reconstruction and rehabilitation of the war-damaged economy. Following the end of World War I several financial institutions were set up in the European countries such as Credit National of France in 1919, and the Industrial Mortgage Bank of Finland in 1924. Similar institutions came into operation following the great depression of 1930, namely, A.B. Industrial Credit of Sweden in 1934 and the Norwegian Bank for Industry in 1936.⁽¹⁾

Similarly, when, at the end of World War II, a huge amount of long-term capital was needed to rehabilitate the economies

(1) Uquaili, N.M., 'Development Banks and Special Finance Corporations' in Dr. Baquai, M., Abstract of SEANZA Lectures 1964, (State Bank of Pakistan), p.71.

of war-damaged countries, there was an expansion of existing financial institutions as well as the creation of new ones to cope with the problem. In direct response to this need, the governments of the affected countries took the initiative in establishing such institutions. The International Bank for Reconstruction and Development (I.B.R.D.) was set up in 1944 with a view to providing assistance to under-developed countries for reconstructing their war-damaged economies. Other institutions, established with identical purposes, were the Herstelbank in Netherland and the Industrial and Commercial Finance Corporation (I.C.F.C.) in the United Kingdom in 1945, the State Bank for Industry of Indonesia in 1948, and Kreditanstalt Wiederrauban (K.F.W.) of West Germany in 1948. The International Finance Corporation (I.F.C.) was established in 1956 to provide assistance mainly to private industrial enterprises. Other international institutions of this kind include Agency for International Development (A.I.D.), Commonwealth Development Corporation, the Investment Bank for six Western European Countries, and the Asian Economic Co-operative Fund for assisting in the economic development of the Asian countries and so on. (2)

The role of specialised financial institutions is particularly important in developing countries as most of these countries suffer from paucity of capital, more so because many of

(2) Ibid, p.72.

these countries in Asia and Africa, after achieving independence, made efforts to impart an industrial bias to their developmental policy. The specialised institutions were found to be effective in promoting industrial development and strengthening the capital market.⁽³⁾ Since 1945 a number of such institutions were created and established in India, Iran, Turkey, Ceylon and Pakistan.⁽⁴⁾

It was seen in Chapter Two that one of the major elements of industrial capital in Pakistan has been long-term credit. The emergence of this phenomenon appears to have been largely due to the growth and development of Government-sponsored specialised credit institutions, designed to supply long-term finance to the private entrepreneurs in the manufacturing sector of the country. In this Chapter we propose to discuss the role of these institutions in providing industrial finance to the private sector. At present there are two such institutions in the country, namely, the Industrial Development Bank of Pakistan and the Pakistan Industrial Credit and Investment Corporation.

(3) This type of financial institution has appeared in developing nations apart from, and not competitive with, traditional banking systems to provide long-term credit. They serve also as channels for foreign capital and may in addition provide technical assistance to private companies. Cf. Benedick, R.E., Industrial Finance in Iran (Graduate School of Business Administration, Harvard University, Boston, 1964) p.6.

(4) For example:- The Industrial Finance Corporation of India in 1948, the Industrial Credit Bank of Iran in 1953. I.B.R.D. has estimated that there are at least 80 developmental banks, in addition to many governmental industrial loan fund operations not formerly chartered as banking institutions. Cf. William Diamond, Development Banks, (Washington : Economic Development Institute, I.B.R.D., 1957).

A. Industrial Development Bank of Pakistan (I.D.B.P.)

1. A Short Historical Background:

The Industrial Development Bank of Pakistan was established in August 1961, replacing the former Pakistan Industrial Finance Corporation (P.I.F.C.O.), set up in 1949. The reorganisation of the P.I.F.C.O. as the I.D.B.P. was made in accordance with the recommendations of the Credit Enquiry Commission⁽⁵⁾ set up by the Government in February 1959 to examine the scope and workings of the agencies which provided credit facilities to agriculture, business and industry and to suggest remedies in view of the findings of the Commission. The Commission on examining the provision of industrial credit facilities in the country and particularly the operations of the P.I.F.C.O. made the following observations:-

1. That the P.I.F.C.O. concentrated its assistance mainly on large-sized loans inspite of the fact that there was substantial demand for medium-sized loans. The average size of loans sanctioned until June 1958 was approximately Rs 1 million and this meant a neglect of the needs of medium-sized enterprises.

(5) The Credit Enquiry Commission was appointed by the Government of Pakistan under Notification No.3(2) - F1/59, dated the 24th February 1959 of the Ministry of Finance. The Commission examined the existing credit structure at length and submitted the report to the Government suggesting measures on the 8th September 1959.

2. The operation of the P.I.C.I.C. from 1957, a similar institution, resulted in duplication of activities by these two institutions.
3. The terms and conditions of the P.I.F.C.O. loans for medium-sized enterprises were much stiffer than for large industrial undertakings. The securities demanded by the Corporation against loans and assistance were in the form of a pledge, mortgage, hypothecation or assignment of movable and immovable property. In many cases the medium-sized undertakings could not provide the securities demanded by the Corporation. Moreover, the Corporation was restricted to accepting prospective assets as securities and to providing loans to new entrants into the industrial field. The lending procedure was also cumbersome.
4. The Corporation had very limited contact with the medium-sized enterprises located in small towns on account of the Corporation's headquarters being in Karachi and other branches being situated at Chittagong and Lahore.

The situation as such was far from satisfactory considering that the aim was to build up the manufacturing sector of the economy by development plans having that end in view. In the light of the circumstances, the Credit Enquiry Commission

recommended the following measures:-

- (i) the P.I.F.C.O. should be reorganised as the I.D.B.P. and aim at concentrating its activities only on medium-sized undertakings. This would enable the Bank to avoid undue overlapping with the P.I.C.I.C.
- (ii) with the exception of mining and inland water transport the lending limit should not exceed Rs 1 million,
- (iii) the Bank should be allowed to lend against prospective assets and to provide short-term credit to those industries with which it has dealings,
- (iv) to supplement its resources and to reduce the dependence on borrowings it might accept deposits from the general public,
- (v) the Bank should set up branches in different centres so that medium-scale industries could get access to the facilities of the Bank. In addition, two operational offices should be set up - one at Dacca and the other at Lahore, with well-defined powers to sanction loan applications without referring to the Head Office,
- (vi) the Bank should simplify the loan procedure as far as possible and negotiate a line of credit from the P.I.C.I.C. and,
- (vii) the Bank should be declared a scheduled bank and be under the control of the State Bank of Pakistan in matters of credit policies.

Thus in pursuance of the recommendations of the Credit Enquiry Commission, the Industrial Development Bank of Pakistan came into existence under the Industrial Development Bank Ordinance, 1961.⁽⁶⁾ The Bank has an authorised and paid-up capital of Rs 30 million.

The general administration of the I.D.B.P. lies in a Board of Directors consisting of 11 members. The Board discharges its responsibility in accordance with the instructions of the Government and on commercial considerations with due regard to the interests of industry and commerce and to the national interest generally. The I.D.B.P. has organised itself in a manner best suited for the operational efficiency of an organisation charged with such duties. In order to encourage the development of medium-sized enterprises, the Bank has organised a team of well-qualified technical staff capable of analysing and evaluating the profitability of the enterprise to be assisted. Apart from this, the Bank has arrangements with the I.B.R.D., I.F.C., the Industrial Development Bank of Turkey, the Industrial Development Bank of Japan to provide advanced training facilities to officers of the Bank; in addition, technical advisory services can be made available to the Bank by the United Nations from time to time.

(6) Ministry of Finance, Financial Institutions - National and International, (Govt. of Pakistan, May, 1964), p.46.

The I.D.B.P. has three regional offices, at Karachi, Lahore and Dacca, each under a chief manager. In addition, branches have been established at Chittagong, Bogra, Khulna, Peshawar, Rawalpindi, Gujranwala and Hyderabad. The Bank has also undertaken a branch expansion programme with a view to providing larger facilities to the investors of remote areas of the country.

2. Objectives, Functions, Criteria and Priorities in lending of the Bank.

Objectives and Functions:

The primary purpose of this full-fledged development bank was to provide medium and long-term credits both in local and foreign currencies to the new and existing medium and small-scale industries. In addition, it was intended that the Bank should encourage a large number of new entrants in the industrial field by providing financial assistance, technical advice, and economic evaluation of projects. The following may be described as the main functions of the I.D.B.P. :-

- (i) to assist both the new and the existing medium and small-scale undertakings by providing loan and opening cash credit accounts in favour of industrialists to the foreign supplier of capital goods under a deferred payment system,

- (ii) to issue guarantees against loans, debts and credits, raised or incurred by or granted to an industrial enterprise repayable within a period not exceeding 20 years,
- (iii) to carry out surveys on untapped resources, to determine the potential of new investment projects by economic analysis, to advise middle class investors and to maintain statistics relating thereto,
- (iv) to undertake the market research for a proposed product and to determine its profit potentiality and also to examine its importance from the standpoint of the national interest,
- (v) to administer the foreign exchange loan obtained through direct negotiation by the Government, and
- (vi) to pay special attention to the under-developed areas with a view to maintaining regional balance in industrial development.

Apart from these functions, the Bank was authorised to undertake the functions of ordinary commercial banks by drawing, accepting, discounting, buying and selling of bills of exchange and other negotiable instruments and borrowing money for the purposes of its expanded loan operations.

Criteria and Priorities in Lending:

Normally the Bank provides assistance to industries covered by the Industrial Investment Schedule.⁽⁷⁾ It intends to provide loans and other assistance particularly to the medium and small entrepreneurs who were neglected earlier. The objectives of the Bank are to ensure a broad-based industrial ownership resulting in wider diffusion of wealth and income on the one hand and to stimulate aptitudes for investment amongst a larger section of the community on the other. As regards priority in choosing an industry for financial assistance the Bank is guided by the Government industrial policy according to which emphasis is given for the development of import substituting, export-orientated and indigenous raw materials based industries.

The Bank is authorised to grant loans for a maximum period of twenty years, but it has been observed that most of the loans are usually sanctioned for a period ranging from seven to ten years. A uniform rate of interest of 7.5 p.c. is charged on loans in foreign currency while varying interest rates between 7 and 8 p.c. are charged on rupee loans. Interest and loans are repayable in suitable instalments. As regards fluctuations in the exchange rate the Government undertakes the responsibility to

(7) See footnote (15) on page 9.

cover all such risks. The borrowers are, however, required to pay only 0.25 p.c. additional rate of interest on foreign currency loans, as premium to cover the risk.⁽⁸⁾

The Bank accepts the following forms of securities and conditions, in one and/or the other, depending on the merit of the individual cases:

- (i) mortgage of the borrower's existing assets or prospective assets,
- (ii) guarantee from a first class scheduled bank redeemable on the creation of fixed assets and their mortgage to the Bank, and
- (iii) personal guarantees of directors of other concerns.

In addition, the Bank keeps a certain percentage of the loans granted to borrowing concerns as cash security. This means, for example, that if Rs 1 million is sanctioned as loan to a concern, roughly 5 p.c. or so of this is retained as cash security against the whole amount of loan, the rest being covered by other forms of assets as mentioned above. Moreover, the Bank insists that the assets which may be pledged as security should be fully insured.

(8) Ministry of Finance, Government-sponsored Corporations, (Government of Pakistan, Rawalpindi, 1965), p.10.

The maximum amount of loan that the Bank could provide to any individual enterprise was Rs 2.5 million of which foreign exchange component should not exceed Rs 1.5 million. There is no minimum ceiling on the I.D.B.P. loan but small loans are generally channelled through the East and West Pakistan Small Industries Corporations. The upper limit, however, is not applicable to the jute and cotton textile industries, inland transport and to such other industries as the Government may specify. (9)

3. Review of Activities of Industrial Development Bank of Pakistan.

(a) Lending Operations:

Table 6.1. indicates the amount of loans sanctioned and disbursed by the I.D.B.P. from 1961/62 to 1965/66. It would appear from the table that the total loans sanctioned by the Bank up to June 1966 amounted to Rs 1125 million of which Rs 781 million (69 p.c.) were in foreign currency. The higher proportion of loan sanctioned in foreign currency reveals two major aspects of industrial financing. Firstly, capital in foreign currency is relatively a scarce factor and the industrial entrepreneurs largely depend on developmental banks for the foreign exchange part of the investment. Secondly, the requirement of a rupee component capital

(9) Ibid, p.6.

is expected to be met from equity capital. However, it may be observed from the study that the demand for loans in local currency is quite high. The amount of loans sanctioned in local currency by the Bank has exceeded the amount of rupee resources available for disposal over the period under review. This is not a strange phenomenon in a developing country like Pakistan where foreign exchange is the real limiting factor; once this is available the demand for rupee loans would also tend to increase. With the exception of 1965-66 the rupee loans sanctioned by the Bank have shown a gradual increase.

Table 6.1. : Loans Sanctioned and Disbursed by the

I.D.B.P., 1961/62 - 1965/66.

(Million Rupees)

Period	Loans Sanctioned			Loans Disbursed		
	Local	Foreign	Total	Local	Foreign	Total
1961-62	55.7	113.2	168.9	29.9	130.0	159.9
1962-63	55.8	124.0	179.8	72.6	112.2	184.8
1963-64	83.1	260.6	343.7	49.9	519.4	569.3
1964-65	104.7	130.9	235.6	44.5	87.0	131.5
1965-66	44.7	151.9	196.6	30.0	98.6	128.6
Total	344.0	780.6	1124.6	226.9	947.2	1174.1

Source: Six Years of I.D.B.P. - A brochure by the Bank.

The amount of loans sanctioned in 1963-64 was almost double the amount of loans sanctioned in 1961-62. Foreign currency loans have shown an increasing trend since the Bank started operation in August 1961. However, the growth does not indicate a uniform rise in the operation.

As much as 70 p.c. of the loans were advanced for the establishment of new industrial units and the balance for modernisation, reorganisation and extensions of the existing units.

In the period up to the end of June 1966, the I.D.B.P. has disbursed Rs 227 million against a sanctioned amount of Rs 344 million. The net rupee resources available at the Bank's disposal by that date were Rs 340 million. This indicates that the resources of the Bank fell short of the sanctioned amount of loans by Rs 34 million. The foreign currency loans sanctioned by the Bank amounted to Rs 781 million whereas resources available were Rs 698 million. However, the Bank inherited Rs 410 million from the former the P.I.F.C.O. and thus it was possible to distribute Rs 947 million during the period under review. ⁽¹⁰⁾

Besides sanctioning loans, the Bank is authorised to administer and guarantee foreign and local currency loans on behalf of the Government. During the period 1961-66, the Bank administered and guaranteed on behalf of the Government 23 cases,

(10) Six Years of I.D.B.P.

involving Rs 363.3 million.⁽¹¹⁾ I.D.B.P. has also participated in the equity of two industrial concerns and subscribed to the share capital of two financial institutions, namely, the Investment Corporation of Pakistan and the National Investment Trust Ltd. The equity participation of the Bank so far amounts to Rs 5.4 million.⁽¹²⁾ Thus the total assistance provided by the Bank comes to about Rs 1493.3 million over the period under review.

(b) Size of Loans Sanctioned:

Table 6.2. shows the distribution of loans by size sanctioned by the Bank during 1961-66.

Table 6.2. : I.D.B.P. Loans Sanctioned By Size.

Size of Loan	Number of Cases		Loans Sanctioned	
	Number	%	Amount in million rupees	%
Up to Rs 0.50 million.	2239	82	252	22
Over Rs 0.50 to Rs 1.00 million.	269	10	192	18
Over Rs 1.00 million.	210	8	680	60
Total	2718	100	1124	100
Source: <u>Pakistan Economic Survey 1966-67, p.148.</u>				

(11) Meenai, S.A. op.cit., p.71.

(12) Six Years of I.D.B.P., op.cit., p.11.

The distribution of loans by size indicates the Bank's preference to accommodate large-sized loans. It can be observed from the table above that as much as 60 p.c. of the sanctioned loans comprises loans over Rs 1 million, while only 22 p.c. has been advanced as small loans i.e., up to Rs 0.5 million. The recipients of large-sized loans constitute only 8 p.c. of the total number of successful applicants up to 30th June 1966. Thus, it appears that the operations of the Bank in terms of number of loans granted have been in accordance with the recommendations of the Credit Enquiry Commission, but nevertheless, in monetary terms the beneficiaries of the Bank's assistance are still the big entrepreneurs. This trend, which characterised the previous period, was sought to be removed by the reorganisation proposal by the Credit Enquiry Commission. From what one can observe, it seems that nothing much has in practice been achieved to reverse the trend. The reasons for this are very common - the larger the firm, the greater the confidence it commands.

The other reasons are that the size of loan depends on the security offered to the Bank by the borrowers. The value of the assets declared by the applicants is usually over-estimated and the I.D.B.P. has to adjust for this over-estimation before assessing the real value of assets offered as security. Apart from securing the borrower's entire physical plant, and after having rights of acquisition of prospective assets as security, the I.D.B.P. insists

on a guarantee by a first class bank, redeemable on the creation of new assets and personal guarantees of directors of other concerns. These requirements can hardly be satisfied by the small and medium investors, particularly by those who are entering into the industrial field for the first time. As a matter of fact, the attitude of the I.D.B.P. in respect of security requirements has not changed to any marked degree as compared with its predecessor, P.I.F.C.O. The scheduled bank usually provides guarantee to their clients having greater financial stability than to the ordinary medium group investors. Therefore, it may be concluded that the medium-sized concerns are still being neglected.

(c) Classification of Loans by Industries.

The table below gives the economic classification of loans.

Table 6.3. indicates the group of industries assisted by the I.D.B.P. and it may be taken as revealing within the relevant conditions and practical possibilities the lines of the Bank's choice and preference in the granting of loans to industries. It appears from the table that the textile industries (including jute manufacturers) alone have claimed 50 p.c. of the total loans advanced by the Bank whereas the remaining industries (except natural gas) have not claimed any substantial amount. Despite the

Table 6.3. : I.D.B.P. Loans Sanctioned by Industry,
1961/62 ~ 1965/66.

(Million Rupees)

Industries	1961-62	1962-63	1963-64	1964-65	1965-66	Total	%
1	2	3	4	5	6	7	8
1. Textiles other than jute.	92.0	55.0	105.3	40.1	82.4	374.8	33.3
2. Jute manufacturers.	6.5	41.9	97.3	47.6	1.9	195.2	17.4
3. Food Products.	11.9	18.3	23.9	20.4	23.3	97.8	8.7
4. Engineering.	2.8	13.1	25.8	11.7	10.0	63.4	5.6
5. Natural Gas.	0.5	-	0.2	50.5	-	51.2	4.6
6. Chemicals.	1.7	10.3	4.3	4.0	8.8	29.1	2.6
7. Non-metallic Minerals.	2.4	4.7	12.3	9.6	8.8	37.8	3.4
8. Paper and Printing.	2.3	8.3	10.6	8.3	9.8	39.3	3.5
9. Oil storage & distribution.	14.3	-	-	2.5	-	16.8	1.5
10. Electrical Equipment.	0.7	3.6	2.7	1.4	4.9	13.3	1.2
11. Wood Products.	0.8	2.1	3.8	1.6	4.1	12.4	1.1
12. Miscellaneous.	33.0	22.5	57.5	37.9	42.6	193.5	17.2
Total	168.9	179.8	343.7	235.6	196.6	1124.6	100

Source: Six Years of I.D.B.P., p.22.

fact that the textile industry already enjoyed better capital market facilities and various other sources, as well, for financing, the I.D.B.P. actually could not do much to develop the other relatively neglected industries which were not less important in so far as they were designed to substitute for imports.

(d) Regional Distribution of Loans:

A study of the regional break-up of loans as shown in Table 6.4. below reveals that East Pakistan has received comparatively less credit from the Bank than West Pakistan during the past five years of its operation. The growth of the industrial sector in West Pakistan is relatively greater than in East Pakistan. This is largely due to the fact that facilities of an organised capital market, the level of infrastructure and other factors are adequately available in the western part of the country. In East Pakistan, capital is shy due to the low level of capital formation, lack of organisation and technical know-how. Moreover, in East Pakistan industries are relatively more narrowly based with respect to dispersion of their shares and it will take a long time to widen the base in the manner we find in West Pakistan. It is only during the Second Plan period that disparity in national income has been narrowed down and the necessary infrastructure has been built up so as to accelerate industrial growth.

Table 6.4. : Regional Distribution of I.D.B.P. Loans,
1961/62 - 1965/66.

(Million Rupees)

Period	Number of Cases			Amount Sanctioned		
	E.Pak.	W.Pak.	All Pak.	E.Pak.	W.Pak.	All Pak.
July - June						
1961-62**	107	154	261	87	81	168
1962-63	178	283	461	111	69	180
1963-64	403	597	1000	195	149	344
1964-65	223	288	511	86	150	236
1965-66	181	304	485	47	149	196
Total	1092	1626	2718	526	598	1124
Percentage	40%	60%	100%	47%	53%	100%

Source: Pakistan Economic Survey, 1964-65 and 1966-67.

* The analysis does not include loan sanctioned by the former P.I.F.C.O. which granted Rs 294 million of which East Pakistan accounted for Rs 91 and the rest for West Pakistan.

** Data for eleven months.

The average size of loans sanctioned per annum in the case of East Pakistan comes to Rs 105 million as against Rs 120 million in West Pakistan. It may be observed from the above table that out of a total amount of loans of Rs 1124 million sanctioned by the Bank up to June 1966, Rs 526 million or 47 p.c. have been sanctioned for East Pakistan. The sanction of a lower amount to East Pakistan conflicts with the Bank's objectives to remove economic disparity between the two wings by granting more loans to the eastern region of the country. In 1965-66, the Bank sanctioned Rs 181 million or 37 p.c. of the total loans sanctioned for the period. The Bank has explained the state of affairs by saying that the applications from East Pakistan were not received in time, while applications for loans duly approved by the West Pakistan Government were received in time and therefore granted accordingly. This however, does not seem to be a convincing enough ground because, under the Central Government directives, whatever funds were available should have been allocated on more or less equal basis between the two provinces. The explanation offered by the Bank appears to mean as if it has its own form of priorities which are distinct from those laid down by the central authority. If this is true, an outsider may be justified in questioning the procedure in view of this fact, that the Bank, after all, is an instrument to promote clearly defined objectives. And, as can be verified from the document mentioned at the foot, equal distribution of resources is one of these. (13)

(13) cf. The Constitution of Pakistan, Articles 145, Clause 3.

4. Sources and kinds of Resources of I.D.B.P.

(a) Rupee Resources:

As mentioned earlier, the Bank discharges its responsibility within the framework of Government policy to provide credit-facilities to the private industrial sector for the development of industries as laid down in the Industrial Investment Schedule. To achieve these objectives, the Bank requires financial resources in both local and foreign currencies, which means that its resources fall into two categories, namely, rupee resources and foreign currency resources. Table 6.5. below indicates the sources of rupee resources of the Bank.

Table 6.5. : Sources of Rupee Resources of I.D.B.P. as on
30th June, 1966.

Resources	Rupees in million	%
Paid-up Capital.	30.0	10.0
Reserves (including Dev.Assistance Fund).	23.1	7.0
Credit lines from Central Government.	57.4	18.5
Counter Finance for advance to P.W.S.R. @ 3½ p.c. per annum.	9.3	3.0
Credit lines from the State Bank.	123.2	40.0
Deposits etc.	66.8	21.5
Total Rupee Resources	309.8	100.0
Less outstanding advances and investments.	251.3	81.1
Total Net Resources available	58.5	18.9
Outstanding Loans	142.0	
Shortfall	83.5	
Source: Same as Table 6.4.		

The Bank's rupee resources consist of its paid-up capital, reserve fund, loans from the Central Government, credit lines from the State Bank of Pakistan, overdraft facilities with the National Bank of Pakistan, ⁽¹⁴⁾ proceeds from re-discounting bills and deposits from the general public. Apart from these resources, the Bank is authorised to supplement its resources through the issue and sale of bonds in the capital market.

The paid-up capital of the Bank is Rs 30 million of which 51 p.c. has been subscribed by the Government and the rest by the public. The paid-up capital and the general reserve including special development assistance funds ⁽¹⁵⁾ account for 10 and 7 p.c. respectively of the Bank's rupee resources. The reserve funds increased to Rs 23.1 million in 1965-66 from Rs 3.2 million in 1961-62. It appears from the trend of reserve creation that the I.D.B.P. has intention to enhance its financial resources by setting aside a part of the revenue profits each year. However, the development of a huge reserve fund would take a long time. By far the largest amount of funds is secured by borrowings from the Central Government and the State Bank of Pakistan. Such amounts

(14) Loans from the National Bank of Pakistan are guaranteed by the Government of Pakistan.

(15) The development Assistance Fund has been created with the dividend and interest payable to the Government. In order to strengthen the Bank's resources the Government has authorised this.

constituted 18.5 and 40 p.c. respectively of the total funds at the end of June 1966. The loans from the Central Government carry rates of interest varying from 2 to 5.5 p.c.⁽¹⁶⁾ At the same time, deposits including other accounts amounted to Rs 66.8 million or 22 p.c. of the total rupee resources.⁽¹⁷⁾

By June 1966, total rupee resources available to the Bank amounted to Rs 309.8 million as against total outstanding advances and investments of Rs 251.3 million. A look at the above table reveals that the Bank's resources are not adequate to meet its outstanding commitments of loans. During the period 1965-66 outstanding commitments of loans amounted to Rs 142 million compared with total net resources of Rs 58.5 million available for distribution. This left a shortfall of Rs 83.5 million which it was proposed should be met out of a future grant made by the Government to the Bank.

(16) Out of a total loan of Rs 57.4 million, Rs 19 million bears no interest. The following are the rates of interest:

(@)	2 p.c. per annum	Rs 17.5 million.
(@)	4.5 p.c. per annum	Rs 4.9 million.
(@)	4.5 p.c. per annum	Rs 6.0 million.
(@)	5.5 p.c. per annum	Rs 10.0 million

(17) In order to increase rupee resources, the Board of Directors of the Bank decided on 5th. August, 1965 to introduce Deposit Banking at all its Regional and Accounting Offices commencing from 1st. October 1965. But this decision could not be implemented on account of Indo-Pakistan War in September, 1965. The Deposit Banking has, however, been introduced with effect from 1st. July 1966.

Evidently, the Bank is heavily dependent on the Government and the State Bank of Pakistan for its loan operation activities and this dependence lends a certain amount of uncertainty to the availability of resources. Moreover, such loans are tended to be inflationary. The effect of inadequate resources seems to be serious in the sense that unnecessary delay is involved in distributing the loans to the borrowers; and loan-receiving enterprises might fail to start operation on schedule due to non-availability of funds from the Bank. It also suggests that although there is a large demand for loans, the Bank cannot entertain all such demands owing to lack of resources.

The Bank is authorised to supplement its resources by accepting deposits from the public or through the issue and sale of bonds and debentures in the capital market. But the borrowing powers of the I.D.B.P. by means of accepting deposits or by the issue and sale of bonds and debentures together with contingent liabilities by way of guarantees and underwriting agreements cannot exceed five times its paid-up capital and reserves. (18)

This sets an upper limit of the borrowing capacity of the Bank. The Bank's paid-up capital has already been raised to the level of the authorised capital and there is no further scope for increasing

(18) Andrus and Mohammed., Trade, Finance and Development in Pakistan, op.cit., p.182.

capital unless the Bank's authorised capital is raised through amendments of its charter. An increase in the paid-up capital will improve the base of equity thereby increasing borrowing capacity of the Bank.

Inadequacy of resources might impair the lending operations of the Bank to a considerable extent and as such it is desirable to explore the possibilities of securing funds through various devices open to the Bank. The Bank so far, has not yet had recourse to bond financing mainly owing to the absence of a bond market in the country. However, with the passage of time, a few institutional investors have emerged in the country and they are inclined to invest in fixed yield accruing securities. The I.D.B.P. may make an attempt to supplement its resources by issuing bonds in the capital market.

(b) Foreign Exchange Resources:

The foreign exchange resources of the Bank consist of allocations made by the Government out of loans secured from foreign countries and international lending agencies. The Government negotiates with foreign countries and agencies to arrange foreign currency loans for the private industrial sector and places the amount at the Bank's disposal. Table 6.6. below shows the position of foreign currency resources of the Bank since its inception until 30th June 1966.

Table 6.6. : Foreign Exchange Resources Position of
I.D.B.P. as on 30th June 1966.

	Rs million	%
1. Conventional Sources	763.7	79.6
2. Non-conventional Sources	192.2	20.4
Total	955.9	100.0
Less:		
Loans and Guarantees Outstanding	661.0+	
Letters of Credit Outstanding	86.4+ = 747.4	78.2
Net Resources available (1965/66)	208.5	21.8
Outstanding Commitments	251.2	
Shortfall	42.7	
Source: I.D.B.P. Annual Report for 1965-66.		

It can be seen from Table 6.6. that a sum of Rs 208.5 million was available to the Bank for distribution during the period 1965-66 as against outstanding committed loans of Rs 251.2 million, indicating a shortfall of resources to the extent of Rs 42.7 million. The shortage of foreign exchange resources thus poses a difficult problem for the successful operation of the

Bank's lending activities.

The foreign exchange resources are generally received from various developed countries either through consortia or arranged bilaterally. Such loans made available to the Bank can be either tied or untied. The tied loans usually carry certain pre-conditions which must be fulfilled to qualify for the benefits. It is usually laid down as a condition that the plant and machinery should be purchased from the lending country and should be used in some instances for specific industries. This poses problems of their proper utilisation.

The conditions relating to tied loans reduce their utility to a considerable extent. The price of imported capital goods charged by the supplier appears to be higher than the normal prices; this tends to lead to over-capitalisation of the project. The effect of over-capitalisation is more pronounced in the case of medium-sized enterprises. However, having no alternative, the borrowers have to accept these loans, ultimately at a higher cost. The impact of this over-capitalisation is quite evident on the cost of production, and subsequently reduces the margin of profit. The conditional nature of loans has restricted the I.D.B.P.'s freedom to allocate funds to the industry which may appear to it as most suitable. These difficulties have been brought to the notice of loan-giving countries time and time again but apparently to no avail.

The Bank has been experiencing considerable difficulties in operating foreign exchange loans. Loans obtained from conventional sources like the U.K., Germany, Japan and the U.S.A. are in greater demand than the loans received from non-conventional sources such as the U.S.S.R., China, Italy, Poland, Yugoslavia and Switzerland.⁽¹⁸⁾ Despite the scarcity of foreign exchange resources investors do not seem to be ready to accept loans from non-conventional countries. These credit lines, which were made available to the Bank for the first time in 1965-66, were new to the Pakistani entrepreneurs. However, the I.D.B.P. has been making persistent efforts to create a proper awareness of the usefulness of these credits and as a result the demand for this type of loan appears to be encouraging.

Another aspect of the operation of the Bank is that it cannot negotiate with foreign investors directly so that foreign investors are attracted to participate in the equity of industries assisted by the I.D.B.P. Basically, the Bank's efforts are mainly

(18) It may be noted that because of strong commercial relations with countries like the U.K., West Germany, Japan and the U.S.A. loans obtained from these countries are most suitable for proper utilization. The funds from these sources seem to be called in Pakistan 'Conventional Sources'. In contrast, loans received from other countries, often called non-conventional source, create a complex problem in securing the right type of machinery and its proper use. The difference of language also becomes a greater problem for the installation and operation of the plant and machinery through technicians of the loan-giving countries. In addition, standards of manufacture being different, difficulty of feeding machinery of one origin with spares or raw materials of another origin is not uncommon.

concentrated on the development of medium and small-sized industries where foreign investors are less interested to provide assistance.

The provision of long term credit at a low interest rate does not represent the real cost of the capital. The Bank charges a rate of interest which varies from 7 to 8 p.c. (previously 6.5 to 7.5 p.c.) on rupee loans and a uniform rate of 7.5 p.c. for foreign exchange loans per annum. These varying rates of interest have created unnecessary difficulty for the Bank in explaining the reasons thereof to its customers.

In view of the shortage of capital, the rate of interest which the Bank charges would appear to be unduly low in the sense that the opportunity cost of capital is very high in the newly established industries of Pakistan. However, this may be justified in those cases where risks are comparatively low. But in those cases where risks are high or in which demand is greater in view of prospects for higher return, charging of higher rates would help the process of selection of marginal borrowers. The Bank justifies the subsidised rate of interest on the ground that there would be an insufficient demand for Bank's loans from the private sector. This assumption has no sound basis as the demand for loans does not seem to have been low at any period since its inception. Moreover, the demand for foreign exchange loan is very high in Pakistan so much so that it is sold at a much higher rate in the open market.

Despite certain limitations and short-comings the I.D.B.P. has rendered valuable services to the development of the manufacturing sector in Pakistan. When foreign exchange is such a necessary requirement for the purchase of capital goods and setting up industry, the lack of institutional arrangements for providing long-term foreign exchange credit would certainly have handicapped the progress of industrial growth especially at this stage of development if it were not provided. The I.D.B.P. has been instrumental in inducing investment in the country in the measure of the loans advanced by them. This can be seen from the ratio of I.D.B.P. loans to total private investment made in the assisted enterprise which was 1 : 2.4 and this gives an impression of the role of the Bank in directing investment into the industrial sector and thus a tendency to cause considerable income generation for the economy as a whole.⁽²⁰⁾ It may also be added that the capital output ratio of the Bank's assisted industries is estimated at 1.3 as against a ratio of 1.5 for the private industrial sector as a whole (excluding small scale industries). The low capital output ratio is attributable to the emphasis given by the Bank in selecting projects with low capital intensity.⁽²¹⁾

(20) Pakistan Economic Survey 1966-67, op.cit., p.149.

(21) Ibid.

B. The Pakistan Industrial Credit and Investment Corporation Ltd. (P.I.C.I.C.).

1. Origin:

During the mid-fifties when the First Plan was launched the demand for industrial credit in the country rose considerably. The P.I.F.C.O. which was then functioning, was unable to meet this demand, particularly in respect of foreign exchange. It was because of this that a feeling grew that a second financial intermediary should be set up, with wider scope, to increase the long and medium-term industrial credit facilities for the private sector. With this end in view, the Pakistan Industrial Credit and Investment Corporation was established, in October 1957, as a privately owned corporation with limited liability, registered under the Companies Act of 1913. The main purposes of the Corporation were to provide loans in both domestic and foreign currencies, to promote industries by equity participation, and encourage the flow of foreign loan funds into the country.

The Corporation is a lending-cum-investment corporation. The ownership of this Corporation lies with local and foreign investors. Of its total paid-up capital, 60 p.c. has been subscribed by the local investors, the remaining 40 p.c. by the foreign investors. The management of the Corporation is

vested on a Board of Directors consisting of 21 members, 17 of whom are elected by the local and foreign participants and 3 are appointed by the Government representing the Central and Provincial Governments. (22) The Managing Director, Chief Executive of the Corporation, is appointed by the Government. The Managing Director runs the Corporation in accordance with the policy and directions outlined by the Board of Directors. He is assisted by deputy managing directors at Karachi, Dacca and Lahore. In addition to its head office at Karachi and one liason office at Rawalpindi, the Corporation has two regional offices at Dacca and Lahore each under the superintendence of a deputy managing director.

2. Objectives and Functions, Criteria and Priorities in Lending of the Corporation.

Objectives and Functions:

The main objectives of the P.I.C.I.C. are:-

- (i) to assist the private industrial sector by providing long and medium-term credit in both local and foreign currencies, participating in equity capital or by

(2E) As the Government holds the interest in the Corporation by way of loan amounting to Rs 70 million.

- subscribing to debentures,
- (ii) to underwrite the public issue of shares and debentures and provide guarantee and counter guarantee for loans and obligations,
 - (iii) to make arrangements for the participation of local and foreign investors in industries,
 - (iv) to provide technical advice and managerial services to the private sector, and
 - (v) to facilitate the creation, issue or conversion of capital in any form and to act as a trustee in connections therewith.

Criteria and Priorities in Lending:

In order to achieve these objectives the Corporation follows certain basic principles in its operations which may be described as follows:-

- (i) It selects only those undertakings which are listed in the Industrial Investment Schedule for the private sector prepared by the Government. It seeks to assure itself of the technical feasibility, financial and economic soundness, and product marketability of the project before granting any financial assistance and for this purpose it has a nucleus of technical

staff. (23) Even though the Corporation has freedom to choose any industry within the framework of the Industrial Investment Schedule, preference is given in practice to import-substituting, export orientated industries based on indigenous raw materials.

- (ii) The Corporation as a matter of policy, intends to assist the undertakings in underdeveloped areas provided these are economically sound and technically feasible. This policy is pursued to diversify the industrial development of the country.
- (iii) The Corporation retains an interest in the management only when it feels it to be necessary to protect its interest. It leaves the management in the hands of the owners of the company unless the safety of the loan is involved.
- (iv) It is one of the declared policies of the Corporation not to finance working capital for any project and so compete with commercial banks.

As regards security, the P.I.C.I.C. accepts both the existing assets and prospective assets to be created by its loan. Generally loans from the P.I.C.I.C. are the first charge on

(23) A team of specialists consisting of financial analysts, industrial engineers and market specialists investigates the credit worthiness of the project. For the preparation of feasibility reports applicants are advised to furnish necessary information before a loan application is accepted.

the assets of the borrowing enterprise. In exceptional cases, P.I.C.I.C. demands a commercial banks guarantee. In the case of a private limited company it is a declared policy of the Corporation to demand a personal guarantee of the directors.

The Corporation charges interest at 8 p.c. per annum⁽²⁴⁾ with maturities of about 10 to 15 years. Loans are expected to be repaid within the maturity-period in equal semi-annual instalments. The first instalment of repayment begins six months to a year after the project has gone into production.

The minimum limit of a loan to any prospective borrower is Rs 1.5 million in foreign currency and Rs 2.5 million in local currency.⁽²⁵⁾ However, under a special arrangement made by the Government of Pakistan with the World Bank, P.I.C.I.C. has been allowed to reduce its lending limit for any one loan to Rs 0.25 million for balancing, modernisation and replacement requirements of small and medium-sized industrial units.

(24) Previously the Corporation used to charge 6.5 p.c. on rupee loans and 7.5 p.c. on foreign currency loans.

(25) Government-sponsored Corporations, op.cit., p.25.

3. Review of Activities of Pakistan Industrial Credit and Investment Corporation.

(a) Lending operation and assistance provided:

Table 6.7. below shows the amount of loans sanctioned and disbursed and other assistance provided by P.I.C.I.C. from 1958 to 1966. The Corporation has sanctioned loans amounting to Rs 1186 million to a wide range of enterprises comprising 512 projects - Rs 1148 million (97 p.c.) in foreign currencies and Rs 38 million in local currency. This clearly indicates the intensity of demand for foreign currencies in the country. The Corporation has persistently concentrated its activities on the provision of foreign currency loans with the expectation that the rupee funds required for setting up an enterprise would be provided by its promoters or sponsors. It will be seen from the table that the Corporation's operational activities have increased progressively since its inception in 1957. However, for several reasons, the amount of loans sanctioned declined in 1965. This was because, firstly, an emergency situation had prevailed in the country during the second half of the year because of war between Pakistan and India; secondly, the aid-giving countries suspended the supply of aid following the war. These situations, however, were short-lived and Corporation activity showed again an upward trend. The average loans sanctioned per annum worked out to be Rs 132 million over the last 9 years of its operation.

Table 6.7. : Loans and Assistance Provided by P.I.C.I.C., 1958-1966.

(Million Rupees)

	Sanctioned			Disbursement			7 as p.c. of 4
	Loan	Other Assistance	Total	Loan	Other Assistance	Total	
1958	36	N.A.	36	36	-	-	-
1959	46	N.A.	46	23	N.A.	23	50
1960	60	N.A.	60	44	N.A.	44	73
1961	102	N.A.	102	35	N.A.	35	34
1962	132	N.A.	132	52	N.A.	52	39
1963	175	N.A.	175	123	N.A.	123	70
1964	224	N.A.	224	106	N.A.	106	47
1965	158	10	168	141	10	151	90
1966	253	80	333	126	80	206	62
Total	1186	369*	1555	650	369*	1019	66**

* This represents cumulative position as at 31st December, 1966. The figures for preceding years are not available.

** Include 11 p.c. other assistance.

Source: P.I.C.I.C. at Work - May 1965, p.11.

P.I.C.I.C.'s Annual Reports: 1964, 1965, and 1966.

Column 5 of Table 6.7. indicates the loans disbursed during the relevant periods, while column 8 shows the proportion of loan disbursed out of the sanctioned loans. The proportions of disbursements do not show any uniform trend. The highest amount of utilization was recorded (90 p.c.) in 1965. A study of the Corporation's resources position suggests that the low ratio of disbursement was not in fact due to inadequate funds but rather to non-financial reasons.

Firstly, there is a time-lag between loan sanctioning and loan disbursement. Although a loan is sanctioned by the P.I.C.I.C. it is not committed unless a loan agreement is signed between the supplier of credit and the borrower. A considerable time may be taken to complete the relevant formalities before such an agreement is made. Meanwhile, the borrowers may change their mind or may not be in a position to arrange the required rupee counterpart. For these reasons, there remains a gap between loans committed and loans disbursed. It has been observed that only 55 p.c. of the sanctioned loan was disbursed over the period under study. However, taking into consideration other assistance the ratio comes to about 66 p.c. An attempt to increase the disbursement ratio might increase the Corporation's operational efficiency.

Secondly, other factors like delay in the acquisition of land for constructing factory building; non-availability of raw materials and power; delay in completing procedural activities, are, also, partly responsible for the low ratio of disbursement. The Corporation, however, makes an effort for an early installation of the plant and machinery imported with the help of its credit so that the project can go into production as soon as possible. For example, a letter of credit is not issued by the Corporation in favour of the borrower unless the construction of factory building is completed.

Apart from providing long and medium-term loans to industries, the Corporation has provided assistance for the promotion of industry in various other forms. From January 1958 to December 1966, P.I.C.I.C. has sponsored 20 joint ventures in collaboration with local and foreign private investors. It is expected that this will result in an inflow of Rs 57.88 million worth of foreign capital, besides, technical know-how and managerial skills.

The Corporation has so far made an equity investment of Rs 15.02 million in 16 projects and has underwritten 11 public issues for Rs 50.08 million. As an investment institution it intends to participate in the equity of larger projects. It participates in the equity either directly or through convertible debentures or through the acquisition of underwriting commitments.

Up to 1966, the underwriting absorption of the Corporation amounted to Rs 5.48 million. In addition, it has arranged a sum of Rs 237.11 million from abroad for 11 large projects. Thus, total assistance provided or arranged by the Corporation amounted to Rs 1555 million by the year ending December 1966. (26)

P.I.C.I.C. has the option to convert at par any of the debentures held by itself into fully paid shares of the company up to 20 p.c. of the nominal amount of debentures issued. By allowing an option to convert loan stock into ordinary shares, the borrowing concern intends to attract the attention of the lending agencies. This right allows the lenders to exercise their option to their best advantage. For example, debenture holders having a prior claim on the company's earnings and assets may be turned into equity holders when the earnings of the borrowing concern have increased substantially.

This right of P.I.C.I.C. produces certain effects upon the owners of the existing equity. To some extent the capital structure of the borrowing company remains subject to uncertainty in the sense that the structure may take a different shape if P.I.C.I.C. exercises its right of option. In addition, it creates some problems to the management of the company, since it is difficult to visualise how much of the loan (of 20 p.c.) will be

(26) P.I.C.I.C.'s Annual Report - 1966.

converted into shares and how much will be paid off on maturity. It seems that the capital structure of the company to this extent is at the mercy of the market and not under the complete control of the directors.⁽²⁷⁾ On the other hand, the Company may not be in a position to raise capital through new issues. It may be argued that specialised institutions are loan-giving agencies and their assistance to any industrial concern must have a relationship with the equity invested by the borrowers. The consideration of debt/equity ratio is most vital for the lending institution because the equity in the form of assets is pledged against loans and as such P.I.C.I.C. should not participate in equity. These arguments are justified, and it may be thought, if we consider the problem from a theoretical point of view. But looking into the problems from another angle, the restricted use of the right of option by P.I.C.I.C. may be thought to be justified. P.I.C.I.C. has adopted a more dynamic and flexible mode of financing which includes an admixture of loan and equity financing, involving for example, debentures convertible into ordinary shares, income notes carrying no fixed rate of interest and so on. On the other hand, the borrowing concerns are in a position to pay off a part of the loan in shares. Considering the circumstances existing in Pakistan this type of approach to the provision of assistance may well be thought to be a move in the right direction.

(27) Moor, Ronald W., op.cit., p.175.

(b) Size of Loans:

The table below shows the loan concentration according to size. It will be seen from the table that loans amounting to

Table 6.8. : P.I.C.I.C. Loans Sanctioned by Size* up to
31st December, 1964.

(Million Rupees)

Size of Loans	No. of Projects	Amount	Per Cent
Loans up to Rs 0.5 million	126	40	5
Loans over Rs 0.5 to 1.0 million.	84	65	8
Loans over Rs 1.0 to Rs 2.5 million.	118	201	26
Loans over Rs 2.5 million.	77	469	61
Total	405	775	100

* The data relating to loans by size are not available after 1964.

Source: P.I.C.I.C. at Work - Official Brochure.

Rs 2.5 million and over account for 61 p.c. of the loans sanctioned by the Corporation whereas small-sized loans ranging from Rs 0.5 million to Rs 1.0 million account for only 13 p.c. of the total loans. This clearly indicates the Corporation's preference for accommodating large-sized loans instead of small ones.

(C) Classification of Loans and Assistance by Industries.

The P.I.C.I.C. has freedom to choose any industry for assistance provided it is listed in the Industrial Investment Schedule. The following table gives the break-down of loans and assistance provided by the Corporation to different groups of industries.

It would appear from Table 6.9. that the major part of the loans sanctioned by P.I.C.I.C. has gone to the textile industry: it accounts for 43 p.c. of the total loans sanctioned during the period under review. Actual amount of disbursement however, estimated to be Rs 279 million as against sanctioned loans of Rs 503 million. In addition to this, the Corporation has also arranged another Rs 31 million for investment in the textile industry in the form of equity participation, and foreign private investment. Thus the total effective assistance⁽²⁸⁾ provided by the Corporation to this industry amounted to Rs 310 million, or 30 p.c. of the total assistance. Sugar and allied industries have claimed 19 p.c. of the sanctioned loan but received 13 p.c. of the total effective assistance. The other recipients of loans were chemicals and pharmaceuticals, engineering, electrical and metal industries, oil refining and gas distribution, cement and paper industries.

(28) By effective assistance we mean the actual amount disbursed and the amount received by industry in other forms.

Table 6.9. : Industrywise Classification of P.I.C.I.C. Loans and Assistance as on 31st December 1966. (Million Rupees)

Industries	Loans Sanctioned			Assistance		Total	%
	No of projects	Amount	Percent	Loan Disbursed	Other financial Assistance		
1. Textiles.	170	503	43	279	31	310	30
2. Engineering Electrical, and Metal industries.	86	86	7	46	70	116	11
3. Cement, Glass and Clay.	24	64	5	33	69	102	10
4. Oil Refining and Gas distribution.	4	16	1	6	87	93	9
5. Food products and processing.	68	50	4	26	2	28	3
6. Sugar and Allied.	37	215	19	123	8	131	13
7. Chemical and Pharmaceutical.	42	77	6	39	72	111	11
8. Paper and Paper products.	30	92	8	52	26	78	8
9. Inland & Coastal Shipping.	9	65	5	33	-	33	3
10. Other industries.	42	18	2	13	4	17	2
Total	512	1186	100	650	369	1019	100

Source:- P.I.C.I.C.'s Annual Report for the year ended 31st December 1966.

Out of a total sanctioned loans of Rs 1186 million, the new industries have accounted for Rs 875 million i.e., 74 p.c. while the remaining 26 p.c. has gone to existing industries. Amongst the new industries, jute manufacturing is the largest recipient followed by sugar. Among the existing industries, cotton textiles are the leader, accounting for 49 p.c. of the total sanctioned loans.⁽²⁹⁾ The cotton textile industry being the oldest industry required finance mostly for balancing, modernisation or expansion of existing units. The cotton textile industry being old and having always enjoyed the credit facilities in the country should have been able to finance a rationalisation programme out of its own resources, particularly from bonus earnings. However, the P.I.C.I.C.'s attitude of industrial financing has been much in line with the general industrial policy of the Government and planner's aim in developing the import substituting industries.

(d) Regional Distribution of Loans:

The regional distribution of loans sanctioned is given in Table 6.10.

(29) P.I.C.I.C.'s Annual Report, 1966.

Table 6.10. : Regional Distribution of Loans Sanctioned

by P.I.C.I.C., 1958-66.

(Million Rupees)

Year ending December	East Pakistan	West Pakistan	Total	2 as p.c. of 4.
1	2	3	4	5
Up to 1963	163	405	568	29
1964	21	186	207	10
1965	0	158	158	0
1966	149	104	253	59
Total	333	853	1186	28

Source:-

- (i) Financial Institutions - National and International, p.42.
- (ii) Pakistan Economic Survey 1964-65, p.139.
- (iii) P.I.C.I.C.'s Annual Report for 1966.

Given the Government objective in respect of regional development, the distribution of loans does not appear to be rational in the sense that 72 p.c. of the total loan was sanctioned to West Pakistan compared with only 28 p.c. in East Pakistan. But this situation has emerged due to the fact that under the statutory provisions of the Corporation its minimum lending limit is Rs 2.5 million: East Pakistan's absorption capacity being

low for reasons discussed on page 206 , the demand for P.I.C.I.C. loans tended to remain rather low. Moreover, projects submitted by the entrepreneurs in East Pakistan in the past often lacked technical feasibility. Unless the industrial project formulation in East Pakistan is improved through some advisory services this situation is likely to persist in that region. At this stage one feels that the I.D.B.P. can play a more effective role in East Pakistan by advancing loans of relatively smaller size than the P.I.C.I.C.

Besides, loan application from East Pakistan may be considered on the basis of its needs rather than comparing its suitability on the lines of West Pakistan. It is now a well established fact that development of both wings is equally important for the overall economic development of the country. For this, the P.I.C.I.C. may do a lot by pursuing a separate credit policy with liberal lending criteria for the new entrants into the industrial field in East Pakistan.

4. Sources and Resources of the Corporation.

Table 6.11. shows the resources position of P.I.C.I.C. up to December, 1966.

Table 6.11. : Resources Position of P.I.C.I.C. as on
31st December, 1966.

(Million Rupees)

	Amount	Per Cent
Share Capital	40	3.6
Reserves and Surplus	27	2.4
Government Loan	70	6.2
AID Loan	30	2.9
Rupee Resources	167	14.9
Foreign Currency Loans	955	85.1
Total Resources	1122	100.0
Less:-		
Outstanding Advances (excluding repayments)	473	42.2
Other Investments	64	5.7
Net Resources Available	585	52.1
Source:- <u>P.I.C.I.C.'s Annual Report for 1966.</u>		

(a) Rupee Resources:

As can be seen from Table 6.11. the rupee resources consist mainly of its paid-up capital, unappropriated profits and loans from the Central Government. The initial share capital of the Corporation was Rs 20 million which was subsequently raised to Rs 40 million in 1963 as against the authorised capital of Rs 150 million. Sixty per cent of the share capital was subscribed by local shareholders and the remaining 40 p.c. by foreign private investors.⁽³⁰⁾ To increase its resources the Corporation has progressively built up a substantial reserve fund which represented 2.4 p.c. of total resources by 31st December 1966.

Rupee borrowings from the Government of Pakistan constituted an important part of the Corporation's resources. From the start, the P.I.C.I.C. received a long-term interest free loan of Rs 30 million from the Government. The Government granted a second loan of Rs 30 million carrying an interest rate of 4 p.c. per annum in 1961. Another loan of Rs 10 million was made available to P.I.C.I.C. at 5.5 p.c. interest per annum in 1965. In addition, the Corporation has received a loan of Rs 30 million⁽³¹⁾ bearing

(30) Of the 40 p.c. share capital, the shares were distributed in the following proportions:- I.F.C. (5 p.c.), private investors in the U.S.A. (11 p.c.), the U.K. and Canadian shareholders (10.7 p.c.), Japan (7.3 p.c.) and West Germany (6 p.c.).

(31) This loan was given out of PL 480 counterpart funds.

interest at 5.5 p.c. per annum from the United States Agency for International Development (A.I.D.) in 1966. The outstanding amounts of these loans are subordinated to shareholders' equity. Thus borrowings from the Government and A.I.D. aggregated to Rs 100 million which constituted a part of the equity base for purposes of foreign currency loans. It means that for determining the debt/equity ratio these loans are to be considered as equity.

(b) Foreign Exchange Resources.

The Corporation's foreign exchange requirements are generally met from loans provided by the World Bank, international financial institutions like the I.F.C., and credit given by the friendly countries. The Government allocates foreign exchange credit to the Corporation out of funds obtained by the Government from different countries. The table below shows the break-down of foreign currencies resources received by the Corporation up to 31st December 1966.

Table 6.12. : Foreign Currency Resources Position of
P.I.C.I.C. as on 31st December 1966.

(Rs Million).

Country/Agency	Lines of Credit		Percentage
	Foreign Currency in \$	Rupee Equivalent	
I.B.R.D.	108.86	518.42	54.3
K.F.W. (W.Germany)	27.50	130.95	13.7
U.S.A. (A.I.D.)	21.60	102.87	10.8
Japan.	15.46	73.65	7.7
U.K.	10.34	49.24	5.2
Poland.	2.94	14.00	1.5
France.	7.72	36.74	3.8
Czechoslovakia.	2.94	14.00	1.5
Italy	3.10	14.76	1.5
Total	200.46	954.63	100.0

Source:- P.I.C.I.C.'s Annual Report, 1966.

As can be seen from the table, the bulk of the foreign exchange fund, (Rs 518 million or 54 p.c.), has come from the I.B.R.D. which is followed in importance by the K.F.W., the U.S.A., (A.I.D.), Japan and the U.K. The loans received from non-conventional sources namely France, Poland, Czechoslovakia and Italy constitute only 8.3 p.c. of the Corporation's foreign exchange resources. Because of the newness of these loans and other factors

discussed on page 216 , the investors in Pakistan are reluctant to accept them.

Foreign currencies made available to the P.I.C.I.C. include both tied⁽³²⁾ and untied loans. The I.B.R.D. loans are most convenient for the purpose as they are not tied. These loans are operative in any member country of the World Bank. Naturally, the demand for I.B.R.D. loans is very high. The I.B.R.D. loans and credits have been directly obtained by P.I.C.I.C. These loans could not be made available directly to private enterprise, because of the likely misuse of loans in the absence of supervision by a financial intermediary. Other international financial lending agencies too would be reluctant to provide loans directly to the private enterprise. The Corporation, thus, has rendered valuable services in obtaining credit from international financial institutions.

From the above discussion, it will appear that, by and large, the operational efficiency of the Corporation depends largely on the availability of foreign exchange resources at its disposal. The rupee component does not seem to be a problem to the investors approaching P.I.C.I.C. for assistance in the sense that the required rupee capital is expected to be provided by the sponsors of the company themselves. Therefore, the main concerns of the Corporation is to increase its foreign currency resources.

(32) See page 215

P.I.C.I.C. is authorised to make borrowings up to Rs 600 million outstanding at any time. The World Bank⁽³³⁾ however, has ruled that the P.I.C.I.C.'s borrowings should not exceed four times the value of share capital, reserves and subordinated loans. The outstanding borrowings in foreign currencies amounted to Rs 428 million up to 31st December 1966, which is well below the Corporation's ability to borrow (four times would come to about Rs 668 million). However, in view of the increasing demand for loans in foreign currencies, it is feared that in future the Corporation might run short of the funds to meet its commitments. The rising demand for loans may be seen from the facts that during the years 1965 and 1966, 99 p.c. of the loans sanctioned by P.I.C.I.C. were in foreign currencies.⁽³⁴⁾

5. Evaluation:

From the discussion on the operational activities of P.I.C.I.C. over the last 9 years ending December 1966, it appears that the lending operations of the Corporation were comprehensive and cover a wide range of industries. It seems that the P.I.C.I.C. has the

(33) Pakistan is among the 21 countries of the world with which the World Bank Group has been associated for encouraging the establishment and expansion of development finance companies. P.I.C.I.C. has the support of the World Bank and its affiliates and as such the World Bank has a controlling interest on P.I.C.I.C.

(34) P.I.C.I.C.'s Annual Reports, 1965 and 1966.

comparatively easy access to various sources of foreign exchange resources compared with the I.D.B.P. The Corporation, being a private enterprise, enjoys a greater degree of freedom in operational activities than the I.D.B.P. This has made it possible for the Corporation to adopt a flexible credit policy in the private industrial sector. The ways and means through which an enterprise is assisted by P.I.C.I.C. are not so restricted as in the case of I.D.B.P.

P.I.C.I.C.'s assistance has been mainly concentrated on large-sized loans. Going back to Table 6.8. on page 230 one can see that 61 p.c. of the total loans was granted to a size over Rs 2.5 million, the average amount of loan given to any one company being Rs 6 million. This was partly due to the Corporation's minimum lending limit of Rs 2.5 million⁽³⁵⁾ without there being an upper limit, and partly due to the Corporation's reluctance to entertain small-sized loans, even over the lower limit. The Corporation's demand for bank guarantees extending over the full period of the maturity of loans is something which medium-sized entrepreneurs seldom find possible. On the other hand, a similar institution, the I.D.B.P. is functioning to accommodate medium-sized loans. Consequently, big enterprises enjoy the credit facilities of the Corporation to a greater extent.

(35) See page 223.

Apparently, the Corporation's problems are the absence of well-planned projects and the tied nature of foreign exchange credits. For removing the first obstacle the Corporation provides necessary assistance to the sponsors of a company in the preparation of a suitable project. As far as tied conditions of loans are concerned the Corporation can do little except to request the lending agencies to relax these conditions.

There is another problem which hinders an efficient working of the institution namely, that the time-lag between the receipt of loan application and the sanctioning of the loan is considerable: usually a loan application takes 6 to 9 months to finalise, and undue delay tends to be built up in disbursement because of various formalities which have to be observed before a loan is finally advanced. Delay is also caused by inadequate co-operation between the different departments or agencies concerned in the granting of the necessary approval. To improve the operational efficiency of the Corporation effective co-ordination between departments concerned is essential. The necessity of co-ordination between various departments is particularly important when it is a new industry that is being established. If an effective co-ordination could be maintained between the departments such as the Investment Promotion Bureau, Capital Issues Committee and financial institutions, it would save considerable time and money in establishing an industry.

Apart from the Corporation's direct assistance in the promotion of industrial development, it has exerted a significant impact on the economy of Pakistan in general. The Corporation's assistance has mobilised private investment of Rs 2343 million and the relevant capital-ratio comes to 1.0:1.4. (36)

The annual estimated value added to manufacture by P.I.C.I.C. assisted industries is Rs 990 million while annual foreign exchange earnings/savings are estimated at Rs 480 million. It has generated employment opportunities for 83,000 workers, the average output per worker being Rs 11,900. The Corporation has so far brought 76 new entrepreneurs into the industrial field for the first time. Finally, its financing has been instrumental in incorporating 76 public limited companies in the corporate sector. As an underwriter the Corporation has also helped in promoting the formation and growth of a capital market in Pakistan.

(36) Statistics in this page relate to the period ending June 1967, they are taken from Investment and Marketing, P.I.C.I.C. special number.

CHAPTER SEVEN.

THE TECHNIQUE OF PUBLIC SECTOR

FINANCING.

Up to now we have been concerned with the ways in which finance is made available to the private sector. In this Chapter we shall discuss how industrial undertakings are financed in the public sector. The two agencies through which industrial development is carried out in the public sector of Pakistan are the East Pakistan Industrial Development Corporation and its counterpart in the West. In discussing the problem of financing the public sector projects, we shall, therefore, discuss the financing operation in these two institutions.

1. A Short Historical Background:

Pakistan having been predominantly an agricultural country, has had to struggle hard in converting its economy into a semi-industrial one. Since independence, an insufficient supply of capital and a lack of entrepreneurship have been two main limiting factors hindering the industrial development of the country. Private capital was either shy or was not forthcoming in the direction considered necessary for industrial development.

Private investment tended to take an interest in establishing only those industries, in which there was low capital requirement and the prospect of earning quick profit. As a result, the industries with high capital intensity and complicated processes remained neglected by the private sector during the initial years of independence. Faced with this situation, the Government had to step in, in order to accelerate the pace of industrial development in the desired direction. The first step was made in 1950 with the establishment of the Pakistan Industrial Development Corporation (P.I.D.C.). The Corporation began operations in January 1952 and functioned until the end of June 1962 when it was bifurcated into two separate Corporations, one each for each of the two provinces of East and West Pakistan. The establishment of the East Pakistan Industrial Development Corporation (E.P.I.D.C.) and the West Pakistan Industrial Development Corporation (W.P.I.D.C.) in July 1962 was in pursuance of the policy of decentralisation adopted by the Government of Pakistan.

2. Objectives and Functions:

The main purpose of the P.I.D.C. was to promote and develop industries in which private investors did not show much interest due to the lack of either an adequate or foreseeable return over an acceptable period. The Corporation was intended to supplement industrial growth, functioning alongside the private

enterprise rather than displacing it. It was the Corporation's policy that if private investors did not come forward in the initial stage, the project would be carried out by the Corporation; and on completion, the project would be sold either to the private party or be converted into a public limited company. This meant that through the process of disinvestment the Corporation would replenish itself with more funds and thus put itself into a position to develop yet another industry.

The provincial Corporations have assumed the same responsibility as previously devolved on the former P.I.D.C. The Boards of Directors of the Corporations are designed to be guided by the respective provincial Governments in matters of policy relating to national interest, and in all other matters they are required to operate as commercial organisations.

Both the E.P.I.D.C. and the W.P.I.D.C. were entrusted with the development of fourteen selected industries.⁽¹⁾ These industries (excepting some which are small-scale) are mainly basic ones requiring heavy investments, longer periods of construction with complicated processes involving a high level of technical knowledge and operating experience.

(1) - (1) Jute, (2) Papers, Board and Newsprint, (3) Heavy Engineering including Iron and Steel but excluding Shipbuilding. (4) Shipbuilding, (5) Heavy chemicals other than fertilizers, (6) Fertilizers, (7) Sugar, (8) Cement, (9) Textiles, (10) Chemicals, pharmaceuticals and dyestuffs, (11) Coal and peat, (12) Exploitation of Marine Fisheries except fisheries outside territorial waters, (13) Industries based on forest products, (14) Cottage and small scale industries.

Functions:

The Corporations are responsible for⁽²⁾:-

- (i) planning, promoting, organising, implementing programmes for setting up industries listed in their respective schedules;
- (ii) the exploration, exploitation and development of minerals and mines;
- (iii) the exploration and development of any raw material , which the Central Government may entrust subject to such conditions as the Central Government may specify;
- (iv) unless otherwise directed by the Governments, acting as managing agents for the companies and may, with the prior consent of the Governments, relinquish the managing agency in favour of any person;
- (v) issuing the capital required for the aforesaid companies or public subscription and, if any portion thereof remains unsubscribed after the expiry of the closing date for public offer, subscribe on behalf of the Governments that portion;
- (vi) underwriting the whole of the capital issued for the aforesaid companies, and
- (vii) the sale or transfer of the shares subscribed for the company of whom they consider the time opportune.

(2) Financial Institutions - National and International, op.cit., pp.73-89.

The Corporations are autonomous organisations and perform the above mentioned activities aiming at the promotion of industries rather than at ownership. The Governments provide the necessary finance to the Corporations through annual budgetary grants.

3. Review of Investment Activities.

(a) P.I.D.C.'s Investments (1952-62):

During the ten years, from 1952 to 1962 the P.I.D.C. in association with private enterprise completed 54 projects,⁽³⁾ involving an investment of Rs 1360 million. Of this, the P.I.D.C.'s own share was Rs 891 million or 65.5 p.c. of the total investment.⁽⁴⁾ The rest of the investment amounting to Rs 469 million was provided by the private participants. Besides this, there was another Rs 320 million invested in projects under construction. In addition, the P.I.D.C. also invested Rs 40 million in small-scale industries in West Pakistan. Thus, total investment in P.I.D.C. sponsored projects amounted to Rs 1720 million. Table 7.1. shows the break-down of P.I.D.C.'s investment in both East and West Pakistan.

(3) These projects included 12 jute mills, 4 paper, board and newsprint mills, 2 cement factories, 3 fertilizer factories, 4 chemical plants, 1 penicillin factory, 1 dyestuff plant, 3 woollen mills, 2 cotton textile mills, 3 gas transmission and distribution companies, 5 sugar mills, 3 shipyard and engineering works, 6 cotton ginning factories, 2 collieries and 3 miscellaneous projects.

(4) The P.I.D.C.'s share has been shown in terms of paid-up capital cost.

Table 7.1. : Investment Position of P.I.D.C. Sponsored Projects.

as on 30th June 1962.

(Million Rupees)

	Investment in completed projects			Investment in under way projects			Total * investment		
	E.Pak.	W.Pak.	Total	E.Pak.	W.Pak.	Total	E.Pak.	W.Pak.	Total
	2	3	4	5	6	7	8	9	10
Fertilizers	244	90	334	-	239	239	244	329	573
Paper & Board	216	42	258	-	-	-	216	42	258
Jute	229	-	229	-	-	-	229	-	229
Coal and Gas	-	170	170	-	10	10	-	180	180
Shipbuilding	57	79	136	-	-	-	57	79	136
Sugar	66	26	92	20	-	20	86	26	112
Cement	-	60	60	-	16	16	-	76	76
Cotton Textile	20	9	29	-	-	-	20	9	29
Chemicals	-	25	25	2	-	2	2	25	27
Survey	-	14	14	2	26	28	2	40	42
Wollen	-	13	13	-	-	-	-	13	13
Miscellaneous	-	-	-	5	-	5	5	-	5
Total	832	528	1360	29	291	320	861	819	1680

Source: E.P.I.D.C. Annual Report for 1962-63, pp.42 and 43.

W.P.I.D.C. Annual Report for 1962-63, p.49

* Investment includes only those in the large-scale industries.

(b) E.P.I.D.C.'s Investments (1962-66):

The former P.I.D.C. completed 21 projects in East Pakistan at a total cost of Rs 832 million. In addition, Rs 29 million was invested in 19 on-going projects. The E.P.I.D.C. took over the assets amounting to Rs 558 million out of the total investment of Rs 861 million. The total assets taken over comprised the investments in completed projects and companies aggregating Rs 482 million; Rs 29 million in projects under way, survey and investigation, and the remainder of Rs 47 million was in the form of advances to the companies and projects sponsored by the E.P.I.D.C.

Since its establishment, the E.P.I.D.C. has completed 26 projects involving a total capital expenditure of Rs 400 million during the four years of its operation from 1962 to 1966. Thus the total number of projects completed in East Pakistan comes to 47 and the total estimated cost of these projects has amounted to Rs 1232 million. On the other hand, investment in projects under way has been in the neighbourhood of Rs 439 million. Table 7.2. gives a break-down of the investment position on the 30th June 1966.

It would appear from the table that the total investment cost of the projects which have already been formed into

Table 7.2. : Industrywise Investment Position of E.P.I.D.C. as on

30th June 1966.

(Million Rupees)

Industry	No of Projects	Total cost of completed companies	Paid-up Capital			E.P.I.D.C. Investment			Total
			Total	Private	E.P.I.D.C.	On-going projects	Completed projects	Companies	
-1	2	3	4	5	6	7	8	9	10
Jute	26	456	245	162	83	10	-	83	102
Paper/board/newsprint.	4	277	167	-	167	22	-	167	189
Fertilizers	1	244	50	-	50	4	-	50	54
Sugar	7	138	90	3	87	61	54	87	202
Shipbuilding	2	57	32	7	25	5	-	25	30
Cotton yarn	3	36	20	10	10	2	-	10	12
D.D.T. and Pharmaceuticals	2	23	8	3	5	22	-	5	27
Miscellaneous	2	1	-	-	-	8	-	-	8
Iron & Steel	-	-	-	-	-	282	-	-	282
Coal	-	-	-	-	-	6	-	-	6
Refinery	-	-	-	-	-	4	-	-	4
Cement	-	-	-	-	-	-	-	-	-
Machine and tools	-	-	-	-	-	4	-	-	4
Total	47	1232	612	485	427	439	54	427	920

Notes on Table: Columns 6 and 5 indicate paid-up capital of the projects converted into companies both under private and E.P.I.D.C. management.

Column 3 contains total cost of the projects which have been formed into joint stock companies. Column 8 indicates cost of the completed projects under E.P.I.D.C. management. Thus total investment amounts to (1232 + 54) = Rs 1286 million.

Source:- E.P.I.D.C. annual report, 1965-66, pp.52,53, and 54.

public limited companies has amounted to Rs 1232 million. The paid-up capital of these companies amounts to Rs 612 million, of which E.P.I.D.C.'s contribution is Rs 427 million or 70 p.c. of the total paid-up capital in these projects.⁽⁵⁾ The balance of Rs 185 million, or 30 p.c. has been contributed by private investors. The table also shows the private investors' apparent lack of interest in investment in capital intensive industries such as fertilizers, paper, newsprint and paper board, shipbuilding, sugar and cotton yarn. The contribution of private investors has been significant only in the case of the jute industry where private participation has contributed 66 p.c. of the paid-up capital. Industries such as newsprint and fertilizers have not been able to attract any private capital at all. Even the sugar and cotton yarn industries, which are considered reasonably attractive to private investors in West Pakistan have not attracted private capital in East Pakistan. There are various reasons for this shyness of private investment in East Pakistan. We shall discuss these later in this Chapter.

Investment activity has, however increased in East Pakistan since the bifurcation. From an annual investment of

(5) The paid-up capital does not include Karnaphuli Paper Mills Ltd., which had paid-up capital of Rs 46 million. As a measure of disinvestment policy, the E.P.I.D.C. has divested itself entirely of its holdings.

Rs 55.81 million during the period under the former P.I.D.C. it has risen to an annual average of Rs 172.71 million in the last 4 years. During the Second Plan, particularly after the bifurcation, investment activity in East Pakistan has increased considerably. The investment of E.P.I.D.C. since its inception has increased from Rs 49 million in 1960-61 to about Rs 200 million in 1965-66 indicating an average increase of 60 p.c. per annum. (6)

(c) W.P.I.D.C.'s Investment (1962-66):

The W.P.I.D.C. inherited 32 completed projects from the former P.I.D.C. with a capital investment of Rs 528 million of which the share of the Corporation was Rs 408 million (77 p.c.). The balance of Rs 120 million (23 p.c.) was contributed by private investors. In addition, it received a sum of Rs 291 million for investment in the projects under construction. Of the total 32 completed projects sponsored by the P.I.D.C., 21 were limited companies while the remaining 11 were in the form of completed projects in production. (7)

(6) E.P.I.D.C. Annual Report, 1965-66.

(7) W.P.I.D.C. also inherited 27 completed and 31 under way small industries projects with a total capital outlay of Rs 41 million.

Since bifurcation , the W.P.I.D.C. has completed up to 30th June 1966, 11 projects and thus the number of completed projects has increased to 43. The total amount of investment made in Corporation-sponsored projects has amounted to Rs 876 million of which private investment has accounted for Rs 203 million or 23 p.c. of the total investment. In addition, investment in projects under construction amounted to Rs 101 million up to June 1966. It is interesting to note that the extent of private participation in E.P.I.D.C. sponsored projects is higher (30 p.c.) compared with the position of the W.P.I.D.C. projects. The details of investment are given in Table 7.3. below.

Table 7.3. : Industry-wise Investment of W.P.I.D.C. as on 30th June 1966. (Million Rupees)

Industry	No of projects	Total investment	W.P.I.D.C.	Private	5 as p.c. of 3
1	2	3	4	5	6
Fertilizers	3	332	331	1	-
Gas	4	223	117	106	46
Shipbuilding	1	79	79	-	-
Sugar	4	67	31	36	54
Cement	2	63	53	10	16
Paper/Board	2	30	-	30	100
Textile	10	24	12	12	50
Chemicals	6	23	15	8	35
Coal/Salt	7	20	20	-	-
Survey	4	15	15	-	-
Total	43	876	673	203	23

Source: W.P.I.D.C. Annual Report for 1965-66., p.10.

The break-down given in Table 7.3. indicates that the fertilizer industry has been by far the largest recipient of W.P.I.D.C.'s funds, i.e., 49 p.c. of the Corporation's investment in completed projects. This industry is vitally important for the country, as it provides agricultural inputs. The agricultural sector being the largest, has been thought worthy of being provided with fertilizers at a subsidised rate. This industry has not, so far, been attractive to private investors, largely because of the size of investment required and the low margin of profit. The second highest level of investment (41.7 p.c.) has been made in natural gas followed by shipbuilding, cement and sugar. There is no private participation in industries such as fertilizers and shipbuilding, while industries like gas (46 p.c.), sugar (54 p.c.), textiles (50 p.c.), chemicals (35 p.c.), and cement (16 p.c.) have a substantial amount of private investment. The paper concern has, however, been handed over to private enterprise.

Of the total 43 projects, 25 have been formed into limited joint-stock companies. Amongst these companies 13 are under the Corporation's own management while the rest are under private management. Out of a total 18 projects, 12 are under the management of the Corporation.

By June 1966, the total amount of investments made by the Industrial Development Corporations in both the Wings, amounted to Rs 1694 million; and this accounts for 15 p.c. of the total investment in the industrial sector.

4. Returns on Investments In Corporations' Managed Undertakings.

Table 7.4. below gives the complete picture with regard to investment and return thereon in completed projects and companies managed by the E.P.I.D.C. and W.P.I.D.C. during the period 1962-66.

(a) E.P.I.D.C. Managed Undertakings:

In order to assess whether E.P.I.D.C.- managed companies and projects are operated efficiently or not, one needs to discuss the working results of these undertakings. It can be seen from the table that the return on investment is very low compared with industrial undertakings managed by private enterprise. The average annual rate of return was only 3.59 p.c. during the four years of its operation in comparison with the average annual rate of 16.4 p.c. for 70 selected listed companies as mentioned in Chapter Three. The rate of return was however, improved compared with the former P.I.D.C. In the initial year of its operation the E.P.I.D.C. was able to earn Rs 35.41 million after the deduction of Rs 10 million less inherited from the P.I.D.C.

Table 7.4. : Returns on Investment In Corporations' Managed Undertakings

(1962/63 - 1965/66).

(Million Rupees)

Year	Investment in completed companies/projects			Net Profit for the year			Rate of return on capital (in percentages)		
	E.Pak. 2	W.Pak.* 3	Total 4	E.Pak. 5	W.Pak. 6	Total 7	E.Pak. 8	W.Pak. 9	Total 10
1962-63	516.00	505.00	1021.00	20.43	6.29	26.72	3.95	1.25	2.62
1963-64	550.00	505.00	1055.00	26.36	13.78	40.14	4.79	2.73	3.80
1964-65	607.00	505.00	1112.00	15.93	26.72	42.65	2.62	5.29	3.84
1965-66	481.00	518.00	999.00	14.37	24.47	38.84	2.99	4.72	3.89
Yearly Average	539.00	508.00	1047.00	19.27	17.82	37.09	3.59	3.50	3.54

Notes on Table:

- (i) Investment represents paid-up capital cost of the undertakings managed by the Corporations.
- (ii)* Excluding investment of Rs 15 million in Makerwal Collieries Ltd., Makerwal.

Sources: F.P.I.D.C. Annual Reports for 1962-63, 1963-64, 1964-65, 1965-66.
W.P.I.D.C. Annual Report for 1965-66, pp.38, 39.

The Corporation's working results show a comparatively better trend during the first two years than the last two years in the table. In 1963-64 the rate of return was 4.79 p.c., the highest in 4 years. The rate of return reached its lowest ebb, 2.62 p.c., in 1964-65. However, the rate of return was slightly better in 1965-66 when it worked out at 2.99 p.c.

From this indication, one cannot draw a firm conclusion about the efficiency of the Corporation. To establish such a conclusion, it is necessary to investigate the causes for such low profitability. There are various reasons for this state of affairs. In the first place, the E.P.I.D.C. undertakes only those industries in which private capital does not come forward due to high initial investment, longer gestation period and low profitability. Industries such as shipbuilding and fertilizers are not very rewarding as far as profit is concerned. A substantial part of the Corporation's fund is invested in these industries. These industries have been established in Pakistan within the framework of long-term planning objectives rather than in terms of short-term gains. Their contribution to the economy is measured mostly in terms of foreign exchange savings rather than in terms of immediate profit which, however, is the essence of the private sector's criterion.

The E.P.I.D.C. has a major investment in paper, board and newsprint (31 p.c.), jute (16 p.c.), sugar (29 p.c.) and

cotton textiles (5 p.c.) as shown in Table 7.2. Normally these undertakings should earn a reasonable profit if organised on strict commercial principles. The Khulna Newsprint Mills Ltd., with a paid-up capital of Rs 168 million has been running at a sustained loss since its inception, its cumulative loss being Rs 7.94 million on 30th June 1966. Similarly, the Muslin Cotton Mills Ltd., accumulated a loss of Rs 2.10 million up to June 1966.⁽⁸⁾ The losses incurred by the Newsprint Mills in consecutive years, are mainly due to over-capitalisation of the project, production below capacity and insufficient demand for the products of the Mills. There has been a drop in production and sales, both in the home and foreign markets, following the September war in 1965. The Mill had to slow down its production due to the piling up of huge stocks of finished goods.

Two jute mills under the management of the Corporation have earned reasonable profits during the periods 1964-65 and 1965-66, although the rate of return seems to be lower than that of the companies managed by private enterprise.⁽⁹⁾ However, the fall in the profit in 1964-65 has been due more to labour unrest.

(8) E.P.I.D.C. Annual Report - 1965-66, pp.29-31.

(9) For example, the rate of profit on paid-up capital has been 37 p.c. in the case of W.Rahman Jute Mills and 30 p.c. of Quami Jute Mills whereas the same has been 42 p.c. in Bawany Jute Mills and 50 p.c. in United Jute Mills managed by private parties. (E.P.I.D.C. Annual Report, 1965-66, pp.40-41).

The jute industry particularly has suffered a set back from labour unrest or strike - culminating in the closure of the plants for some length of time.

The E.P.I.D.C.'s operating results have been greatly influenced by the heavy losses incurred in the sugar industry over the last few years. This industry, particularly, has suffered from (i) an inadequate supporting infrastructure, (ii) higher prices for factor inputs, and (iii) over-capitalisation of projects, in the sense that the enterprises established had to run below capacity. The sugar industry operates only for six months or so for want of raw materials, while the overhead cost remains more or less constant. Over and above this, the pricing policy in respect of refined sugar has not been sufficiently realistic in the sense that the price of sugar was kept at a low level in disregard of cost of production. Besides, in pursuance of the Government's policy relating to regional development, some of these undertakings have been set up without giving consideration to the availability of raw materials and means of communications. Undue political pressure has been also partly responsible for the bad location of these units.

Almost all the sugar factories in East Pakistan

are found to operate below capacity⁽¹⁰⁾ owing to the short supply of sugar cane, the poor quality of cane, inadequate transportation facilities and other similar causes. Some of these concerns have recently launched a massive cane development programme to improve the quality of sugar cane production and have invested several millions in sugar farming; this has also resulted in a considerable loss. In addition, the existence of a 'gur'⁽¹¹⁾ manufacturing community near the mills is responsible for the short supply of cane. The gur manufacturers, usually make forward purchases of sugar cane by advancing funds to the growers against the standing crop: they thereby lift the bulk of the sugar cane of particular areas. The performance of the sugar industry in tackling these difficulties has been poor. It also appears that the Corporation, for one reason or another, has not given much consideration to the general principles of the localisation of enterprises. Moreover, the feasibility study made before setting up this industry, was not satisfactory. It may appear odd, that the expansion programme of the sugar industry is going on when the existing units are operating below capacity.

(10) For instance, Zeal Pak Sugar Mills worked 37 p.c. below its normal capacity and 25 p.c. below the budgeted target in 1965-66. (E.P.I.D.C. Annual Report 1965-66).

(11) Unprocessed raw sugar.

One would have thought it to be a more useful and wiser policy if these are made to function at full capacity, by taking appropriate measures, rather than setting up new units. This would have helped to reduce the cost of production, improve profitability and achieve a better utilization of the scarce capital.

While considering the operational efficiency, it is necessary to mention one other factor that seems to have influenced the Corporation's efficiency. This is the high proportion of administrative cost. Generally, the affairs of the Corporation are managed by a group of persons who lack necessary business experience. The Corporation is itself managed by a board of bureaucrats who have had no business or industrial experience in the administration of modern giant enterprises. Moreover, they are not accountable to any higher authority for their activities. In such a situation, it is not surprising that the affairs of the Corporation are administered in an inefficient manner. The Corporation is a Government body and discharges its responsibility with public funds, but its operations are not subject to questions in the Parliament. There have been many criticisms of the activities of the Corporation but no attempt has yet been made to investigate the causes of the operational inefficiency. Many E.P.I.D.C. enterprises are overstaffed and thus administrative cost is much

higher than the concerns managed by private entrepreneurs. (12)

(b) W.P.I.D.C. Managed Undertakings:

As with the E.P.I.D.C., the operational efficiency of the W.P.I.D.C. managed undertakings has not been satisfactory compared with the undertakings in the private sector. The reasons for dissatisfaction are almost identical as in the case of the E.P.I.D.C. The operational efficiency however, has shown improvement during four years' of its operation. It can be seen from Table 7.4. above that the return on investment has increased progressively from 1.24 p.c. in 1962-63 to 5.29 p.c. in 1964-65. However, the rate of return declined to 4.72 p.c. in 1965-66. The decline in the net return during 1965-66 as compared with the previous year, was due to the Indo-Pakistan war of September 1965, which had unfavourable effects on production and sales and pushed up the prices of some of the raw materials, especially the packing materials used by cement and fertilizer factories. (13) The average annual rate of return has been worked out at 3.50 p.c. which may be compared with the profit rate of 3.59 p.c. made by the E.P.I.D.C. in the same period. For the W.P.I.D.C. such rate of return does not seem significant in the sense that the

(12) The Dawood Group when they took over the Karnaphuli Paper Mills from the P.I.D.C., found the enterprise substantially over-staffed particularly in the administrative level.

(13) W.P.I.D.C. Annual Report, 1965-66, p.13.

infrastructure and communication systems are comparatively better in West than in East Pakistan. Moreover, West Pakistan being industrially more advanced, it is not surprising that the W.P.I.D.C. should have enjoyed economies of scale relative to the E.P.I.D.C.

5. Financing of Public Sector Projects.

(a) E.P.I.D.C. Sponsored Projects:

Having discussed the activities of the E.P.I.D.C., we shall now analyse the financing aspect of the Corporation sponsored undertakings. The Corporation has no resources of its own excepting its share capital of Rs 45 million and a small amount of reserve fund that it has been able to accumulate from its income. Its reserve fund amounted to Rs 2.2 million on 30th June 1966. The share capital however, is never considered to be a major source of finance for purposes of carrying out its tasks.

As mentioned earlier, the Corporation is not a financial institution but an agency for the promotion of industries through which the Government makes an investment in the industrial sector. The intention of the Government is not the ownership of industrial enterprises, but to get back the fund it invested through the disinvestment policy. The implementation of the approved projects of the Corporation is

ordinarily financed by the annual budgetary grants of the Government of East Pakistan.⁽¹⁴⁾ The Corporation is however, authorised to supplement its resources by taking private capital in the form of equity or loans in both local and foreign currencies. As far as working capital is concerned, the Corporation obtains it from commercial banks on the usual terms. A considerable amount of Government grant is made in foreign currency. The Government may also provide other means of assistance to increase the Corporation's resources.

The total loan of Rs 1106 million granted by the Government of East Pakistan up to June 30th 1966 is divided into interest-bearing and non-interest bearing loans as shown in Table 7.5.

The figures in the table show that the E.P.I.D.C. inherited a debt of Rs 578 million from the former P.I.D.C. at the time of bifurcation. Of this sum, Rs 253 million was

(14) The E.P.I.D.C. is provided with a revolving fund to carry out preliminary surveys on the proposed projects. On completion of a survey, it submits a report containing relevant technical, economic and financial data to the Government for approval. When a project is approved for implementation, the Corporation makes an effort to associate private capital at the very beginning. If private capital is not forthcoming the project is carried out with the funds provided by the Government. After the completion of the project another attempt is made to dispose of the project to private investors. If this attempt is unsuccessful, the project is converted into a joint stock company, the shares being placed in the market with the managing agency vested in the Corporation.

Table 7.5. : East Pakistan Government Development Loan to the

E.P.I.D.C.

(Million Rupees)

	Rupee Loans			Foreign Currency **	Total Loan (4+5)	Central Government Loan *
	Interest bearing	Non-interest bearing	Total			
1	2	3	4	5	6	7
Assumed on bifurcation, 1st July.						
1962	253	325	578	N.A.	578	13
1962-63	43	11	54	32	86	-
1963-64	79	-	79	55	134	-
1964-65	129	1	130	65	195	16
1965-66	34	1	35	78	113	-
Total Loan	538	338	876	230	1106	29
Less disinvestment and repayments.	19	21	40	5	45	-
Net funds	519	317	836	225	1061	29

(i) * Rs 13 million has been invested in jute manufacturing enterprises in Middle Eastern countries.

This fund has been provided by the Central Government which E.P.I.D.C. holds as an agent.

(ii) The E.P.I.D.C. received a cash grant of Rs 16 million from the Central Government on account of the Titas Gas transmission Project.

** Rupee equivalent.

Source: E.P.I.D.C. Annual Report, 1965-66, p.45.

interest-bearing while Rs 325 million was non-interest bearing. The non-interest bearing loans are generally granted for investment in the form of share capital in the projects to be converted into joint stock companies, the companies being managed by either E.P.I.D.C. or private entrepreneurs. Dividends earned from these companies are payable to the Government. The Corporation however, retains 1 p.c. of the dividend collected, as commission. The interest-bearing loans are used for investment in completed projects which are not yet formed into companies, on-going projects, and for surveys and investigations. Such loans amounted to Rs 253 million at the time of bifurcation.

Formerly, the Government fund allocated to the P.I.D.C. did not bear any interest. On bifurcation, the Government of East Pakistan began to charge a nominal rate of interest against the loan granted to the E.P.I.D.C. It can be seen from Table 7.5. that loans received from the Government during the period 1962-66 were all interest-bearing except that a free loan of Rs 11 million was granted in 1962-63.⁽¹⁵⁾ The implications of interest on loans are that they would enable the Government to earn at least some income from the fund provided to the E.P.I.D.C. which was not possible in the case of the former P.I.D.C. The

(15) Non-interest bearing loans were Rs 1 million during 1964-65 and 1965-66 respectively.

P.I.D.C. during its ten years of operation could pay practically no return on Government funds. On the other hand, it incurred a heavy loss from the companies and projects which it sponsored. By charging interest on loans granted to the E.P.I.D.C. the Government assumed that it would help to raise the operational efficiency of the Corporation-managed undertakings because the management of the enterprise concerned would pay more attention to operational efficiency so that it could make payments of interest on the capital.

The total amount of developmental loans, so called by the Corporation because they are for initiating new projects, came to Rs 876 million on 30th June 1966, besides the foreign currency loans of Rs 230 million. Out of total rupee loans of Rs 876 million, the interest and non-interest bearing loans consisted of Rs 538 million and Rs 339 million respectively. By 30th June 1966, Rs 19 and Rs 21 respectively had been refunded to the Government, out of the disinvestment proceeds. Thus total net Government funds amounted to Rs 836 million, of which interest and non-interest bearing loans were Rs 519 (62 p.c.) and Rs 317 (38 p.c.) million respectively. Further, the E.P.I.D.C. also refunded Rs 5 million against foreign currency loans. Thus it seems that the total development loan stood at Rs 1061 million on 30th June, 1966.

The interest payable to the Government has also been a source of funds to the Corporation. The total amount of interest payable to the Government, on account of its loans to the Corporation, worked out at Rs 70 million on 30th June 1966. Out of this amount, a sum of Rs 22 million was paid to the Government in the period ending in June 1965 and a sum of Rs 27 million was utilised during the year 1964-65 in order to finance the Annual Development Programme. The balance of Rs 21 million was due to the Government on the 30th June 1966. Another Rs 22 million⁽¹⁶⁾ was accumulated in the hands of the Corporation to be paid to the Government on account of capital and other liabilities as stated in footnote (16).

(16) Other liabilities payable to the Government:		(Million Rupees)
1.	Accrued interest on loan	20.88
2.	Add increase in fund due to:	
	i) revaluation of certain projects	7.31
	ii) capital profit	1.63
	iii) net profit in projects converted into companies	1.18
	iv) interest on foreign currency loans	12.73
	Total	22.85
		43.73
Less:	Net loss in projects converted into companies. Loss on amounts written off and investigation.	1.08
	Net liabilities payable to the Government:	
		Rs 42.65

Source: E.P.I.D.C. Annual Report, 1965-66, p.58.

(b) W.P.D.I.C. Sponsored Projects:

Table 7.6. shows the break-down of the developmental loans provided by both West Pakistan and Central Governments to the W.P.I.D.C. up to 30th June 1966.

Table 7.6. : Summarised Statement of Development Loans
From West Pakistan Government and Central
Government to W.P.I.D.C. up to 30th June

1966.

(Million Rupees)

Period	Rupee Loans			Loans in Foreign Exchange*	Total
	W.Pak.Govt.	Central Govt.	Total		
1	2	3	4	5	6
Assumed on bifurcation 1st July, 1962.	543	129	672	-	672
1962-63	66	5	71	-	71
1963-64	34	-	34	-	34
1964-65	32	-	32	50	82
1965-66	19	-	19	10	29
Total	694	134	828	60	888
Deduct Refunds	54	20	74	-	74
Net funds	640	114	754	-	814
Add Free Loans	10	2	12	-	12
Miscellaneous income	1	10	11	-	11
Outstanding funds	651	126	777	60	837

* Rupee equivalent.

Sources: W.P.I.D.C. Annual Reports, 1962-1963, 1963-64, 1964-65, 1965-66.

The general principles of financing of the W.P.I.D.C. sponsored projects are fundamentally the same as those of the E.P.I.D.C. The W.P.I.D.C. receives its required funds from the Government of West Pakistan through annual budgetary grants. However, the funds that the W.P.I.D.C. received from the West Pakistan Government up to 1964-65 were treated as investment and not as a loan funds. The Corporation has managed these investments on behalf of the Government and any returns accruing thereon were to be paid back to the Government Treasury.

Following a recent decision, the Government now charges a nominal rate of interest on its funds provided to the W.P.I.D.C. This has been made effective from the beginning of the financial year 1965-66. The rate of interest will be raised progressively from 2 p.c. in 1965-66, and will increase by 1 p.c. each year until it becomes equal to the rate charged by the Central Government on development loans.⁽¹⁷⁾ On the other hand, any income earned from investment will be retained by the Corporation. Since the establishment of the W.P.I.D.C., it has not been required to pay any price for the capital until the end of June 1965, while its counterpart, the E.P.I.D.C. has to pay interest on the fund provided by the East Pakistan Government.⁽¹⁸⁾

(17) W.P.I.D.C. Annual Report, 1964-65.

(18) Fund invested in companies bear interest while dividend received from the companies would be paid to the Government.

There might be several implications on the performance of an undertaking if capital is supplied free of cost. Firstly, the management of the relevant company may not worry about the success of the enterprise because it need not pay even a nominal cost of the capital. Secondly, an undertaking having no outside creditors and shareholders may sink into inefficiency in respect of its operation. Most of the Corporations' managed undertakings have no outside creditors and shareholders who might have taken active interest by keeping constant vigilance over the affairs of the undertakings. Therefore, the introduction of a nominal rate of interest on Government funds, might be viewed as a welcome decision in the sense that it may help to improve the operational efficiency of the Corporations' managed undertakings.

As can be seen from Table 7.6. the W.P.I.D.C. has received a relatively smaller total of funds from the Government since its inception. During its four years of operation from 1962-66, it has received only Rs 216 million (including Rs 60 million foreign currency loan) compared with Rs 528 million by the E.P.I.D.C. In 1965-66, Government funds of Rs 631 million were converted into a development loan which would carry 2 p.c. interest per annum. Interest free loans stood at Rs 10 million

by that time. Meanwhile, the Corporation refunded Rs 54 million to the Government. Therefore, after necessary adjustments in respect of interest and dividend accruing to Government loans the total outstanding Government loans from West Pakistan Government amounted to Rs 711 million, including Rs 60 million in foreign currency loans.

The W.P.I.D.C. assumed the responsibility of the former P.I.D.C. in managing the gas undertakings on behalf of the Central Government. The Corporation received Rs 129 million as a counterpart fund invested in gas undertakings at the time of bifurcation. In the initial year of the Corporation's operation it received a further sum of Rs 5 million from the Central Government. By the end of June 1966, the funds provided by the Central Government amounted to Rs 134 million. A sum of Rs 20 million was however, refunded to the Central Government by that time. By June 1966, the outstanding fund provided by the Central Government stood at Rs 126 million including Rs 10 million as miscellaneous income and Rs 2 million as free loan added to the fund.

6. Disinvestment Policy of the Industrial Development Corporations.

We now turn to the discussion of the ultimate goals of the Corporations i.e., the disinvestment of successful enterprises. The main objective of the P.I.D.C. and its successors the E.P.I.D.C.

and the W.P.I.D.C. is to supplement industrial development and not to supplant it. It was clearly outlined in the policy statement of the Corporations that successfully completed enterprises would be sold out to private individuals, or groups, with a view to releasing funds invested in the projects concerned, and so providing a flow out of which further industries could be set up. It would be interesting to examine how far the Corporations' disinvestment policy has been successful during the last 14 years of their operations.

It would appear from the table below that as against the total funds made available by the Governments the disinvestment made by the two regional Corporations amounted to Rs 56 million. Before the bifurcation, the P.I.D.C. disinvested up to 30th June 1961 to the extent of Rs 168 million.⁽¹⁹⁾ Thus disinvestment up to 30th June 1966 amounted to Rs 219.2 million. It means that out of an investment of Rs 1817 million, total refund on account of disinvestment amounted to Rs 219.2 million or 12 p.c. of the total.⁽²⁰⁾ The funds advanced by the Central Government and later by provincial Governments are spread over 14 years. So the average amount of disinvestment works out at Rs 16 million per annum. The ratio of disinvestment will seem low by any standard, a fact which is indicative of the Corporations' failure in achieving one of their primary objectives.

(19) P.I.D.C. Annual Report, 1960-61, p.55.

(20) Rs 5 million was repaid against the foreign currency loan.

Table 7.7. : Government Funds Advanced to, and Repayments
by the E.P.I.D.C. and the W.P.I.D.C. up to
30th June 1966.

(Million Rupees)

	EAST PAKISTAN	WEST PAKISTAN	Total
A.			
Government Fund advanced:			
a) Rupee loan	877.5	651.2	1528.7
b) Foreign loan	228.9	59.7	288.6
a + b :	1106.4	710.9	1817.3
B.			
Repayment to the Government on account of:			
a) Disinvestment	40.0	11.2	51.2
b) Foreign loan	5.0	-	5.0
a + b :	45.0	11.2	56.2
Fund outstanding			
A - B :	1061.4	699.7	1761.1
Sources: (i) <u>P.I.D.C. Annual Report for 1961-62.</u>			
(ii) <u>E.P.I.D.C. Annual Report for 1965-66.</u>			
(iii) <u>W.P.I.D.C. Annual Report for 1965-66.</u>			

The disinvestment policy of the Corporations involves certain economic and social problems which are more or less responsible for the low proportion of disinvestment. The Corporations can disinvest either by selling the projects to private parties, or by converting them into public limited companies and offering the shares to the general public. In both cases disinvestment is related to the price of projects. There are three prices which need to be considered, namely, (i) market price, (ii) cost price, and, (iii) sale at concession price. According to the charters, the Corporations are not entitled to transfer their shares to another party below the market value, or the par value, of the shares at the time of transfer without the prior sanction of the respective Governments. The E.P.I.D.C. and the W.P.I.D.C. have disinvested only a part of their holdings in companies managed by private entrepreneurs; disinvestment has been made on the evidence of profit. For example, the E.P.I.D.C. has earned about 18 p.c. premium by disinvesting shares worth of Rs 25.99 million during 1965-66.⁽²¹⁾ Similarly, the W.P.I.D.C. has disinvested holdings in privately managed undertakings at a margin of profit.⁽²²⁾ However, the Corporations' major difficulties lie with the disinvestment of the companies and projects managed by themselves. For a variety of

(21) E.P.I.D.C. Annual Report 1965-66, pp.48-49.

(22) Akram, M., 'Disinvestment Policy of the W.P.I.D.C.' Trade and Industry. Vol. X, No.1, January 1966. p.67

reasons there is a dearth of potential buyers of these projects. For instance, it is stated that the most of the public enterprises are over-capitalised. The capital goods are largely imported under foreign aid/loan or credit, mostly tied, in the sense that they had to be imported from the loan-giving countries.⁽²³⁾ The price at which the capital goods were imported was not competitive and as such it led to over-capitalisation of projects. The overhead cost of projects has been high. The plants have been run below capacity and are badly located. Therefore, most of the projects are operated either at low return or at a loss; either the cost of production per unit is high or it is not competitive. It is this that has resulted in a slow rate of disinvestment.

It is alleged that the disinvested undertakings of the Corporations cannot be managed by private enterprise as this would mean a complete overhaul and drastic change in the administration, leading possibly to unemployment of many people at different levels,⁽²⁴⁾ thus causing social problems. Government policy of widening the base of equity ownership does not encourage transfer of projects to big industrial houses, but private enterprise is reluctant in any case to take over these projects in

(23) cf. Chapter 6 ,p.215.

(24) See pages 263 and 264.

view of the problems which it is thought will have to be faced afterwards.

As pointed out in Chapter Three, the prevailing share-market conditions are not conducive to disposing of shares through public issues. Investors in general would not show much response to issues of unprofitable or less profitable concerns. Eventually, disinvestment through public issues does not appear to be feasible under the present investment atmosphere in the country. In this respect the W.P.I.D.C. is in a comparatively better position in the sense that the people in West Pakistan are more investment-conscious than their compatriots in East Pakistan.

The other reasons are social and political in nature rather than economic. For example, under the Government's present policy the Corporations are not in a position to offer larger shares to big industrial magnates, as this would go against the Government policy of diffusing ownership of industrial undertakings.

Apart from the problems mentioned above, the E.P.I.D.C. has its own problems relating to disinvestment policy: for example, from the social and political points of view, the East Pakistan Government does not subscribe to the view that a completed project should be handed over to an entrepreneur of West Pakistan: this is really a problem peculiar to the

E.P.I.D.C., as far as disinvestment is concerned. Private capital is shy in East Pakistan and accordingly capital formation is low. In such a situation, the E.P.I.D.C. is in a less advantageous position to disinvest the projects to East Pakistan when suitable buyers are not available. It thus seems that the crucial problem for the E.P.I.D.C. is to devise a suitable mechanism through which it can operate its disinvestment policy effectively.

In considering what mechanism might suit the purpose of the E.P.I.D.C. and the W.P.I.D.C., it may be useful to begin by examining the possibilities open to the Corporations. In the first place, the operational efficiency of the enterprises needs to be brought in line with the operational efficiency of similar enterprises managed by private entrepreneurs. With the exception of some basic industries such as iron and steel, machine tools and fertilizers, the working results can be improved by applying cost control techniques, utilising the plant to its maximum capacity, reducing the burden of overhead cost, and raising the managerial standards.

That there is a possibility of improvement is indicated by the fact that the rate of return on capital under the Corporations' managed undertakings, is relatively low as compared with that of undertakings managed by private parties. On the evidence at hand, there has not been much improvement in the efficiency of the managerial staff, since most of the top

managerial posts are filled from the civil service of Pakistan. The members of this service are recruited on the basis of competitive examinations held on the lines of the civil service in England, primarily for discharging administrative duties such as law and order. (25)

With the growing activities of the E.P.I.D.C. and the W.P.I.D.C. they have now become the largest single industrial entrepreneurs in the country. This is more true in the case of the E.P.I.D.C. because its size of investment is greater than in West Pakistan. The Boards of Directors appointed by the Governments, are composed of bureaucrats who have little industrial experience. The Boards are responsible for organising heterogeneous groups of enterprises of which they lack experience. This results in decision-making largely on the basis of impressions and intuition rather than detailed knowledge of the individual industry.

As a major step towards the promotion of efficiency which must serve as a magnet for disinvestment, one would recall that the Corporations should be divided into a number of smaller corporations, each specialising in one or more related industries. For example all units of production owned by the

(25) Thus, since the establishment, the head of the E.P.I.D.C. has been from Civil Service and Police Service of Pakistan. In addition, many of the important managerial posts have been filled in by the members of the Armed Forces either on retirement or on secondment.

Corporations which are connected with textiles should form the constituents of a Public Textile Corporation. If this were done, it would not only be possible to entrust the running of this Corporation to specialists, but also, by insisting on competition among the smaller corporations in respect of profit, it would tend to promote efficiency. Such a step might lead to an improvement in the operational efficiency in the public sector, which could be empirically verified by comparing the records of the two regional Corporations into which the former monolithic Corporation was divided as shown in Table 7.4.

As an alternative the management of the completed projects might be separated from the hierarchy of the present set up of the Corporations' management. The executives in charge of the concern, should be given well defined responsibility for which they should be accountable to the Corporations. In order to provide stimuli to the management the remuneration to the executives responsible for an individual enterprise should be linked with the operational efficiency of that particular concern. For example, an executive would be given a fixed salary, say Rs 1000 per month and a certain percentage of net profit when earned by the enterprise concerned. This technique of management might improve the operational efficiency of the enterprises managed by the Corporations.

An alternative method may also be given consideration. Considering the prevailing stock market conditions in the country and the Government's objectives for wider diffusion of industrial ownership, the shares of limited companies could be sold to the public at a guaranteed minimum rate of dividend. Here also the management of the concern should be handed over to a professional management group with the above mentioned conditions to improve operational efficiency. However, a new technique should be evolved in order to operate this scheme effectively. For example, the efforts of the I.C.P. for promoting equity investment among the middle class investors through the operation of Closed End Mutual Funds⁽²⁶⁾ seem to be an encouraging sign in this direction. Similar techniques might be adopted to realise the policy of disinvestment.

Mutual Fund companies may be formed under Government sponsorship and certificates can be sold to the public with a promise of paying a minimum rate of dividend, say 10 p.c. per annum. Thus the funds collected from the sale of Mutual Fund certificates might be invested in the stocks of disinvested companies. The selection of the companies would need to be made carefully, based on economic analysis. It has been observed that the operational efficiencies of some of the managed

(26) See for details Chapter 4 (P.164)

companies can be improved during the initial year of take over by increasing the standard of management.

However, it could be a quite reasonable presumption that the companies taken over would not be in a position to pay the guaranteed dividend from their own earnings at least in the initial stages. The difference between earnings and guaranteed dividend might be wider during the initial years, say 3 p.c. in the first year and 2 p.c. in the second year or so. In that case the Governments should be ready to subsidise the differential amount during the initial years. It may be argued that the Governments should not undertake such responsibility in the sense that it would increase the individual's income. But it is also true that inspite of incurring loss year by year due to inefficiency, it might be more useful to encourage mobilisation of small investors' savings into corporate shares even at a cost for a few years. Moreover, this policy could greatly enhance the possibility of realising the Governments' objectives towards wider diffusion of industrial share ownership.

Further, the E.P.I.D.C. could form a consortium of local small investors, for each of its enterprises and appoint an executive who would be primarily responsible for the management of that enterprise. The executive would be an employee of the enterprise and he should have freedom of action.

His efficiency and performance should be judged on the basis of the working results of the company. By strengthening the management of the company concerned, the growers of jute and sugar, professional people, professional clubs and organisations and friendly societies, could be encouraged to buy shares. Such attempts have already been made by the E.P.I.D.C. and found satisfactory. This kind of attempt should be extended further. Similarly, workers might be asked to work extra hours for which payment might be made in shares rather than in cash.

Despite shortcomings and limitations, it may be noted that a large number of industries serving the national interest has been established in both East and West Pakistan under the direct initiative of the Industrial Development Corporations. Many of these industries could not have been developed in the country, without the direct entrepreneurship of the Government or at least would not be established so early by the private entrepreneurs. Evidently, the contribution of the E.P.I.D.C. and the W.P.I.D.C. in quickening the pace of industrial growth has been quite significant. In so far as this view can be accepted as valid, one may claim justification for the operations of these Corporations even though, they have shown for one reason or another, a degree of operational inefficiency.

In effect, these Corporations have failed to some extent to attract private investment in their sponsored projects either at the time of construction or after completion. The reasons are generally the operational inefficiency of the enterprises managed by the Corporations. The low rate of return on capital in the Corporations' managed concerns is mostly due to their larger overhead cost and over-capitalisation. The undertakings run by them are over staffed for one reason or another and work below capacity. This is equivalent to the Corporations' paying a premium for each factor input, which is more than the private enterprise does. The inevitable consequence has been the inoperation of the Corporations' disinvestment policy, which is the main essence of public policy. The Corporations, as the main instruments for channelling public funds into industry have not been able to use these funds with fully satisfactory effect so as productivity is concerned.

As an alternative to such public investment, the private sector could have been provided with adequate credits through the relevant financial institutions to set up those industries which have been unprofitable under public ownership. The evaluation of the Corporations' activities supports the hard surmise that under private management, these industries with smaller overhead costs might have attained the desired operational efficiency and yielded a higher rate of return on

capital. So, from the strict commercial point of view, the investment made by the public sector through the Corporations seems to have a very dubious justification.

CHAPTER EIGHT.

SUMMARY AND CONCLUSIONS.

The main purpose of the present study has been to identify and examine the nature and problems of industrial financing in Pakistan in the context of a Government policy of industrial development and a relatively underdeveloped capital market. In the course of the study an attempt has been made to analyse structural changes in industrial financing and the evolutionary process warranting such changes. It is evident that the process has been a slow one. In part, this has been due to the low rate of capital formation, an underdeveloped capital market, and, in part, to the lack of a well-coordinated policy with regard to the development of the capital market.

Industrialisation in Pakistan began with the development of consumer goods industries mainly in the private sector. This resulted in a complete neglect of basic industries requiring very large investment, a longer gestation period, and involving complex technology. Having realised this situation, the Government, in order to impart balance in the industrial growth took the initiative to develop those industries where private capital was not forthcoming. The Pakistan Industrial Development Corporation, set up in 1950, and subsequently, two Provincial

Industrial Development Corporations, operating from 1962, have sponsored the projects in the public sector. Thus with the consistent efforts of both private and public sectors, nearly an average annual growth rate of 13 p.c. has been achieved over the last decade and a half.

The development of industries has been accompanied by a change in the capital structure of industrial undertakings as well as of the capital market. A feature of the capital structure is the rising proportion of long-term loans and decline in the proportion of share capital. The proportion of preference shares in the share capital has been insignificantly small. Absence of fixed dividend shares has restricted the institutional investors such as insurance companies from making investments in industrial stocks.

There has been a tendency for the proportion of retained earnings to be high. The high proportion of retained earnings may be taken as evidence of higher profitability of industrial undertakings and desire on the part of those concerned to retain control of enterprises which they were finding profitable. As a result, the contribution to the equity of an enterprise of sponsors with already established industrial connections does not seem to be a problem because existing entrepreneurs seem disposed to make finance available through retained earnings from existing projects. This may meet the needs

of enterprises already in being but, clearly, it does little or nothing to meet the financial needs of new enterprises which are seeking to establish themselves.

The rise in the proportion of long-term loans may be explained by the rise in the cost of capital goods and better credit facilities in the country. Nevertheless, the raising of funds by issuing debentures in the market is found only seldom. If the practice of raising capital by issuing debentures was used more extensively then it is possible that this would attract a stronger interest on the part of the institutional investors. It would, of course, have to be applied with caution for debenture issues add to the cost which the enterprise must meet while equities do not.

There has been a change in the capital structure of almost all groups of industries (except fuel and power). The ratio of share capital to total capital has declined quite significantly. It is noticeable that this change is more a feature of medium and large concerns than small ones.

Since the capital structure is still largely equity based, however, the main problem in raising capital through new issues in the market is the lack of the development of the capital market itself. With the shifting of emphasis from the development of consumer to capital goods industries the need for capital has risen and the problem is therefore, that of finding

capital for the larger and technically more advanced projects.

The problem of raising capital has been thus intensified.

It might have been expected that the Karachi Stock Exchange would have provided a solution to this problem. It is evident, however, that its contribution has been limited and that, since 1963, its activity has been persistently slight. In part, the smallness of the contribution by the K.S.E. may be explained by the continually varying fiscal and official controls, the lack of share-consciousness among small and medium savers in the country, and inadequacy of resources of institutions engaged in underwriting activity. The tendency of the market towards sluggish activity was aggravated, in particular, by the introduction of a new definition of "public company" for income tax purposes. Investors, moreover, seem to have been shy of investment in companies.

There has been no strong professional class making a business of investment activity in shares. In such circumstances, managing agents, a powerful group in the industrial field, who supported the market during its lean period, have not lost any of their former importance. As a strong professional investing class has yet to be developed in Pakistan, the abolition of the managing agency system would be premature and unwise. Official policy has created uncertainty about the likelihood of the continuing existence of this system and has served no good purpose. Therefore,

it should be the aim of the Government in the existing circumstances to consider ways in which the damage so created can be remedied and, more positively, how public confidence in the stock market can be built up. An important step would be to consider suitable ways of bringing about a diffusion of industrial ownership. Such measures, however, would, by their nature, tend to be slow and they would not be likely to bring with them a solution to the problem of how to provide the massive quantities of capital which tend to be required by the more advanced types of projects with modern techniques. Considering the lack of share-consciousness of the public, the institutional arrangements for mobilising small savings into the corporate sector should be strengthened.

It might have been thought that insurance companies might have been a stronger source of finance though, against this, it has always to be borne in mind, that insurance companies, because of the nature of their liabilities, must always pay close attention to the integrity of their investments and avoid the more speculative sorts of entanglement. Many of the industrial stocks dealt on the K.S.E. do not provide such integrity. All the same, it is not unreasonable to think that they might have done more than, in fact, they seem to have been willing to do.

Neither have institutional forms such as the National Investment Trust and the Investment Corporation of Pakistan

been the strength that perhaps was hoped. In part, the problem would seem to be that the N.I.T. has itself not been attractive to investors generally and has not been able to obtain the volume of funds they might have done. The N.I.T. which performed an underwriting function by subscribing its option of 20 p.c. for every new issue has virtually become inoperative in this field: this is because of its anxiety to earn a reasonable return for its unit holders fairly immediately and new projects do not hold out the promise of this for some years to come.

I.C.P. is performing an underwriting function as its main function but its ability to meet the equity gap is dependent on its own funds. The Corporation's financial resources are already under strain as it had to absorb 80 to 90 p.c. of the underwriting commitments during its first year of operation. Therefore, the success of the Corporation depends on the availability of additional resources. Perhaps a solution here may be for the Government to allocate funds to the I.C.P. through budgetary grants in order to enable the Corporation to make the needed investment in industry.

These considerations all seem to point in one direction namely, the need to inspire greater confidence in industrial investment and for some agencies to be the source of such inspiration. To say that the Government should aim to be that agency and to provide the necessary inspiration is easy; perhaps

too easy; it is all too often the uncritically accepted formula; but it seems to be the logical outcome of the considerations which have been presented.

Foreign private investment has been an important source of funds and it would be wrong not to recognise its importance. But it is evident that foreign private investors - not unnaturally, perhaps, have tended to participate only in those industries which have held out the promise of high profit. Political instability, fear of nationalisation of assets, and the like, may have discouraged the flow of such private investment and latterly, of course, this has aggravated the problem of capital shortage. It has been mitigated however, to some extent, by assurances which the Government has been giving over the last ten years or so, but not wholly. It seems that inspite of the consistent efforts by the Government for attracting foreign private investment, the prospect of such investment does not seem as bright, as possibly the Government may have wished.

With regard to the provision of long term credit through specialised credit institutions like the Industrial Development Bank of Pakistan and the Pakistan Industrial Credit and Investment Corporation, it would seem that they have met the demand for long-term credit of large-scale industrial enterprise to a satisfactory degree. But here too, there are problems. They are the common problems such as tend to confront any development

bank in a developing economy. The lack of sound projects, absence of coordination among various departments of the Government and industrial inexperience of the borrowers have particularly disturbed the activities of these institutions. In some instances, the shortage of foreign exchange resources and the tied nature of foreign credit have especially hindered the operational efficiency of the institutions.

In the public sector, the former Pakistan Industrial Development Corporation and subsequently the East and West Pakistan Industrial Development Corporations have mobilised a large volume of public funds into the industrial field and their roles in industrialisation are very significant. But the contribution of the Corporations has been damaged by their failure to run the enterprises with which they became involved on consistent commercial lines. It was intended that the industries promoted in the public sector, should, as opportunity occurred, be disinvested. But this intention has not been carried out to the extent that the earlier statement of intentions would seem to require .

The situation is complex and no easy solution is possible. Since the Corporations' managed undertakings are not operationally efficient, mainly due to over capitalisation, heavy overhead cost, and inefficient management, private entrepreneurs show little enthusiasm to buy these undertakings. As a major step to implement the disinvestment policy of the Corporations, it

may be suggested that the operational efficiency of the enterprises under Corporations' management should be improved so as to match the undertakings managed by private entrepreneurs. This may be possible, at least in some cases, by reducing the overhead cost and improving the management. For this purpose, the management of the individual undertaking should be clearly separated from the management of the Corporations themselves. The executives of the companies concerned should be given well defined responsibility and made liable to the higher authority for the operational efficiency of the unit. To provide stimuli, the remuneration to be paid to the management might be linked with the profit-earning of the relevant concern.

An alternative method might also be given consideration. Mutual Funds Undertakings can be sponsored by the Government and Fund Certificates can be issued to the public on the basis of a guaranteed minimum rate of dividend. The certificate sale-proceeds could be used in disinvested undertakings. For the more efficient operation of the disinvested unit, the management could be handed over to a professional group of managers.

Over and above these, the Provincial Corporations have now become single giant industrial organisations dealing with heterogenous groups of industries. It is really a difficult job to manage such undertakings without being acquainted with the modern techniques of management. In such a situation one is

prompted to urge the desirability of dividing the Corporations into smaller corporations each dealing with a more homogeneous group of industries.

It is however, easy to say such a thing - as indeed, it has been easy to say various other things by way of remedy in earlier parts of this concluding chapter. It will be extremely difficult in accomplishment and may well take more time than people will have patience for. Yet patience may be one of the most important requisities for eventual success in the attempt to strengthen the processes of industrial finance and development.

APPENDICES.

APPENDIX - A.

Notes on Price Factors:

For many purposes it is desirable to estimate investment in the large-scale sector in constant prices. To construct a suitable price index is difficult in a country like Pakistan where adequate information and records are not available. Prices of investment goods can move quite differently from other prices and a general wholesale price index, for instance, would not be suitable to deflate investment in constant prices.

An ideal index would include the prices of major items of investment suitably weighted. In 1958, according to a survey of total capital stock, slightly over a third is machinery, about one quarter is stocks and roughly one sixth each is buildings and other working capital. On the assumption that roughly the same proportions held true over the whole period, indices can be constructed for several components.

No index exists for machinery used in Pakistan's industry, most of which is imported. The nearest index is one prepared by GATT for the U.K. and West Germany machinery exports. The C.S.O. index for imported manufactures suggests that it may be reasonable to assume that until 1950 there were only small

changes in the prices of imported goods. After 1959/60, the C.S.O. wholesale price index for machinery shows practically no change. No change has therefore been assumed here also.

For the stocks of domestic goods and other working capital, the price index for manufactures is quite suitable. A good part of the stocks consists of finished and semi-finished manufactures, held for processing and sale.

Another third is imported raw materials and the materials component of buildings. An index for cement, iron and steel prepared by W. Tims is used for this component.

Unfortunately, none of the indices goes back beyond 1950, and extrapolation had to be used for earlier years. The index which comes nearest to fulfilling these conditions is that constructed by G.F. Papanek and it is his index which has been applied.

Index of Investment Outlay 1947/65

in Constant Prices.

(1959-60 = 100).

1947-48	...	75
1948-49	...	75
1949-50	...	76
1950-51	...	77
1951-52	...	78
1952-53	...	81
1953-54	...	81
1954-55	...	77
1955-56	...	85
1956-57	...	90
1957-58	...	93
1958-59	...	95
1959-60	...	100
1960-61	...	103
1961-62	...	104
1962-63	...	108
1963-64	...	108
1964-65	...	108

APPENDIX - B.

A List of 70 Companies and 10 Background Tables:

Appendix B contains a list of 70 listed companies included in the study and 10 background tables for use in conjunction with the tables in Chapter Two. Some of the data are presented in the form of a 3 year average for each of the periods chosen : other data are for a particular year. All data are drawn from summarised balance sheets of selected listed companies.

Name of the Companies included in the
study for the Period 1961-66.

1. Ahmed Bawany Textile Mills Ltd.
2. Bawany Violin " " "
3. Burewala " " "
4. The (Colony) Sarhad Textile Mills Ltd.
5. The Colony Textile Mills Ltd.
6. Dawood Cotton " " "
7. F.P. " " "
8. Gulbarg " " "
9. Habib " " "
10. Hafiz " " "
11. Husein Industries Ltd.
12. Nishat Mills Ltd.
13. Olympia Textile Mills Ltd.
14. Valika Textile Mills Ltd.
15. H.M. Silk Mills Ltd.
16. Karium Silk Mills Ltd.
17. Kohinoor Rayon Limited.
18. National Silk and Rayon Mills Ltd.
19. Harnai Woollen Mills Ltd.
20. Lawrencepur Woollen and Textile Mills Ltd.
21. Valika Woollen Mills Ltd.

Jute

22. Adamjee Jute Mills Ltd.
23. Amin Jute Mills Ltd.
24. Bawa Jute Mills Ltd.
25. Crescent Jute Mills Ltd.
26. Karim Jute Mills Ltd.
27. Lalif Bawany Jute Mills Ltd.
28. Pak Jute Mills Ltd.

Food Products.

29. Associated Industries Ltd.
30. Burma Oil Mills Ltd.
31. Maqbool Company Ltd.
32. Wazir Ali Industries Ltd.
33. Brooke Bond (Pakistan) Ltd.
34. Lipton (Pakistan) Ltd.
35. Pakistan Tobacco Company Limited.
36. Premier Tobacco Company Limited.
37. Souvenir Tobacco Company Limited.

Sugar and Allied.

38. Charsadda Sugar Mills Ltd.
39. Crescent Sugar Mills and Distillery Ltd.
40. Hyesons Sugar Mills Ltd.

- 42. The Thal Industries Corporation Ltd.
- 43. Zeal-Pak Sugar Mills Ltd.

Engineering and Construction.

- 44. The Batala Engineering Company (Pakistan) Ltd.
- 45. Gammon (East Pakistan) Limited.
- 46. Ghandhara Industries Limited.
- 47. Steel Corporation of Pakistan Ltd.

Cement.

- 48. Asbestors Cement Industries Ltd.
- 49. Valika Cement Ltd.
- 50. Zeal-Pak Cement Factory Ltd.

Chemicals and Pharmaceuticals.

- 51. Ferozsons Laboratories Ltd.
- 52. Glaxo Laboratories (Pakistan) Ltd.
- 53. I.C.I. Pakistan Manufactures Ltd.
- 54. Sandoz (Pakistan) Limited.
- 55. Pakistan Oxygen Ltd.

Fuel and Power.

- 56. The Attock Oil Company Ltd.
- 57. Karachi Gas Company Ltd.

- 58. Pakistan Refinery Ltd.
- 59. Sui Gas Transmission Company Ltd.

Miscellaneous.

- 60. Adamjee Industries Ltd.
- 61. East Pak Cold Storages Ltd.
- 62. EBCO Cold Storages and Allied Industries Ltd.
- 63. Haji Dossa and Sons Ltd.
- 64. Hilal Tanneries Ltd.
- 65. Kohinoor Industries Ltd.
- 66. Pakistan Rope Works Ltd.
- 67. Pakistan Services Ltd.
- 68. Spencer and Company (Pakistan) Ltd.
- 69. Usmania Glass Sheet Factory Ltd.
- 70. Karnaphuli Paper Mills Ltd.

TABLE B 1

Summarised Statement of Assets and Liabilities of46 Selected Listed Companies, 1961-63

(Million Rupees)

Items	Textiles Excluding Jute	Jute	Food Products excluding sugar	Sugar and Allied	Engineering & Construction	Chemical & Pharmacuetical	Fuel & Power	Misce- llaneous	Total
1	2	3	4	5	6	7	8	9	10
Number of Companies	19	4	6	3	5	2	4	3	46
Fixed Assets at Cost	324	67	96	70	115	33	261	306	1272
Less Accumulated Depreciation	138	22	33	32	46	9	101	136	517
Net Fixed Assets	186	45	63	38	69	24	160	170	755
Investments	43	4	25	-	-	-	4	-	76
Current Assets	260	46	125	43	134	30	137	196	970
Less Current Liabilities	167	33	45	39	84	15	74	166	623
Net Working Capital	93	13	80	4	50	15	63	30	348
Total Assets	322	62	168	42	119	39	227	200	1178
Paid-up Capital	172	42	96	38	84	25	128	132	717
Retained Earnings	129	11	65	3	28	14	28	58	336
Total Equity	301	53	161	41	112	39	156	190	1053
Long-term Loans *	21	9	7	1	7	-	71	10	126
Total Liabilities	322	62	168	42	119	39	227	200	1179

* Includes debentures to the extent of Rs 11 million

TABLE B.2.

Summarised Statement of Assets and Liabilities of 70 Selected Listed

Companies, 1964-66.

(Million Rupees)

Items	Textiles excluding Jute.	Jute.	Food Products excluding sugar.	Sugar and Allied.	Engineering and Construction.	Chemical and Pharmaceutical.	Fuel and Power.	Miscellaneous	Total
1	2	3	4	5	6	7	8	9	10
Number of Companies	21	7	9	6	7	5	4	11	70
Fixed Assets at Cost	622	369	145	187	232	99	342	535	2531
Less Accumulated Depreciation	209	135	57	44	66	22	143	190	866
Net Fixed Assets	413	234	88	143	166	77	199	345	1665
Investments	56	5	30	1	1	-	11	11	115
Current Assets	388	275	214	111	212	65	191	310	1766
Less Current Liabilities	256	189	95	68	141	40	148	317	1254
Net Working Capital	132	86	119	43	71	25	43	- 7	512
Total Assets	601	325	237	187	238	102	253	349	2292
Paid-up Capital capital.	253	163	132	99	118	50	146	199	1160
Retained Earnings.	186	93	94	40	59	39	41	78	630
Equity	439	256	226	139	177	89	187	277	1790
Long term Loans *	162	69	11	48	61	13	66	72	502
Total Liabilities	601	325	237	187	238	102	253	349	2292

* Includes debentures to the extent of Rs 13 million.

TABLE B.3.

Summarised Assets and Liabilities of Companies by Size in 1964.

(Fixed Assets less than 10 million rupees).

(Million Rupees)

Items	Textiles excluding Jute.	Food Products excluding sugar.	Engineering and Construction.	Chemicals and Pharmaceuticals.	Miscellaneous	Total
1	2	3	4	5	6	7
Number of Companies	4	5	1	1	6	17
Fixed Assets at Cost	17.5	26.2	3.2	4.4	28.8	80.1
Less Accumulated Depreciation	6.6	6.0	1.5	0.6	1.9	16.6
Net Fixed Assets	10.9	20.2	1.7	3.8	26.9	63.5
Investments	1.1	-	-	-	2.0	3.1
Current Assets	23.3	63.8	9.1	9.4	23.0	128.6
Less Current Liabilities	16.1	41.9	5.7	7.7	26.7	98.1
Net Working Capital	7.2	21.9	3.4	1.7	-3.7	30.5
Total Assets *	19.2	42.1	5.1	5.5	25.2	97.1
Paid-up Capital	14.5	24.6	4.0	3.0	17.3	63.4
Retained Earnings	4.0	12.8	1.1	1.2	1.4	20.5
Long-term Loans	0.9	4.7	-	1.5	6.4	13.5
Total Liabilities *	19.4	42.1	5.1	5.7	25.1	97.4

* Slight discrepancies in total assets and liabilities are due to rounding off.

TABLE B.4.

Summarised Assets and Liabilities of Companies by Size in 1964.

(Fixed Assets between Rs 10 million but less than Rs 30 million)

(Million Rupees)

Items	Textiles excluding Jute	Jute	Food Products excluding sugar.	Sugar	Engineering and Construction	Chemicals and Pharmaceuticals.	Miscellaneous	Total
1	2	3	4	5	6	7	8	9
Number of Companies	9	2	3	1	2	2	1	20
Fixed Assets at Cost	157.0	29.7	29.7	14.6	20.8	36.5	8.2	296.5
Less Accumulated Depreciation	55.1	7.0	7.4	6.4	5.9	10.3	0.8	92.9
Net Fixed Assets	101.9	22.7	22.3	8.2	14.9	26.2	7.4	203.6
Investments	5.5	-	2.3	-	-	-	-	7.8
Current Assets	130.1	13.8	48.6	15.1	56.9	22.3	5.9	292.7
Less Current Liabilities	104.2	10.7	36.8	9.4	25.6	12.3	8.5	207.5
Net Working Capital	25.9	3.1	11.8	5.7	31.3	10.0	-2.6	85.2
Total Assets *	133.3	25.8	36.4	13.9	46.2	36.2	4.8	296.6
Paid-up Capital	73.3	13.5	25.0	10.0	17.1	15.1	4.0	158.0
Retained Earnings	45.8	7.0	8.6	0.9	3.5	21.2	0.7	87.7
Long-term Loans	14.2	5.4	2.6	3.0	25.5	-	-	50.7
Total Liabilities *	133.3	25.9	36.2	13.9	46.1	36.3	4.7	296.4

* Slight discrepancies in total assets and liabilities are due to rounding off.

TABLE B.5.

Summarised Assets and Liabilities of Companies by Size in 1964.

(Fixed Assets of Rs 30 million and over).

(Million Rupees)

Items	Textiles excluding Jute	Jute	Food Products excluding sugar	Sugar & Allied	Engineering and Construction	Chemicals and Pharm -aceuticals	Fuel and Power	Miscell- aneous	Total
1	2	3	4	5	6	7	8	9	10
Number of Companies	8	5	1	5	4	2	4	4	33
Fixed Assets at Cost	375.0	291.8	77.4	143.5	153.0	31.6	327.8	431.9	1832.0
Less Accumulated Depreciation	121.0	117.3	36.0	32.6	45.8	6.9	127.3	169.0	655.9
Net Fixed Assets	254.0	174.5	41.4	110.9	107.2	24.7	200.5	262.9	1176.1
Investments	45.1	5.6	25.0	0.6	0.4	0.2	4.4	3.1	91.4
Current Assets	215.3	234.7	88.1	78.3	141.7	35.6	156.3	259.2	1209.2
Less Current Liabilities	121.4	168.3	20.7	33.6	57.9	15.4	123.4	248.8	789.5
Net Working Capital	93.9	66.4	67.4	44.7	83.8	20.2	32.9	10.4	419.7
Total Assets*	393.0	246.5	133.8	156.2	191.4	45.1	244.8	276.4	1687.2
Paid-up Capital	170.0	147.5	70.0	83.2	93.1	30.1	146.0	163.1	903.0
Retained Earnings	129.3	69.9	63.7	37.9	40.6	15.0	44.9	91.0	492.3
Long-term Loans	93.7	29.2	-	35.5	57.7	-	53.7	21.5	291.3
Total Liabilities *	393.0	246.6	133.7	156.6	191.4	45.1	244.6	275.6	1686.6

* Slight discrepancies in total assets and liabilities are due to rounding off.

TABLE B.6.

Summarised Assets and Liabilities of Companies by Size in 1966.

(Fixed Assets less than 10 million rupees).

(Million Rupees)

Items	Textile excluding Jute.	Food Products excluding Sugar.	Engineering and Construction.	Chemical and Pharmaceutical.	Miscellaneous	Total
1	2	3	4	5	6	7
Number of Companies	4	5	1	1	6	17
Fixed Assets at Cost.	19.8	25.6	4.4	5.4	30.8	86.0
Less Accumulated Depreciation	8.5	8.1	2.0	0.9	2.7	22.2
Net Fixed Assets	11.3	17.5	2.4	4.5	28.1	63.8
Investments	2.2	-	-	-	2.0	4.2
Current Assets	30.8	78.4	7.4	11.9	30.7	159.2
Less Current Liabilities	23.4	40.8	4.4	10.0	32.4	111.0
Net Working Capital	7.4	37.6	3.0	1.9	-1.7	48.2
Total Assets *	20.9	55.1	5.4	6.4	28.4	116.2
Constituted by Paid-up Capital	13.0	28.1	4.0	3.0	18.0	66.1
Retained Earnings	7.3	19.0	1.4	2.4	4.3	34.4
Total Equity	20.3	47.1	5.4	5.4	22.3	100.5
Long-term Loans	0.6	8.1	-	1.0	6.1	15.8
Total Liabilities *	20.9	55.2	5.4	6.4	28.4	116.3

* Slight discrepancies in total assets and liabilities due to rounding off.

TABLE B 7

Summarised Assets and Liabilities of Companies by Size in 1966

Fixed Assets between 10 million but less than 30 million

rupees

(Million Rupees)

Items	Textile excluding Jute	Jute	Food Products excluding sugar	Sugar & Allied	Engineering and Construction	Chemical and Pharmaceutical	Miscellaneous	Total
1	2	3	4	5	6	7	8	9
Number of Companies	9	2	3	1	2	2	1	20
Fixed assets at Cost	185 7	44 5	37 7	16 4	30 0	47 1	10 4	371 8
Less accumulated Depreciation	67 5	8 6	12 4	7 7	9 2	13 9	1 7	121 0
Net Fixed Assets	118 2	35 9	25 3	8 7	20 8	33 2	8 7	250 8
Investments	4 0	-	4 5	-	-	-	-	8 5
Current Assets	143 7	30 6	75 3	22 9	72 7	19 5	5 8	370 5
Less Current Liabilities	116 6	26 1	54 6	16 8	46 3	13 5	10 5	284 4
Net Working Capital	27 1	4 5	20 7	6 1	26 4	6 0	4 7	86 1
Total Assets *	<u>149 3</u>	<u>40 5</u>	<u>50 5</u>	<u>14 8</u>	<u>47 2</u>	<u>39 0</u>	<u>4 0</u>	<u>345 4</u>
Paid-up Capital	72 8	16 8	26 6	10 0	18 6	19 6	4 0	168 4
Retained Earnings	53 0	12 8	21 1	1 8	9 7	19 4	0 7	118 5
Total Equity	125 8	29 6	47 7	11 8	28 3	39 0	4 7	286 9
Long Term Loans	23 0	10 8	2 8	3 0	18 9	-	-	58 5
Total Liabilities *	148 8	40 4	50 5	14 8	47 2	39 0	4 7	345 4

* Slight discrepancies in total assets and liabilities are due to rounding off

TABLE B 8

Summarised Assets and Liabilities of Companies by Size in 1966

(Fixed Assets of 30 million rupees and over)

(Million Rupees)

Items	Textile excluding jute	Jute	Food Products ex cluding sugar	Sugar & Allied	Engineering and Construction	Chemical & Pharmaceut ical	Fuel and Power	Miscellaneous	Total
1	2	3	4	5	6	7	8	9	10
Number of Companies	8	5	1	5	4	2	4	4	31
Fixed Assets at Cost	494 0	361 0	96 6	211 6	257 3	83 1	361 7	564 4	2429 7
Less Accumulated Depreciation	167 0	138 2	46 0	50 4	66 9	10 4	158 4	204 2	841 5
Net Fixed Assets	327 0	222 8	50 6	161 2	190 4	72 7	203 3	360 3	1588 2
Investments	49 9	4 4	26 6	-	0 6	0 2	11 3	18 8	111 8
Current Assets	245 5	316 6	107 7	111 1	120 2	32 5	204 1	269 9	1407 6
Less Current Liabilities	124 5	170 7	22 2	73 0	75 7	23 7	167 8	251 0	908 6
Net Working Capital	121 0	145 9	85 5	38 1	44 5	8 8	36 3	18 9	499 0
Total Assets *	497 9	373 1	162 7	199 3	235 5	82 0	251 0	398 0	2199 5
Equity									
Paid-up Capital	176 2	150 0	88 0	100 7	97 5	32 0	146 0	186 3	976 7
Retained Earnings	136 5	99 3	68 7	54 3	63 0	20 0	57 0	75 4	574 2
Equity	312 7	249 3	156 7	155 0	160 5	52 0	203 0	261 7	1550 9
Long-term loans	185 1	123 8	6 0	44 3	75 0	30 0	48 0	136 3	648 6
Total Liabilities *	497 8	373 1	162 7	199 3	235 5	82 0	251 0	398 0	2199 5

* Slight discrepancies in total assets and liabilities are due to rounding off

TABLE B 9

Basic Data on 70 Selected Listed Companies, 1964-66

(Million Rupees)

Year	Fixed Assets at Cost	Accumulated Depreciation	Net Fixed Assets (2-3)	Investments.	Current Assets	Current liabilities.	Net Working Capital (6-7)	Total Assets (4+5+8)	Paid-up Capital	Reserve and Surplus.	Net * worth (10+11)	Long-term loans	Total liabilities	Pre-Tax Profit	Provision for Taxation	Net Profit for the year (15-16)	Dividend Paid
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18
1964	2208	765	1443	102	1624	1095	529	<u>2074</u>	1116	601	1717	357	<u>2074</u>	330	144	186	79
1965	2496	853	1643	103	1726	1266	460	<u>2206</u>	1152	616	1768	438	<u>2206</u>	279	109	170	98
1966	2888	982	1906	123	1917	1287	630	<u>2659</u>	1213	728	1941	718	<u>2659</u>	322	109	213	112
Average	2531	867	1664	109	1756	1216	540	2313	1160	648	1809	504	2313	310	121	190	96

* The net worth is obtained by adding the capital and reserves only as the proportion of fictitious ^{assets} is insignificant.

Slight discrepancies in the table are due to rounding off.

TABLE B.10 : Financial Ratios and Rate of Return of 70 Selected Companies.

Year	Long Term Debt to Net worth %	Long Term Debt to Total Assets %	Current Assets to Current Liabilities	Pre-tax Profit to Paid-up Capital %	Net Profit to Paid-up Capital %	Dividend to paid-up capital %	Depreciation to Gross Fixed Assets %	Reserve & surplus Total capital %	Long-term Loan to equity or Gearing Ratio %
1	2	3	4	5	6	7	8	9	10
1964	20.79	17.21	1.48	29.57	16.67	7.08	34.65	28.98	20.79
1965	24.77	19.85	1.36	24.22	14.76	8.51	34.17	27.92	24.77
1966	36.99	27.00	1.49	26.55	17.56	9.23	34.00	27.38	36.99
Average	27.52	21.35	1.44	26.75	16.33	8.27	34.27	28.09	27.52

Source : Table B.9.

APPENDIX - C.

The Managing Agency System:

The managing agency system, a unique organisational pattern, has been closely associated with the industrial development of India and Pakistan. The managing agency is generally a well-established firm, undertaking the management function of an enterprise. In return, the managing agent receives commission from the owners of the company. Its primary function is the day to day management of a company, yet its role as financier is also very significant.

In 1834 the monopoly of East India Company was abolished and in its place evolved the managing agency system.⁽¹⁾ The British investors adopted this device to organise and manage industrial undertakings in India without involving themselves in the actual operation of the concerns. Through this system, they were successful in achieving business objectives. Following the success of British investors in the industrial field, local businessmen entered the industrial field at the end of the nineteenth century and adopted the managing agency system in running their undertakings.⁽²⁾

(1) Prasad, Bad.ri., The Development of the Indian Capital - with special reference to the Managing Agency System, unpublished Ph.D. Thesis, (University of London, 1962), pp.164 and 170.

(2) Rosen, George., op.cit., p.7.

Gradually, this system has been instrumental in the industrial development of India.

The growth of the managing agency system in Pakistan is a post-independence phenomenon. A large-scale exodus of non-Muslim traders engaged in trade, finance and industry in the areas constituting Pakistan created a void in the economic structure of the country. The void was, however, filled in to some extent, by the migration of the trading and industrial community of Muslims across the border, who gainfully employed their funds in the rudimentary industrial activity of Pakistan. With a very limited industrial capacity in the country, the domestic demand for manufactures had to be met through imports. As a result, these migrants, mostly belonging to family groups, earned substantial profits from the trade sector. Following the end of the Korean war in the early fifties the import policy of the country had to be restricted in view of foreign exchange stringency. At the same time, the development of industries based on indigenous raw materials was encouraged through the provision of various incentives. Moreover, industry promised a high profit on account of the existence of a vast sheltered domestic market. Considering the prospect of high profit from industrial activity and visualising the declining profit prospect from trade, the members of the family groups shifted a part of their resources into industry. Simultaneously, profits were reinvested to gain control over a number of industries and to earn

more profit. The managing agency system on a pre-independence pattern, was accepted as an instrument to manage industrial undertakings. Thus, a new entrepreneurial class emerged in Pakistan dominating the capitalist sector of the economy. In the process of industrialisation, they gained experience and firmly established themselves in the promotion, financing and managing of companies.

Since most of the profit occurred to the members of the family groups, they further entrenched themselves firmly by setting up banks and insurance companies. This polarisation of economic power and concentration of wealth made it possible to supply the capital requirements of industries to some extent from their own resources.

The managing agency system in Pakistan has performed a number of useful functions in the industrial development of Pakistan of which the promotion, financing and managing of the companies are the most important.⁽³⁾ While promoting new industries, they have supplied initial capital and undertaken a great amount of risk associated with new investment. They have shown their entrepreneurial activity by organising new industries and operating them quite successfully. By reinvesting industrial profits they have augmented capital and quickened the pace of industrialisation.

(3) Dawood Industries Ltd., a managing agency firm is responsible for planning, promoting, implementing and managing industrial enterprises of the Dawood Group.

It has been a common practice in the operation of financial institutions to demand guarantees of the managing agent or directors in addition to collateral before granting a loan. In such situations, the managing agent of the company has often provided necessary support.

The underwriters, too impose pre-conditions in some instances, before making any underwriting commitments for a new issue. For example, the I.C.P., an underwriter, secured an undertaking from the managing agent of the Hussain Sugar Mills Ltd., that the managing agent should provide unsecured loans from time to time to the company to meet any over-runs before underwriting was granted.⁽⁴⁾ This is an indication of the importance of the managing agents in the financing aspect of the corporate sector.

As a primary function, the managing agent has provided management services to the corporate sector without which industrial development could have been hampered. Industrial development in Pakistan has been diversified due to the presence of the managing agency system. In order to meet the requirements or to use the waste of an enterprise a sister concern has been developed, such as cotton ginning for cotton textile, or the like. They have done so with a view to spreading the risk over different types of industries on the one hand, and to earn more commission.

(4) The Prospectus of the Husain Sugar Mills Ltd., (Published in the 'Dawn' on the 10th March, 1967).

Consequently, industrial development gained momentum in the country. Thus it is very difficult to isolate one activity of managing agent from the other.

Despite the fact that the managing agency system has played an important role in the process of industrialisation in Pakistan, yet certain abuses are thought to have crept into the system. In addition to the abuses discussed in Chapter 3, the following demerits of the system have been a cause of criticism.

- i. The prevalence of this system has enabled a relatively small number of families to command vast wealth. The large-scale industrial sector has been mainly concentrated in their hands resulting in difficulties in the way of new entrepreneurs seeking to enter into industry.⁽⁵⁾

The degree of concentration is so deep rooted that any attempt by the Government to diffuse equity ownership has been proved inoperative, as is discussed in Chapter 3.

- ii. This system has restricted the development of an independent management class since the managerial posts are normally filled by members of the family

(5) For example, Adamjee Sons Ltd., a managing agent is in control of several industries namely, Adamjee Jute Mills Ltd., Adamjee Textile Mills Ltd., Adamjee Paper and Board, Adamjee Insurance Company and so.

groups. As a result, graduates of business administration find it hard to gain a place in corporate management.

- iii. The industrial sector is controlled by the few family groups, and it has been alleged that they have not given much attention to the quality of products. Moreover, consumers have not benefited from industrialisation as much as possibly they might have been because the prices of products have been maintained at high levels.

However, all things considered it seems that the role of the managing agency system has had some measure of usefulness in making possible a quite impressive industrial growth in Pakistan.

BIBLIOGRAPHY.

A. BOOKS.

- Agarwala, A.N. and Singh, S.P. (ed)., The Economics of Underdevelopment,
(New York, Oxford University Press, 1963).
- Ali, A.N., Banking in Iraq in Relation to Economic Development,
Unpublished Ph.D. Thesis (University of Durham, 1967).
- Allen, R.G.D., Statistics for Economists, Revised Edition,
(Hutchinson University Library, London, 1956).
- Andrus, J.Russel and Mohammed, Azizali F., The Economy of Pakistan,
(London, Oxford University Press, 1958).
- Andrus, J.Russel and Mohammed, Azizali F., Trade, Finance and
Development in Pakistan, (Oxford University Press,
Karachi, 1966).
- Baqai, Moinuddin., Abstract of SEANZA LECTURES, 1964 (State Bank of
Pakistan, Karachi, November 1964).
- Basch, Antonin., Financing Economic Development, (Macmillan, New
York, 1964).
- Basu, S.K., Industrial Finance in India, (Calcutta, 1950).
- Bates, James and Parkinson, J.R., Business Economics, (Basil
Blackwell, Oxford, 1964).
- Benedick, Richard Elliot., Industrial Finance in Iran, Division of
Research, Graduate School of Business Administration,
(Harvard University, Boston, 1964).

- Cairncross, A.K., Factors in Economic Development, (London, George Allen & Unwin Ltd., Fourth Impression, 1965).
- Charles, Aimos Dice and Eiteman, Wilfred John., The Stock Market, Third Edition, (McGraw-Hill Book Company, Inc. 1952).
- Clayton, George, Osborn, W.T., Insurance Company Investment - Principles and Policies. (George Allen and Unwin Ltd., 1965).
- Commonwealth Economic Committee, 3. Pakistan, (London, 1961, Published for the Commonwealth Economic Committee by Her Majesty's Stationery Office).
- Crick, W.F., Commonwealth Banking System, (Oxford University Press, 1965).
- Day, A.C.L., Outline of Monetary Economics, (Oxford University Press, London, 1963).
- E.C.A.F.E., Regional Symposium on Industrialisation for Asia and Far East, 1965, Country Report : Pakistan, (Unpublished Report).
- Federation of British Industries., Pakistan - An Investment Survey, (Federation of British Industries, 21, Tothill Street, London, May 1964).
- Federation of British Industries., India - A Survey for British Industrial Firms, (Federation of British Industries, London, 1956).
- Fforde, J.S., An International Trade in Managerial Skills, (Oxford, 1957), pp.VIII, 153).

- Habibullah, M., Pattern of Urban Savings : A Case Study of Dacca City (Bureau of Economic Research, Dacca University, 1964).
- Habibullah, M., Rural Capital Formation in East Pakistan, (Bureau of Economic Research, Dacca University, 1963).
- Hagen, E.E., Planning Economic Development - A Study from the Center for International Studies, Massachusetts Institute of Technology, (Homewood, Illinois, 1963).
- Haidari, Iqbal and Khan, Abdul Hafiz, (ed)., Stock Exchange Guide of Pakistan, (Economic and Industrial Publications, Karachi, 1966).
- Stock Exchange Guide of Pakistan, Revised and Enlarged Edition, (Economic and Industrial Publications, Karachi, 1968).
- Haidari, Iqbal., Jute Industry in Pakistan (Economic and Industrial Publications, Karachi, 1968).
- Haq, M., The Strategy of Economic Planning - A Case Study of Pakistan, Second Impression, (Oxford University Press, Pakistan Branch, 1966).

- Hashim, J.M., Capital Formation in Iraq, 1957-62, Unpublished Ph.D. Thesis, (University of London, 1966).
- Hicks, U.K., Development Finance, Planning and Control, (Clarendon Press, Oxford, 1965).
- Hirschman, Albert O., The Strategy of Economic Development, (New Haven and London, Yale University Press).
- Industrial Development Bank of Pakistan, A Survey of the Cotton Textile Industry of Pakistan, (The Public Relations Department, Industrial Development Bank of Pakistan, Dacca, 1965).
- Islam, Nurul., A Short Model for Pakistan Economy : An Econometric Analysis, (Oxford University Press, Karachi, 1965).
- Lewis, W.Arther., Development Planning: The Essentials of Economic Policy, (London, George Allen & Unwin Ltd., 1966).
- Lewis, J.R., Stephen R., Economic Policy and Industrial Growth in Pakistan, Uncorrected Proof, (London, George Allen and Unwin Ltd., 1968).
- Macrae, Norman., The London Capital Market: Its Structure, Strains Management, Second Revised Edition, (Staples Press Limited., London, 1964).
- Meenai, S.A., An Appraisal of the Credit and Monetary Situation in Pakistan, (State Bank of Pakistan, 1964).
- Meier, Gerald M., Leading issues in Development Economics: Selected Materials and Commentary, (New York, Oxford University Press, 1964).

- Merrett, A.J. and Sykes, Allen., The Finance and Analysis of Capital Projects, (Longmans, London, 1965).
- Moon, Ronald W., Business Mergers and Take-over Bids, Second Edition, (Gee & Company (Publishers) Limited, London, 1960).
- National Investment Trust Ltd., Unit Trusts in Pakistan and Abroad (National Investment Trust Ltd., Karachi, 1965).
- Nevin, Edward., Capital Funds in Underdeveloped Countries, (London, Macmillan and Co.Ltd., 1963).
- Nursaw, William G., The Art and Practice of Investment, Second Impression, (Hutchinson of London, 1963).
- Nurske, Ragner., Problems of Capital Formation in Underdeveloped Countries, (Basil Blackwell - Oxford, 1966).
- Paish, F.W., Business Finance, Third Edition, (London, Pitman, 1965).
- Peach, W.N., and Others., Basic Data of the Economy of Pakistan, (Oxford University Press, 1959).
- Prasad, Badri., The Development of the Indian Capital Market - with special reference to the Managing Agency System, Unpublished Ph.D. Thesis, (University of London, 1962).
- Qureshi, Sayeed Ahmed., How to Read Balance Sheets and Income Statements, (Fauji Foundation, Rawalpindi).

- Rab, Abdur., Income Taxation in Pakistan - Unpublished Research Series No.45 (Pakistan Institute of Development Economics, Karachi, 1965).
- Rix, M.S., Stock Market Economics, (Pitman, London, 1965).
Investment Arithmetic, (Pitman, London, 1965).
- Rosen, George., Industrial Change in India, (Asia Publishing House, Reprinted: 1961).
- Rosen, George., Some Aspects of Industrial Finance in India, (Asia Publishing House, Bombay, 1962).
- Safiullah, M., Corporate Saving in Pakistan - 1959-63, (Bureau of Economic Research, Dacca University, 1968).
- Sayers, R.S., Banking in British Commonwealth, (Oxford, 1952).
- Sharma, T.R., Location of Industries in India, (Bombay, 1946).
- Simha, S.L.N., Capital Market in India, (Vora and Co., Publishers Private Ltd., Bombay).
- Tew, Brian and Henderson, R.F., (eds). Studies in Company Finance: (Cambridge University Press, Cambridge, 1959).
- Uzair, Mohammed., Corporate Finance in Pakistan: Unpublished Study, (Institute of Business Administration, University of Karachi, Karachi, 1966).
- Uzair, Mohammed (ed)., Banking Challenges: Proceedings of All Pakistan Banking Seminar, 1967, (Pakistan Banking Society).

Waterston, Albert., Planning in Pakistan: Organisation and
Implementation, The Economic Development Institute,
International Bank for Reconstruction and
Development, (The John Hopkins Press, Baltimore,
1963).

B. ARTICLES.

- Ahmed, Akhlaq., 'Economic Impact of P.I.C.I.C.', Investment and Marketing, vol.4, No.33, January 1968, (Investment and Marketing, Karachi).
- Ahmed, Said., 'Ten Years of P.I.C.I.C.', Investment and Marketing, vol.4, No.33, January 1968, (Investment and Marketing, Karachi).
- Ahmed, F., 'P.I.C.I.C. in the Contemporary World', Investment and Marketing, vol.4, No.33, January 1968, (Investment and Marketing, Karachi).
- Ahmed, R., 'Disinvestment Policy of E.P.I.D.C.', Trade and Industry, Vol.X, No.12, December, 1966 (Trade and Industry Publications Ltd., Karachi).
- Akram, M., 'Disinvestment Policy of the W.P.I.D.C.', Trade and Industry, Vol.X, No.1, January 1966, (Trade and Industry Publications Ltd., Karachi).
- Ali, S. Faruk., 'Some Notes on Stock Market and Taxation Policy in Pakistan', Finance and Industry, vol.5, No.5, May 1966. (Finance and Industry Publications Ltd., Karachi).
- Azam, Shafiul, 'E.P.I.D.C. - An Assessment', Trade and Industry, vol.X, No.12, December 1966. (Trade and Industry Publications Ltd., Karachi).

- Durrani, S.U., 'Stimulating and Widening Private Capital Market for Industrial Development', Trade and Industry, Vol.IX, No.3, March 1965, (Trade and Industry Publications Ltd., Karachi).
- Durrani, S.U., 'Conflict of Interest in the Corporate Sector', Stock Exchange Guide of Pakistan, (Economic and Industrial Publications, Karachi).
- Feldman, Herbert., 'Foreign Private Investment in Pakistan' Supplement on Foreign Private Investment in Pakistan, September 1967, (Trade and Industry Publications Ltd., Karachi).
- Finance and Industry, 'Survey of Fiscal Measures affecting Stock Market', Finance and Industry, Vol.5, No.5, May 1966. (Finance and Industry Publications Ltd., Karachi).
- Finance and Industry, 'Forum on Stock Exchange', Finance and Industry, Vol.5, No.5, May 1966.
- Finance and Industry, 'Price Trends on Stock Exchange during Second Plan Period', Finance and Industry, Vol.5, No.5, May 1966.
- Finance and Industry, 'Stock Exchange continues to ail', Finance and Industry, Vol.6, No.4, April 1967, (Finance and Industry Publications Ltd., Karachi).

- Finance and Industry, 'Background papers of Panel Discussion on Stock Exchange', Finance and Industry, Vol.6, No.4, April 1967, (Finance and Industry Publications Ltd., Karachi).
- Hafizullah, A.H., 'Investment Criteria and Financing of E.P.I.D.C.' Trade and Industry, Vol.X, No.12, December 1966. (Trade and Industry Publications Ltd., Karachi).
- Jafarey, N.A., 'Unit Trust - The Saving Media for the Masses', Finance and Industry, Vol.6, No.1, January 1967, (Finance and Industry Publications Ltd., Karachi).
- Jafarey, N.A., 'What Government cannot do for Stock Market', Finance and Industry, Vol.6, No.4, April 1967. (Finance and Industry Publications Ltd., Karachi).
- Lewis, Stephen R., and Soligo, Ronald., 'Growth and Structural Change in Pakistan's Manufacturing Industry, 1954 to 1964', The Pakistan Development Review, Vol.V, No.1, Spring 1965).
- Mazari, A.M.K., 'The Functions of Economic Administrators in Industrial Development', Trade and Industry, Vol.X, No.1, January 1966, (Trade and Industry Publications Ltd., Karachi).
- Murshed, M., 'Management Development in E.P.I.D.C.' Trade and Industry, Vol.X, No.12, December 1966 (Trade and Industry Publications Ltd., Karachi).

- Nasim, S.M., 'Investment Criteria and Financing of W.P.I.D.C.'
Trade and Industry, Vol.X, No.1, January 1966.
(Trade and Industry Publications Ltd., Karachi).
- Narasimham, M., 'Narrow Security Markets and Monetary Policy -
Lessons from Pakistan - A Comment',
Economic Development and Cultural Change, July 1967.
- Pakistan Economic Association, 'The Role of Foreign Capital and
Foreign Aid in the Economic Development of Pakistan',
Pakistan Economic Journal, Vol.ix, No.1, March 1959.
- Papanek, Gustav, F., 'The Development of Entrepreneurship',
American Economic Review, Vol.LII, No.2, May 1962.
- Papanek, Gustav, F., 'Industrial Production and Investment in
Pakistan', The Pakistan Development Review, Volume IV,
No.3, Autumn 1964).
- Porter, Richard C., 'Narrow Security Markets and Monetary Policy :
Lessons from Pakistan', Economic Development and
Cultural Change, Vol.14, No.1, October, 1965.
- Qarni, M.A.H., 'Four Years of N.I.T.', Finance and Industry, Vol.6,
No.1, January 1967, (Finance and Industry Publications
Ltd., Karachi).
- Stock and Share Analyst: 'P.I.C.I.C. and the Capital Market',
Investment and Marketing, Vol.4, No.33 January 1968,
(Investment and Marketing, Karachi).

Trade and Industry, 'Obstacles to Investment in Developing Countries',
Supplement on Foreign Private Investment in Pakistan,
September, 1967, (Trade and Industry Publications Ltd.,
Karachi).

Trade and Industry, 'The Dynamic Role of Foreign Private Investment
in the Electric Industry', Trade and Industry,
September 1967, (Trade and Industry Publications Ltd.,
Karachi).

Trade and Industry Research Unit : 'Survey of Insurance in
Pakistan', Trade and Industry, Vol.XI, No.11
November 1967. (Trade and Industry Publications Ltd.,
Karachi).

Uquaily, N.M., 'Development Banks and Special Finance Corporations'
Abstract of SEANZA Lectures 1964, (State Bank of
Pakistan).

C. GOVERNMENT OF PAKISTAN PUBLICATIONS.

Ministry of Finance., Pakistan's Economic Growth Since 1958.

Credit Enquiry Commission Report, 1959. (The
Manager of Publications, Karachi, 1960).

Pakistan Budgets 1963-64. (Prepared by Economic
Adviser to the Government of Pakistan).

Financial Institutions - National and International,
(Prepared by Economic Adviser to the Government of
Pakistan, Rawalpindi, 1964).

Government Sponsored Corporations, (Prepared by
Economic Adviser to Government of Pakistan,
Rawalpindi, 1965).

The Budget in Brief, 1965-66.

The Budget in Brief, 1966-67. (Produced by the
Department of Films and Publications).

Pakistan Basic Facts 1965-66, Fifth Edition, (Prepared
by Economic Adviser to the Government of Pakistan).

Pakistan Economic Surveys, 1962-63, 1963-64, 1964-65,
1965-66, and 1967-68.

Ministry of Information and Broadcasting., Industrial Development in
Pakistan, 1965, (A brochure by the Department of Films
and Publications).

Twenty Years of Pakistan 1947-'67, (Pakistan Publications,
1967).

Department of Investment Promotion and Supplies, Guide to
Investment in Pakistan.

Pakistan Invites Investment.

National Planning Board., The First Five-Year Plan 1955-60,

(The Manager of Publications, Karachi, 1958).

Planning Commission., First Five-Year Plan - Preliminary Evaluation

Report, 1955-56 to 1958-59. (The Manager of
Publications, Karachi, 1959).

The Second Five-Year Plan 1960-65, (June 1960).

Outline of the Third Five-Year Plan 1965-70,

(August, 1964).

The Third Five-Year Plan 1965-70, (June, 1965).

Final Evaluation of the Second Five-Year Plan
1960-65, (December, 1966).

Evaluation of the First Year (1965-66) of The

Third Five-Year Plan, 1965-70. (May, 1967).

Industrial Policy and Import Liabilities,

(June, 1967).

The Mid-Plan Review of the Third Plan 1965-70

(April, 1968).

Manager of Publications., The Constitution of the Republic of Pakistan, (Government of Pakistan, 1962).

Central Statistical Office., Census of Manufacturing Industries: 1954, 1958, 1959-60, (The Manager of Publications, Karachi).

Statistical Pocket Book of Pakistan, 1967. (The Manager of Publications, Karachi).

Pakistan Statistical Year Book, 1965 and 1966, (The Manager of Publications, Karachi, 1968).

D. STATE BANK OF PAKISTAN PUBLICATIONS.

Department of Statistics., Balance Sheets of Joint Stock Companies
Having Foreign Participation (1956-62).

Break-up Values of Shares of Joint Stock Companies
1956-64 and 1960-65.

Banking Statistics, 1948-57, 1957-58, 1958-59, 1959-60,
1960-61, 1961-62, 1962-63, 1963-64, 1964-65.

Foreign Liabilities and Assets and Foreign Investments
in Pakistan, 1957-1960, 1959-1962, 1960-1963, 1962-64,
1963-1965.

Index Numbers of Stock Exchange Securities, December,
1967.

Reports on Currency and Finance, 1957-58, 1960-61,
1963-64 and 1964-65.

Department of Research., Pakistan Economy - A Perspective
1965-66.

E. ANNUAL REPORTS.

Report of the Central Board of Directors for the Year ended 30th
June 1951, (State Bank of Pakistan).

P.I.D.C. Annual Report for 1961-62.

E.P.I.D.C. Annual Reports for 1961-62, 1962-63, 1963-64, 1964-65,
1965-66.

W.P.I.D.C. Annual Reports for 1961-62, 1962-63, 1963-64, 1964-65,
and 1965-66.

I.D.B.P. Annual Reports for 1961-62, 1962-63, 1963-64, 1964-65,
and 1965-66.

P.I.C.I.C. Annual Reports for 1961, 1962, 1963, 1964, 1965 and 1966.

The Federation of Pakistan Chamber of Commerce and Industry Annual
Reports for 1964-65 and 1965-66.

N.I.T. Annual Report for 1966-67.

I.C.P. Annual Report for 1967.

Karachi Chamber of Commerce and Industry Annual Reports for 1965-66
and 1966-67.

F. NEWSPAPERS.

The Dawn, Karachi.

The Pakistan Observer, Dacca.

The Business Post, Karachi.