

No. 4(12) PS|PC|67.

Rawalpindi, the 14th February, 1968.

To

The Additional Chief Secretary (Dev.),
East Pakistan,
Dacca.

The Chairman,
Planning and Development Board,
West Pakistan,
Lahore.

SUBJECT :—*Guidelines for the formulation of Annual Development Programme 1968-69*

SIR,

I am directed to refer to letter No. 4 (12) PS|PC|67, dated 25th January, 1968 from Secretary, Planning Division addressed to you wherein it was indicated that a gross size of Rs. 6,700 million was tentatively fixed for the Development Programme in the public sector for the year 1968-69. A desirable sectoral break-down of the Programme was also furnished. In suggesting the Programme, the Planning Commission gave considerable thought to the physical targets and essential programmes/schemes which must be protected in each sector. The need for maintaining inter-sectoral and intra-sectoral consistency, in the light of the likely implementation of the programmes in each sector in the first three years of the current Plan, was also kept in view. A summary of the broad physical targets proposed to be achieved and the rationale of each programme is given below in brief. It is suggested that these guidelines along with the order of priorities and principles explained in Secretary, Planning's letter referred to above may be kept in view while formulating the Annual Development Programme (extracts enclosed as Annexure I).

1. AGRICULTURE

This sector should receive the highest priority. All essential programmes designed to attain the target of food self-sufficiency, should be fully provided for. All decisions of the Agricultural Policy Committee should be completely reflected in the proposed allocations. Projects involving relatively long gestation period or having insignificant impact on production in the short run should be decelerated. Specifically the following programmes should be fully protected :

(a) **Distribution of Fertilizers**

A provision of Rs. 284 million is proposed for fertilizer distribution. The targets of distribution of 17 lakh tons of fertilizers in West Pakistan and about 4 lakh tons in East Pakistan will be covered by this.

(b) **Plant Protection**

For increased coverage, specially of areas under cotton, a provision of Rs. 150 million has been proposed.

(c) **Mechanisation Programme**

Rs. 130 million is proposed for this programme. By this amount it should be possible to bring new areas under cultivation in West Pakistan and also cater to the need for a larger number of power pumps for East Pakistan.

(d) **Distribution of Seeds**

A provision of Rs. 24 million to meet the subsidy part of the cost is proposed for this programme. More areas are intended to be covered by improved varieties of Mexi-Pak Wheat seeds and IRRI paddy seeds both in West Pakistan and in East Pakistan.

(e) **Foodgrain storage**

As the 5 on-going schemes in East Pakistan and the scheme for the construction of 1.35 lakh tons capacity storage in West Pakistan are likely to be completed soon, allocation for this programme is proposed to be reduced.

(f) **Animal Husbandry, Forestry, Fisheries**

In these sub-sectors emphasis should be given to those on-going scheme which are expected to yield returns quickly. Forestry schemes may be decelerated. Research schemes should, however, be given their due share.

2. WATER AND POWER

A total programme of Rs. 1,752 million is proposed for this sector. There should be greater emphasis on projects which produce returns quickly and whose capital co-efficients are relatively low. However, in the composition of the sectoral programme, different priorities are suggested for East and West Pakistan. While in West Pakistan transmission and distribution programme in the Power sector and projects which augment irrigation water supply and save land from salinity like, tubewell programme, surface drainage, etc. in the Water sector are proposed to be accorded higher priority the relative emphasis on such programmes in East Pakistan is slightly different. In the programme of East Pakistan equal emphasis is proposed to be laid on power generation and transmission facilities. In the Water sector, on-going major irrigation and flood protection schemes should be completed. The allocation suggested should enable the protection of the following programmes and physical targets :—

(i) Power Sub-sector

WEST PAKISTAN

A provision of Rs. 340 million is proposed. The following essential schemes are to be adequately provided for :

- (a) Mangla Unit No. IV.
- (b) Guddu Thermal Project.
- (c) Transmission Programme.

The on-going schemes should be adequately provided for to expedite their early completion. By execution of this programme, it is expected that 8,000 tubewells will be electrified and 1 lakh new consumer connections will be provided.

EAST PAKISTAN

A programme of Rs. 430 million is proposed. The on-going and aided schemes should be provided for according to the disbursement schedule of foreign-aid agreements. Considerable progress is expected to be made in the execution of generation and transmission schemes. It is estimated that generation capacity will increase further by 67.2 M.W. and about 900 miles of new transmission and distribution lines will be erected.

CENTRE

The Karachi Nuclear Power Project under the Atomic Energy Commission and other important on-going programmes in the Centre are proposed to be covered by the allocation of Rs. 147.5 million.

(ii) **Water Sub-sector**

The following major programmes and physical targets are proposed to be achieved by the allocation of Rs. 835 million.

| <i>Programme</i> | <i>Targets</i> |
|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| WEST PAKISTAN | |
| (a) Sinking of tubewells in SCARP areas. | It is proposed that 2,000 tubewells to supply about 2 MAF of water should be brought into operation. About 300 miles of open drains in Kotri barrage command and SCARP areas are proposed to be provided. |
| (b) Surface Drainage. | |
| (c) Small tubewells and surface irrigation schemes in riverain, and Barani areas. | Under this a large number of schemes in areas outside the irrigation zone and aiming at providing irrigation facilities are proposed to be included in ADP. Adequate allocations have been made to complete the on-going programme before 1970. |
| (d) Surface Water Development Projects. | Excavation and remodelling of some of the canals (distributions and minors), to extend the irrigation facilities and improve the existing irrigation supply in areas commanded by Kotri, Guddu and Taunsa Barrage would be covered. Provisions have been made for the Karachi Irrigation scheme and Khanpur Dam; only a token provision is proposed for the Gomal Zam project. |
| EAST PAKISTAN | |
| (a) General Investigations | Provision suggested enough for the services of consultants, Hydrological studies and detailed investigations of specific schemes. |
| (b) Embankment Projects. | Provision includes Coastal Embankment Brahmaputra, Gumti and Chandpur Irrigation Project. |
| (c) Major Irrigation. | Provision for the Ganges-Kobadak, Teesta and other major irrigation schemes should be made. |
| | In addition, the programme also covers provision for small irrigation schemes and flood regulation and drainage schemes. |

3. INDUSTRY

The strategy in this sector should be consolidation to ensure fuller utilisation of the installed capacity of industrial units and completion of the on-going schemes as quickly as possible. Priority should, however, be accorded to industries which will increase export earnings, the availability of agricultural inputs in the country and other essential and basic requirements for the economy. Industries in which private entrepreneurs are interested should not be taken up in the public sector unless there are compelling reasons for doing so. Economies in the construction component of projects should be effected as far as possible. The allocation suggested for this sector is Rs. 710 million—Rs. 500 million for East Pakistan, Rs. 170 million for West Pakistan and Rs. 40 million for the Centre. Priority assigned to the various industries and sub-sectoral allocation are explained below :

EAST PAKISTAN

(a) Jute Industry

This industry should receive the highest priority. Installation of as many new units as possible and the completion of the on-going ones early should be aimed at so that the Third Plan target of 25,000 looms can be reached. A provision of Rs. 52 million is proposed for the jute mills programme.

(b) Sugar Mills

For the completion of the on-going schemes allocation should be made adequately in accordance with the disbursement schedule. No new sugar mill should be taken up.

(c) Fertilizer Manufacturing Plants

This programme must be fully protected. Ghorasal Fertilizer Factory and Tripple Super-phosphate plants should be adequately provided for.

(d) Engineering, Chemical and other Industries

Cement factories should receive priority. Adequate provision is proposed for the expansion of ABC Cement factory and the Clinker Factory at Chittagong. Similarly expansion of Chittagong Steel Mill, insecticides factories, paper mills etc. are proposed to be fully covered.

WEST PAKISTAN

A programme of Rs. 170 million is proposed which will adequately look after the following major schemes :

- (a) Heavy Mechanical Complex.
- (b) Heavy Electrical Complex.
- (c) Machine Tool Factory at Landhi.
- (d) Central Foundry and Forge Factory.
- (e) Expansion of Cement Factories.

CENTRE

In the Centre the programme consists of a number of small schemes like Petrochemical and Fertilizer study, Research Programme of PCSIR, Technical Training Institutes and Development Programme for Industries in Azad Kashmir and Northern Areas. The allocation proposed should be adequate for all these schemes.

4. FUELS AND MINERALS

A programme of Rs. 160 million is proposed for this sector. In East Pakistan special emphasis should be given for the exploration of minerals. Adequate provision is proposed for the Jaipurhat Limestone and the development of Jamalgonj collieries. In West Pakistan development of coal deposits in the Central Block, Sor range and Sharigh coal mines should be adequately provided. The Central programme for the Geological Survey of Pakistan and the Oil and Gas prospecting should be fully covered.

5. TRANSPORT AND COMMUNICATIONS

In line with the revised order of priorities of the Third Plan there should be greater emphasis on development of transport and communications, particularly on the strengthening of links between East and West Pakistan, the development of ports and telecommunications. A provision of Rs. 1,416 million is proposed for this sector which is considered adequate to meet the essential programmes as detailed below :

EAST PAKISTAN

(a) Pakistan Eastern Railways

Rs. 180 million is proposed for the Pakistan Eastern Railway. On-going essential programmes like rehabilitation and modernization of railway tracks, purchase of rolling stock, bridge works, and double tracking in sections between Chittagong and Dacca would be fully covered. Under the dieselization programme provision has been made for the acquisition of 44 additional Diesel locomotives.

(b) Roads

A provision of Rs. 180 million (including Rs. 20 million for operational roads) is proposed for roads programme in East Pakistan. It is estimated that it should be possible to complete 200 miles of new high type roads in 1968-69. The important aided projects like Dacca-Chittagong road and Dacca-Aricha road should be fully covered. Efforts should be made to cover other on-going schemes first. The designing of a highway between Tarabo (Demra)-Narsingdi-Sarail-Habiganj-Sherpur-Sylhet road may be taken in hand. With the strengthening of the Roads and Highways Directorate it should be possible to carry out proper economic and engineering feasibility studies to identify additional viable projects in the roads sub-sector, for instance, the roads between Khulna-Mongla and Narsingdi-Mymensingh *via* Motkhola.

(c) Road Transport

A provision of Rs. 15 million is proposed for the East Pakistan Road Transport Corporation to maintain their essential programme like purchase of vehicles and other requirements.

(d) Water Transport

Rs. 50 million is proposed for the Inland Water Transport Authority. Particular attention should be paid to the conservancy and development of important navigation channels such as those connecting Khulna-Mongla area with the Dacca-Narayanganj area, to the extension of the scheme for lighting, buoying and marking of navigable channels etc. A study should be undertaken for a link canal between Kumarkhali river and Ghasiakhali river to provide a shorter and all the year navigable route to and from the port at Mongla.

(e) EPSC (East Pakistan Shipping Corp.)

For the East Pakistan Shipping Corporation a provision of Rs. 5 million is proposed including Rs. 2.00 million as Government contribution towards its equity capital. Preliminary economic and technical feasibility studies for improving transport services to the coastal Islands included.

WEST PAKISTAN

(a) Pakistan Western Railway

A provision of Rs. 300 million is made to protect the essential on-going programmes like rehabilitation and modernization of railway-tracks, for additional rolling stock already on order, for carriage factory at Islamabad, for Kot Adu—D. G. Khan rail line, electrification of railways between Lahore-Khanewal, for rehabilitation and reconstruction of bridges, etc. Efforts should be made to eliminate traffic bottlenecks through remodelling and modernization of the marshalling yard at Samasatta and double tracking between Kotri and Hyderabad including a bridge.

(b) Roads

Rs. 230 million (including Rs. 40 million for operational roads) is proposed for this programme. It is estimated that about 350 miles of new high type roads will be completed in 1968-69. The major schemes like Karachi-Hyderabad road, bridges on rivers Jhelum, Ravi, Sutlej and Indus (Thatta-Sujawal) and the RCD road are to be protected fully. Construction should commence on the new highway between Lahore and Lyallpur. Preliminary economic and feasibility studies may be undertaken for the sections Lyallpur-Multan and between Hyderabad-Kashmore to assess the viability of a through link between Karachi and Lahore on the West of river Indus.

CENTRE

A programme of Rs. 456 million is proposed as given below :

(a) Ports

Rs. 52 million is proposed for this sub-sector. Important schemes like development of Chalna anchorage, particularly the acquisition of craft and equipment in East Pakistan, will be well protected. Detailed technical and model studies for improvement of bay entrance and Pussur river channel leading to the proposed permanent port site at Mongla in East Pakistan as well as the detailed technical studies at Sonmiani in West Pakistan will be undertaken.

(b) Roads

A provision of Rs. 15 million is proposed for the construction of new roads in Azad Kashmir and Northern Areas of West Pakistan. In Addition Rs. 45 million is allocated for operational roads.

(c) Tourism

Rs. 6 million is proposed for this sub-sector for continuing the essential on-going programmes.

(d) Civil Aviation

An allocation of Rs. 106 million is proposed. Important schemes like construction of new airport at Dacca, provision of a jet runway at Rawalpindi, improvement of runway at Skardu and other minor schemes be adequately covered.

(e) Post Offices

A provision of Rs. 15 million is proposed for continuing the on-going programmes including construction of a new headquarters building in Islamabad.

(f) Telephones and Telegraphs Department

Rs. 190 million is proposed for the development programme of Telephones and Telegraphs Department. It is estimated that nearly 25,000 new telephones can be provided next year. Other on-going schemes for the strengthening of the inland long distance network work will also be covered. Further progress should be possible on the expansion of telephone industries and on the feasibility study for setting up two earth stations for satellite communications.

(g) Broadcasting

Rs. 20 million is allocated for the broadcasting programme already in hand. This allocation should be adequate to meet this essential need.

(h) Television

Rs. 1.0 million is proposed for the on-going scheme for Television training institute etc.

(i) Transport Sector Survey

Rs. 6.0 million is provided for conducting an overall sectoral survey in the transport sector.

6. PHYSICAL PLANNING AND HOUSING

A programme of Rs. 500 million is proposed for this sector. In drawing up the sectoral programme, the following order of priorities should be kept in view :—

- (a) Basic Development.
- (b) Water supply, sewerage and drainage scheme.
- (c) Low Income group housing.
- (d) Public Servants Housing.

EAST PAKISTAN

The sectoral programme proposed for East Pakistan will fully cover the schemes relating to Basic Development Sub-sector as well as the sewerage and water supply schemes. Attention has also to be given to low income housing. The allocation proposed for the public servants housing will be mainly utilized for the completion of the on-going schemes. Work on rural water supply schemes for 9 important towns will be continued.

WEST PAKISTAN

In West Pakistan water and sewerage schemes in Lahore and Quetta are proposed to be fully covered. Allocation is also proposed for commencing work on Peshawar Valley Project and preparation of Karachi Urban Development Plan. Adequate provision should be made for the on-going schemes providing plots/houses to low income groups. Under the urban water supply programme work on the on-going scheme for Multan, Sukkur, Sheikhpura, Sargodha and Gujranwala should continue where substantial progress is expected to be achieved. Under rural water supply programme, apart from completion of the on-going schemes, a number of new rural water supply schemes are proposed to be taken up.

CENTRE

Adequate Provision for Islamabad and Ayub Nagar has been made. Work on other on-going schemes of Government Servants Housing, and Government Offices and Buildings should also continue.

7. EDUCATION AND TRAINING

A total programme of Rs. 505 million is proposed for this sector. A higher rate of acceleration should be accorded for this sector because of slow pace of implementation of educational programmes in the first three years of the current Plan period.

Primary education programme should receive adequate funds. Emphasis should be on improvement of the existing schools. In the field of secondary education, major emphasis will be on qualitative improvement by accelerating the programme for introduction of science, and other technical subjects and by providing adequate physical facilities to the existing high schools. About 200 new middle schools and 60 high schools are proposed to be opened. Improvement of the existing intermediate colleges should be completed and a few new colleges providing for science education only may be added. All essential programmes| schemes of technical education should be adequately provided for. This will include strengthening and expansion of the facilities at the existing Engineering Universities in the two Provinces, improvement of the existing Engineering Colleges at Karachi and Peshawar and completion of the Engineering Colleges at Hyderabad and Rajshahi. Work relating to the establishment of Engineering Colleges at Chittagong and Khulna will be continued. At the Polytechnic level, high priority is proposed to be given to the strengthening and expansion of existing 12 polytechnics and 4 monotchnics. Programme for the establishment of 15 polytechnics and 8 technical institutes will be accelerated and work will be initiated on the establishment of 10 new polytechnics. Other important Programmes like talent scholarship etc. are intended to be maintained in the Development Programme.

8. HEALTH

A provision of Rs. 280 million is proposed for this sector with a view to further increasing the medical facilities and enlarge the activity of the Family Planning Programme in the country. The programme of Rs. 280 million should adequately cover all essential programmes like Malaria Eradication, Family Planning, Tuberculosis Control, expansion of Hospital beds, Medical Education and training. Rural Health Centres which have been taken in hand, should be completed first and maximum utility derived from these before embarking on new construction. In the case of T. B. Control programme, emphasis should be laid on domiciliary clinics. The programme of B.C.G. should be adequately covered. The work of the B.C.G. assessment team for the evaluation of the B.C.G. programme will be continued.

The Medical Colleges both in East and West Pakistan will be improved alongwith the hostel accommodation for the students. It is expected that two more Medical Colleges will be completed during 1968-69. Efforts will be made to open new departments in the existing colleges and for the provision of better equipment so that the quality of doctors is improved.

The work on a 100-bed Hospital at Dacca and 50-bed Hospitals at important places in East Pakistan will be continued. The work on new Tehsil Headquarters Hospital will be continued. It is expected that about 200 beds will be added in hospitals.

The Health schemes of Azad Kashmir, Gilgit and Baltistan have also been adequately provided for. The programme for these areas envisages extension of hospitals and dispensaries and provision of equipment.

9. SOCIAL WELFARE

The proposed allocation for Social Welfare sector is Rs. 29 million. The allocation for this sector as compared to previous years has been increased. Development schemes which promote socio-economic development of families and communities and help to mobilise community resources should continue as priority programmes. These include continuation of 69 urban community development projects and initiation of 10 to 15 new ones; continuation of 30 pilot projects of social services in rural communities; professional and financial assistance to nearly 4,000 voluntary social services agencies and continuation of social work education research and training. Greater emphasis is intended to be given to the continuing programme of social services for children, youth and families and for physically handicapped persons in order to achieve the Third Plan targets to the maximum possible extent. Staff Welfare Programmes of the Central Government should also be provided for.

10. MANPOWER

The allocation proposed for Manpower sector is Rs. 25 million. A higher rate of acceleration is proposed for this sector because of slow implementation of manpower programme in the past. Adequate provision should be made for completing the on-going schemes. In East Pakistan the on-going schemes relating to the construction of technical training centres, marine diesel training centre, labour welfare centres and three vocational guidance and youth employment units should be fully provided. Similarly, the on-going schemes in West Pakistan like technical training centres including one for released defence personnel should be given preference. In the centre the development programme proposed will include seamen's hostels, expansion of the National Institute of Labour Administration Training and other essential schemes.

11. WORKS PROGRAMME

Works Programme has come to occupy an important position in our developmental strategy since it has a great potential for increasing employment opportunities in the rural areas at a relatively smaller investment. As compared to the previous year, a higher allocation of Rs. 402 million is suggested for this programme. Expenditure in this sector should, however, be more selective and tailored to schemes which will increase food production.

Your obedient servant,

A. B. M. GHULAM MOSTAFA, CSP,
Deputy Secretary to the Government of Pakistan.

1. Copy to all Ministries|Divisions of the Central Government for information and necessary action.
2. Copy to all Financial Advisers attached to Central Ministries|Divisions.
3. Copy to Deputy Chairman|Secretary|Joint Secretary|Members|CE|JCE|SEs|DS (DA)|DS (A)|DS (C)|All Chiefs and Heads of Sections in the Planning Commission.

Extract from letter No. 4(12)PS/PC/67, dated 25th January, 1968 from Secretary, Planning Division, to the Provincial Governments

In making the Programme for the next year, the following order of priorities and principles have been kept in view :—

- (a) The size of the Development Programme should be sufficiently large to maintain the momentum in the growth of the economy within the overall context of price and monetary stability.
- (b) Agriculture sector should receive the highest priority. All essential programmes for attainment of food self-sufficiency, as laid down by the Agriculture Policy Committees, should be fully protected.
- (c) Projects|programmes in the Water and Power sector which have a direct bearing on food production and the generation of power and its transmission should be emphasized.
- (d) Aided projects must be fully protected and full provision made according to the schedule of disbursement.
- (e) On-going projects which have already reached a fairly advanced stage of implementation should be adequately provided for with a view to completing them early.
- (f) Schemes|programmes having a relatively shorter gestation period should be encouraged.
- (g) Construction content of programmes should be curtailed and economies effected therein.
- (h) Allocation for the social sectors (like education, health etc.), should be sufficiently increased so that Plan discipline and consistency is maintained as the pace of implementation in these sectors so far has been comparatively slower. Emphasis should, however, be laid on qualitative improvement and intensive use of the existing facilities.
- (i) Since the 'Works Programme' has a great potential for creation of employment opportunities in the rural areas, it should find an appropriate place in the Development Programme.
- (j) No new scheme, unless it is absolutely essential, should be taken up.

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GOVERNMENT OF PAKISTAN
PLANNING DIVISION



BACKGROUND PAPERS
FOR THE
ANNUAL PLAN
(1968-69)

1969

GOVERNMENT OF INDIA
MINISTRY OF FINANCE



ACCOUNTS OF THE
GOVERNMENT OF INDIA
ANNUAL PLAN

(1968-69)

1968

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THE PLACE OF ANNUAL PLANS IN PAKISTAN'S ECONOMIC PLANNING

1. Pakistan is an advanced country with respect to the techniques used in medium-term planning, i.e. five-year planning. But Pakistan is less advanced in its short-term economic planning; no annual plan is prepared. True, many elements of an Annual Plan are incorporated in the documents now prepared, in particular the Memorandum for the Pakistan Consortium. However, a comprehensive Annual Plan exercise and an Annual Plan document is lacking. This is unfortunate, because an Annual Plan can be a powerful and useful instrument of policy, if properly prepared and efficiently implemented. It is proposed that an Annual Plan be prepared for 1968/69. In a separate note it is also proposing that a belated and limited Annual Plan exercise should be undertaken for 1967/68.

The Advantage of an Annual Plan

2. An Annual Plan is much the same as a Five-Year Plan, only on an annual basis. It is different from the Annual Development Programme (ADP), because an Annual Plan would cover all of the Pakistan economy, whereas the ADP just deals with the public sector development programme. Thus the ADP would be one of the elements in an Annual Plan, in fact one of the most important elements.

3. The purpose of preparing an Annual Plan is basically the same as that of preparing a Five-Year Plan. It aims at securing consistency in planning, and to bring out clearly the relationship between objectives and the economic policy. It aims at using economic instruments in a coordinated way for the promotion of the goals which the governments has set for its policy. In short, preparation and implementation of an Annual Plan would be aimed at improving government policy.

4. An Annual Plan also ought to be an extremely useful document for the Government in dealing with the Pakistan Consortium and in other negotiations with foreign countries about grants and loans. In fact the Plan could be the basic document both in the discussions with the World Bank team that is coming each year to assess aid requirements, and in the presentation for the Consortium meeting later in the year. (A separate Consortium document would of course have to be prepared, but it could be made shorter, supplemented by the Annual Plan, but dealing more specifically with the foreign resource aspects of the situation.) Thus a preliminary Annual Plan ought to be ready at the beginning of February to be of use to the World Bank team coming at that time and so that those preparing the fiscal budget and the ADP can take

fully into account the evaluation of the economic situation and the targets (provisionally) established in the Annual Plan.

5. Even though the chief responsibility for the Plan would rest with the Planning Division, a number of Government departments and agencies, both in the Centre and in the Provinces ought to be brought actively into the preparation of the Plan. Thus the process of preparing the Plan will in itself serve an important purpose. The preparation process can be turned into its educational operation in which each agency comes to understand better its own role in the total picture, through discussion and a pooling of experience and information.

6. The Plan could be submitted to the National Assembly together with the fiscal budget. The added information on economic prospects and policies would help inform the debate on Government policy. The Annual Plan would make clear the economic resources the country could command during the coming year; those wanting more emphasis on one sector could be asked to show from which other sector the resources were to be drawn.

Plan Preparation

7. An Annual Plan document may be outlined as follows (assuming 1968/69 to be the plan year):

- (1) Summary and Conclusions.
- (2) An up-to-date picture of 1966/67.
- (3) Estimation of the likely outcome of 1967/68.
- (4) The main features of the Plan proper:
 - (a) The economic policy targets of the Government;
 - (b) The policy instruments to be used to achieve the targets.
- (5) More detailed presentation of both targets and the policy instrument. This would include chapters on:
 - (a) Production targets and available resources in important sectors;
 - (b) foreign trade and payments, import and export policies;
 - (c) public use of goods and services for investment and consumption;
 - (d) the Annual Development Programme (only the broad aspects of the programme would be included whereas the detailed presentation would continue to be a separate document);

- (e) private investment;
- (f) private consumption and income;
- (g) fiscal policy;
- (h) monetary and credit policy.

In the following paragraphs some further observations are made concerning (2), (3) and (4).

8. The up-to-date picture of how economic conditions turned out in 1966/67 should give information on the main economic aggregates broken down to the extent necessary for the purpose of formulating policy for the 1968/69 plan year. An attempt should be made to determine why the results for 1966/67 turned out as the figures indicate. For instance, was the increase in GNP (present estimate — 5.2%) satisfactory given the prevailing circumstances, that is given the weather conditions, availability of foreign resources, raw materials, manpower, etc. Was the export performance acceptable? A negative answer to some of these questions implies that better economic policies could have been adopted. If so, shortfalls should be clearly noted with the view of avoiding them in the future. The preparation of a survey and evaluation of this kind will not represent any significant extra work load since the type of information needed have in fact been collected in previous years in connection with the Consortium Memorandum and the Evaluation Reports.

9. The evaluation of the prospects for the current year (1967/68) should give both estimate of the expected results for the year as a whole and, as far as possible some kind of a snapshot of the situation likely to prevail at the end of the year, which would of course be the starting point for the plan year. This task should not add much to the work load since much of the data needed are already collected in connection with the Consortium Memorandum.

10. The presentation of the Plan targets and the policy instruments to achieve them should be centered around the estimate of main aggregates for the plan period as indicated in the table below. Such a table may be termed the "general plan table" and the figures in the table the "general plan figures".

- (1) Gross national product;
- (2) Imports of goods and services;
- (3) Total supply of goods and services: (1 + 2)
- (4) Government fixed investment;
- (5) Private investment;

- (6) Stock increases;
 - (7) Government consumption;
 - (8) Private consumption;
-
- (9) Total use of (demand of) goods and services $(4+5+6+7+8 = 3)$.
-

Each of these aggregates will have to be broken down to the extent needed for the purposes of the plan exercise. A separate table focusing attention on the role of the ADP in the total framework should be presented, similarly tables showing the relationship between investment, savings (public and private) and the deficit on the foreign current account. The targets which are being established must of course be mutually consistent, i.e. supply and use of goods and services must be equal; investment can be no more than domestic savings plus capital loans from abroad. Consistency must also exist with regard to prevailing technical and behavioural relationships.

11. The aggregates must be analysed with the view to arriving at the "best possible" targets given the prevailing circumstances. It is somewhat difficult to indicate beforehand how this can best be done in practice. The best starting point is probably the supply side, the Government ought to be able to conduct a policy which would provide sufficient demand; i.e. a policy which would not hamper growth through insufficient demand in relation to the physical production capabilities and availabilities of foreign procedures. Thus the first thing is to estimate the production potentials in the main economic sectors. It would be valuable to make estimates of the growth rates which would be attainable if sufficient raw materials and intermediate goods were available. These estimates would then have to be reduced in accordance with the likely availability of raw materials and intermediate goods, which will in turn depend on the level and composition of imports.

12. A further step is to estimate the likely export performance and to specify the assumptions made about the availability of foreign loans and grants. The level and composition of exports is in turn dependent upon government policies. Therefore export promoting policy measures should be considered and decided upon and taken into account in projecting exports.

13. Given estimates for GNP plus imports minus exports one can proceed to estimations of how the total flow of goods and services available for domestic purposes is to be divided between public and private fixed investment, stock increases (or decreases), and public and private consumption. In large part the choices to be made are constrained by the prevailing technical relationships (coefficients). Still there are a number of points to be considered in this context. In the first place the Government must see to it that the policy instruments are closely geared to these physical aggregates. In particular, the direct demand for

goods and services for public investment and public consumption must be in line with aggregates of the Annual Plan figures. Furthermore the tax policy and the credit policy must be aimed at holding demand for private investment and consumption goods and services at levels corresponding to the estimated general plan figures. Secondly, it may be appropriate to reconsider the policies which are implied in the estimates of production and imports in the light of the estimated results in the form of public and private investment and consumption. For instance, it may be considered preferable to aim at alternative composition of production with a view toward obtaining a higher rate of investment, if the estimates indicate that consumption can be adequately restrained.

14. In other words, the method indicated is one of trial and error, or better stated, a method of successive approximations. One starts with estimates of the supply aggregates and works toward corresponding estimates of the demand aggregates. If it is considered possible, through appropriate use of policy instruments to reach a "better" set of demand aggregates, then one must return to the supply aggregates and review to what extent they can be adjusted in the desired direction. Such an exercise could be repeated several times.

15. In fact, all the aggregates are interrelated. The system of interrelations can be simplified and described by an econometric model. If the model was designed for computer use, policy alternatives could be studied better and faster than through the method of successive approximations indicated above. Thus we ought to develop a model for the preparation of the Annual Plans just as we had a model for the preparation of the Third Five-Year Plan. However, it is unlikely that we will be able to have such a model ready in time for the Annual Plan exercise for 1968/69. Possibly we could make use of the existing model, but an ideal model for a one-year plan will differ somewhat from a model prepared for a five-year plan. The exercise described in paragraphs 10 to 15 should not add much to the work load since again much of the basic information has been collected and processed in previous years, even though it has not been fully utilized in an Annual Plan.

16. It is apparent from the previous paragraphs that the government policy instruments should be looked upon as means to achieve targets. Given this background the Government should make a presentation in the Annual Plan of the policy mix it proposed to use to promote the stated targets. The main instruments are the fiscal budget, the monetary and credit policy and the import and export policy. In addition the Government has a number of instruments relating to specific sectors such as agriculture, industry, transport, education, etc.

17. The most powerful instrument of all is the fiscal budget. Therefore it is essential to make progress in analysing the effects of the budget on the physical targets of the Annual Plan. This is not just a question of surplus or deficit financing, or of the size and composition of the Annual Development Programme, although these aspects of the budget are of great importance. The economic effects of a budget is, however, also dependent upon such factors as the total size of the

budget compared to the GNP, the level and composition of taxes and other government revenue, and the level and composition of development and non-development expenditures. The *changes* in these figures from one year to the next are not the least important. In order to increase the scope for employing the budget for the promotion of the targets, consideration should be given to possibilities for improving the presentation of the budget through reclassification of expenditures, and through improving the methods of estimating revenues. Consolidated figures for the Central Budget and the Provincial Budgets are also needed. In many countries extensive work is currently being carried out with the view to improving the methods of fiscal budgeting. In this country a report on Budget Reforms was prepared two years ago. It is important that work in this field be continued and given high priority.

18. Similarly it is important to make progress in the use of other policy instruments, and to learn more about the interrelations between the different instruments and between the instruments and the targets. In particular better coordination of fiscal policy and monetary and credit policy is important.

19. Obviously an Annual Plan involves a considerable degree of short-term forecasting. Thus improved forecasting techniques are important.

20. However, it should be clear from the previous paragraphs that an Annual Plan is intended to be something more than just an analytical survey of economic prospects. It is intended to be an economic policy document committing the Government to targets and policies. This means that the Plan document should be finally adopted at the top Government level so that the assumptions, targets and the policy mix laid down become obligatory for all parts of government. Only then will the Plan serve the intended purpose of being a powerful vehicle for the promotion of the government's goals. Even though differences of view about likely developments of such things as government revenue, export performance, foreign aid may persist among government bodies after the discussions necessary for the preparation of the plan, it should be made clear that once the plan has been adopted at the top level, all agencies must base their work on the assumptions, targets and policy mix laid down in the plan—as long as these are not changed by the same high authority. Thus, introduction of an Annual Plan into the planning system of Pakistan involves much more than preparing a document on policy and instruments. It involves *plan implementation*, which is an equally important element of annual planning as the plan itself. In this sense annual planning is a continuous process, just as longer term planning.

21. An Annual Plan can be looked upon as part of the implementation of the Five-Year Plan. But it should not be an implementation which necessarily implies sticking to the original Five-Year Plan. The Five-Year Plans are based on a number of assumptions about political, economic and institutional factors. Some of these assumptions are usually mentioned explicitly in the Plan, especially those which are uncertain, such as marketing conditions abroad and the availability of foreign resources. Some of these assumptions most certainly will

prove incorrect. This may very well require adjustments of targets and of the policy mix. Such adjustments should not be taken as failures of planning. In fact, good planning involves changing targets and policy mix as circumstances demand. This does not of course mean that targets and policy mix should fluctuate violently. Sight must not be lost of basic goals because of short-term difficulties. But a certain degree of flexibility is a necessary element of good planning. In fact, when preparing an Annual Plan—as an implementation of a Five-Year Plan—the planners can profit from more recent information on developments than when the Five-Year Plan—was prepared. The planners should of course take advantage of this in drawing up the Annual Plan, that is in implementing the Five-Year Plan. Even over a period as short as one year important assumptions on which the Annual Plan are based may change and require adjustments of targets and policy mix during the year.

Timing of the preparation

22. In broad terms the steps in preparing the plan would be as follows :

- (1) In August each year the Planning Division would draft a short strategy paper on which the preparation of the plan would be based.
- (2) The strategy paper should be discussed in a committee consisting of representatives from the Planning Division, Finance Ministry, and other interested Ministries, the State Bank and the Provincial Planning Departments.
- (3) In September an amended strategy paper should be submitted to the Economic Council or the ECNEC which would decide the strategy to be adopted.
- (4) The Planning Division would then forward the adopted strategy paper, together with the necessary technical explanations and instructions, to the Provincial Planning Departments and to all the Ministries and Agencies concerned.
- (5) Contributions from the Provinces, Ministries and Agencies would be forwarded to the Planning Division in October.
- (6) The Planning Division would then prepare discussion papers and draft chapter outlines in October and November.
- (7) In this work the Planning Division would make use of a Co-ordination Committee with representatives from the Provinces, Ministries and Agencies concerned. The Chief Economist of the Planning Division should be in the chair. [This Co-ordination Committee probably ought to be identical with the Committee referred to in (2) above.]

- (8) In early December a draft plan should be circulated to the Provinces, Ministries and Agencies for additional comments to those made by their representatives in the Coordination Committee.
- (9) Comments on the draft plan should be returned to the Planning Division by late December.
- (10) A revised draft would be submitted to the Economic Council or the ECNEC in January and adopted as modified by the Council in January.
- (11) The preparation of the fiscal budget, the annual development plan and the formulation of other policy instruments would be based on the preliminary approved plan. In this process adjustments to the Plan itself would be considered. The Coordinating Committee would continue to play its role as coordinator, whereas the Planning Division would serve as a Secretariat. Whenever policy issues would not be resolved at the Coordination Committee level, or if the issues were far reaching, the matter would have to be submitted to the ECNEC.
- (12) Final adoption of the Plan, together with the fiscal budget, would come in June.

These are only rough indications of a timetable and of the bodies involved in the preparation of the plan. The schedule will have to be revised and made more detailed and specific. The time-table for the preparation of the ADP will also have to be reconsidered. If it is decided to introduce annual plans as an element in Pakistan's planning.

23. The Annual Plan would cover the whole economy, that is, it would also include the private sector. The development of the private sector, both on the production and investment side as well as the consumption side, is highly dependent upon government policies. It would be useful if it proves possible to draw private sector representatives into the process of annual planning. Any major attempt in that direction is however hardly practicable at the present time. But to the extent that Ministries and Agencies dealing with sectors of the private economy (industry, agriculture, etc.) are brought into the Annual Plan preparations, useful links and contacts with representatives of the private sector may be established.

24. The preparation of an Annual Plan for 1968-69 will probably have to be somewhat different from the procedure and time-table adopted for later years, and the scope of the plan more limited. The extent to which the Provinces, Ministries and Agencies are brought into its preparation may have to be modest. In fact a Plan for 1968/69 must be regarded as a first attempt from which experience could be gained so that methods and procedures could be modified, improved and firmed up in later years. One reason why the work on an Annual Plan for

1968/69 must differ from what may be the procedure in later years is that no Annual Plan for 1967/68 exists. As proposed in another note, some sort of an Annual Plan for 1967/68 should be prepared and be ready sometime in September-October. This must obviously be a rather short and incomplete document, but it still may serve as a starting point for the work on the Plan for 1968/69.

25. As referred to on several occasions in the paper, much of the basic work required for annual planning is in fact being done in Pakistan. Introduction of Annual Plans should therefore not represent a great additional load, and should also make it possible to discontinue some of the documentation which is presently prepared. In fact much of the work on the progress of the Five-Year Plan could be integrated into the Annual Plan exercise. In any case, the extent to which work on annual planning is contemplated should of course always be limited to what is possible and sensible. Still, even with a limited Annual Plan operation, the potential benefits in the form of improved policies and better coordination between different arms of the Government should be considerable.

Conclusions

- (1) Annual Plans should be made part of Pakistan's planning system.
- (2) A belated and limited Annual Plan Document for 1967/68 should be prepared. It should be ready for consideration by the appropriate Government bodies in September/October, thus making possible a much needed re-appraisal of the policy mix for the present year.
- (3) A more comprehensive Plan should be prepared for 1968/69, although the scope will have to be quite limited compared to what should be desirable and possible in later years.

The Government should take the necessary steps to ensure that the Annual Plan for 1967/68 is prepared and ready for consideration by the appropriate Government bodies in September/October. This will make it possible to discontinue some of the documentation which is presently prepared. In fact much of the work on the progress of the Five-Year Plan could be integrated into the Annual Plan exercise. In any case, the extent to which work on annual planning is contemplated should of course always be limited to what is possible and sensible. Still, even with a limited Annual Plan operation, the potential benefits in the form of improved policies and better coordination between different arms of the Government should be considerable.

(i) At present the Annual Development Programme only covers programmes in the public sector of the Plan and this amount almost half of the Plan's total in the sphere of private enterprise.

(ii) The total economic situation, requirements and priorities cannot be integrated with the form of economic policies unless all

II

SUMMARY FOR THE NATIONAL ECONOMIC COUNCIL

GOVERNMENT OF PAKISTAN

PRESIDENT'S SECRETARIAT

(Planning Division)

SUMMARY FOR THE NATIONAL ECONOMIC COUNCIL

SUBJECT:—*Formulation of Annual Plan for 1968-69*

Pakistan is now regarded as a fairly advanced country in the preparation of its medium term plans. Techniques and procedures for the preparation of Five-Year Plan have been streamlined, and the consistency of various targets has been enhanced by the preparation of a 20-year perspective plan. But short term planning is not yet fully developed or organised. An annual development programme is prepared each year, but it is confined largely to the public sector and does not cover the economy as a whole. No systematic attempt is made to identify production and other targets in each sector, or to identify the impact of alternative economic policies on these targets. To remove this inadequacy it is proposed to introduce the preparation of an Annual Plan from next year as a regular feature of the planning process.

2. The rationale for an Annual Plan basically arises from the need to have a flexible instrument for the implementation of five-year plans. A five-year plan relies heavily on projections and assumptions regarding future course of events. The developments that may take place from year to year cannot be gauged five years in advance. It is necessary to review the situation annually and to shift relative emphasis on various parts of plan implementation in response to developments in the economy. For the public sector part of the plan, where the Government has a direct responsibility for carrying out the programme Annual Development Programme has proved a highly useful and flexible tool of implementation. However, there are certain inherent and obvious limitations which distinguish the present Annual Development Programme from a more comprehensive Annual Plan. The more important limitations are listed below:—

- (i) At present the Annual Development Programme only covers programmes in the public sector of the Plan and thus ignores almost half of the Plan which lies in the sphere of private enterprise.
- (ii) The total economic situation, requirements and priorities cannot be integrated with the focus of economic policies, unless all

facets of an annual plan are viewed in a coordinated and comprehensive manner.

- (iii) The overall physical and financial targets cannot be coordinated merely on the basis of public sector development programme.

3. The proposed Annual Plan would provide a framework for achieving these targets and ensuring consistency between public and private sector programmes. As an illustration, it may start by setting growth target for the next year, seeking the distribution of this growth between agriculture and industry and ensuring that necessary transport, power etc. would be available for this purpose. In each sector physical inputs would be identified such as fertilizer for agriculture, spare parts and raw materials for industry and cement and steel for construction. These requirements would then be matched against resources and availabilities and necessary adjustments made.

4. The proposed Annual Plan for 1968-69 will cover the following main elements.—

- (a) An evaluation of the past performance of the economy in the preceding three years and the strategy for development for the year 1968-69 within the overall framework of the Third Five-Year Plan ;
- (b) A presentation of the main targets to be achieved, *i.e.* targets for gross national product, investment, savings, exports, imports, consumption and employment.
- (c) An assessment of financial resources, internal and external, likely to be available during the year.
- (d) An outline of the investment programme in the public and private sectors and of the physical targets to be achieved in major sectors/fields.
- (e) A broad outline of the economic policies that may be necessary to achieve various targets.
- (f) An analysis of the sectoral programmes and targets with special reference to the balance of payments position, overall employment opportunities, price and wage stability and other important elements of the economy.

The present reporting system and flow of information is neither prompt nor adequate to permit detailed treatment of all these aspects of the economy but attempts would be made to remove present statistical deficiencies as quickly as possible.

5. Although the main responsibility for coordinating the work relating to the Annual Plan will rest with the Planning Commission, the actual preparation of the Annual Plan will require the association and active cooperation of all the Central and Provincial agencies concerned to ensure that the Annual Plan is internally consistent and balanced and that its implementation is smooth and

orderly. In addition, consultation with PICIC, IDBP, scheduled banks, Chamber of Commerce and others will take place in order to enable the Government to gain useful information about the likely behaviour of the private sector, and provide a better basis for policy decisions. This will improve upon the present planning operation which pays inadequate attention to likely developments in the private sector.

6. It is proposed to constitute a high powered Annual Plan Coordination Committee with the following composition to supervise the preparation and the implementation of the Annual Plan:—

| | | |
|--------------------------------------------------------------|-------|-------------------|
| (1) Deputy Chairman, Planning Commission | .. | <i>Chairman.</i> |
| (2) Secretary, Ministry of Agriculture | .. .. | <i>Member.</i> |
| (3) Secretary Ministry of Finance | .. .. | <i>Member.</i> |
| (4) Secretary, Ministry of Industries | .. .. | <i>Member.</i> |
| (5) Secretary, Ministry of Commerce | .. .. | <i>Member.</i> |
| (6) Secretary, Economic Affairs Division | .. .. | <i>Member.</i> |
| (7) Secretary, Planning Division | .. .. | <i>Member.</i> |
| (8) Additional Chief Secretary, (Development) East Pakistan. | | <i>Member.</i> |
| (9) Additional Chief Secretary, (Development) West Pakistan. | | <i>Member.</i> |
| (10) Chief Economist, Planning Commission | .. | <i>Secretary.</i> |

7. The proposed Annual Plan Co-ordination Committee will meet in November each year to formulate the basic strategy of the Annual Plan in the light of a broad review of the performance of the Plan at that stage and the prevailing economic situation. The basic strategy recommended will be submitted to the National Economic Council before the end of December each year. Between December and the following April, main targets and related policies will be considered and formulated by various committees and organisations in their respective fields *viz.*, the Exchange Control Committee, the Import Policy Committee, the Agriculture Policy Committees, the Resources Committee and the Central Investment Promotion and Coordination Committee etc. Work on the preparation of the public sector development programme will be initiated and finalized in accordance with the existing procedures. A draft Annual Plan will be formulated by April each year in the light of the work and deliberations of these Committees and other related organisations and submitted to the National Economic Council for approval sometime in May. The public sector Annual Development Programme will henceforth be published within the framework of the Annual Plan as a supplementary document.

8. Annual planning to be successful does not involve only the preparation of a good Annual Plan but its effective implementation. If basic assumptions underlying the Annual Plan targets and policies change, adjustments may be

required during the year. The Annual Plan Coordination Committee will review the progress of the Annual Plan as frequently as necessary and recommend any changes in policies and programmes that may be required.

9. Since work on the Annual Plan for 1968-69 will commence sometime later than indicated in the above time schedule, it will not be possible fully to adhere to it this year. The Annual Plan for 1968-69 will also have to be more limited in scope than foreseen for later years. Even so a start should be made without any delay. Once the procedures are fully established the Annual Plan can become an important instrument in the implementation of the Five-Year Plan since its preparation would be based on up-to-date information and assumptions about the economic and institutional factors.

10. The approval of the National Economic Council is solicited to preparation of an Annual Plan for 1968-69 on the lines suggested above and to the constitution of an Annual Plan Coordination Committee as recommended in paragraph 6 above.

11. This summary has been sent for comments to the two Provincial Governments and the Ministries concerned. Their comments, if any, will be circulated separately.

12. The Deputy Chairman, Planning Commission has seen and approved the Summary.

QAMAR UL ISLAM,

Secretary to the Government of Pakistan.

Rawalpindi, November 1, 1967.

III

WORKING PAPER FOR THE ANNUAL PLAN COORDINATION
COMMITTEE

III

WORKING PAPER FOR THE ANNUAL PLAN COORDINATION
COMMITTEE

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III

WORKING PAPER FOR THE ANNUAL PLAN COORDINATION COMMITTEE

SUBJECT: *Annual Plan for 1968-69*

At its meeting held on the 14th November, 1967, the National Economic Council decided to introduce the preparation of an Annual Plan from 1968-69 as a regular feature of the planning process in Pakistan. It was felt that Pakistan was now fairly advanced in the preparation of Five-Year Plans, short term planning was not yet fully developed or organised. The annual development programme prepared each year, is confined largely to the public sector and does not cover the economy as a whole. No systematic attempt is made to identify production or other targets for each sector or to identify the impact of alternative economic policies on these targets.

2. The rationale for an Annual Plan basically arises from the need to have a flexible instrument for the implementation of five-year plans. A five-year plan relies heavily on projections and assumptions regarding the future course of events. The developments that may take place from year to year cannot be gauged in advance. It is necessary to review the situation annually and to shift relative emphasis on various parts of plan implementation in response to developments in the economy. An Annual Plan can provide the framework for consistency in the establishment of economic targets and in the selection and use of policy instruments required to achieve the targets.

3. One of the purposes of annual planning is to engage all the ministries, departments and agencies of the Central and Provincial Governments which are concerned with different elements of planning in a coordinated planning effort, and to enable them to assess the wider implications of their respective programmes and policies. The work which will be required in preparing the Annual Plan does not really represent a great deal of additional work. Much of the work required is already being undertaken in the various agencies. However, through the mechanism of the Annual Plan, better coordination can be secured in formulating and implementing inter-related programmes and policies.

4. The main elements of the Annual Plan for 1968-69 as summarized in the Planning Division's original summary on the subject and approved by the National Economic Council are reproduced below:—

- (a) An evaluation of the past performance of the economy in the preceding three years and the strategy for development for the year 1968-69 within the overall framework of the Third Five-Year Plan.

- (b) A presentation of the main targets to be achieved, i.e. targets for gross national product, investment, savings, exports, imports, consumption and employment.
- (c) An assessment of the financial resources, internal and external likely to be available during the year.
- (d) An outline of the investment programme in the public and private sectors and of the physical targets to be achieved in major sectors/fields.
- (e) A broad outline of the economic policies that may be necessary to achieve various targets.
- (f) An analysis of the sectoral programmes and targets with special reference to the balance of payments position, overall employment opportunities, price and wage stability and other important elements of the economy.

5. The Planning Commission has, during the past few weeks, undertaken a number of studies to provide a more systematic basis for the elements mentioned above. This working paper incorporates the preliminary results of the studies carried out so far. It also draws heavily on the work done by the Committee on Balance of Payments and the reports of its four Sub-Committees, namely, reports on Import Policy, Export Policy, Debt Servicing and domestic resources.

6. This paper presents a broad factual analysis of the progress of the Third Plan so far and suggests desirable targets for the fourth year of the Third Plan. The refinement of these targets and identification of inputs and policies necessary to achieve them will have to be made by the respective Committees or agencies during the next few weeks in the light of the recommendations of the Annual Plan Co-ordination Committee and subsequently incorporated in the draft Annual Plan by May 1968.

I. Evaluation of Performance 1965-68

7. The Planning Commission has recently completed a Mid-Plan review which contains a detailed evaluation of progress in the first two years of the Third Plan and preliminary evaluation of the third. A brief summary of this Review is reproduced in Annexure I. The main conclusions of the Review in respect of main targets of the Third Plan in terms of growth, investment, balance

of payments and prices are summarized in the following table:—

| | 1965-66 | 1966-67 | 1967-68 † | Average 1965-66 | Third Plan Achieve- ment Target | (%) |
|----------------------------------------------------|---------|---------|--------------|--------------------|---------------------------------------|--------|
| Growth of the Economy | | | | | | |
| GNP (% increase) .. | 4.7 | 5.3 | 6.8 | 5.6 | 6.5 | 86 |
| Agriculture .. | 2.0 | 0.9 | 6.2 | 3.0 | 5.0 | 60 |
| Non-agriculture .. | 7.3 | 9.2 | 7.3 | 7.9 | 7.8 | 101 |
| Per Capital Income .. | 2.0 | 2.6 | 4.1 | 2.8 | 3.8 | 74 |
| Development Expenditure | | | | | | |
| | | | | Total 1965-68 | | |
| Public Sector .. | 3,113 | 4,150 | 5,000 | 12,350 | 30,000 | 41 |
| Private Sector .. | 3,910 | 3,940 | 4,460 | 12,310 | 22,000 | 56 |
| Marginal Rate of Saving (—) (in 1964/65 prices) | 27.2 | 32.7 | 46.2 | 24.6* | 22 | 111.5 |
| Average Rate of Saving ... (in 1964/65 prices) | 10.0 | 11.4 | 13.7 | 11.8 | 13.6 | 86.8 |
| Balance of Payments | | | | | | |
| Exports: | | | | | | |
| Total .. | 3,394 | 3,580 | 3,900 | 10,874 | 10,800 | 101.0 |
| Growth Rate .. | 12.6 | 5.5 | 9.0 | 9.7 | 9.5 | 102.0 |
| Imports: † .. | 5,089 | 6,503 | 6,700 | 18,292 | 19,650 | 93.0 |
| Development ... | 2,642 | 3,270 | 3,550 | 9,462 | 12,520 | 75.3 |
| Non-Development .. | 2,447 | 3,233 | 3,150 | 8,860 | 7,130 | 124.56 |
| External Assistance .. | 1,970 | 2,505 | 2,800 | 7,284 | 8,850 | 82.3 |
| Prices : | | | | | | |
| Increase in whole Prices (1964/65—100) .. | 104.5 | 125.9 | 121.0 | 117.1 | .. | .. |

* Computed for 1964-65 to 1967-68.

† Date for 1967-68 is based on the lower estimates of agricultural production shown in Annexure II. If actual production is better, the average for the three-year period will improve correspondingly.

‡ Excluding PL-480 and Indus Basin imports.

8. It will be seen from the preceding table that progress of the Third Plan in respect of almost all the major targets in the first three years except exports has been less than that visualized in the Plan. The average growth of 5.6 per cent for the first three years is however fairly satisfactory in view of the impact of drought and floods on agricultural production in both the Provinces during the first two years. Agricultural production has picked up sharply in the third year and if the progress can be maintained in the remaining two years, the growth target of 6.5 per cent per annum over the Plan period can still be realized.

9. The growth of non-agriculture sector was affected by the shortage of imported inputs and by slack demand due to lower agricultural production, but was still in line with Plan projections. In the remaining two years of the Plan, however, the proportionate contribution of the industrial sector to the growth of G. N. P. will have to be considerably faster since the annual increase in the agriculture sector from the high 1967-68 base, may not be equally high. This in turn will need careful attention to the industrial raw material situation.

10. The shortfalls in the development outlay are quite substantial and there are little prospects for reaching the Plan's investment targets, at least in the public sector, particularly if the objective of monetary and price stability is to be kept in view. The major emphasis of investment policy in the remaining two years should therefore be to accelerate the rate of investment in the private sector.

11. The balance of payments situation has been under considerable strain, despite a satisfactory export performance because foreign assistance was 22 per cent less than expected and the increase in country's own foreign exchange resources was almost entirely taken up by larger defence and food imports. Imports of capital goods and raw materials in the first three years are expected to be 24.4 per cent less than the Plan target. This shortfall in turn is reflected in a lower level of investment and industrial production. A sharper increase in the flow of development imports in the remaining two years should accelerate both the level of investment and industrial production.

12. The Third Plan did not make any explicit assumption about price increase during the period 1965-70 but the implicit assumption was an average increase of about 2 per cent per annum, in line with the experience of the Second Plan. The rate of price increase in the first two years of the Plan has, however, been much faster, namely, about 4.5 and 13.9 per cent per annum, giving an average increase of 9 per cent per annum. In the third year, because of a relative decline in food prices, the overall price index showed a fall of 4.3 per cent in the first seven months. This trend, if continued, will reduce the average price increase for the three-year period 1965-68 to about 6 per cent per annum. If the increase in prices in the next two years can be restrained within about 2 per cent per annum, it may still be possible to end the Plan period with a price increase of less than 4 or 5 per cent per annum. This, in itself, will be an achievement in view of the high prices in the first two years, but this objective does impose a serious limitation on measures to accelerate the overall rate of investment in the remaining two years.

13. This brief evaluation of the progress in the Third Plan provides broad guidelines for determining the growth and sectoral targets for the fourth year of the Third Plan and identifying some of the areas in which economic policies in 1968-69 should be more sharply focussed.

II. Major Targets for 1968-69

14. One of the main objectives of the Annual Plan exercise is to determine realistic targets for 1968-69, in the light of the past progress and future prospects, in respect of G.N.P., investment, savings, exports, imports and employment.

15. The Planning Commission has prepared detailed projections of growth in G.N.P., agriculture and non-agriculture sectors in 1967-68, the basis of low and high assumptions regarding agricultural production and then estimated desirable and feasible targets for 1968-69.

16. According to these projections, the increase in G.N.P. in 1967-68, will be 6.8 per cent on the basis of low estimates of agricultural production and 8.5 per cent on the basis of high estimates of agricultural production. The low estimates assume production of 5.4 million tons of wheat, and 2.6 million bales of cotton in West Pakistan whereas the high estimates are based on 6.0 million tons of wheat and 2.8 million bales of cotton. In respect of East Pakistan the low estimates assume production of 10.5 million tons of rice and 6.5 bales of jute and high estimates 11.37 million tons of rice and 6.8 million bales of jute.

17. By the time the draft Annual Plan is actually prepared, more reliable estimates of actual agriculture production would be available, but in the interim period, it would be desirable to use the low estimate as bench marks for the Annual Plan for 1968-69.

18. The agricultural production targets for 1968-69 have to be determined by the respective Agricultural Policy Committees. It is expected that they will be able to finalize this work before the end of April 1968 so that these targets can be incorporated in the Annual Plan. The estimates for 1968-69 shown in Annexure II, are based on the agricultural production targets visualized in the food self-sufficiency programme, viz. 6.1 million tons of wheat in West Pakistan and 12.1 million tons of rice in East Pakistan. These, if realized, together with 3.2 million bales of cotton in West Pakistan and 7.2 million bales of jute in East Pakistan will mean a growth rate of 7.2 per cent in major agriculture crops over the high 1967-68 estimates and 14.0 per cent over the low estimates. In the Agriculture Sector as a whole, it will be 5.5 and 9.3 per cent respectively. Assuming a growth rate of 14.0 per cent in large-scale manufacturing, this will mean a growth rate of 7.5 to 9.3 per cent in G.N.P.

19. Pending a firm estimate of agriculture production, the Annual Plan

Coordination Committee may consider for approval the following targets for 1968-69:

| | | |
|-----------------------------|---|------|
| G.N.P. | = | 7.5 |
| Agriculture | = | 5.5 |
| Manufacturing | = | 11.0 |
| (Large-scale manufacturing) | = | 14.0 |

A more detailed composition of these targets and estimates of inputs required can be finalized only after the Agriculture Policy Committees have determined the production targets for 1968-69, but it is necessary to work out the import requirements of fertilizers and pesticides for 1968-69 as early as possible to facilitate timely programming of commodity aid.

20. The industrial production target is based on another study (Annexure II) which estimates import requirements for different sectors of the economy. The main conclusion of the study is that the availability of intermediate goods will have to be increased by about 25 per cent to attain the projected growth target. The implications of this conclusion in respect of foreign exchange requirements from the country's own resources and from commodity aid are discussed in Section IV on Import and Export Projections.

III. Investment Targets and Financial Resources

21. According to the Mid-Plan Review, the financial implementation of the Third Five-Year Plan in the first three years is estimated to be as follows:

| | | Public Sector | Private Sector | Total |
|--------------------------------|----|------------------|-------------------|--------|
| 1965-66 | .. | 3,113 | 3,910 | 7,023 |
| 1966-67 | .. | 4,150 | 3,940 | 8,090 |
| 1967-68 (Estimates) | .. | 5,000 | 4,460 | 9,460 |
| Total (3 years) | .. | 12,263 | 12,310 | 24,573 |
| Third Plan Targets for 5 years | | 30,000 | 22,000 | 52,000 |
| Percentage Implementation | .. | 41% | 56% | 47% |

22. The revised phasing of the Third Plan had visualized development expenditure of Rs. 5700 million in the public sector and Rs. 5240 million in the private sector in the fourth year of the Third Plan.

23. The Working Group on Resources in its report to the Committee on Balance of Payments projected the total availability of internal and external resources for the public sector in 1968-69 at Rs. 5481 million (Rs. 2892 million internal and Rs. 2589 million external). The Working Group has been asked to identify possibilities of mobilizing additional resources. Their supplementary report is awaited, but their preliminary estimates indicate a possibility of additional internal resources of Rs. 500 million. Thus, the total availability of resources for the Annual Development Programme, including deficit financing of Rs. 250 million, may be in the range of Rs. 6000 million.

24. The Annual Plan Coordination Committee may wish to formulate its recommendation on the gross and net size of the Annual Development Programme for 1968-69 in the light of the resource position presented in the report of the Working Group on Resources. The Planning Commission in consultation with the Ministry of Finance has indicated a tentative gross size of Rs. 67000 million to the Provincial Government and the Central Ministries concerned in order to enable them to formulate their Annual Development Programmes without delay.

25. The sectoral breakdown of the gross programme and the guidelines issued by the Planning Commission for the preparation of the Annual Development Programme for 1968-69 are reproduced in Annexure IV.

26. Estimates of *private investment* in 1967-68 are very tentative and data on the financial aspects of this investment is even more inadequate, but on the whole there is considerable scope for accelerating the pace of private investment in 1968-69 beyond the level visualized in the revised phasing. Tentatively, it is proposed that the target for private development expenditure in 1968-69 be fixed at Rs. 5000 million. The implication of this target and suggestions for improving the institutional arrangements for conscious and coordinated planning in the private sector are discussed in a subsequent section on the private sector.

27. Assuming a net programme of Rs. 6000 million in the public sector and Rs. 5000 million in the private sector, the proposed financial target of Rs. 11000 million in the public and private sectors for 1968-69 will imply an acceleration of 16 per cent over the estimates for 1967-68, but will be 8 per cent lower than the revised Plan target for the year.

IV. Export and Import Projections:

28. The performance of the export sector so far has been one of the most encouraging features of the implementation of the Third Five-Year Plan. However, several signs of weakness have appeared recently in the export picture. Removal of these weaknesses and a determined effort to maintain the momentum of the export sector should be a major objective of the Annual Plan for 1968-69.

29. The Working Group on Export Policy has prepared projections of export earnings for 1968-69 and 1969-70. The Working Group has also examined, in pursuance of a directive of the Committee on Balance of Payments policies, the potential for increased export earnings. The Working Group has also made a number of policy proposals to realize the additional export potential. The report of the Committee on Balance of Payments policies is expected to be submitted to the Government shortly.

30. The original projections of the Working Group had visualized that the total export earnings (excluding invisibles) will increase from Rs. 3160 million in 1967-68 to Rs. 3400 million in 1968-69 on the basis of existing policies and to Rs. 3600.00 million on the basis of revised policies and arrangements proposed in the report. Assuming Rs. 700 million as invisible earnings, total foreign exchange earnings may be between Rs. 4100 and Rs. 4300 million in 1968-69.

31. The original and revised projections of the Working Group together with the corresponding data for the last four years and the Plan targets for 1969-70, are reproduced below to enable the Annual Plan Coordination Committee to formulate its recommendations on the export targets for 1968-69:—

TABLE A
FOREIGN EXCHANGE RECEIPTS FOR 1964/65-1968/69

| | 1964-65 Actuals | 1965-66 Actuals | 1966-67 Actuals | 1967-68 Estimates | 1968-69 | | Plan Target for 1969-70 |
|--------------------------------------|--------------------|--------------------|--------------------|----------------------|----------------------|----------------------------|----------------------------|
| | | | | | Projections Group | Plan Target for 1969-70 | |
| | | | | | Original | Revised | |
| (Million Rs.) | | | | | | | |
| A. Primary Commodities: | | | | | | | |
| 1. Raw Jute .. | 925.9 | 977.8 | 909.2 | 912.0 | 900.0 | 900.0 | 750.0 |
| 2. Raw Cotton | 330.5 | 286.3 | 260.9 | 405.0 | 375.0 | 455.0 | 550.0 |
| 3. Hides and Skins .. | 61.2 | 30.0 | 13.3 | 13.0 | 3.0 | 3.0 | 80.0 |
| 4. Raw Wool | 73.1 | 67.4 | 39.8 | 50.0 | 52.0 | 52.0 | 90.0 |
| 5. Rice .. | 116.7 | 127.0 | 149.8 | 185.0 | 200.0 | 200.0 | 250.0 |
| 6. Fish (Fresh and Dried). | 82.3 | 61.3 | 58.2 | 75.0 | 30.0 | 30.0 | 100.0 |
| 7. Others .. | 106.0 | 152.9 | 170.3 | 195.0 | 198.0 | 198.0 | 230.0 |
| Total (A) | 1,695.7 | 1,702.7 | 1,601.5 | 1,825.0 | 1,758.0 | 1,838.0 | 2,050.0 |
| B. Manufactured Products: | | | | | | | |
| 8. Jute Manufac- tures .. | 319.9 | 591.7 | 630.8 | 662.0 | 710.0 | 784.5 | 800.0 |
| 9. Cotton Ma- nufactures.. | 188.3 | 229.6 | 256.4 | 305.0 | 310.0 | 355.0 | 350.0 |
| 10. Paper and Newsprint.. | 6.1 | 5.1 | 4.5 | 5.0 | 8.5 | 8.5 | .. |
| 11. Other Manu- factures .. | 260.9 | 239.7 | 426.8 | 433.0 | 613.5 | 614.0 | 850.0 |
| Total (B) | 775.2 | 1,066.1 | 1,318.5 | 1,405.0 | 1,642.0 | 1,762.0 | 2,000.0 |
| Total Physical Exports | 2,470.9 | 2,768.8 | 2,920.0 | 3,230.0 | 3,400.0 | 3,600.0 | 4,050.0 |
| C. Invisible Earn- ing .. | 611.9 | 707.4 | 660.0 | 670.0 | 700.0 | 700.0 | 750.0 |
| Total Earnings | 3,082.8 | 3,476.2 | 3,580.0 | 3,900.0 | 4,100.0 | 4,300.0 | 4,800.0 |

32. If the higher target recommended by the Working Group is achieved, this will imply an increase of 10.3 per cent over estimated exports of Rs. 3900 million in 1967-68. This will mean an average of about 9 per cent per annum during the first four years of the Third Five-Year Plan, compared to the Plan target of 9.5 per cent.

33. The Annual Plan itself will incorporate detailed recommendations on export policies and institutional framework for various items in the light of the Government decisions on the report of the Committee on Balance of Payments policies. The Ministry of Commerce, it is expected, will also prepare an annual export policy for 1968-69 in pursuance of recommendations of the Committee on Balance of Payments policies.

34. A brief note on the likely international economic situation is presented in Annexure V. It will be seen that the demand for Pakistani goods abroad is likely to remain strong and no unfavourable developments with regard to prices of raw materials are expected.

Import Projections

35. As already mentioned in the evaluation of performance so far, total imports in the first three years of the Third Five-Year Plan were 7 per cent less than the Plan target but development imports were 25 per cent less than the Plan projections because of larger food and defence imports on account of which non-development imports were 24 per cent higher than Plan projections. One of the major objectives of the Annual Plan for 1968-69 should be to correct this imbalance by accelerating the flow of development imports at a much faster rate.

36. According to the export projections discussed above, the availability of foreign exchange might increase by Rs. 200 million in relation to lower estimate and Rs. 400 million on the basis of higher estimates. For the purpose of projecting import requirements it would be safe to assume an increment of Rs. 300 million in exports.

37. The estimates of external resources for 1968-69 forecast an increase of Rs. 400 million (Rs. 120 million in commodity loan, Rs. 250 million in project loans and Rs. 30 million as foreign private investment). The total availability of foreign exchange resources in 1968-69 is therefore expected to be Rs. 700 million larger than 1967-68 as shown below:—

| | (Million Rs.) | | |
|-----------------------------------------------|---------------|---------|------------|
| | 1967-68 | 1968-69 | Increase |
| Exports | 3900 | 4200 | 300 |
| External Assistance .. | 2930 | 3130 | 400 |
| Project Assistance .. | (1500) | (1750) | (250) |
| Commodity Assistance .. | (1000) | (1120) | (120) |
| Technical Assistance .. | (100) | (100) | — |
| Foreign Private Investment .. | (130) | (160) | (30) |
| Total expected increment in resources: | | | 700 |

38. The estimated increase in the project aid disbursements is based on an analysis of the pipeline and fresh commitment of \$300 million from both Consortium and non-Consortium sources in 1968-69 of which about 10-15% may be disbursed during the year. The estimate for commodity aid implies the same level of assistance from the Consortium countries as in 1967-68, viz. \$210-216 million but assumes an additional amount of \$25 million from I.D.A. for industrial imports.

39. Against this projected increase of Rs. 700 million in resources, the increase in debt servicing liability and other contractual obligations is likely to be Rs. 100 million. There may be other unavoidable increase in non-development foreign exchange expenditure to the extent of Rs. 50 million. This would leave additional resources of Rs. 550 million for development imports, about 280 million for capital goods imports and Rs. 270 million for raw material imports.

40. Apart from these additional resources two other favourable factors should help to increase the flow of industrial raw materials in 1968-69:

- (a) Repayments on account of food purchases and PL-480 freight would be about 170 million less than in 1967-68.
- (b) The proportion of fertilizer imports in 1968-69 will be somewhat lower than in 1967-68.

41. The Annual Plan Coordination Committee may review the Balance of Payments situation in the light of the suggestions made above and the reports of the Working Group on Import and Export policies.

42. Preliminary projection of the balance of payments of 1968-69 compared to the corresponding estimates for the preceding two years are reproduced below:—

Consolidated Balance of Payments Statement for 1966/67-1968/69

| | | (Million Rs.) | | |
|-----------|-----------------------------------|---------------------------------|------------------------|-------------|
| | | 1966-67 Revised Estimates | 1967-68 projections | 1968-69 |
| A. | TOTAL PAYMENTS | 6503 | 6700 | 7330 |
| | I. Development | 3270 | 3550 | 4050 |
| | 1. Capital goods | 2120 | 2300 | 2520 |
| | 2. Raw material for capital goods | 700 | 850 | 1050 |
| | 3. Freight charges and insurance | 260 | 300 | 350 |
| | 4. Technical Assistance | 160 | 100 | 100 |

(Million Rs.)

| | 1966-67 Revised Estimates | 1967-68 projections | 1968-69 |
|----------------------------------------------------------------------------------------|---------------------------------|------------------------|-------------|
| II. Non-Development | 3233 | 3150 | 3280 |
| 1. Consumer goods including non-PL-480 Food Imports | 943(353) | 700(100) | 730 |
| 2. Raw material for consumer goods | 700 | 700 | 800 |
| 3. Freight charges and insurance | 210 | 180 | 200 |
| 4. Invisibles* | 860 | 830 | 850 |
| 5. Debt servicing of which | 520 | 600 | 700 |
| Debt Repayment | (315) | (350) | |
| 6. Repayment of short-term food credits | — | 140 | — |
| B. FINANCED BY: | | | |
| I. Own earnings | 3580 | 3900 | 4200 |
| 1. Exports | 2920 | — | — |
| 2. Invisibles | 600 | — | — |
| II. Foreign grants and loans: | 2414 | 2670 | 2970 |
| 1. Project assistance | 1270 | 1500 | 1750 |
| 2. Commodity Aid | 877 | 1000 | 1120 |
| 3. Technical Assistance | 100 | 100 | 100 |
| 4. Food Grants and short term credits | 167 | 70 | — |
| III. Foreign Private Investment: | 92 | 130 | 160 |
| IV. Changes in Gold and Foreign Exchange Reserve including Drawing from the IMF | 470 | — | — |
| V. Short term Movement and errors and omissions | (—)53 | — | — |
| Total Financing | 6503 | 6700 | — |

*Including transfers to Pakistan Missions abroad for Defence purchase.

Note.—The above table does not include PL-480 imports of Rs. 475 and Rs. 650 million and Indus Basin Imports of Rs. 445 and Rs. 300 million for 1966-67 and 1967-68.

43. These are based on the low alternative in the study on Import Projections and Commodity Aid requirements (Annexure II).

V. Policy Objectives

44. The following policy objectives of the Annual Plan for 1968-69 are suggested for the consideration of the Annual Plan Coordination Committee:—

- (1) To accelerate the pace of investment in the economy particularly in the private sector without jeopardising monetary and price stability.
- (2) To maintain the progress in the agriculture sector but accelerate the rate of growth in the industrial sector from 9 to 11 per cent and of large-scale industry from 11 to 14 per cent through a more liberal availability of raw materials.
- (3) To step up the growth rate in East Pakistan. (In view of the very bright agriculture prospects it should be possible to attain a higher growth rate in East Pakistan than in West Pakistan during 1968-69).
- (4) To achieve a minimum increase of 10 per cent in exports during the year.
- (5) To maintain monetary and price stability to ensure that increase in prices is not more than 2 per cent during the year.
- (6) To step up employment opportunities in the economy by concentrating on labour intensive programmes such as the Rural Works Programme.

45. The policy implications of these objectives and any other which the Annual Plan Coordination Committee may wish to prescribe will be examined in the Ministries and agencies concerned and the proposals emerging from such examination will be incorporated in the Annual Plan. These proposals would require detailed elaboration and a careful reconciliation with the overall programme.

46. An investment schedule for the remaining period of the Third Plan is under preparation and is expected to be released by April 1968. The Annual Plan will incorporate the basic features of the revised schedule, highlighting investments that can be initiated in the year 1968-69.

47. The guidelines for the import policy have already been indicated by Government on the recommendations of Committee on Balance of Payments. The detailed composition of the import policy will however have to be linked with the policy objectives accepted by the Annual Plan Coordination Committee.

48. It has been suggested that to ensure close coordination between the overall objectives and the monetary and credit policy, a 'credit budget' should be prepared annually before the beginning of each fiscal year to regulate the overall level and direction of credit in the economy. It is suggested that the Working Group on Monetary and Credit Policy which was set up by the Ministry of Finance last year should formulate concrete proposals in this connection for the consideration of the Annual Plan Co-ordination Committee.

VI. Physical Targets

49. The Annual Plan, in addition to targets for G.N.P., investment, exports and imports will also incorporate detailed physical targets in all the important sectors. Information in respect of these will partly emerge from the exercise on the Annual Development Programme and partly from estimates of production in the private sector. These will be presented to the Annual Plan Co-ordination Committee at its next meeting.

VII. The Private Sector

50. Practically all of agriculture and trade, approximately 80 per cent of manufacturing and substantial component of all other sectors are in the private sector of the economy. Out of the total national product of Rs. 6,000 crores, approximately Rs. 4,900 crores originate in the private sector. Thus the success or failure of the economy depends to a very large extent upon developments in the private sector.

51. While the Government has not in the past attempted to develop a comprehensive plan for the private sector, Government policies do have a powerful impact on most areas of business activity. So far, the Government's policies toward the private sector are not sufficiently integrated and one policy sometimes works at cross purposes to another. It appears that what is required is not more government controls, but a rationalization and simplification along the lines as specified in the Third Plan:

- (a) Less direct controls and less detailed administrative intervention in private decision making;
- (b) More reliance on indirect policy instruments which influence profitability through the market mechanism.

52. At present information about the private sector is scanty and uneven compared with what is known about public sector activity. Production figures for some components of agriculture, large scale manufacturing, mining and banking are reasonably good but the information about the output of the livestock sector, small-scale industry, construction, private transportation, wholesale and retail trade, and private services is not adequate. Up-to-date estimates of expenditures on inputs used in production, and on consumption of households are available from recent surveys but have not been tabulated or

published. This makes sectoral planning difficult; furthermore it means that among other things we know very little about which sectors generate savings and through what financial mechanisms and to which sectors these savings flow to finance new investments. Without this information, it is not possible to undertake the type of studies necessary to formulate intelligent policies for the private sector.

53. To secure the required information it will be necessary to update studies on production, consumption and savings, to tabulate the Census of Manufacturing Industries for a recent year, to devise better methods for estimating the output of certain sectors, and to initiate work on financial flows. This work cannot be completed in time for this year's Annual Plan but a directive to initiate this work should be given for use in the future.

54. The Planning Commission has already sent a request to the PICIC, IDBP, ICP, NIT, HBFC and ADB to propose a programme for inclusion in the Annual Plan, covering such elements as:

- (a) investment (or lending) programme for 1968-69;
- (b) likely sectoral and regional distribution of (a);
- (c) criteria which will guide such investment or lending;
- (d) financial requirements, in foreign exchange and rupees;
- (e) major problems likely to arise during 1968-69;
- (f) any other policy issues concerning private sector investment for inclusion in the Annual Plan.

This information when received will be analysed and presented for the consideration of Annual Plan Coordination Committee and subsequently incorporated in the Annual Plan itself.

55. It will also be necessary to devise more formal institutional arrangements for consultation with the private sector in the preparation of the Annual Plan. This may be possible through the creation of an Advisory Committee consisting of the members of the private sector to advise the Annual Plan Coordination Committee on policies and programmes in the private sector. The Committee may wish to consider this suggestion.

ANNEXURE III-1

EVALUATION OF PROGRESS IN THE FIRST HALF OF THE
THIRD PLAN

(Summary)

1. 1967/68 marks the end of the period of adjustment through which the Third Plan had to pass in the first two years.

2. Growth Rate

(a) Growth rate 4.7% in 1965/66 and 5.3% in 1966/67. Average of 5%.

(b) Agricultural growth rate only 2.0% and 0.9% respectively as against 3.4% in Second Plan and 5% projected for Third Plan. Within these averages, growth rate was higher in West Pakistan, particularly in the irrigated areas.

(c) Non-agricultural growth rate 8.3% during this period as against planned rate of 7.8%. Large-scale industrial growth rate which dropped from 15.0% in 1964/65 to 6.3% in 1965/66 picked upto 11.0% in 1966/67.

(d) Thus, the experience of the first two years vindicates Plan assumption of a 6½% average growth rate. Even if agriculture had maintained its growth rate of the Second Plan in the first two years of the Third, overall growth rate would have been 6%.

(e) Prospects during 1967/68 show that growth rate can be as high as 8.5% if agricultural targets set by the food self-sufficiency programme for the current year are achieved and wheat crop production in West Pakistan turns out to be as good as now expected. (6.0 million tons wheat, 11.3 million tons rice). Even if there are some shortfalls a 7% growth rate this year is quite likely.

(f) The growth targets of the Third Plan still remain within reach because of the improved prospects in agriculture.

3. Public Sector Development Expenditure

(a) Rs. 12,200 — 12,300 million likely to be spent in the first three years—

| | |
|---------|----------------|
| 1965-66 | 3,110 million |
| 66-67 | 4,140 million |
| 67-68 | 5,000 million |
| | <hr/> |
| | 12,260 million |
| | <hr/> |

(b) Implementation in the Plan period may be around Rs. 25,000 million, a shortfall of 17% in financial terms. In constant prices, the shortfall will be nearer 25%.

(c) Pace of implementation better in productive sectors and infrastructure than in social sectors where only 30% of Plan expenditure targets may be met in the first three years.

(d) The planned proportion of 53:47 maintained between East and West Pakistan in actual implementation during these three years.

(e) By adjustment of sectoral priorities and streamlining of development expenditure, effort made to protect physical targets despite financial shortfalls. Only long-gestation projects and some social sector expenditure deferred.

(f) Implementation of Rs. 25,000 million in the Third Plan compares with Rs. 14,000 million in the Second Plan—an increase of 75% which is fairly respectable.

Private Investment

(a) Rs. 7850 million invested in first two years—Rs. 3,910 million in 1965/66 and Rs. 3,940 million in 1966/67. This pace of implementation exceeds Plan expectations with a slight margin.

(b) Implementation in the first two years was slower than expected in the case of private industry as only 24% of the Investment Schedule had been sanctioned during this period. However, recent sanctions given to the fertilizer, gas and other industrial programmes have raised this proportion to 45% by the end of December, 1967. The pace of implementation was much better in agriculture as private farmers invested in fertilizer, better seeds, tubewells, tractors, etc., in line with the revised national priorities and the changed emphasis of the public sector.

(c) Industrial Investment Schedule is being revised to reflect new priorities and to permit selective expansion of export earnings and import saving industries.

(d) It appears that the overall implementation in the private sector will be fairly close to the Plan targets of Rs. 22,000 million but the pace of private investment in East Pakistan is likely to be much below Plan targets.

5. Balance of Payments

(a) Exports are estimated to increase by 29% in first 3 years in line with Plan projections. A number of policy steps being taken now to protect this pace and to reach Plan targets of Rs. 4,800 million by 1969-70.

(b) Import policy had to become restrictive in the last half of 1967 because of the heavy drain on cash of food purchases and fixed liabilities. A liberal policy has just been announced for January-June period whose principal features are: doubling of allocations for industrial raw materials and spares, freeing of over 90% of imports from administrative licensing, adjusting the price of imported industrial raw materials to the level of cash-cum-bonus prices implying a surcharge of over 80% on the official exchange rate.

(c) Overall shortfall in foreign aid commitments is expected to be 13% in the first three years, although the shortfall in consortium commitments in the first two years was 38 per cent. U.S. assistance (excluding military) dropped by nearly one-half of its previous level. As a result, disbursements during the same period are expected to be 22% short of expectations.

(d) Some of the shortfall was met by higher assistance from non-Consortium sources but this also meant that the proportion of non-project assistance went down in the total and the percentage of harder loans increased, with implications for our debt servicing liability.

ANNEXURE III-2

PROJECTIONS OF G. N. P., AGRICULTURE AND NON-AGRICULTURE SECTORS IN 1967-68 AND 1968-69

The objectives of the projections presented here are:

- (i) To project agricultural output for 1967-68 and 1968-69.
- (ii) To estimate the impact of agricultural growth on growth in G.N.P. and as an aid in formulating desirable and possible growth.

At the time of carrying out this exercise no statistical information on crop production for the current year had become available. Projections of crop production for 1967-68 and 1968-69 were, therefore, made by assuming two alternative sets of production of major crops for the two Provinces as given in Tables II-A and II-B. Low projections for 1967-68 are based on the assumption of 5.4 million tons of wheat and 26 lakh bales of cotton in West Pakistan with 10.5 million tons of rice and 65 lakh bales of jute in East Pakistan. High projections, on the other hand, are based on the yearly target of 11.373 million tons of rice under the Food Self-Sufficiency Programme and 68 lakh bales of jute for East Pakistan; 6.0 million tons of wheat and 28 lakh bales of cotton are the basis for West Pakistan. Together with these assumptions in respect of major crops, certain reasonable assumptions were firmed up with regard to the other sub-sectors of agriculture and the other sectors of the economy.

G.N.P. projections by sectors with two alternative sets of figures for 1967-68 and the proposed targets of growth for 1968-69 are provided in table I below:

TABLE I

G. N. P. Projections 1967-68 and 1968-69 (1964-65 Prices) (Rs. million).

| | 1967-68 | | Low | % change over prev. year | Target 1968-69 | Growth target for 1968-69 | |
|-------------------------------|---------|--------------------------------|--------|--------------------------------|-------------------|------------------------------|---------------------|
| | High | % change over prev. year | | | | over high 1967-68 | over low 1968-69 |
| | (1) | (2) | | | | (3) | (4) | (5) | (6) | (7) |
| 1. Agriculture | 24,806 | 10.0 | 23,942 | 6.2 | 26,167 | 5.5 | 9.3 |
| (a) Major crops | 14,489 | 16.0 | 13,625 | 9.1 | 15,539 | 7.2 | 14.0 |
| (b) Other Agriculture. | 10,317 | 2.6 | 10,317 | 2.6 | 10,628 | 3.1 | 3.1 |
| 2. Manufacturing | 6,310 | 9.7 | 6,310 | 9.7 | 6,879 | 9.0 | 9.9 |
| (a) Large Scale | 4,510 | 12.8 | 4,510 | 12.8 | 5,030 | 11.5 | 11.5 |
| (1) Consumer goods .. | 2,520 | 12.0 | 2,510 | 12.0 | 2,735 | 8.1 | 8.1 |
| (2) Intermediate goods | 1,240 | 12.7 | 1,240 | 12.7 | 1,425 | 14.0 | 14.0 |
| (3) Investment goods .. | 750 | 15.4 | 750 | 15.4 | 840 | 16.0 | 16.0 |
| (b) Small Scale | 1,800 | 2.7 | 1,800 | 2.7 | 1,849 | 2.7 | 2.7 |
| 3. Construction | 2,472 | 12.5 | 2,472 | 12.5 | 2,843 | 15.0 | 15.0 |
| Transport and communications. | 3,750 | 5.1 | 3,750 | 5.1 | 3,953 | 5.4 | 5.4 |
| 4. Others .. | 17,157 | 6.3 | 17,157 | 6.3 | 18,474 | 9.3 | 9.3 |
| G. N. P. .. | 54,495 | 8.5 | 53,630 | 6.8 | 58,589 | 7.5 | 9.3 |

As can be observed in the above table, the growth rate in 1967-68 may be as high as 8.5% if agricultural production turns out to be as good as indicated by the high projections. The target proposed for 1968-69 will range between 7.5% and 9.3% depending on the 'High or 'Low' performance of the economy in the current year.

Output projections of major crops, Province-wise under "High" and "Low" assumptions for 1967-68 and the proposed targets for 1968-69 are given in Tables II-A and II-B below:

TABLE II-A—Major Crop, Output Projections—West Pakistan

| | | 1967-68 | | Proposed target (1968-69) |
|---------------------|----|---------|---------|------------------------------|
| | | High | Low | |
| Wheat (m. tons) | .. | 6.000 | 5.400 | 6.100 |
| Rice (m. ton) | .. | 1.400 | 1.400 | 1.700 |
| Maize (m. tons) | .. | 0.800 | 0.700 | 1.000 |
| Gram (m. tons) | .. | 0.600 | 0.600 | 0.650 |
| Bajra (m. tons) | .. | 0.400 | 0.400 | 0.420 |
| Jawar (m. tons) | .. | 0.300 | 0.300 | 0.325 |
| Barley (m. tons) | .. | 0.125 | 0.125 | 0.135 |
| Cotton (lakh bales) | .. | 28.000 | 26.000 | 32.000 |
| Sugarcane (m. tons) | .. | 22.400 | 22.400 | 24.800 |
| Oilseeds (m. tons)* | .. | 0.220 | 0.220 | 0.230 |
| Tobacco (m. Lbs) | .. | 340.000 | 340.000 | 374.000 |

* Rape, mustard and sesamum.

Explanatory notes to Table II-A

(a) The low projections for 1967-68 are based on the self-sufficiency food targets. Among the non-food crops, targets for cotton are those adopted in the Report of the W/G on Export Policy, and for others, the Third Plan targets having been already exceeded, assumptions were firmed up after consultations with the Food and Agriculture Section. For wheat the high projections are based on the latest information about current crop prospects. The proposed targets for 1968-69 are the food self-sufficiency targets.

(b) For sugarcane the assumption was made that it would grow at ten per cent per annum from the 1966-67 figures. For oilseeds the assumption was a 5 per cent growth on the 1966-67 figures.

(c) For tobacco the 1966-67 production for all Pakistan, was 392 m. lbs. against a Plan target of 273 m. lbs. for 1969-70. Tobacco production has been increasing very rapidly, 25 per cent in 1965-66 over 1964-65 and 33 per cent between 1965-66 and 1966-67. Tobacco can easily be fitted into cropping patterns in West Pakistan where the production increases have been most marked. We have assumed a ten per cent growth on the 1966-67 figure for West Pakistan.

TABLE II-B—Major Crop, Output Projections—East Pakistan

| | 1967-68 | | Proposed target (1968-69) |
|---------------------|---------|--------|------------------------------|
| | High | Low | |
| Rice (m. tons) | 11.373 | 10.500 | 12.114 |
| Wheat (m. tons) | 0.067 | 0.067 | 0.086 |
| Jute (Lakh bales) | 68.000 | 65.000 | 72.000 |
| Tea (000 tons) | 30.000 | 30.000 | 31.400 |
| Sugarcane (m. tons) | 8.500 | 8.500 | 9.000 |
| Oilseeds (m. tons)* | 0.135 | 0.135 | 0.140 |
| Gram | 0.040 | 0.040 | 0.040 |
| Tobacco (m. Lbs.) | 85.000 | 85.000 | 89.000 |

*Rape, mustard and sesamum.

Explanatory notes to Table II-B

(a) High projections for rice and wheat for 1967-68 are based on self-sufficiency in food targets. For tea, they are based on Plan targets.

(b) Since plan targets for sugarcane, tobacco and oilseeds have already been exceeded, they are assumed to grow at five per cent per annum on the 1966-67 figure.

(c) Where a range of projections is presented, the low figures were in general, arrived at after discussions with the Food and Agriculture Section, and on the basis of the latest information on crop prospects. For rice we have assumed the self-sufficiency target for 1968-69.

TABLE III.—*Cost of Inputs, Major Crops 1964/65 Prices*

(Rs. million)

| | West Pakistan | | | | East Pakistan | | |
|-----------------|---------------|--------------|--------------|------------|---------------|------------|--|
| | 1967-68 | | 1968-69 | 1967-68 | | 1968-69 | |
| | High | Low | | High | Low | | |
| Fertilizer .. | 122 | 122 | 182 | 56 | 56 | 96 | |
| Irrigation .. | 328 | 328 | 350 | 10 | 10 | 12 | |
| Seeds .. | 516 | 490 | 565 | 373 | 349 | 396 | |
| Transport .. | 57 | 54 | 63 | 61 | 57 | 65 | |
| Wastage .. | 76 | 72 | 83 | 83 | 78 | 88 | |
| Total .. | 1,099 | 1,066 | 1,243 | 583 | 550 | 657 | |

(a) The fertilizer inputs for 1967-68, are projections based on the actual distribution by types of fertilizer for the first seven months of 1967-68. For 1968-69 for East Pakistan the fertilizer input are those in the self-sufficiency in food targets. For West Pakistan the fertilizer input for 1968-69 is assumed to be 1.2 m. tons of ammonium sulphate equivalent as against about 0.8 m. tons in 1967-68.

(b) The estimates for wastage, seeds and transport costs are based on the proportions of the Gross Value of Production suggested in the Report of the National Income Commission. The proportions used were as follows:—

| | |
|-------------|----------------------------------------------------------------------------|
| Transport : | 0.75 per cent of GVP, West Pakistan 0.74 per cent of GVP, East Pakistan |
| Seeds : | 6.773 per cent of GVP, West Pakistan 4.5 per cent of GVP, East Pakistan |
| Wastage : | 1 per cent GVP for both East and West Pakistan. |

C.S.O. uses 3.4 per cent of GVP as cost of fertilizer and water so their input estimates differ from the estimates presented here.

(c) The cost of irrigation charges are based on West Pakistan budget estimates of the cost of irrigation for 1967-68 rather than on a fixed proportion of GVP. Irrigation charges are then assumed to grow about five per cent per annum.

TABLE IV.—Gross Value added, Major Crops, 1964/65 Prices

(Rs. million)

| | | 1967-68 | | 1968-69 |
|------------------------------------------------------|----|-----------|--------|---------|
| | | High | Low | |
| A. WEST PAKISTAN | | | | |
| Gross Value of Production | .. | 7,620 | 7,237 | 8,346 |
| Cost of Inputs | .. | 1,099 | 1,066 | 1,243 |
| Gross Value Added (excluding non-reporting areas) | .. | 6,521 | 6,171 | 7,103 |
| Gross Value Added (including non-reporting areas) | .. | 6,782 | 6,420 | 7,387 |
| B. EAST PAKISTAN | | | | |
| Gross Value of Production | .. | 8,290 | 7,755 | 8,800 |
| Cost of Inputs | .. | 583 | 550 | 657 |
| Gross Value Added | .. | 7,707 | 7,205 | 8,152 |
| All Pakistan (GVA) | .. | 14,489 | 13,625 | 15,539 |
| | | (12,494)* | | |

(*) Figure in brackets in CSO's estimate for 1966-67 of GVA, major crops.

(a) For the non-reporting areas in West Pakistan the gross Value Added from the reporting areas has been increased by 4 per cent to give total Gross Value Added for West Pakistan.

TABLE V.—Gross Value added, all Agriculture
(1964-65 Prices)

| | (Rs. million) | | |
|-----------------------|---------------------|--------|---------|
| | 1967-68 | | 1968-69 |
| | High | Low | |
| Major crops | 14,489 | 13,625 | 15,539 |
| Minor crops | 3,413 | 3,413 | 3,584 |
| Livestocks | 4,530 | 4,540 | 4,620 |
| Fishing | 2,130 | 2,130 | 2,100 |
| Forestry | 234 | 234 | 234 |
| All Agriculture | 22,806 (22,554)* | 23,942 | 26,176 |

(*) Figure in bracket is CSO's estimate for 1966-67 GVA, All Agriculture.

(a) Minor crops for all Pakistan are assumed to grow at 5 per cent per annum on Gross Value Added on a 1966-67 base.

(b) Fishing, Forestry and Livestock are projected on the basis of growth rates 1960-61 to 1966-67 in CSO figures.

The agricultural growth rates on which the growth rates of Table I are based are shown in Table VI below:

TABLE VI.—*Gross Value added in Agriculture, Province-wise*
(% Change)

| | 1967-68 (High) over 1966-67* | 1967-68 (Low) over 1966-67 | 1968-69 over 1967-68 (H) 1967-68 (L) | |
|-------------------------|------------------------------------|----------------------------------|--------------------------------------------|------|
| Major Crops | | | | |
| East Pakistan | 18.0 | 10.3 | 6.3 | 13.6 |
| West Pakistan | 12.8 | 6.8 | 9.5 | 15.3 |
| All Pakistan | 16.0 | 9.1 | 7.2 | 14.0 |
| All Agriculture† | | | | |
| East Pakistan | 11.8 | 7.4 | 4.2 | 8.5 |
| West Pakistan | 8.2 | 4.9 | 6.9 | 10.3 |
| All Pakistan | 10.0 | 6.2 | 5.5 | 9.3 |

These agricultural growth rates are based on physical output projections. The output projections for the major crops for both East and West Pakistan are presented in Table II-A and II-B. In general, the high estimates are based on the self-sufficiency in food targets or on Third Plan targets except in cases where the targets have already been reached. For West Pakistan there is some evidence to suggest that the 1967-68 wheat crop could be 6.0 m. tons. On the other hand the rice crop in East Pakistan for 1967-68 may not produce even 11.0 m. tons.

(*) Based on C.S.O.'s estimates for 1966-67.

(†) The regional estimates for the non-major crops were obtained by applying the same ratios as in the 1966-67 CSO National Accounts on a regional basis to the 1967-68 and 1968-69 GVA Projections for all Pakistan.

Brief Notes on Methodology:

Two procedures have been followed in estimating the growth in G.N.P., by sectors as given in Table I:

Procedure I:

Agricultural growth has been calculated for 1967-68 and 1968-69 as detailed in the Tables II to VI above. The non-agricultural sectors' Gross Value Added for 1967-68 have been projected using the growth rates in Table IV, Chapter 2 of the Mid-Plan Review. The comparable projections for 1968-69 are based on growth rates in Table I of Wouter Tims' memo "Import Projections and Commodity Aid" of 21 February 1968. The projections for agriculture and for non-agriculture have been combined to give two estimates of G.N.P. for 1967-68. The first estimate uses a "high" projection for agricultural output and the second uses a "low" projection of agricultural output. For 1968-69 a single projection for agricultural output is made and single estimate of G.N.P. is obtained.

Procedure II:

Using the same estimates of agricultural output as in procedure I, the relationship in "A Growth Model for the Pakistan Economy"* were employed to ascertain the growth in G.N.P.

The two procedures gave somewhat similar results with respect to G.N.P. projections. The detailed comparison is shown in Table VII below. The GNP estimates in Table I use procedure I:

| | 1967-68 (High) | 1967-68 (Low) | 1968-69 | |
|--------------------------------|----------------|---------------|-------------|-------------|
| | over | over | over | |
| | 1966-67 | 1966-67 | 1967-68 (H) | 1966-67 (L) |
| Growth rate in Agriculture (%) | 10 | 6.2 | 5.5 | 9.3 |
| G.N.P. rate of Growth (%) | | | | |
| Procedure I | 8.5 | 6.8 | 7.5 | 9.3 |
| Procedure II | 8.0 | 6.9 | 7.7 | 8.7 |

Procedure I combines projections of agriculture and non-agriculture to estimate G.N.P.

Procedure II uses the Growth Model High and Low 1967-68 refers to the agricultural projections in Tables II-A and II-B.

(*) Growth Model for the Pakistan Economy, Macro Economic Projections for Pakistan's Third Plan. Planning Commission, Karachi, March 1965.

The growth model used for the projections for 1967-68 and 1968-69 was the 7 sector input-output model contained in the Growth Model for the Pakistan Economy quoted above. In this model there are seven exogenous variables;

- (1) Gross Value of Agriculture Output.
- (2) Growth in GNP.
- (3) Savings, using a marginal savings rate of 22.1 per cent.
- (4) Exports from the consumer goods manufacturing sector.
- (5) Exports from the intermediate goods manufacturing sector.
- (6) Exports of investment goods.
- (7) Invisible exports.

Each of the 98 endogenous variables in the 98 equation model was expressed as a function of these seven exogenous variables. Given assumptions about change in the levels of the endogenous variables it is possible to project the value of the exogenous variables.

The projections made using the model were concerned with the impact of agricultural growth on GNP. That is, the change in the level of GNP and of the associated level of savings is to be endogenous in the model. In order to get a determinate system with this new specification one of the previously endogenous variables would now become exogenous. The variable whose specification was changed was the level of Gross Investment in Fixed Assets. (I)

To the Gross Value of Production of Major Crops presented in Table VI the Gross Value of Production for the Minor Crops, Livestock, Fishing and Forestry was added. This gave a Gross Value of Production, all agriculture, under both high and low assumptions for 1967-68. The increments to GVP were then calculated.

The increments in export values for 1967-68 and 1968-69 were obtained from the projections of the Working Group on Export Policy. These Projections were combined into categories consistent with the 4 classes of exports in the growth model. The increase in Investment for the two years 1967-68 and 1968-69 was calculated. All variables were then converted to 1960-61 prices. The assumed increments for the projections are given in Table VIII.

TABLE VIII.—*Incremental Values of Exogenous Variables, 1960-61 Prices*

| | 1967-68 | % change over previous year | 1968-69 | % change over previous year |
|-----------------------------|---------|--------------------------------------|---------|--------------------------------------|
| GVP, Agriculture (High) | 2,088 | 9.0 | 2,520 | 9.9 |
| GVP, Agriculture (Low) | 1,208 | 5.2 | 1,639 | 6.5 |
| Exports, Consumer goods | 92 | 7.5 | 262 | 18.5 |
| Exports, Investment goods | 2 | 6.0 | 5 | 18.5 |
| Exports, intermediate goods | 143 | 11.0 | 52 | 3.3 |
| Exports, invisibles | 10 | 1.5 | 30 | 4.5 |
| Investment | 760 | 10.7 | 850 | 10.8 |

On the basis of the estimates of the high projections of agricultural growth and the associated levels of exports and investment the calculated growth in GNP was 8.0 per cent in 1967-68 over 1966-67. The low projections of agricultural growth and the associated level of exports, imports and investment implied a growth in GNP of 1.9 per cent for 1967-68 over 1966-67. If the high targets of 1967-68 are reached then the proposed targets for 1968-69 will result in a growth in Gross Value Added for all agriculture of about 5.5 per cent between the two years. This growth in agriculture along with the associated projections of investment, imports and exports for 1968-69 would imply a growth in GNP of 7.7 per cent. On the other hand if the low 1967-68 targets are realised then the agricultural growth rate for 1968-69 will be 9.3 per cent. Along with the associated levels of imports, investment and exports the implied growth in GNP would be 7.7 per cent.

ANNEXURE III-3

**IMPORT PROJECTIONS AND COMMODITY AID REQUIREMENTS
1968-69 AND 1969-70****I. Projections of Economic Growth**

The growth targets that have been set for the last two years of the Third Five-Year Plan are formulated in accordance with the overall growth objectives of the Plan and the goals of the food self-sufficiency programmes in the agricultural sector.

In overall terms—i.e. expressed in terms of the national product—a growth rate in the last two years of the Plan of 7.5 per cent in each year is projected. As the aim of the present exercise is to ascertain required import levels, the high growth alternative for 1968-69 is adopted here, based on an increase of agricultural production by 5.5 per cent. For the last year a further increase of agricultural production by 6.5 per cent is projected.

A summary of the growth projections, and a comparison with past achievements, is provided in table I.

TABLE I.—PRODUCTION ESTIMATES BY SECTORS 1964/65—1968/69

(Rs. millions, 1964/65 prices)

| Sector | 1964/65 | 1965/66 | 1966/67 | 1967/68 (est) | Average rate of growth 1964/65- 1967/68 | 1968/69 (proj) | Growth rate in 1968/69 % | 1969/70 (proj) | Growth rate in 1969/70 % |
|----------------------------------|---------|---------|---------|------------------|-----------------------------------------------------|-------------------|-----------------------------------|-------------------|-----------------------------------|
| Agriculture | 21,920 | 22,265 | 22,555 | 24,805 | 4.2 | 26,175 | 5.5 | 27,875 | 6.5 |
| Consumer goods industry | 3,550 | 3,870 | 4,120 | 4,545 | 8.6 | 4,900 | 8.3 | 5,325 | 8.4 |
| Intermed, goods production | 2,150 | 2,160 | 2,335 | 2,605 | 6.6 | 2,960 | 13.6 | 3,250 | 10.0 |
| Investment goods industry | 745 | 780 | 920 | 1,045 | 12.0 | 1,180 | 12.7 | 1,330 | 12.7 |
| Construction | 2,055 | 1,955 | 2,195 | 2,470 | 6.4 | 2,840 | 15.0 | 3,235 | 14.0 |
| Transport, Communications | 2,810 | 3,200 | 3,480 | 3,655 | 9.2 | 3,950 | 8.0 | 4,245 | 7.5 |
| Other services | 13,230 | 14,435 | 15,395 | 15,955 | 6.4 | 17,220 | 8.0 | 18,390 | 6.8 |
| Gross National product | 46,460 | 48,665 | 51,000 | 55,080 | 5.9 | 59,235 | 7.5 | 63,650 | 7.5 |
| Rate of growth (%) | | 4.7 | 4.8 | 8.0 | | | | | |

The projections of growth in the modern sectors of the economy have this time been based on a detailed analysis of the past development and expected output by branches of industry. The detailed information from the industrial production index and the information on new industrial capacity under construction or expected to be completed before the end of the Plan¹ was combined to obtain realistic projections of the potential output increases. In annexure I detailed data on the growth of production in 17 sectors of large scale manufacturing are brought together, which form the basis for the output projections for this sector of the economy.

For small scale manufacturing industries a similar exercise is reported in annexure II, largely based on the s.e. input method. Data on the expected supplies of major raw materials to this sector, like cotton for the ginning sector, sugarcane for gur-making or foodgrains for small scale mills, are the main source for these projections. It may be noted that the average annual growth rate for this sector during the Third Plan is found to be 4.4 per cent as compared to the standard assumption of only 2.7 per cent growth per annum in the official national accounts.

A summary of the projections for both large and small scale industries by sub-sectors is given in annexure III, of which the main information is also shown in table II.

TABLE II.—*Projections of Growth, Manufacturing, Mining, Public Utilities*
(annual percentage changes)

| | | Consumer goods industries | Intermediate goods industries | Investment goods industries | Total all industries |
|-----------------------------------|----|---------------------------------|-------------------------------------|-----------------------------------|----------------------------|
| 1965/66 | .. | 9.0 | 0.5 | 4.7 | 5.7 |
| 1966/67 | .. | 6.5 | 8.1 | 17.9 | 8.3 |
| 1967-68 | .. | 10.3 | 11.6 | 13.5 | 11.1 |
| 1968-69 | .. | 6.1 | 12.5 | 12.9 | 9.0 |
| 1969-70 | .. | 7.7 | 10.2 | 12.7 | 9.2 |
| Annual average | .. | 7.9 | 8.5 | 10.1 | 8.6 |
| <i>Of which: large sc. manuf.</i> | | 10.0 | 8.7 | 14.3 | 10.2 |

¹ The latter are obtained from the Industries and Commerce Section and the Projects Wing, Planning Commission.

As these projections are based on information regarding new capacity actually under construction and expected to be completed before the middle of 1970, there is good reason to assume that the Plan-target for overall industrial growth will be achieved, at least when observed from the supply-side.

II. Import Requirements

Imports by sectors of destination—actuals till 1966-67, estimates for 1967-68 and projections for the next two years—are shown in table III. Detailed commodity-wise estimates for each sector have been made on the basis of the growth targets discussed before.

Changes in stocks are rough estimates, based on the average relationship between imports and production in the non-agricultural sectors in the years 1964-65 to 1966-67. These estimates are shown in order to provide a background for the projected import requirements to replenish stocks of industrial materials.

TABLE III.—*Imports of Intermediate Goods by Destination*

| Sector | 1964-65 | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 |
|--------------------------|---------|---------|---------|---------|---------|---------|
| Agriculture .. | 65 | 195 | 300 | 540 | 620 | 640 |
| Consumer goods ind. .. | 773 | 505 | 660 | 740 | 915 | 950 |
| Intermed. goods ind. .. | 647 | 580 | 644 | 685 | 800 | 880 |
| Investment goods ind. .. | 535 | 345 | 550 | 640 | 720 | 810 |
| Construction .. | 475 | 340 | 405 | 525 | 635 | 710 |
| Transport, communication | 138 | 96 | 110 | 112 | 133 | 155 |
| Other services .. | 58 | 40 | 44 | 49 | 52 | 55 |
| Total imports .. | 2691 | 2101 | 2713 | 3291 | 3875 | 4200 |
| Changes in stocks (a) .. | 385 | —340 | —45 | — | 270 | 200 |
| Imports used required .. | 2306 | 2441 | 2758 | 3291 | 4145 | 4400 |

(a) Excluding agricultural inputs.

Import requirements for the agricultural sector are based on a set of revised targets for the distribution of fertilizers. The following phasing has been assumed:

(in '000' nutrient tons)

| | 1966-67 | 1967-68 | 1968-69 | 1969-70 |
|---------------------------------|---------|---------|---------|---------|
| Distribution programme .. | 179 | 260 | 380 | 570 |
| Additional stock requirement .. | 20 | 50 | — | 50 |
| Less: Domestic production .. | 107 | 109 | 150 | 290 |
| Import requirements .. | 92 | 201 | 230 | 230 |

Total import requirements are projected in the following manner. Capital goods imports are assumed to be closely related to disbursements of project aid, and the average ratio for the past few years has been applied to the projected disbursements. Consumer goods imports (excluding foodgrains) are associated with the value of entitlements under the Export Bonus Scheme, and have been projected accordingly. Imports of goodgrains have been tapered off in accordance with the projected higher levels of domestic agricultural output. Table IV summarizes projections of all merchandise imports.

TABLE IV

| | 1964-65 | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 |
|------------------------|---------|---------|---------|---------|---------|---------|
| Intermediate goods (a) | 2691 | 2101 | 2713 | 3291 | 4145 | 4400 |
| Consumer goods (b) | 462 | 372 | 412 | 440 | 460 | 480 |
| Capital goods | 1697 | 1670 | 1542 | 1770 | 2080 | 2235 |
| Foodgrains | 814 | 475 | 804 | 440 | 250 | 150 |
| Total | 5664 | 4618 | 5471 | 5941 | 6935 | 7265 |

(a) Requirements in the last two year. (b) Excluding foodgrains.

Invisible payments and technical assistance are costs to be added to the imports of merchandise. Debt servicing payments will be discussed later, in relation to the inflow of external resources.

As transactions, recorded in the tables above, do not exactly match with payments made during the same year, a minor correction is required to link the transactions to payments. All these items are brought together in table V which gives an estimate of total foreign exchange payments excluding debt servicing.

TABLE V.—*Import transactions and payments*

| | 1964-65 | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 |
|------------------------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Merchandise imports, c.i.f. .. | 5664 | 4618 | 5471 | 5941 | 6935 | 7265 |
| Technical assistance | 61 | 77 | 90 | 100 | 100 | 100 |
| Invisibles .. | 667 | 544 | 722 | 700 | 700 | 700 |
| Adjustment for difference in timing of transactions/ payments .. | -35 | +338 | +383 | +150 | +150 | +150 |
| Total payments .. | 6357 | 5577 | 6666 | 6891 | 7885 | 8115 |

The totals above represent the entire foreign exchange cash expenditure to be covered by own foreign exchange earnings, changes in reserves and the net inflow of external resources.

III. Commodity aid requirements

Pakistan's own foreign exchange earnings are estimated in accordance with Plan targets and their modification in the report of the Working Group on Export Policy.

Disbursements of project assistance are estimated on the basis of past and expected commitments, as shown in table VI. Other external resources, except commodity assistance, are shown in table VII and based on present and expected commitments.

Table VIII summarizes the financing of imports, the "gap" between import payments and foreign exchange availability is shown as a disbursement requirement of commodity assistance.

TABLE VI.—Commitments and disbursements of project aid
(Rs. million)

| Year | Fresh commitments | Disbursements during | | | | | Pipeline undisbursed, 30 6-1970 |
|------------------------|-------------------|----------------------|---------|---------|---------|---------|---------------------------------|
| | | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 | |
| Pipeline on 30/6/1965: | 3490 | 1120 | 860 | 670 | 450 | 390 | — |
| 1965-66 | 1410 | 140 | 280 | 420 | 200 | 280 | — |
| 1966-67 | 1280 | — | 130 | 260 | 400 | 260 | 230 |
| 1967-68 | 1510 | — | — | 150 | 300 | 450 | 610 |
| 1968-69 | 1540 | — | — | — | 160 | 300 | 1080 |
| 1969-70 | 1570 | — | — | — | — | 160 | 1410 |
| Total | 10800 | 1260 | 1270 | 1500 | 1510 | 1840 | 3330 |

TABLE VII

| | 1964-65 | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 |
|----------------------------|---------|---------|---------|---------|---------|---------|
| Project assistance | 1055 | 1262 | 1270 | 1500 | 1600 | 1840 |
| Indus Basin Works, Tarbela | 488 | 466 | 321 | 300 | 530 | 465 |
| PL-480 disbursements | 752 | 420 | 437 | 650 | 550 | 400 |
| Technical assistance | 61 | 77 | 90 | 100 | 100 | 100 |
| Other food assistance | — | — | 167 | 70 | — | — |
| Foreign private investment | 77 | 87 | 90 | 130 | 140 | 150 |
| Total | 2393 | 2292 | 2375 | 2750 | 2920 | 2955 |
| Less: debt servicing | 346 | 411 | 516 | 760 | 715 | 680 |
| Net inflow (a) | 2047 | 1881 | 1859 | 1990 | 2205 | 2275 |

(a) Excluding commodity assistance.

TABLE VIII.—Requirement of commodity assistance

| | 1964-65 | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 |
|----------------------------------|---------|---------|---------|---------|---------|---------|
| Own foreign exchange earnings | 3122 | 3383 | 3455 | 3900 | 4250 | 4800 |
| Net external resources (a) | 2047 | 1881 | 1859 | 1990 | 2205 | 2275 |
| Changes in reserves | 368 | -239 | 473 | — | (-100) | (-100) |
| Commodity aid disb./ requirement | 820 | 552 | 879 | 1001 | 1530 | 1240 |
| Total receipts/payments | 6357 | 5577 | 6666 | 6891 | 7885 | 8215 |

(a) Excluding commodity assistance.

From the confrontation of foreign exchange requirements and availabilities follows a disbursement requirement of commodity assistance in the last two years of the Plan amounting to Rs. 1,530 million and Rs. 1,240 million, respectively. Taking account of the disbursements expected from the pipeline available on 30-6-1968, this would require additional commitments of Rs. 1,400 million in each of the two years, an amount of \$295 million in each year. This compares with a commitment of \$186 million in 1967/68, the highest level obtained for the past.

IV. Alternative Aid Levels and Economic Growth

The requirement of commodity aid presented above, relates to growth targets which are both feasible and in accordance with the Third Plan. Reduction of commodity aid disbursements and commitments below these levels would result in a shortfall as compared to the growth targets of the Plan.

TABLE IX.—*Alternative estimates of commodity aid disbursements*

| | | (Rs. million) | | |
|-------------------------------|----|---------------|---------|---------|
| | | 1967/68(a) | 1968/69 | 1969/70 |
| Pipeline at beginning of year | .. | 935 | | |
| <i>Fresh commitments:</i> | | | | |
| (a) for target growth | } | | 1400 | 1400 |
| (b) central alternative | | 880 | 1100 | 1100 |
| (c) low alternative | | | 900 | 900 |
| <i>Disbursements.</i> | | | | |
| (a) high | } | | 1530 | 1240 |
| (b) central | | 1000 | 1240 | 1100 |
| (c) low | | | 1170 | 950 |

(a) Estimate actuals.

In order to demonstrate the magnitude of such a reduction of aid flows, two alternative levels of aid commitments have been studied. One alternative assumes no appreciable change from the level of commodity assistance commitments as compared to the present year, 1967-68, the other alternative keeps the middle between this low assumption and the target requirements. Table IX quantifies the alternatives in terms of commitments and disbursements.

The reduction of external resources will directly affect the availability of foreign exchange for importing industrial intermediates. This will not only cause a further postponement of stock replenishments, but also reduce the rate of growth in the import dependent industrial sectors. Assuming that the severest cuts will be made in the most import-dependent industries, the following consequences can be expected.

The middle alternative, which is on the average about Rs. 200 million below target in terms of commodity assistance disbursements, reduces value added in the affected sectors by an average of Rs. 250 million. The relatively minor effects—about 3 per cent of manufacturing value added—is the result of a wash-out as stock replenishment does not take place. For the low alternative,

which represents a reduction of annual disbursements by somewhat over Rs. 325 million per annum below target level, the foregone production amounts to about Rs. 750 million per annum.

In addition, the effects of lower manufacturing output on the activity in the other sectors should not be neglected; assuming a low multiplier of 1.30 (as compared to a multiplier of 1.50—1.75 in the Third Plan model), the total reduction of national product may well amount to more than Rs. 1,000 million, or about Rs. 3.00 per rupee of reduced commodity assistance flows.

The low alternative would in that case reduce the growth of the national product by about 1.7 per cent in each of the two years, i.e. from the target of 7.5 per cent to about 5.8 per cent. In other words, a shortfall in commodity aid disbursements by \$50 million reduces growth of the Pakistan economy by at least one percentage point.

Annexure III-3 Table-1

Projection of large-scale manufacturing production 1965-66—1969/70
(Index numbers 1959/60=100)

| Sector | Weight (in %) | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 |
|------------------------------------|------------------|--------------|---------------|---------------|---------------|---------------|
| Consumer goods | | | | | | |
| Sugar .. | 2.83 | 315 | 288 | 338 | 375 | 435 |
| Vegetable oils .. | 1.95 | 351 | 292 | 400 | 420 | 450 |
| Tobacco products .. | 4.90 | 285 | 345 | 404 | 440 | 465 |
| Other food products .. | 4.02 | 243 | 312 | 320 | 340 | 360 |
| Cotton textiles .. | 27.95 | 124 | 131 | 144 | 160 | 168 |
| Silk articles .. | 2.56 | 142 | 210 | 230 | 250 | 275 |
| Paper and product .. | 2.60 | 186 | 180 | 210 | 245 | 250 |
| Other consumer goods .. | 9.85 | 168 | 198 | 210 | 250 | 275 |
| Sub-total .. | 56.65 | 175 | 193 | 216 | 240 | 262 |
| Intermediate goods: | | | | | | |
| Jute manufactures .. | 8.90 | 164 | 160 | 202 | 245 | 270 |
| Fertilizers .. | 0.45 | 490 | 490 | 613 | 780 | 1080 |
| Petroleum products .. | 0.90 | 750 | 800 | 900 | 1000 | 1000 |
| Cement .. | 5.00 | 161 | 210 | 243 | 363 | 425 |
| Other chemicals .. | 8.25 | 160 | 270 | 295 | 330 | 350 |
| Jute pressing .. | 2.54 | 106 | 106 | 110 | 115 | 120 |
| Cotton ginning .. | 3.38 | 144 | 168 | 190 | 205 | 220 |
| Other interm. goods .. | 7.00 | 366 | 399 | 425 | 450 | 475 |
| Sub-total .. | 36.33 | 237 | 255 | 287 | 334 | 363 |
| Investment goods .. | 7.02 | 410 | 500 | 580 | 665 | 760 |
| Total industries (% charges) .. | 100.00 | 214 (6.7) | 237 (10.7) | 267 (12.7) | 304 (13.9) | 334 (10.0) |

Annexure III-3 Table-2*Projection of small-scale industries production*

(Index numbers 1959/60=100)

| | Weight | 1964-65 | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 |
|----------------------------------------------------|--------|---------|---------|---------|---------|---------|---------|
| Consumer goods: | | | | | | | |
| East .. | 492 | 121 | 131 | 127 | 136 | 142 | 148 |
| West .. | 607 | 130 | 133 | 138 | 149 | 157 | 164 |
| Total .. | 1,099 | 126 | 132 | 132 | 143 | 147 | 157 |
| Intermediate goods: | | | | | | | |
| East .. | 112 | 164 | 146 | 157 | 172 | 188 | 207 |
| West .. | 174 | 161 | 137 | 157 | 170 | 183 | 196 |
| Total .. | 286 | 162 | 141 | 157 | 171 | 185 | 200 |
| Investment goods: | | | | | | | |
| East .. | 19 | 135 | 142 | 150 | 160 | 170 | 180 |
| West .. | 87 | 135 | 140 | 145 | 150 | 155 | 160 |
| Total .. | 106 | 135 | 140 | 146 | 152 | 148 | 164 |
| Value added (Rs. million) in 1959-60 prices | | | | | | | |
| Consumer goods ind. .. | 1,099 | 1,385 | 1,450 | 1,460 | 1,570 | 1,615 | 1,725 |
| Intermed goods ind. .. | 286 | 465 | 405 | 450 | 490 | 530 | 570 |
| Investment goods ind. .. | 106 | 145 | 150 | 155 | 160 | 165 | 175 |
| Total .. | 1,491 | 1,995 | 2,005 | 2,065 | 2,220 | 2,310 | 2,470 |

Annexure III-3 Table-3

Summary Projection Industrial Sectors

(Rs. million, 1964/65 prices)

| Sector | 1964 65 | 1965-66 | 1966-67 | 1967 68 | 1968-69 | 1969-70 |
|-------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Consumer goods industry | | | | | | |
| Large scale .. | 2,075 | 2,325 | 2,545 | 2,870 | 3,190 | 3,485 |
| Small scale .. | 1,475 | 1,545 | 1,555 | 1,675 | 1,720 | 1,840 |
| Total .. | 3,550 | 3,870 | 4,100 | 4,545 | 4,910 | 5,325 |
| (annual change in %) | | 9.0 | 6.5 | 10.3 | 8.3 | 8.4 |
| Intermediate goods producers | | | | | | |
| Large scale .. | 1,035 | 1,035 | 1,115 | 1,255 | 1,465 | 1,590 |
| Small scale .. | 495 | 430 | 480 | 520 | 565 | 610 |
| Mining .. | 180 | 190 | 200 | 215 | 230 | 250 |
| Public utilities .. | 440 | 505 | 540 | 615 | 700 | 800 |
| Total .. | 2,150 | 2,160 | 2,335 | 2,605 | 2,960 | 3,250 |
| (annual change in %) | | 0.5 | 8.1 | 11.6 | 13.6 | 10.0 |
| Investment goods industries | | | | | | |
| Large scale .. | 585 | 615 | 750 | 870 | 1,000 | 1,140 |
| Small scale .. | 160 | 165 | 170 | 175 | 180 | 190 |
| Total .. | 745 | 780 | 920 | 1,045 | 1,180 | 1,330 |
| (annual change in %) | | 4.7 | 17.9 | 13.5 | 12.9 | 12.7 |
| Total all industries .. | 6,445 | 6,810 | 7,375 | 8,195 | 9,050 | 9,905 |
| (annual change in %) | | 5.7 | 8.3 | 11.1 | 10.5 | 9.4 |

Annexure III-3 Table-4*Growth and Alternative Assistance Levels*

(Rs. million, 1964-65 prices)

| | | 1967-68 | 1968-69 | 1969-70 |
|-----------------------------|-------------------------|----------|---------|---------|
| Central alternative: | | | | |
| Imports: | Consumer goods ind. | .. 740 | 885 | 915 |
| | Intermediate goods ind. | .. 685 | 775 | 840 |
| | Investment goods ind. | .. 640 | 720 | 810 |
| | Total | .. 2,065 | 2,380 | 2,565 |
| Production: | Consumer goods ind. | .. 4,545 | 4,865 | 5,325 |
| | Intermed. goods ind. | .. 2,605 | 2,780 | 3,160 |
| | Investment goods ind. | .. 1,045 | 1,075 | 1,260 |
| | Total | .. 8,195 | 8,720 | 9,745 |
| Low alternative: | | | | |
| Imports: | Consumer goods ind. | .. 740 | 830 | 860 |
| | Intermed. goods ind. | .. 685 | 745 | 770 |
| | Investment goods ind. | .. 640 | 705 | 785 |
| | Total | .. 2,065 | 2,280 | 2,415 |
| Production: | Consumer goods ind. | .. 4,545 | 4,810 | 4,985 |
| | Intermed. goods ind. | .. 2,605 | 2,680 | 2,920 |
| | Investment goods ind. | .. 1,045 | 1,050 | 1,050 |
| | Total | .. 8,195 | 8,540 | 8,955 |

**SECTORAL BREAKDOWN OF AND GUIDELINES FOR THE
ADP FOR 1968-69**

Sectoral Breakdown of the ADP for 1968-69

Public Sector

(Million rupees)

| Name of the Sector | East Pakistan | West Pakistan | Centre | Total |
|--------------------------------|------------------|------------------|--------------|--------------|
| 1 | 2 | 3 | 4 | 5 |
| 1. Agriculture .. | 450 | 380 | 90 | 920 |
| 2. Water and Power .. | 800 | 790 | 162.5 | 1752.5 |
| Water .. | (370) | (450) | (15) | (835) |
| Power .. | (430) | (340) | (147) | (917.5) |
| 3. Industry .. | 500 | 170 | 40 | 710 |
| 4. Fuels and Minerals .. | 40 | 30 | 90 | 160 |
| 5. Transport & Communications | 430 | 530 | 456 | 1,416 |
| 6. Physical Planning & Housing | 210 | 130 | 160 | 500 |
| 7. Education and Training .. | 265 | 185 | 55.5 | 505.5 |
| 8. Health .. | 130 | 120 | 30 | 280 |
| 9. Social Welfare .. | 13 | 10 | 6 | 29 |
| 10. Manpower and Employment | 12 | 9 | 4 | 25 |
| 11. Works Programme .. | 250 | 146 | 6 | 402 |
| Total (Gross) .. | 3,100 | 2,500 | 1,100 | 6,700 |

GUIDELINE FOR THE ADP FOR 1968-69

1. AGRICULTURE

This sector should receive the highest priority. All essential programmes designed to attain the target of food self-sufficiency should be fully provided for. All decisions of the Agricultural Policy Committee should be completely reflected in the proposed allocations. Projects involving relatively long gestation period of having insignificant impact on production in the short run should be decelerated. Specifically the following programmes should be fully protected:

(a) Distribution of Fertilizers

A provision of Rs. 284 million is proposed for fertilizer distribution. The targets of distribution of 17 lakh tons of fertilizers in West Pakistan and about 4 lakhs tons in East Pakistan will be covered by this.

(b) Plant Protection

For increased coverage specially of areas under cotton, a provision of Rs. 150 million has been proposed.

(c) Mechanisation Programme

Rs. 130 million is proposed for this programme. By this amount it should be possible to bring new areas under cultivation in West Pakistan and also cater to the need for a larger number of power pumps for East Pakistan.

(d) Distribution of Seeds

A provision of Rs. 24 million to meet the subsidy part of the cost is proposed for this programme. More areas are intended to be covered by improved varieties of Mexi-Pak wheat seeds and IRRI paddy seeds both in West Pakistan and in East Pakistan.

(e) Foodgrain storage

As the five on-going schemes in East Pakistan and the scheme for the construction of 1.35 lakh tons capacity storage in West Pakistan are likely to be completed soon, allocation for this programme is proposed to be reduced.

(f) Animal Husbandry, Forestry, and Fisheries

In these sub-sectors emphasis should be given to those on-going schemes which are expected to yield returns quickly. Forestry schemes may be decelerated. Research schemes should, however, be given their due share.

2. WATER AND POWER

A total programme of Rs. 1,752 million is proposed for this sector. There should be greater emphasis on projects which produce returns quickly and whose capital co-efficients are relatively low. However, in the composition of the sectoral programme, different priorities are suggested for East and West Pakistan. While in West Pakistan transmission and distribution programme in the Power sector and projects which augment irrigation water supply and save land from salinity like, tubewell programme, surface drainage etc. in the Water sector are proposed to be accorded higher priority. The relative emphasis on such programmes in East Pakistan is slightly different. In the programme of East Pakistan equal emphasis is proposed to be laid on power generation and transmission facilities. In the Water sector, on-going major irrigation and flood protection schemes should be completed. The allocation suggested should enable the protection of the following programmes and physical targets:—

(i) Power Sub-sector:

West Pakistan

A provision of Rs. 340 million is proposed. The following essential schemes are to be adequately provided for:

- (a) Mangla Unit No. IV.
- (b) Guddu Thermal Project.
- (c) Transmission Programme.

The on-going schemes should be adequately provided for to expedite their early completion. By execution of this programme it is expected that 8,000 tubewells will be electrified and 1 lakh new consumer connections will be provided.

East Pakistan

A programme of Rs. 430 million is proposed. The on going and aided schemes should be provided for according to the disbursement schedule of foreign aid agreements. Considerable progress is expected to be made in the execution of generation and transmission schemes. It is estimated that generation capacity will increase further by 67.2 M.W. and about 900 miles of new transmission and distribution lines will be erected.

Centre

The Karachi Nuclear Power Projects under the Atomic Energy Commission and other important on going programmes in the Centre are proposed to be covered by the allocation of Rs. 147.5 million.

(ii) Water sub-sector

The following major programmes and physical targets are proposed to be achieved by the allocation of Rs. 835 million.

Programme

Targets

West Pakistan

- | | |
|-----------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (a) Sinking of tubewells in SCARP areas. | It is proposed that 2,000 tubewells to supply about 2 MAF of water should be brought into operation. About 300 miles of open drains in Kotri barrage command and SCARP areas are proposed to be provided. |
| (b) Surface Drainage | |
| (c) Small tubewells and surface irrigation schemes in riverain, and Barani areas. | Under this a large number of schemes in areas outside the irrigation zone and aiming at providing irrigation facilities are proposed to be included in ADP—Adequate allocations have been made to complete the on going programme before 1970. |
| (d) Surface-Water-Development Projects. | Excavation and remodelling of some of the canals (distributions and minors), to extend the irrigation facilities and improve the existing irrigation supply in areas commanded by Kotri, Guddu and Taunsa Barrage would be covered. Provisions have been made for the Karachi Irrigation scheme and Khanpur Dam; only a token provision is proposed for the Gomal Zam project. |

East Pakistan

- | | |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------|
| (a) General Investigations | Provision suggested enough for the services of consultants, Hydrological studies and detailed investigations of specific schemes. |
| (b) Embankment Projects | Provision includes Coastal Embankment Brahmaputra, Gumti and Chandpur Irrigation Project. |
| (c) Major Irrigation | Provision for the Ganges-Kobadak, Teesta and other major irrigation-schemes should be made. |

In addition, the programme also covers provision for small irrigation schemes and flood regulation and drainage schemes.

3. INDUSTRY

The strategy in this sector should be consolidation to ensure fuller utilization of the installed capacity of industrial units and completion of the on-going schemes as quickly as possible. Priority should, however, be accorded to industries which will increase export earnings, the availability of agricultural inputs in the country and other essential and basic requirements for the economy. Industries in which private entrepreneurs are interested should not be taken up in the public sector unless there are compelling reasons for doing so. Economies in the construction component of projects should be affected as far as possible. The allocation suggested for this sector is Rs. 710 million—Rs. 500 million for East Pakistan, Rs. 170 million for West Pakistan and Rs. 40 million for the Centre. Priority assigned to the various industries and sub-sectoral allocation are explained below:

East Pakistan

(a) Jute Industry

This industry should receive the highest priority, installation of as many new units as possible and the completion of the on-going ones early should be aimed at so that the Third Plan target of 25,000 looms can be reached. A provision of Rs. 52 million is proposed for the jute mills programmes.

(b) Sugar Mills

For the completion of the on-going schemes allocation should be made adequately in accordance with the disbursement schedule. No new sugar mill should be taken up.

(c) Fertilizer Manufacturing Plants

This programme must be fully protected. Ghorasal Fertilizer Factory and Tripple Super-phosphate plants should be adequately provided for.

(d) Engineering, Chemical and other Industries

Cement factories should receive priority. Adequate provision is proposed for the expansion of ABC Cement factory and the Clinker Factory at Chittagong. Similarly expansion of Chittagong Steel Mill, insecticides factories, paper mills etc. are proposed to be fully covered.

West Pakistan

A programme of Rs. 170 million is proposed which will adequately look after the following major schemes:

(a) Heavy Mechanical Complex

- (b) Heavy Electrical Complex
- (c) Machine Tool Factory at Landhi
- (d) Central Foundry and Forge Factory.
- (e) Expansion of Cement Factories.

Centre

In the Centre the programme consists of a number of small schemes like Petrochemical and Fertilizer study, Research Programme of PCSIR, Technical Training Institutes and Development Programme for Industries in Azad Kashmir and Northern Areas. The allocation proposed should be adequate for all these schemes.

4. FUELS AND MINERALS

A programme of Rs. 160 million is proposed for this sector, In East Pakistan special emphasis should be given for the exploration of minerals. Adequate provision is proposed for the Jaipurhat Limestone and the development of Jamalgonj collieries. In West Pakistan development of coal deposits in the Central Block. Sor range and Sharigh coal mines should be adequately provided. The Central programme for the Geological Survey of Pakistan and the Oil and Gas prospecting should be fully covered.

5. TRANSPORT AND COMMUNICATIONS

In line with the revised order of priorities of the Third Plan there should be greater emphasis on development of transport and communications, particularly on the strengthening of links between East and West Pakistan, the development of ports and telecommunications. A provision of Rs. 1,416 million is proposed for this sector which is considered adequate to meet the essential programmes as detailed below:

East Pakistan

(a) *Pakistan Eastern Railways*

Rs. 180 million is proposed for the Pakistan Eastern Railway. On going essential programme like rehabilitation and modernization of railway tracks, purchase of rolling stock, bridge works, and double tracking in sections between Chittagong and Dacca would be fully covered. Under the dieselization programme provision has been made for the acquisition of 44 additional Diesel locomotives.

(b) *Roads*

A provision of Rs. 180 million (including Rs. 20 million for operational roads) is proposed for roads programme in East Pakistan. It is estimated that it should

be possible to complete 200 miles of new high Chittagong road and Dacca-Aricha road should be fully covered. Efforts should be made to cover other on going schemes first. The designing of a highway between Tarabo (Demra)-Narsingdi-Sarail-Habiganj-Sherpur-Sylhet road may be taken in hand. With the strengthening of the Roads and Highways Directorate it should be possible to carry out proper economic and engineering feasibility studies to identify additional viable projects in the roads sub-sectors, for instance, the roads between Khulna-Mongla and Narsingdi-Mymensingh *via* Motkholā.

(c) *Road Transport*

A provision of Rs. 15 million is proposed for the East Pakistan Road Transport Corporation to maintain their essential programme like purchase of vehicles and other requirements.

(d) *Water Transport*

Rs. 50 million is proposed for the Inland Water Transport Authority. Particular attention should be paid to the conservancy and development of important navigation channels such as those connecting Khulna Mongla area with the Dacca-Narayanganj area, to the extension of the scheme for lighting, buoying and marking of navigable channels etc. A study should be undertaken for a link canal between Kumarkhali river and Ghasiakhali river to provide a shorter and all-the-year navigable route to and from the port at Mongla.

(e) *EPSC (East Pakistan Shipping Corp)*

For the East Pakistan Shipping Corporation a provision of Rs. 5 million is proposed including Rs. 2.00 million as Government contribution towards its equity capital. Preliminary economic and technical feasibility studies for improving transport services to the coastal Islands are included.

West Pakistan

(a) *Pakistan Western Railway*

A provision of Rs. 300 million is made to protect the essential on-going programmes like rehabilitation and modernization of railway-tracks for additional rolling stock already on order, for carriage factory at Islamabad, for Kot Adu-D. G. Khan rail line, electrification of railways between Lahore-Khanewal, for rehabilitation and reconstruction of bridges, etc. Efforts should be made to eliminate traffic bottlenecks through remodelling and modernization of the marshalling yard at Samasatta and double-tracking between Kotri and Hyderabad including a bridge.

(b) *Roads*

Rs. 230 million (including Rs. 40 million for operational roads) is proposed for this programme. It is estimated that about 350 miles of new high type roads

will be completed in 1968-69. The major schemes like Karachi-Hyderabad road, bridges on rivers Jhelum, Ravi, Sutlej and Indus (Thatta-Sujawal) and the RCD road are to be protected fully. Construction should commence on the new highway between Lahore and Lyallpur. Preliminary economic and feasibility studies may be undertaken for the sections Lyallpur-Multan and between Hyderabad-Kashmore to assess the viability of a through link between Karachi and Lahore on the West of river Indus.

Centre

A programme of Rs. 456 million is proposed as given below:

(a) Ports

Rs. 52 million is proposed for this sub-sector. Important schemes like development of Chalna anchorage, particularly the acquisition of craft and equipment in East Pakistan, will be well protected. Detailed technical and model studies for improvement of bay entrance and Pussur river channel leading to the proposed permanent port site at Mongla in East Pakistan as well as the detailed technical studies at Sonmiani in West Pakistan will be undertaken.

(b) Roads

A provision of Rs. 15 million is proposed for the construction of new roads in Azad Kashmir and Northern Areas of West Pakistan. In addition Rs. 45 million is allocated for operational roads.

(c) Tourism

Rs. 6 million is proposed for this sub-sector for continuing the essential on-going programmes.

(d) Civil Aviation

An allocation of Rs. 106 million is proposed. Important schemes like construction of new airport at Dacca, provision of a jet runway at Rawalpindi, improvement of runway at Skardu and other minor schemes will be adequately covered.

(e) Post Offices

A provision of Rs. 15 million is proposed for continuing the on-going programmes including construction of a new headquarters building in Islamabad.

(f) Telephones and Telegraphs Department

Rs. 190 million is proposed for the development programme of Telephones and Telegraphs Department. It is estimated that nearly 25,000 new telephones

can be provided next year. Other on-going schemes for the strengthening of the inland long distance network work will also be covered. Further progress should be possible on the expansion of telephone industries and on the feasibility study for setting up two earth stations for satellite communications.

(g) *Broadcasting*

Rs. 20 million is allocated for the broadcasting programme already in hand. This allocation should be adequate to meet this essential need.

(h) *Television*

Rs. 10 million is proposed for the on-going scheme for Television training institute, etc.

(i) *Transport Sector Survey*

Rs. 6.0 million is provided for conducting an overall sectoral survey in the transport sector.

6. PHYSICAL PLANNING AND HOUSING

A programme of Rs. 500 million is proposed for this sector. In drawing up the sectoral programme, the following order of priorities should be kept in view:—

- (a) Basic Development.
- (b) Water supply, sewerage and drainage scheme.
- (c) Low Income group housing.
- (d) Public Servants Housing.

East Pakistan

The sectoral programme proposed for East Pakistan will fully cover the schemes relating to Basic Development Sub-sector as well as the sewerage and water supply schemes. Attention has also to be given to low income housing. The allocation proposed for the public servants housing will be mainly utilized for the completion of the on-going schemes. Work on rural water supply schemes for nine important towns will be continued.

West Pakistan

In West Pakistan water and sewerage schemes in Lahore and Quetta are proposed to be fully covered. Allocation is also proposed for commencing work on Peshawar Valley Project and preparation of Karachi Urban Development

Plan. Adequate provision should be made for the on-going schemes providing plots/houses to low income groups. Under the urban water supply programme work on the on-going scheme for Multan, Sukkur, Sheikhpura, Sargodha and Gujranwala should continue where substantial progress is expected to be achieved. Under rural water supply programme, apart from completion of the on-going schemes, a number of new rural water supply schemes are proposed to be taken up.

Centre

Adequate provision for Islamabad and Ayubnagar has been made work on other on-going schemes of Government Servants Housing, and Government Offices and Buildings should also continue.

7. EDUCATION AND TRAINING

A total programme of Rs. 505 million is proposed for this sector. A higher rate of acceleration should be accorded for this sector because of slow pace of implementation of educational programmes in the first three years of the current Plan period.

Primary education programme should receive adequate funds. Emphasis should be on improvement of the existing schools. In the field of secondary education, major emphasis will be on qualitative improvement by accelerating the programme for introduction of science, and other technical subjects and by providing adequate physical facilities to the existing high schools. About 200 new middle schools and 60 high schools are proposed to be opened. Improvement of the existing intermediate colleges should be completed and a few new colleges providing for science education only may be added. All essential programmes, schemes of technical education should be adequately provided for. This will include strengthening and expansion of the facilities at the existing Engineering Universities in the two Provinces, improvement of the existing Engineering Colleges at Karachi and Peshawar and completion of the Engineering Colleges at Hyderabad and Rajshahi. Work relating to the establishment of Engineering Colleges at Chittagong and Khulna will be continued. At the Polytechnic level, high priority is proposed to be given to the strengthening and expansion of existing 12 polytechnics and 4 monotecnics. Programme for the establishment of 15 polytechnic and 8 technical institutes will be accelerated and work will be initiated on the establishment of 10 new polytechnics. Other important Programmes like talent scholarship, etc. are intended to be maintained in the Development Programme.

8. HEALTH

A provision of Rs. 280 million is proposed for this sector with a view to further increasing the medical facilities and enlarge the activity of the family

Planning Programme in the country. The programme of Rs. 280 million should adequately cover all essential programmes like Malaria Eradication, Family Planning Tuberculosis Control, expansion of Hospital beds, Medical Education and training. Rural Health Centres which have been taken in hand, should be completed first and maximum utility derived from these before embarking on new construction. In the case of T.B. Control programme, emphasis should be laid on domiciliary clinics. The programme of B.C.G. should be adequately covered. The work of the B.C.G. assessment team for the evaluation of the B.C.G. programme will be continued.

The Medical Colleges both in East and West Pakistan will be improved along with the hostel accommodation for the students. It is expected that two more Medical Colleges will be completed during 1968-69. Efforts will be made to open new departments in the existing colleges and for the provision of better equipment so that the quality of doctors is improved.

The work on a 100-bed Hospital at Dacca and 50-bed Hospitals at important places in East Pakistan will be continued. The work on new Tehsil Headquarters Hospital will be continued. It is expected that about 200 beds will be added in hospitals.

The Health schemes of Azad Kashmir, Gilgit and Baltistan have also been adequately provided for. The programme for these areas envisages extension of hospitals and dispensaries and provision of equipment.

9. SOCIAL WELFARE

The proposed allocation for Social Welfare sector is Rs. 29 million. The allocation for this sector as compared to previous years has been increased. Development schemes which promote socio-economic development of families and communities and help to mobilise community resource should continue as priority programmes. These include continuation of 69 urban community Development project and initiation of 10 to 15 new ones; continuation of 30 pilot projects of social services in rural communities; professional and financial assistance to nearly 4,000 voluntary social services agencies and continuation of social work education research and training. Greater emphasis is intended to be given to the continuing programme of social services for children, youth and families and for physically handicapped persons in order to achieve the Third Plan targets to the maximum possible extent. Staff Welfare Programmes of the Central Government should also be provided for.

10. MANPOWER

The allocation proposed for Manpower sector is Rs. 25 million. A higher rate of acceleration is proposed for this sector because of slow implementation of manpower programme in the past. Adequate provision should be made for completing the on-going schemes. In East Pakistan the on-going scheme relating

to the construction of technical training centres, marine diesel training centre, labour welfare centres and three vocational guidance and youth employment units should be fully provided. Similarly, the on-going schemes in West Pakistan like technical training centres including one for released defence personnel should be given preference. In the centre the development programme proposed will include seamen's hostels, expansion of the National Institute of Labour Administration Training and other essential schemes.

11. WORKS PROGRAMME

Works Programme has come to occupy an important position in our developmental strategy since it has a great potential for increasing employment opportunities in the rural areas at a relatively smaller investment. As compared to the previous year, a higher allocation of Rs. 402 million is suggested for this programme. Expenditure in this sector should, however, be more selective and tailored to schemes which will increase food production.

INTERNATIONAL ECONOMIC BACKGROUND

Economic development in Pakistan is dependent upon political and economic events abroad. In particular, Pakistan's exports and the foreign assistance it receives are in large part determined by external forces.

The volume and values of world trade in 1967 were adversely affected by the slow down in economic activity in many developed countries. The check to expansion in these countries was a result of deliberately restrictive economic policies enacted partly to arrest inflationary tendencies and partly to improve weak balance of payments positions. There was a risk that simultaneous actions in many countries along these lines would lead to a cumulative down-turn of activities throughout the world. Fortunately this was avoided, mainly because of the resumption of expansion in the U.S. and the rapid growth in Japan and Italy.

It seems now likely that in the preceding 12 months GNP in the OECD countries will increase twice as fast from the second quarter of 1967 (2½%) to the second quarter of 1968 (5%). The expansion is expected to be particularly rapid in Japan (9%). Also U.S. and Italy are likely to grow faster than the average, whereas France and particularly U.K. and Germany may grow slower. Industrial production in the developed countries (all OECD countries) may increase in the course of 1968 at a rate of 7 per cent. Total imports in these countries may expand even somewhat faster.

This is inclusive of inter-OECD trade. Of greater interest to Pakistan is the prospects for exports from the developing countries. Exports from non-OECD countries to the OECD countries were particularly affected by the slow-down in activity in 1967. In fact such exports declined in value at an annual rate of 1½ per cent in the first half of 1967. While Japan's imports accelerated to an annual growth rate of 23 per cent, North American and European imports fell at an annual rate of 5½ and 5 per cent respectively. The decline owed something to the Middle-East crisis but to an important extent it also reflected a fall in the unit value of exports from primary producing countries, a development which usually is associated with a slow-down in business activity in the developed countries. There also appears to have been a downward adjustment of raw material inventories in both Europe and North America. Among the less developed countries in Africa and Asia, some of the major ones—such as India and Pakistan and Nigeria—appear to have suffered heavily from the down-turn of demand of the OECD countries for primary commodities.

The decline of exports from non-OECD countries to the OECD countries has probably been reversed as the expansion in output has resumed. The more favourable outlook for production in OECD countries in 1968 suggests that some recovery of export unit values from primary producing countries may take

place. The value of OECD countries' total imports from the rest of the world might rise during the year at a rate of 7 to 7½ per cent.

However, although demand for exports from the developing countries in general looks more encouraging than a year ago, there are a number of important uncertainties in the picture. Major imbalances in the balance of payments positions of the larger countries have led to important corrective measures by the U. K. and U.S.A. The U.K. devaluation in November, 1967 and the measures announced by the U.S. President in January, 1968 will necessarily affect adversely the world growth of output and trade, unless the other major countries are not adopting policies aimed at preventing such developments. U. K. and U. S. A. together are aiming at an improvement of their balance of payments for calendar year 1968 over 1967 of 3.4 billion dollars. Even if this is only partly achieved it will have deflationary effects on other countries, in particular the industrialized countries, unless these countries take off setting expansionary steps. These problems are currently (March 1968) being thoroughly discussed among these countries within the framework of the OECD. The outcome of these policy considerations will have significant bearing on (1) whether the corrective measures taken by U. S. and U. K. will change the otherwise promising outlook for output and trade over the next 12 months, and (2) whether in fact the measures will lead to the hoped-for improvement in the international balance of payments situation. Such an improvement is of course also to a considerable degree dependent upon further developments in Vietnam.

The *direct* impact of the U. K. and U. S. A. measures on the developing countries should be rather limited. The effect of the devaluation will chiefly affect trade in manufactured products. The new U. S. direct investment guidelines permits some increase in the investment outflow to these countries.

However, the *indirect* effects of the U. K. and U. S. A. measures on the developing countries may be more serious if they should lead to a general slow-down of activities in the developed countries.

In addition to U. K. the following countries devalued their currencies: Denmark, Iceland, Ireland, Spain, Finland, Ceylon, Cyprus, Federation of South Arabia, Hong Kong, Israel, Gambia, Malawai, Sierra Leone, Bermudas, British Honduras, Guyana, Jamaica, Trinidad and Tobago, New Zealand.

The direct impact of these devaluations on Pakistan's foreign trade is likely to be stronger on the export side than on the import side. While Pakistan's commodity exports to these countries represent between 25 and 30%(*) of Pakistan's total commodity exports, their imports have averaged around 15%. U. K. is by far the most important trading partner among the devaluing countries supplying about 14% of Pakistan's imports and buying about the same percentage of Pakistan's exports. Of the other devaluing countries Hong Kong is the most important on the export side (5 — 6%) and Ceylon on the import side (1%).

(*) These and the following figures are subject to further check.

Since it was felt that the devaluation would reduce export incentives and make imports cheaper the following measures were announced three days after the U.K. devaluation:

- (a) Additional bonus of 10 percentage points would be given to all exports which are presently eligible for earning export bonus other than jute manufactures. Jute manufactures would be eligible to full bonus at the rate of 20% in place of the previous stamped bonus vouchers which carried less premium.¹
- (b) Additional bonus of 10 percentage points would also be given on invisible earnings including home remittances.
- (c) Export duty on jute and cotton was abolished.
- (d) On the import side, a regulatory duty of 10 per cent *ad valorem* on practically all industrial raw materials was imposed except those imported on bonus or cash-cum-bonus basis. This duty also apply to less essential finished goods such as refrigerators, cars and air-conditioners.
- (e) Food items and other essential articles such as edible oils, drugs and medicines, fertilizer and pesticides, etc., were exempted from this additional duty.
- (f) An additional *ad valorem* duty of 10 per cent was imposed on machinery imported into West Pakistan. For East Pakistan the increase in duty is only 5 per cent. The new rates of duty on imported machinery would now be 35 per cent in West Pakistan and 25 per cent in East Pakistan. Agricultural machinery has been exempted from this duty.

In the course of the next few months it will be necessary to evaluate whether these measures have been sufficient.

No very certain conclusions about the international economic background can be drawn from the considerations mentioned above. Still, it may be justified to conclude that inspite of the uncertainties and difficulties it is to be expected that the demand for exports from the developing countries will improve materially in 1968 compared to 1967. It also seems likely that unit values of exports will be somewhat higher.

¹ This was further increased to 30% in the first week of March, 1968.

THE PRIVATE SECTOR

“Pakistan has sought a balanced system of private and public enterprise to secure the advantages of both . . . In the directly productive sectors of agriculture and industry, primary reliance will continue to be placed on the individual initiative and the incentives of the private sector, operating under the disciplines of the market mechanism to ensure efficient use of resources and protection of the consumer and the public interest” (The Third Plan, p. 124).

Practically all of agriculture and of trade, approximately 80 per cent of manufacturing and a substantial component of all other sectors are in the private sector of the economy. Out of a total national product of Rs. 6,000 crores, approximately Rs. 4,900 crores originate in the private sector. Thus the success or failure of the economy depends to a very large extent upon developments in the private sector.

While the Government has not in the past attempted to develop a comprehensive plan for the private sector, Government policies do have a powerful impact on most areas of business activity. A very partial listing of the regulations that impinge upon the activities of a private industrialist* suffices to show just how important this effect is:

sanctions are required for investments employing foreign exchange or involving foreign participation;

domestic loans are indirectly supervised by the State Bank;

entitlements and import licence are necessary to import raw materials from abroad;

prices of some commodities are set by Government while other commodities are either sold directly by the Government or the Government controls their distribution;

depreciation rules, capital issues control, tax holidays, and capital repatriation rules all influence the use of capital;

high tariff or the banning of competing imports, export bonuses and export performance licensing virtually determine how much of the product will enter or leave the country while indirect taxes and direct taxes influence prices and profitability.

Though far from complete, the above listing should make it clear that existing government policy affects the most essential aspects of private operations;

what and how much of a product will be produced domestically;

what combination of capital and labor and of imported and domestic raw materials will be used in production;

what will be the price of the final output;

and what will be the profitability of the firm.

Unfortunately, the Government's policies toward the private sector are not sufficiently integrated and one policy sometimes works at cross-purposes to another. What is required is not more government controls, but a rationalization and simplification along the lines specified in the Third Plan:

- (a) Less direct controls and less detailed administrative intervention in private decision making;
- (b) More reliance on indirect policy instruments which influence profitability through the market mechanism.

In such a system the role of taxes and subsidies, both on output and inputs, would be expanded while that of licensing would be curtailed. Profitability is the key to business decision making. Government policies which make a specific action more profitable lead to more of that action; and policies, such as taxes, which make the action less profitable provide a disincentive. Direct controls prohibit behaviour, but do not lessen its profitability, indeed they often enhance it; therefore direct controls frequently lead to a wasteful allocation of resources to accomplish by other means the action that is prohibited. Furthermore, direct controls are usually administratively more cumbersome and their impact on the economy harder to understand and control than a tax or a subsidy. Profitability depends entirely on relative prices and it is through price policy which utilizes the market, that the government can most efficiently manipulate profitability—and hence the pattern of business decisions. The advantages of market controls, efficiency, simplicity, flexibility, as against the relatively crude instruments of direct controls, have been recognized in the new import policy.

Existing institutions are probably adequate to implement a system of indirect controls. Excise duties could be the main instrument for regulating prices of domestic products; bonus vouchers would stimulate exports; income tax control profitability of firms; customs duties and bonus vouchers would be adequate to differentiate the price of domestic and imported commodities. Regulation of credit by the State Bank to the scheduled banks and by PICIC and IDBP of foreign financing could control the flow of credit and thus the form of new investments. Elimination of overlapping responsibilities would strengthen the operation of existing organizations.

The task of remodelling the rules governing the private sector is too large to be accomplished in a single year. A first step should be made in this year's Annual Plan. However for the longer run a study committee should be established to determine the simplest set of regulations consistent with securing the Government's objectives.

To a considerable extent it is a question of improving and extending the use of fiscal and monetary policy measures, and to assure the proper coordination between fiscal and tax policy on the one hand and monetary and credit policy on the other. It would be particularly useful to develop what might be called a "credit expansion budget" for the main categories of credit institutions for the Plan year which together with the fiscal budget is closely geared to the targets for output and investment, the balance of payments situation, etc.

A first modest step in this direction has been initiated by a request to the PICIC, IDBP, ICP, NIT, HBFC and ADB to propose a programme for inclusion in the Annual Plan, covering such elements as:

- (a) investment (or lending) programme for 1968-69;
- (b) likely sectoral and regional distribution of (a);
- (c) criteria which will guide such investment or lending;
- (d) financial requirements, in foreign exchange and rupees;
- (e) major problems likely to arise during 1968-69;
- (f) any other policy issues concerning private sector investment for inclusion in the Annual Plan.

Today information about the private sector is scanty and uneven when compared to what is known about public sector activity. Production figures for some components of agriculture, large-scale manufacturing, mining and banking are reasonably good. But the information on the output of the livestock sector, small scale industry, construction, private transportation, wholesale and retail trade, and private services are much scarcer. up-to-date estimates of expenditures on inputs used in production, and on consumption of households are available from recent surveys but either have not been tabulated or published. This makes sectoral planning difficult; furthermore it means that among other things we know very little about which sectors generate savings and through what financial mechanisms and to which sectors these savings flow to finance new investments. Without the information mentioned above, it is not possible to undertake the type of studies necessary to formulate intelligent policies for the private sector.

To secure the required information it will be necessary to update studies on production, consumption and savings, to tabulate the Census of Manufacturing Industries for a recent year, to devise better methods for estimating the output of certain sectors, and to initiate work on financial flows. Little of the work can be completed in time for this year's Annual Plan, but a directive to initiate this work should be given.

It is further suggested that a Business Advisory Council be established. This Council would consist of representatives of major industries, the banks, and the semi-government financial agencies. Meetings would be held between this Council and interested government agencies, both provincial and central, on a quarterly or semi-annual basis. The purpose of these meetings would be:

- (a) To identify bottlenecks likely to slow growth in the private sector—bottlenecks such as governmental administrative practices, credit stringencies, shortages of power or specific raw materials.
- (b) To secure suggestions from and reactions of the business community to government policy;
- (c) To gain information on current business conditions; and
- (d) To plan for the future.

At present information on current business conditions is scanty and received too late to modify policy. More up-to-date information could assist the government in preventing both inflation and recessions.

Members of the Government already meet with the business community on an informal basis. It is suggested that these meetings be formalized, that they be preceded by careful preparation, and that the appropriate representatives of interested parties in both Government and business be invited to attend. At first the Business Advisory Council should have as its major objective the exchange of information. The Council will provide a forum in which the Government can inform the private sector about policies intended to influence the private sector. The Government can explain both the rationale for its policies and how these will be implemented. And the private sector can specify its requirements, its problems and its reaction to government policy. Close cooperation between Government and the private sector should lead to better policies and improved planning for the private sector.

Similar Councils have proved successful in many developed countries. The French have made the greatest use of such Councils, dividing them into sectoral working parties, and giving them central responsibility in the construction of their plans. Investment and production guidelines are established by each group for its own sector. Those involved with implementation are intimately involved with the construction of goals; the targets established are therefore realistic and have in fact been carried out.

It is further suggested that this type of indicative planning (as it has been called) for the private sector be attempted on a pilot basis. Three sub-committees of the Council could be established to study jute textiles, cement and sugar and to develop a plan for these sectors. If this type of activity proves worthwhile, it can be extended to other sectors in future years.

III-A

**SUPPLEMENTARY WORKING PAPER FOR THE ANNUAL PLAN
COORDINATION COMMITTEE**

SUBJECT: *Annual Plan for 1968-69*

A working paper has already been circulated for the meeting of the Annual Plan Coordination Committee scheduled to be held on the 19th March, 1968.

2. As stated in para. 54 of that Working Paper, PICIC, IDB, ADBP, HBFC, NIT and ICP were asked to indicate their respective programmes and proposals for inclusion in the Annual Plan, covering such elements as:

- (a) investment (or lending) programme for 1968-69;
- (b) likely sectoral and regional distribution of (a);
- (c) criteria which will guide such investment or lending;
- (d) financial requirements, in foreign exchange and rupee
- (e) major problems likely to arise during 1968-69;
- (f) any other policy issues concerning private sector investment for inclusion in the Annual Plan.

Information has so far been received from PICIC, IDB, ADBP, HBFC and NIT. This is reproduced in Annexures I, II, III, IV and V. Information from ICP is awaited and will be circulated when received.

3. The most important aspect of these proposals is their investment programme for 1968-69. The Annual Plan Coordination Committee may wish to consider the desirability of the proposed investment targets for 1968-69 and direct the Working Group on Monetary and Credit Policies to examine the implications of these proposals particularly the portion to be raised from non-government sources. The latter will have to be coordinated with the credit budget for 1968-69.

4. The Ministry of Finance may be requested to prepare for inclusion in the Annual Plan an overall estimate of capital liability in the light of the deliberations of the Annual Plan Coordination Committee, and the recommendations of the Working Group on Monetary and Credit Policy. The provision for this will have to be made outside the public sector ADP except equity participation, if any.

5 Almost all the agencies are running behind their overall targets for the Third Plan period and have suggested considerable acceleration in 1968-69, as shown in the following table:

Lending Operations of Financing institutions during the Third Plan

(Rs. million)

| | Third Plan targets | 1965-66 | 1966-67 | 1967-68 | Proposed for 1968-69 |
|-------|--------------------|---------|---------|---------|----------------------|
| PICIC | | | | 235 | 260 |
| IDBP | | 197 | 323 | 191 | 500 |
| HBFC | 190 | 63 | 58 | 45 | 45 |
| ADBP | 1000 | 110 | 148 | 200 | 243 |

6. The main points and policy proposals submitted by each of these institutions have been summarized in the following paragraphs for the consideration of the Annual Plan Coordination Committee. It will be observed that some of the proposals are more complex and cannot be decided without further consideration in the Ministries concerned. Only such proposals or changes where decisions can be taken in the next few weeks, will be included in the Annual Plan.

SUMMARY OF PROPOSALS RECEIVED FROM VARIOUS INSTITUTIONS

I. PICIC

7. The total loan sanctions by PICIC during 1968-69 are expected to be Rs. 260 million — Rs. 245 million in foreign currency and Rs. 15 million in local currency. Of the total sanctioned loans, East Pakistan is expected to get 40% compared to 21% in 1967-68. Loan disbursement is expected to be Rs. 225 million.

8. In order to sustain its loan sanctioning activity, PICIC would require fresh foreign and local currency funds of Rs. 450 million and Rs. 30 million respectively during 1968-69. The latter is supposed to be raised in the form of loans from the Government as the organization is feeling stringency in rupee resources. This, it has been argued, would enable it to borrow additional funds in foreign currency.

9. Arguments have been put forward for enhancing the rate of interest that PICIC should charge on foreign loans, from the existing $7\frac{1}{2}$ to $8\frac{1}{2}$ %. The arguments are (i) increase in bank rate from 4% to 5%, (ii) monetary stringency, (iii) enhancement of the rate of import duty from $12\frac{1}{2}$ % to 35%, (iv) import under bonus and (v) increase in the World Bank rate to $6\frac{1}{4}$ %. It is felt that increased earnings would give P.I.C.I.C. the financial strength to assume larger risks in financing private sector industry.

10. It has been pointed out that in contracting foreign credits, excellence of technology should be kept in view. The Japanese credit should be obtained for cotton textiles and U.K. credit for jute because at present World Bank loans are utilized for these two industries and as such the reliance of PICIC is increasing on the latter.

11. The cost structure of new projects has recently been burdened as a result of increase in customs duty and down payment of supplier's credits against bonus vouchers. The issue of cash licenses should therefore be streamlined and quickened for units going into production. Besides, new industrial units should be issued cash licenses initially for the first two years. Their raw materials may ordinarily be put on bonus.

II. Industrial Development Bank

12. The investment sanctioned by IDB during the first three years of the Third Plan amounted to Rs. 197 million, Rs. 323 million and Rs. 191 million respectively.

13. The Bank has suggested a lending programme of Rs. 500 million for 1968-69, Rs. 425 million in foreign currency and Rs. 75 million in local currency. This will require additional funds of Rs. 600 million—Rs. 500 million in foreign currency and Rs. 100 million in local currency. The Bank has already made requests to the Government for Rs. 30 million in local currency.

14. Since 1966, substantial foreign exchange allocation has been made to IDBP from non-conventional sources like Belgium, Denmark, Poland, Italy, U.S.S.R. and Yugoslavia. These are mostly tied credits and are not as popular as credits from traditional sources.

15. The Bank has pursued a policy of providing maximum encouragement to the growth of industrialization in East Pakistan and backward regions of West Pakistan. Of the total sanctions, East Pakistan received 46% (49% in respect of new units).

16. Diffusion of industrial ownership is one of the Bank's primary objectives. In the matter of selection of projects, due regard is paid to industries that are export oriented, import substituting or based on indigenous raw materials.

17. The Bank is experiencing shortage of foreign loans particularly from conventional sources and has pleaded for more credits from competitive sources of supply. The import of raw materials under bonus has also raised the cost of goods and adversely affected their competitive position in the international market. The import policy should take these factors into consideration.

18. In pursuance of a recent government decision, down payment of 10% to 20% of total amount in respect of foreign supplier's credit has to be paid by borrowers through the surrender of bonus vouchers. This has created strains on the resources of the Bank.

19. The Bank has Rs. 85 million as overdues, and this has further strained the financial position of the Bank. There is lack of equity capital particularly in East Pakistan which inhibits the capacity of private investors to absorb credit.

III. Agricultural Development Bank of Pakistan

20. The Bank proposes to lend Rs. 243 million on a 50 : 50 basis for East and West Pakistan during 1968-69 as a part of its Rs. 1000 million programme for the Third Plan period. Major portion of loan in East Pakistan would be for seeds, fertilizers, reclamation and excavation of land. In West Pakistan, the loan would be used mostly for tractors and tubewells.

21. The loans advanced by Government, Cooperatives and Agricultural Bank are inadequate as compared with the total demand for credit. The developmental activities requiring materials which are not locally available, necessitates adequate supply of these materials through imports. The Bank has also to meet seasonal requirements of farmers unless other agencies grow adequately to meet this requirement. The Bank contemplates accelerating its assistance to tea growers. To develop fishing, mechanised fishing vessels need to be provided by the Bank.

22. The foreign exchange requirements during 1968-69 are estimated at Rs. 80 million mainly for tractors and power pumps.

23. Besides loan payments of Rs. 243 million, the Bank would need Rs. 65 million for repayment of loans and administrative and financial expenses. The total programme of Rs. 308 million would be financed by Rs. 130 million of recoveries of loans, Rs. 30 as equity capital by the Central Government, Rs. 67 million as loans from IDA and the rest from deposits.

24. The Bank faces difficulties in the case of utilization of loans for farm machinery and tubewells for which adequate foreign exchange is not available. Most of such loans, therefore, remain unutilized. It has, therefore, been suggested that Government may release foreign exchange for the import of farm machinery.

25. It has been suggested by the Bank that credit worthiness certificate

in the form of a "Press Book should be issued and that transfer of land should not be permitted without the approval of the competent authority.

26. The Bank has suggested that its profits be exempted from income tax in the same way as cooperative societies, cooperative banks and Industrial Development Bank are allowed exemptions. This will help the Bank to make adequate provision for bad debts and for transfer of substantial amounts to reserve funds.

27. The Bank would require that the Government may keep a watch on recording of loan entries by calling periodical statements from the Revenue officers showing the number of cases received from the Bank for recording entries in revenue records and the number of cases where such entries have been recorded

IV. House Building Finance Corporation

28. The activities of the House Building Finance Corporation are in the private sector and consist of giving loans to individuals for building residential houses. The Third Five-Year Plan envisages construction of 2,12,500 new houses in urban areas, throughout Pakistan, which should cost Rs. 4 250 million. Against these the houses which have actually been constructed with the financial assistance of House Building Finance Corporation are 2,942 and 1,551 respectively, during 1965-66 and 1966-67 involving an investment by the Corporation of Rs. 63 million and Rs. 58 million respectively through Annual Development Programme.

29. The loan distribution between East and West Pakistan is on a 50 : 50 basis.

30. Out of total allocation of Rs. 190 million for the Corporation during the Third Plan, the Government was to provide Rs. 110 million. Government has so far provided Rs. 25 million.

31. It was tentatively decided that instead of the Corporation collecting funds from the market by selling debentures in competition with other Government financial institutions it would be provided with Rs. 20 million per annum additional funds through the Annual Development Programme. This would reduce the scale of operations of the Corporation to Rs. 45 million per annum for 1968-69 and 1969-70.

(Rs. in million)

| | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 |
|---------------------------------------------------|-------------|-------------|-------------|-------------|-------------|
| 1. Loans from Central Government | 10.0 | 15.0 | — | 20.0 | 20.0 |
| 2. Sale of debentures including sale to S.B.P. .. | 33.6 | 25.1 | 22.5 | — | — |
| 3. Recovery of loans (Principal) | 17.00 | 21.8 | 22.5 | 25.0 | 27.5 |
| Total .. | 60.6 | 61.9 | 45.0 | 45.0 | 47.5 |

Besides, the pace of construction of houses has been retarded on account of rise in cost of materials, fall in house rents, reduction in the period of repayment and non-availability of suitable plots of land.

32. It has, therefore, been suggested that residential areas be developed and co-operative societies formed for distribution of lands amongst its members. Essential building materials like cement and steel should be made available at reasonable prices. Tax exemptions should be allowed on houses like it is done for approved industries. Besides construction companies be formed to encourage house construction. The loan repayment period has been suggested to be raised to 15 years as before. The Savings and Loan Societies and Building Associations should be formed in line with the recommendation of the Third Plan.

V. National Investment Trust

33. The net mobilization of funds by the N.I.T. up to the end of 1967-68 is expected to be Rs. 135 million. During 1968-69, N.I.T. expects to mobilize another Rs. 30 million.

34. In order to ensure regular return, the N.I.T. expects to invest in debentures of the joint stock companies besides equity capital. The N.I.T. does not propose to go in for government securities.

35. In making its investments, the N.I.T. is guided by considerations of safety of capital, growth of the company, capital appreciation in shared income and an assured income. It does not intend to make major investments in banking, insurance and sugar as a fair return is not expected from these sectors.

36. The N.I.T. has been investing more funds in companies operating in East Pakistan than it has been able to mobilize from that wing through the sale of its units. The N.I.T. operations have therefore been more favourable for East Pakistan.

37. The basic criteria for investment by the N.I.T. is the interest of unit-holders which consists of assurance of safety of his investment, as assured and steadily increasing income and continuous increase in the prices of units.

38. The N.I.T. desires the Government to continue its previous policy of giving interest free loans to it. It has suggested that present government loan of Rs. 12.5 million be continued on interest free basis for another five years.

39. The N.I.T. has made the following additional proposals to strengthen the capital market of the country:—

- (a) Abolition of tax of 30% at source in order to attract more capital in rural areas particularly in East Pakistan.

- (b) Increase in the present rate of interest in order to reflect the scarcity value of domestic capital.
- (c) Development of debentures market so as to ensure fixed return to the investors and raising the debt-equity ratio from 50 : 50 to 70 : 30 as in Japan.
- (d) Improvement of the stock exchanges at Karachi and through the appointment of one or two wholetime paid Directors.
- (e) Streamlining the working of the corporate sector by standardising the Annual Accounts Statements and ensuring the freedom of chartered accountants from pressure of the Managing Agents.
- (f) Establishment of a Security and Exchange Commission in order to develop the capital market.
- (g) Increase in the tax-free dividend income from the existing limit of Rs. 5,000 to 7,500 per annum and the abolition of Capital Gains Tax on stocks and shares in order to boost domestic savings.

40. It has been argued that the two P.I.D.C.s should not depend on the Government for financing their projects. These corporations should depend entirely on capital markets for their funds except in those projects which cannot be justified on purely commercial considerations. In these cases, the amount of subsidy should be related to the price structure of their products and the quantum of production and should not take the form of loan at subsidised rates.

41. The heavy dependence of financial institutions like PICIC, IDBP and ICP on the government provides an indirect disincentive for individual savings. It has been argued that the existing arrangements for subsidising development and investment institution has led to many malpractices since these institutions generally lock up their liquid funds in 'time' and 'call' deposits with commercial banks for earning profits. They should enlarge their operations by making better use of the resources available with them.

PICIC'S ANNUAL PLAN FOR 1968-69

Investment Programme for 1968-69

The extent of P.I.C.I.C. financing in any given period is determined by the inflow of loan applications and since disposal of such applications is relatively quick in PICIC, forecasts cannot be made on the basis of pending projects. This remark applies both to the extent of financing, and to industry-wise and regional breakdown of such financing. However, annual forecasts (plans) are a normal feature in PICIC and these are constructed on the basis of past quantitative performance modified by the outlook for the future, the emphasis on particular sectors of industry based on interest shown in such sectors by private entrepreneurs, the economic priority enjoyed by such sectors and available provisions in the Industrial Investment Schedule.

Based on these criteria we expect loan sanctions in 1968-69 to amount to Rs. 260 million, of which foreign currency financing would constitute about Rs. 245 million. This figure compares with a total sanction of Rs. 235 million in 1967-68 (based on eight months, actuals). Financing by non-PICIC sources (foreign investments and loans and owners', institutional and public equity contributions) in projects to which the above loans would be sanctioned is estimated to be Rs. 200 million giving a total investment commitment of Rs. 460 million for the year (1968-69).

Based on present trends, industry-wise breakdown of projects to which PICIC is expected to sanction loans in 1968-69 is estimated to be as below:

| Sectors | (Rs. in million) PICIC financing |
|---------------------------------------------|-------------------------------------|
| Food Products and Processing | 55.8 |
| Cotton and other Textiles | 52.7 |
| Fertilizers, Chemicals, etc. | 41.1 |
| Jute Processing | 34.6 |
| Cement Ceramic and Glass | 24.6 |
| Paper, Paper Products and Printing | 15.5 |
| Engineering | 13.8 |
| Inland Water Transport and Shipping | 4.6 |
| Other Miscellaneous | 17.3 |
| Total | 260.0 |

Region-wise breakdown of the above financing is projected as under:

| | | | | | Sanctions (Rs. in million) |
|---------------|----|----|----|----|-------------------------------|
| East Pakistan | .. | .. | .. | .. | 104.0 |
| West Pakistan | .. | .. | .. | .. | 156.0 |
| All Pakistan | .. | .. | .. | .. | 260.0 |

Financing operations in East Pakistan are expected to be 40% of the total for the year, representing a higher percentage than in 1967-68 (21%).

Loan disbursements in 1968-69 are expected to amount to Rs. 225 million. These disbursements would relate principally to loans already sanctioned and, being based on specific cases, the forecast is expected to be fairly accurate.

Criteria for financing

PICIC is an institution in the private sector with the objective of financing the private sector of industry. By its very character PICIC is interested in making investments in industries which are expected to be profitable and which involve no more than the normal risk that a financial institution operating on commercial basis can be expected to carry. But, whereas PICIC is interested in the safety of its investment and adequate profit potential of enterprises financed by it, economic considerations rule paramount in the selection of projects. Thus those projects which have the most significant impact on the GNP (value added) or on the balance of payments (foreign exchange earnings/savings) and which are based primarily on local materials are given preference. Additionally, financing activity is within the framework of Government planning as represented by the Industrial Investment Schedule.

Requirements for funds

In order to sustain its loan sanctioning activity PICIC would need fresh local as well as foreign currency funds during 1968-69. Net funds requirements are estimated to be as follows:

- | | |
|-------------------------------------|-------------------|
| (i) Foreign currency funds required | Rs. 450 million; |
| (ii) Total rupee funds required | Rs. 30.0 million. |

Foreign currency requirements are easily explained as they represent the shortfall of existing resources over requirements projected on the basis of estimated loan operations. This position is statistically presented in Annexure. I. The requirements for rupee funds, however, require a more careful explanation. Excluding some liquid resources which are required to service PICIC's liabilities from time

to time, the only source of rupee financing presently available with PICIC is the US AID loan. Of this loan (Rs. 30 million), Rs. 9.16 million has already been disbursed while the balance (Rs. 20.84 million) stands fully committed for specified projects. PICIC's rupee resources position has a significant tale to tell. At the time the US AID Loan Agreement was signed (December 7, 1966) it was expected that the full amount of Rs. 30 million would be committed by the end of 1968. However, the shortage of rupee funds in the long-term market arising partly because of the shyness of investors to put money in industrial equities and partly by the very magnitude of the development effort put a strain on PICIC's rupee resources and since substantial portion of the demand came from reputable companies operating potentially sound enterprises, PICIC's commitments in 1967 for rupee loans and underwriting showed a substantial acceleration and the entire amount of the US AID rupee loan was committed almost a year ahead of schedule. PICIC's financing in rupees, it should be noted, was occasionally of considerable importance as it helped potentially good enterprises to overcome critical shortages of funds and enabled them to become operational and contribute to the GNP. In fact this financing has functionally been so useful that it is felt that it would be more than worthwhile for PICIC. To continue to accelerate its operations in local currency. For this purpose PICIC would require a fresh loan of Rs. 30 million from the Government. PICIC would desire such a loan to be subordinated to its share capital (as was the case with the previous Government loans) so that it could enlarge to the requisite degree of the equity base to constitutionally make possible the additional borrowings in foreign currency reflected in Annexure I. As is well known, under its constitution and by agreement with the World Bank, the size of PICIC's borrowing is determined by the size of its equity. Unless, therefore, the equity base is enlarged from time to time borrowings in foreign currency could hit the ceiling and bring PICIC's operations to a halt. The requested loan in local currency is, therefore, not only required for resource augmentation but also for providing the constitutional equity base to enable PICIC to borrow additional amounts in foreign currency with a view to sustaining its lending operations.

Problems and Policies

An important problem facing PICIC is the ceiling that has been placed by Government on the interest it can charge in foreign currency loans. In May 1962, (through EAD Office Memorandum No. 1(19)-EA(CRO)/62 dated May 26, 1962) The Government regulated the remuneration that financing agencies could charge and interest on foreign currency loans was fixed at the uniform rate of $7\frac{1}{2}\%$ p.a. irrespective of the type of project or its size. In 1965, as a result of increase in the World Bank lending rates PICIC was allowed to charge 8% in respect of funds sub-loaned from the World Bank lines of credit.

Considering the circumstances obtaining in 1962, the rate of interest fixed by the Government, *viz.* $7\frac{1}{2}\%$ was reasonable. The Bank rate then was 4% p.a. and resulting from adequate supplies of local currency funds to meet current requirements, short-term commercial bank rates varied from 5 to 6% p.a. Rates for long and medium-term rupee loans were around $6\frac{1}{2}\%$ and the capital market

was a buyer's market with plentiful fund availabilities for new issues of equity. The import licencing policy was also liberalized by the Government and most industrial raw materials were put on the free or automatic licencing list. Viewed in this context the $7\frac{1}{2}\%$ interest rate on foreign currency loans was not only reasonable but also reflected a recognition of the fact that foreign currency financing ought to be more expensive than financial assistance in rupees.

The situation has since very substantially changed. Consequent upon the shortage of funds in the money market and lack of response in the long-term capital market, interest rates have risen to around 8% p.a. on short-term inventory financing by commercial banks and $8\frac{1}{2}\%$ on medium and long-term rupee bonds and debentures. Resulting from monetary stringency the unofficial rates are still higher. In addition, imports of most industrial raw materials and spares have been placed on bonus vouchers and the rate of import duty on capital equipment has risen from $12\frac{1}{2}\%$ to nearly 35% .

The *raison detre* of controlling the interest rate on foreign currency loans was to ensure financial assistance on reasonable terms and keep down production costs. In the present circumstances, however, when other important factors of cost such as the cost of local currency and the cost of capital goods (resulting from increase in duty) and raw materials (resulting from bonus voucher imports) have risen phenomenally, it appears illogical to keep the rate on foreign currency loans pegged down at an artificial low level. It is noteworthy in this context that whereas in 1962 the rate of $7\frac{1}{2}\%$ was substantially higher when compared to the prevailing rates on rupee loans, the present is a complete reversal of the position and foreign currency loans could be had at the cheapest rate available. The untenability of this rate is also demonstrated by the fact that the World Bank rate has risen to $6\frac{1}{4}\%$ and the alternative to foreign currency financing is bonus voucher imports of machinery.

In view of the aforesaid it is felt that there is urgent need to rationalise the foreign currency interest rate structure so as to bring it in line with the interest rate prevailing within the country and outside. For this purpose it is suggested that PICIC should be permitted by Government to charge its borrowers up to $8\frac{1}{2}\%$ p.a. by way of interest. It is only increased earnings that would give PICIC the financial strength to assume larger risks in financing the private sector of industry in Pakistan.

Although apart from the problem of interest rate PICIC has no organisational or operational problems and given the resources indicated earlier in this paper should be able to operate at projected levels, some discussion seems necessary on the quality of PICIC's resources. In the financing of private sector projects, the operations of which are governed not only by commercial profitability considerations but also by "national profitability" criteria such as foreign exchange earnings, it is essential that the excellence of technology should govern the source of financing. It is only by induction of the best technology that Pakistani industry can obtain optimum efficiencies and compete in the international markets. To the extent that some of the countries which offer assistance to Pakistan do not

possess the best (and sometimes even acceptable) technology and offer equipment which has already become obsolete, it is best to utilise credits from such countries for infrastructural projects in the public sector, for commodity imports and for simple equipment required for small-scale enterprises. For large and medium industries advanced technology is of primary importance and in allocation of funds of PICIC this should be kept in view.

Referring to specific requirements, the Planning Commission is aware that PICIC is playing a leading role in the financing of cotton and jute textile industries and has so far during the Third Plan financed 212,500 cotton spindles and 3,840 jute looms. Whereas Japan is the most competitive source for cotton textile machinery, the United Kingdom alone can supply jute mill machinery. PICIC so far has received allocations from the special Japanese textile credit or for the import of jute machinery under the U.K. credit. Inevitably PICIC has diverted World Bank funds to these industries which in effect meant that other industries have been denied the qualitative advantage which they would have derived if World Bank funds were made available to them. It is imperative, therefore, that PICIC should be supported by allocations from Japanese textile and U.K. jute credits for financing the textile and jute industries so that World Bank funds are not used for traditional industries and are made available to project which can buy their use obtain the maximum leverage in terms of cost, efficiency and competitive ability. Such an arrangement is also desirable from another point of view. The total World Bank lending to PICIC constituted 56% of its entire foreign exchange resources as on 31st December, 1967. The World Bank has of late become critical of PICIC's heavy reliance on World Bank funds and it is of utmost importance that allocation of foreign exchange funds to PICIC from other sources is increased without of course reducing the present level of World Bank assistance.

The measure of success of sound industrialisation is the cost and quality of products that are made available to the consumers. Whereas quality is determined by the efficiency of equipment, labour and management cost is highly susceptible to external factors such as taxes, duties, etc. Unfortunately, however, the cost structure of our industry is being increasingly burdened. Apart from the fact that customs duty on machinery has increased from 12½% in 1965 to 35% in 1967, the Economic Affairs Division have recently decided that down payments under Suppliers' credits should be met against bonus vouchers. As down payments vary between 10% to 15% of the cost of machinery the effect of this decision would be an increase of 17% to 25% (based on a bonus voucher premium of Rs. 170) in the cost of machinery. This and all other measures affecting production costs should be reviewed to ensure that a cost structure is not established which would affect the competitive ability of Pakistani industry in the export markets or bring about an upward trend in prices internally.

In this context it would also be desirable to establish appropriate procedures for issue of import licences especially to those industrial units which are about to go into production. The issue of licences to such units should be streamlined and quickened because experience shows that new units cannot go into production

on schedule because of delays in getting their import categories established. In addition, in the context of import licencing of raw material, special consideration should be given to accepting a principle that, except in some defined cases, new industrial units should be issued cash licences for the first two years of their operation even if their raw materials are ordinarily on the bonus list. Industries which are primarily based on imported raw material are carefully screened by the Economic Coordination Committee of the Cabinet with a view to establishing their economic priority and as such would be deserving of assistance in the initial stages of their operations by issue of cash licences.

**PICIC's FOREIGN CURRENCY FUNDS REQUIREMENTS
UP TO JUNE 1969**

(Rs. in thousands)

| | | |
|---------------------------------------------------------------------------------------------|---------|-----------|
| Amount sanctioned up to 30-6-1966 .. | 848,950 | |
| Total Lines of Credits available to PICIC at the beginning of Third Plan Period | 745,475 | |
| Deficit at the beginning of Third Plan | | (103,475) |
| Credits allocated to PICIC during Third Plan Period | | |

(\$ in million)

1965-66

| | | | | |
|--------------------|-------|---------|--|--|
| IBRD—421 | 30.00 | 142,857 | | |
| Japanese V | 5.00 | 23,810 | | |
| German IV | 2.50 | 11,905 | | |
| Czechoslovak | 3.00 | 14,286 | | |
| Polish | 3.00 | 14,286 | | |
| Italian | 3.00 | 14,286 | | |
| | | 221,430 | | |

1966-67

| | | | | |
|-------------------|------|--------|--|--|
| Japanese VI | 3.50 | 16,667 | | |
| French II | 2.50 | 11,905 | | |
| Italian II | 6.00 | 28,571 | | |
| Belgian | 5.00 | 23,810 | | |
| Denish | 0.32 | 1,543 | | |
| | | 82,496 | | |

1967-68 (up to Dec. 31, 1967)

| | | | | |
|--------------------|--------|---------|--|--|
| IBRD — 509 | 35.00 | 166,667 | | |
| German V | 3.75 | 17,857 | | |
| German VI | 2.00 | 9,524 | | |
| Japanese VII | 3.00 | 14,280 | | |
| | 114.57 | 209,328 | | |

Total additional credits available to
PICIC during Third Plan Period .. 513,254

Net Funds available 409,779

| | | |
|----------------------------------------------------------|-----------|----------|
| Additional sanctions during Third Plan | | |
| Period up to December 31, 1967 .. | | 480,322* |
| Add: Estimated sanctions | | |
| 1968 January-July .. | | 118,000* |
| 1968-69 | | 260,000* |
| | | 858,322 |
| Net additional funds requirements up to June, 1969 | | 448,543 |
| | Say | 450,000 |

*Net of cancellations.

The Third Plan has a low starting point in 1968-69, which is a reflection of the fact that the Government has decided to reduce the growth rate of the economy to 4.5% in 1968-69 and 5% in 1969-70. This is a significant change from the 7.5% growth rate of the Second Plan. The Government has also decided to reduce the foreign exchange rate from 13.75 rupees per dollar to 16.67 rupees per dollar. This is a significant change from the 10.25 rupees per dollar rate of the Second Plan. The Government has also decided to reduce the foreign exchange rate from 13.75 rupees per dollar to 16.67 rupees per dollar. This is a significant change from the 10.25 rupees per dollar rate of the Second Plan. The Government has also decided to reduce the foreign exchange rate from 13.75 rupees per dollar to 16.67 rupees per dollar. This is a significant change from the 10.25 rupees per dollar rate of the Second Plan.

INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

ANNUAL DEVELOPMENT PROGRAMME 1968-69

I. Introduction

The Pakistan Industrial Finance Corporation was reorganised into Industrial Development Bank of Pakistan (IDBP) on 1st August, 1961. Its particular responsibility is to promote the development of small and medium size units. The Bank sanctions loans up to a maximum of 25 lacs. This limit however, does not apply to mining, textile (jute and cotton), inland transport and such other industries as the Central Government may specify from time to time to finance beyond the prescribed limit. There is no lower limit for an IDBP loan. The applications for small loans are generally routed through East Pakistan Small Industries Corporation and West Pakistan Small Industries Corporation.

Besides sanctioning loans the Bank administers loans on behalf of the Government and finance industrial projects on equity basis

II. Investment/Lending Programme for 1968-69

The implementation of the Third Plan targets for the industrial sector to a great extent hinges upon the availability of resources (local currency and foreign currency) with the financial institutions and private savings. Despite difficult resources position the Bank has continued to make its best and sustained efforts in the realisation of the Third Plan targets. The table at Appendix I shows the position of loans sanctioned, disbursed, investment generated and sources of financing during the Third Plan period.

The Third Plan had a slow start due to September, 1965 War with India and uncertainty in foreign assistance, etc., when investment sanctions amounted to Rs 39.4 crores (loan amount Rs. 19.7 crores). The investment operations soon gathered momentum and during the second year of the Third Plan investment generated through the Bank-financed projects are estimated to increase to Rs. 61.1 crores (loan amount —Rs. 32.4 crores) registering an increase of 55 per cent due particularly to improved position of resources. However, the investment operations are estimated at Rs. 37.3 crores during the third year of the current Plan (1967-68) registering a fall of 38 per cent. Major reasons attributable to this fall are: lack of resources, recent emphasis on discouraging the growth of industries with high import liability and lack of equity funds in East Pakistan, etc.

The investment or loan programme for the year 1968-69 has been estimated on the basis of investment programme envisaged in the revised allocation for

private sector during the Third Plan. The relevant figures are shown in table 1.

TABLE 1.—Allocation in Third Five-Year Plan

(Rupees in crores)

| | Total Private Sector Allocations | Investment envisaged in C.I.I.S. | Investment Realised— industries | Balance— Shortfall |
|---------|----------------------------------------|----------------------------------------|---------------------------------------|-----------------------|
| | (1) | (2) | (3) | (4) |
| 1965-66 | 370.0 | 183.0 | 110.4 (Actual) | 72.6 |
| 1966-67 | 400.0 | 197.8 | 161.3 (Actual) | 36.5 |
| 1967-68 | 430.0 | 212.6 | 160.0 (Estimated) | 52.6 |
| 1968-69 | 480.0 | 237.3 | — | — |
| 1969-70 | 520.0 | 257.3 | — | — |
| | 2200.0 | 1088.0 | 431.7 | 161.7 |

Source: (i) *Total private allocations*: Revised Phasing, Sectoral priorities and allocation of the Third Five-Year Plan—Planning Commission, March 1967—page 2.

(ii) *Investment envisaged in CIIS* (Annual phasing estimated in the same ratio as phased for private sector allocations shown in column (1).

(iii) *Investment realised during 1965-66*: based on figures in 'Evaluation of the First Year (1965-66) of the Third Five-Year Plan', page-162.

(iv) *Investment realised in 1966-67*: based on the records of the Department of Investment Promotion and Supplies.

In order to implement the annual targets for 1968-69, implied in the Third Plan efforts are required to implement an investment programme amounting to Rs. 237.3 crores. Assuming that the Bank should share at least 37* per cent of the total sanctioned investment in the private industrial sector, the sanctioned loans of the Bank should be such an amount as generate investment amounting to Rs. 87.8 crores or say Rs. 90 crores. Assuming a debt equity ratio of 55 : 45

*The progress achieved in the investment sanctions during the Third Plan, according to the figures published by the Department of Investment Promotion and Supplies shows that investment amounting to Rs. 312 crores has been sanctioned during the first half of the Third Plan. Investment generated through the Bank-financed units during the same period is estimated to constitute 35 per cent of the total investment from all sources. A slightly higher share of 37 per cent has been estimated for 1968-69.

the Bank's lending programme is estimated at Rs. 50.0 crores (Rs. 7.5 crores in local currency and Rs. 42.5 crores in foreign currency). A higher ratio for local currency loans compared with previous years has been assumed due to expected emphasis on industries with lower capital and imported inputs and increase in the ability of the country to rely more and more on capital equipment manufactured domestically, thereby increasing the demand for local currency loans.

The above programme has been estimated without taking into account shortfalls during the first three years (1965-68) of the Third Five-Year Plan. The shortfalls in these years in terms of financial target amounted to Rs. 161.7 crores (see table 1 above). An attempt to make good the previous lags or shortfalls will mean a total investment programme for private sector industrialization amounting to Rs. 399 crores (Rs. 237.3 + Rs. 161.7 crores—table 1). The Bank's share in the same assuming at 37 per cent of total investment will amount to Rs. 148 crores. Assuming a debt equity ratio of 55 : 45, the lending programme of the Bank without making any allowance for the shortfalls in the past turn-out to be Rs. 60 crores both in local and foreign currencies. When shortfalls are added, the financial requirements will be raised to about 93 crores in foreign and local currencies.

III. Financial Requirements

The Bank not only needs foreign exchange to meet its obligations for cases sanctioned during the current year but also to meet commitments made in past years that remained undisbursed. The position of the estimated sanctions in 1968-69, and commitments spilled over from 1967-68 are shown in table at Appendix I. The financial requirements necessary to implement the programme are summarised in the following table:—

TABLE 2.—Requirements in 1968-69

(Rupees in crores)

| | Local Currency | Foreign Currency | Total |
|-----------------------------------------------------------------------------------|-------------------|---------------------|--------------|
| 1. Outstanding liabilities carried over to 1968-69 from previous year's sanctions | 11.56 | 27.81 | 39.37 |
| 2. Estimated sanctions during the year .. | 7.50 | 42.50 | 50.00 |
| Total (1 + 2) .. | 19.06 | 70.31 | 89.37 |
| 3. Estimated shortfall in per cent .. | 20% | 20% | |
| 4. Estimated shortfall: loan amounts .. | 3.81 | 14.06 | 17.87 |
| 5. Net requirements .. | 15.15 | 56.25 | 71.50 |
| 6. Estimated existing resources .. | 5.25 | 6.25 | 11.50 |
| 7. Additional Resources .. | 10.00 | 50.00 | 60.00 |

Assuming a shortfall of 20 per cent, net requirements are estimated at Rs. 71.50 crores during the year 1968-69. In order to implement the same additional resources amounting to Rs. 60.00 crores will be required (Rs. 50.0 crores in the form of foreign currency and Rs. 10.0 crores in local currency) and the balance will be financed from the Bank's own resources.

The actual size of the lending programme that the Bank can possibly undertake for 1968-69 mainly depends on the level of additional funds which is made available to the Bank from the Government and other sources. Additional finance required is Rs. 60 crores (Rs. 50 crores in foreign currency and Rs. 10 crores in local currency). The maximum amount of disbursements in a single year in the recent past (1966-67) was Rs. 18.8 crores (Rs. 13.9 crores in foreign currency and Rs. 4.9 in local currency). Thus the magnitude of the additional finance is 215 per cent higher than the level attained in 1966-67. This may be difficult to realise. The Bank has already made requests to the Government for Rs. 3 crores in local currency and may have to ask for more. Unless the Bank's financial requirements are adequately met the target envisaged in the Third Plan will remain unfulfilled.

It may be stated that since early 1966 substantial foreign exchange allocation has been made to the IDBP from non-conventional sources such as Belgium, Denmark, Poland, Italy, Switzerland U.S.S.R. and Yugoslavia, etc. The sources of foreign credits that are mostly tied credits are shown in table at Appendix II. Popularising these non-conventional credits in the small and medium sector, in which the Bank operates, would however, take time not because of lack of effort on our part but due to the initial peculiarities inherent in the small and medium sectors consisting almost wholly of uninitiated medium class entrepreneurs.

Historically speaking, most of the equipments in Pakistan have been imported mainly from U.K., Japan, Germany and U.S.A. and tested over years. The investors have also gained familiarity with these markets largely due to the advertisement and display centres organised by local agencies/agents. There are also uncertainty regarding the future availability of machinery for balancing, modernisation replacement and spares. However, due to persistent efforts made by the Bank, sponsors have started exincing interest in these credits.

The above difficulties may be kept in mind while negotiating fresh credits to be made available to the IDBP.

IV. Sectoral and Regional Distribution

The sectoral distribution of the Bank's loan operations depends upon the response of the private entrepreneurs to the available investment opportunities as well as on the approved provisions in the Comprehensive Industrial Investment Schedule. The applications received are processed only in case provision exists in the Industrial Investment Schedule. It is thus difficult to visualise an independent sectoral distribution of the investment programme proposed for the year 1968-69.

The Bank has pursued a conscious and deliberate policy of providing maximum encouragement to the growth of industrialisation in East Pakistan in order to make its contribution in reducing the economic disparity between the two Wings. Further, emphasis is also given to encouraging the establishment of industries in the backward regions of the country. In the recent months Branch Offices at Quetta and Sylhet have been opened in order to induce the entrepreneurs in these areas to share the benefits of the facilities extended by the Bank. Of the total financial assistance so far sanctioned by the Bank (excluding PIFCO), 46 per cent have gone to East Pakistan. The share of East Pakistan has been a little larger (49 per cent) in case of New Units than its share in total assistance (new and existing). In the case of East Pakistan in particular, it should be noted that despite the Bank's efforts disbursements have so far significantly lagged behind sanctions. A table showing regionwise and sectorwise distribution of loans so far extended by the Bank is placed at Appendix III.

V.—Criteria of investment or operational policies

The Bank operates as already noted, within the framework of the Industrial Investment Schedules and endeavours to follow the Five-Year Plans. In its operations it takes into account, the fiscal monetary, commercial, industrial and other policies formulated by the Government from time to time.

Diffusion of industrial ownership is one of the Bank's primary objectives. It has been the constant endeavour of the Bank to bring into the industrial orbit new entrepreneurs thereby broadening the base of industrial entrepreneurs and ensuring a wider diffusion of wealth.

The Bank encourages the establishment of industries in the relatively backward areas within the two Wings. It is also making concerted efforts to remove disparity in the private industrial sector existing between the two wings of the country.

In the matter of the selection of projects, due regard is paid to the industries that are export oriented, import substituting or based on indigenous raw materials and ensure adequate returns and pay back.

VI.—Major Problems likely to arise during 1968-69

1. The ability of the Bank to implement the targets envisaged in the Third Plan depends upon the availability of adequate resources. The financial base of the IDBP needs to be strengthened. The resource requirement of the Bank amounting to Rs. 60 crores (Rs. 50 crores in foreign currency and Rs. 10 crores in local currency) for implementing the proposed programme may be given urgent consideration. Existing resource base is too small compared to the desired level of loan operations for 1968-69. At present there are as many as 179 sanctioned cases involving a sum of Rs. 139 million that are at present pending due to lack of foreign loans particularly from a conventional sources. The amount

involved in local currency cases pending disbursement is also sizeable (Rs. 14 crores, see Appendix I).

2. A number of good projects are not able to operate at desired capacity due to non-availability of imported raw materials. Despite a respectable rate of growth in exports, there still remains a large gap between the export earnings and import bill. In allocating foreign exchange resources top priority should be given to the requirements of industrial raw materials. Further, imports of raw materials under bonus increases the cost of goods and thus adversely affects their competitive position in the international market. A close examination of the import policy is called for to bring the same in harmony with the changing requirements of the growing industrialisation and its everchanging pattern. A realistic and industrial oriented policy should ensure adequate supply of raw materials, at low costs restrict the imports of those goods that are domestically produced and provide prompt and adequate protection to new industries. Further, frequent changes in the import policy creates uncertainties and produce adverse influence on the competitive position of many goods produced by the Bank-financed units.

3. The initial period or the formative years constitute the most critical period in the life of a project. It is in this period when a number of sound projects falter and some time reach the brink of failure unless suitable props are provided. At the present stage a number of new projects financed by the Bank show signs of difficulty. The Government makes huge purchases of diverse goods and commodities to meet its defence development and civil requirements. It is suggested that the desirability of placing Government orders on sick projects financed by the Bank may be examined. Such a support will provide valuable help to the newly established units that are less experienced than their older counterparts. This will help many industrial units to gather strength and thus ensure recoveries of the loans advanced.

4. The strain on resource base is expected to further intensify due to accumulating overdues. The Bank is not entirely dictated by consideration of profit maximisation but also pursues social goals like the promotion of small industry, the establishment of industries in the economically retarded regions, the creation of a new class of entrepreneurs, and pioneering of new industries. These objectives involve great risks and are difficult to achieve. It is thus natural that despite best care and caution some projects suffer from initial setbacks or are confronted with difficulties resulting in overdues of instalments due to the Bank. According to the position as on the 30th November, 1967, overdues in respect of 513 units involved a sum of Rs. 847 lacs a significant part of which is associated with such cases in respect of which the Bank is committed to accept guarantee on behalf of the Government.

5. Lack of sufficient equity capital seriously inhibits the capacity of the private investors to absorb credit since there is a point beyond which credit agencies, however, extra-liberal their loan policies, cannot extend assistance by

way of loans to prospective entrepreneurs. There is a general lack of equity capital particularly in East Pakistan to meet the fixed cost as well as working capital requirements. The continuance of this situation is likely to hamper the progress of industrialisation.

6. In pursuance of a recent Government decision, down payment varying between 10 to 20 per cent of the total amount of contract in respect of the foreign supplier's credit has to be paid by the borrowers through surrender of bonus voucher. The borrowers will either make such payments from their own resources or through rupee loans raised from the I.D.B.P. thereby creating additional strain on the resource base of the Bank as well as entrepreneurs.

INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

ANNUAL DEVELOPMENT PROGRAMME FOR 1968-69

(Rupees in lacs)

| | 1965-66 (Actual) | | | 1966-67 (Actual) | | | 1967-68 (Estimates) | | | 1968-69 (Estimates) | | |
|----------------------------------------------------------------------|------------------------|--------------------------|-------|------------------------|--------------------------|-------|------------------------|--------------------------|-------|------------------------|--------------------------|-------|
| | Local Cur- rency | Foreign Cur- rency | Total | Local Cur- rency | Foreign Cur- rency | Total | Local Cur- rency | Foreign Cur- rency | Total | Local Cur- rency | Foreign Cur- rency | Total |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| A. Application of Resources: | | | | | | | | | | | | |
| 1. Undisbursed sanctioned loans brought forward from previous years: | | | | | | | | | | | | |
| East Pakistan | 4,41 | .. | .. | 4,56 | .. | .. | 4,82 | .. | .. | 3,88 | .. | .. |
| West Pakistan | 8,36 | .. | .. | 9,63 | .. | .. | 7,86 | .. | .. | 7,68 | .. | .. |
| Total | 12,77 | 8,08 | 20,85 | 14,19 | 13,41 | 27,60 | 12,68 | 28,53 | 41,21 | 11,56 | 27,81 | 39,37 |
| 2. Sanctions during the year : | | | | | | | | | | | | |
| East Pakistan | 1,97 | 2,76 | 4,73 | 2,13 | 12,94 | 15,07 | 56 | 5,28 | 5,84 | 5,00 | 20,00 | 25,00 |
| (No. of loans) | (109) | (72) | (181) | (110) | (84) | (194) | | | | | | |
| West Pakistan | 2,50 | 12,43 | 14,93 | 1,20 | 16,12 | 17,32 | 82 | 12,48 | 13,30 | 2,50 | 22,50 | 25,00 |
| (No. of loans) | (84) | (220) | (304) | (40) | (147) | (187) | | | | | | |
| Total | 4,47 | 15,19 | 19,66 | 3,33 | 29,06 | 32,39 | 1,38 | 17,76 | 19,14 | 7,50 | 42,50 | 50,00 |
| (No. of loans) | (193) | (202) | (485) | (150) | (231) | (381) | | | | | | |
| 3. Requirements (1+2) | | | | | | | | | | | | |
| East Pakistan | 6,38 | .. | .. | 6,69 | .. | .. | 5,38 | .. | .. | 8,88 | .. | .. |
| West Pakistan | 10,86 | .. | .. | 10,83 | .. | .. | 8,68 | .. | .. | 10,18 | .. | .. |
| Total | 17,24 | 23,27 | 40,51 | 17,52 | 42,47 | 50,00 | 14,06 | 46,20 | 60,35 | 19,96 | 70,31 | 80,37 |

| | | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | |
|------------------------------------------------------------------------------------|----|----|-------|-------|-------|-------|-------|-------|-------|-------|-------|----|----|-------|
| 4. Disbursements: | | | | | | | | | | | | | | |
| East Pakistan | .. | .. | 1,32 | .. | .. | 1,87 | .. | .. | 1,50 | .. | .. | .. | .. | |
| West Pakistan | .. | .. | 1,23 | .. | .. | 2,97 | .. | .. | 1,00 | .. | .. | .. | .. | |
| Total | .. | .. | 3,05 | 9,86 | 12,91 | 4,84 | 13,94 | 18,78 | 2,50 | 18,46 | 20,98 | .. | .. | |
| 5. Resource Gap (3—4): | | | | | | | | | | | | | | |
| East Pakistan | .. | .. | 4,56 | .. | .. | 4,82 | .. | .. | 3,88 | .. | .. | .. | .. | |
| West Pakistan | .. | .. | 9,63 | .. | .. | 7,86 | .. | .. | 7,68 | .. | .. | .. | .. | |
| Total | .. | .. | 14,19 | 13,41 | 27,60 | 12,68 | 28,53 | 41,21 | 11,56 | 27,81 | 59,37 | .. | .. | |
| 6. Investment (associated with sanctions in column No. 2) (Debt and equity) | | | | | | | | | | | | | | |
| East Pakistan | .. | .. | .. | .. | 9,27 | .. | .. | 28,40 | .. | .. | 10,62 | .. | .. | 45,45 |
| West Pakistan | .. | .. | .. | .. | 30,15 | .. | .. | 82,70 | .. | .. | 27,18 | .. | .. | 45,45 |
| Total | .. | .. | .. | .. | 39,42 | .. | .. | 61,10 | .. | .. | 37,80 | .. | .. | 90,90 |
| 7. Likely actual total private investment associate with disbursement | | | | | | | | | | | | | | |
| | .. | | | 25,89 | | | | 35,43 | | | 41,43 | | | |
| B. Source of Financing of Disbursements shown in column No. 4 above. | | | | | | | | | | | | | | |
| (i) Foreign Currency: | | | | | | | | | | | | | | |
| (a) Conventional | .. | .. | .. | 7,90 | 7,90 | .. | 13,30 | 13,30 | .. | 17,02 | 17,02 | .. | .. | .. |
| (b) Non-conventional | .. | .. | .. | 1,96 | 1,96 | .. | 64 | 64 | .. | 1,46 | 1,46 | .. | .. | .. |
| Total | .. | .. | .. | 9,8 | 6 | 9,86 | 13,94 | 13,94 | .. | 18,48 | 18,48 | .. | .. | .. |

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
|--------------------------------------------------------------------------------------------------------------------------|-------------|-----------|-----------|-------------|-----------|-----------|-------------|-----------|-----------|-----------|-----------|-----------|
| (ii) Local Currency: | | | | | | | | | | | | |
| (a) Recoveries | 2,41 | .. | .. | 3,60 | .. | .. | 4,31 | .. | .. | .. | .. | .. |
| (b) Counterpart funds .. generated through KFW loans | 52 | .. | .. | 4 | .. | .. | 80 | .. | .. | .. | .. | .. |
| (c) Loans from Government .. (less repayment) | 77 | .. | .. | 77 | .. | .. | 2,77 | .. | .. | .. | .. | .. |
| (d) Borrowings from Banking .. System | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| (e) Increase in Deposits | 79 | .. | .. | 1,54 | .. | .. | 1,50 | .. | .. | .. | .. | .. |
| Total Resources | 4,49 | .. | .. | 6,75 | .. | .. | 9,38 | .. | .. | .. | .. | .. |
| (f) Less for repayment for .. defaults in foreign currency .. overdues and meeting other .. contingencies | -1,44 | .. | .. | -1,91 | .. | .. | .. | .. | .. | .. | .. | .. |
| Net Resources available for .. Long-Term Loans | 3,05 | .. | .. | 4,84 | .. | .. | .. | .. | .. | .. | .. | .. |

- Note :**
1. Figures for foreign currency disbursements (column No. 4) represent the stage when L/C's opened.
 2. Figures of investment (column No. 5) are based on the fixed investments in individual projects sanctioned by the bank.
 3. Figures in BII (F) represent foreign currency overdues that have to be paid from local currency resources. Such dues are more than those shown above. The balance has been financed by short-term borrowings and deposits.
 4. The total of deposits (BIIe) collected does not qualify to be locked in long-term investment only. Part of it may.
 5. Disbursements for 1967-68 estimated on the basis of actual disbursement during July, 1967—June, 1968, and requirements for the remaining part of the year.

INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN

FOREIGN CREDITS RECEIVED BY THE PIPCO/IDBP SINCE 1959

(Rs. in million).

| | | | 1959-60 | 1960-61 | 1961-62 | 1962-63 | 1963-64 | 1964-65 | 1965-66 | 1966-67 | 1967-68 July-Dec. | Total | |
|-----------------|----|----|-------------|--------------|--------------|--------------|--------------|-------------|-------------|--------------|----------------------|----------------|--|
| 1. Belgium | .. | .. | — | — | — | — | — | — | 4.8 | 38.6 | — | 43.4 | |
| 2. Denmark | .. | .. | — | — | — | — | — | — | 4.8 | — | — | 4.0 | |
| 3. France | .. | .. | — | — | — | 23.8 | — | — | 4.8 | 8.0 | — | 36.6 | |
| 4. Germany | .. | .. | — | 198.5 | — | 98.8 | 4.8 | — | 5.9 | 26.2 | — | 334.2 | |
| 5. Italy | .. | .. | — | — | — | — | — | — | 2.4 | 29.0 | 23.8 | 55.2 | |
| 6. Japan | .. | .. | — | 96.6 | 15.5 | 66.2 | 22.9 | 51.6 | 4.8 | 20.0 | — | 277.6 | |
| 7. Poland | .. | .. | — | — | — | — | — | — | 4.8 | — | — | 4.8 | |
| 8. Switzerland | .. | .. | — | — | — | — | — | — | 4.8 | 2.3 | — | 7.1 | |
| 9. U. K. | .. | .. | 60.9 | 20.6 | 50.5 | 59.6 | 35.2 | 48.3 | 42.4 | 73.6 | 28.0 | 419.1 | |
| 10. U. S. A. | .. | .. | — | 29.5 | 16.5 | 3.8 | 48.0 | — | — | 11.9 | — | 109.7 | |
| 11. U. S. S. R. | .. | .. | — | — | — | — | — | — | 9.6 | 23.8 | 0.2 | 33.6 | |
| 12. Yugoslavia | .. | .. | — | — | 40.5 | — | 11.9 | — | 2.4 | — | — | 54.8 | |
| Total | | | 60.9 | 345.2 | 123.0 | 252.2 | 122.8 | 99.9 | 91.5 | 233.4 | 52.0 | 13,80.9 | |

INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN
SECTORAL AND REGIONAL DISTRIBUTION OF LOANS
(Cumulative as on 31-12-1967)

(Rs. in lacs)

| | East Pakistan | West Pakistan | Total | Percentage |
|-----------------------------------------|------------------|------------------|--------|------------|
| 1. Textile (other than Jute) .. | 2,170 | 3,891 | 6,061 | 39.2 |
| 2. Jute Manufactures .. | 2,552 | — | 2,552 | 16.5 |
| 3. Food Products .. | 515 | 798 | 1,313 | 8.5 |
| 4. Engineering .. | 255 | 434 | 689 | 4.5 |
| 5. Natural Gas .. | 5 | 507 | 512 | 3.3 |
| 6. Chemicals .. | 77 | 367 | 444 | 2.9 |
| 7. Non-metallic Mineral products. .. | 207 | 199 | 406 | 2.6 |
| 8. River Transport .. | 340 | — | 340 | 2.2 |
| 9. Sea Transport .. | 9 | 302 | 311 | 2.0 |
| 10. Film Studio and Production | 133 | 180 | 313 | 2.0 |
| 11. Cotton Ginning .. | — | 247 | 247 | 1.6 |
| 12. Printing and Publishing .. | 76 | 178 | 254 | 1.6 |
| 13. Paper and Stationery .. | 79 | 133 | 212 | 1.4 |
| 14. Oil Storage and Distribution | 57 | 114 | 171 | 1.1 |
| 15. Wood Products .. | 85 | 66 | 153 | 1.0 |
| 16. Electrical Equipment .. | 64 | 86 | 150 | 1.0 |
| 17. Road Transport .. | 52 | 83 | 135 | 0.9 |
| 18. Hotels .. | 87 | 46 | 133 | 0.9 |
| 19. Small Industries .. | 101 | 470 | 571 | 3.7 |
| 20. Miscellaneous .. | 196 | 280 | 476 | 3.1 |
| Total .. | 7,060 | 8,383 | 15,443 | — |

AGRICULTURAL DEVELOPMENT BANK OF PAKISTAN

I. Lending Programme of the Bank for 1968-69

The Bank has drawn a Lending Programme of Rs. 24.30 crore for the year 1968-69, as a part of its Rs. 100 crore Programme for the Third Plan period. (The Bank disbursed Rs. 10.95 crore during 1965-66, Rs. 14.75 crore during 1966-67 and expects to advance Rs. 20.0 crore, Rs. 24.3 crore and Rs. 30.0 crore during the remaining three years of the Third Plan period.)

The elements of the Lending Programme for 1968-69 mention of which is required by Planning Commission's Office Memorandum No. 8(15)PC/IE/67, dated 27th February, 1968, are given below:—

(a) Lending Programme (Province-wise) for 1968-69

Estimates of lending of the Bank for 1968-69 are as follows:—

| <u>Province</u> | | | | | <u>(Crore rupees)</u> |
|-----------------|----|----|----|----|-----------------------|
| East Pakistan | .. | .. | .. | .. | 12.15 |
| West Pakistan | .. | .. | .. | .. | 12.15 |
| Total | .. | .. | .. | .. | 24.30 |

(b) Sectoral and Regional Distribution of Lending Programme

In the context of the Bank's operations the word 'sector' may denote the several items for which it advances loans. The distribution of loans by major items for the year 1968-69 is expected to be as follows:—

| | | <u>(Crore rupees)</u> | | |
|-----------------------------|----|-----------------------|------------------|-------------------|
| Items | | East Pakistan | West Pakistan | Total Pakistan |
| 1. Tractors and Attachments | .. | 0.30 | 6.10 | 6.40 |
| 2. Power tillers | .. | 0.70 | — | 0.70 |
| 3. Power pumps | .. | 1.90 | — | 1.90 |
| 4. Tube wells | .. | 0.20 | 3.30 | 3.50 |
| 5. All other Items* | .. | 9.05 | 2.75 | 11.80 |
| Total | .. | 12.15 | 12.15 | 24.30 |

*"All other terms" include loans for seasonal requirements of raising crops, e.g., seeds, fertilizers, labour charges and for items like plough cattle, levelling and jungle clearance, reclamation and excavation of land, establishment of orchards, construction of godowns, development of tea gardens, etc. They also include tea manufacturing machinery, overhead irrigation equipments for tea cultivation and mechanised fishing vessels. Their inclusion would, however, be subject to availability of sufficient foreign exchange for their importation.

(c) *Criteria guiding the lending Programme*

The criteria which have guided formulation of the Bank's Expanded Loaning Programme for the entire Third Plan period are briefly as follows:—

1. The supply of agricultural credit by the three institutional agencies, namely Government (Taccavi), Cooperatives and Agricultural Development Bank of Pakistan has been far from adequate as compared with the total demand for it (estimated to be Rs. 300 crore annually). Only about 10% of the total requirements of the agricultural credit is supplied by all these agencies and the remaining by private sources. The Bank has expanded its operations remarkably in the recent years and wishes to expand them further at an even faster rate. It may be mentioned here that the Bank has to play the role of the leader in the field of agricultural credit as envisaged by the Credit Enquiry Commission which had so opined after examining the credit situation thoroughly in the year 1959, and this leadership calls for a continuous growth of the Bank's activities.
2. Development of agriculture in the country is mainly dependent on improvement of farming practices. The institutional assistance for providing credit, therefore, should be so directed as to help the agriculturists adopt better methods of production, particularly mechanised farming wherever possible. While the number of farms which can make beneficial use of tractors in West Pakistan and power tillers in East Pakistan is quite large. The main limitation to this usage has been lack of finance. The required financial assistance should come forth from the Bank.
3. The developmental items requiring materials which are not locally available necessitate adequate supply of these materials through imports, beside enabling the agriculturists to build up purchasing power to purchase them through provision of credit facilities.
4. In order to boost food production and achieve food self-sufficiency in the country due emphasis should be laid on advancing loans for seeds and fertilizers liberally and expeditiously, specially to small farmers. In "Grow More Food Campaign" area, the minimum limit of such loans to an individual has been reduced to Rs. 50 from the minimum normal limit of Rs. 100. As a development bank, the Bank should provide finance for developmental purposes but it cannot ignore the short-term seasonal requirements of raising the crops unless the other institutional agencies adequately grow to meet this requirement.
5. Tea being an important cash crop of the East Wing, it needs all possible encouragement and assistance from the Bank. The Bank contemplates to further accelerate this assistance by providing credit for more items of tea development than permitted before, e.g., overhead irrigation equipment.

6. Fisheries can become a large source of national income but are not sufficiently developed as yet due to fishing practices being old. If the mechanised fishing vessels are made available through the Bank's loans it is expected that development of fisheries can be sufficiently accelerated.

(d) *Financial Requirements in Foreign Exchange and Rupees*

The Bank does not advance loans directly in foreign exchange for any of its loanable items. However, a credit for \$27 million was obtained by the Bank from the International Development Association, through the Government of Pakistan, for meeting the foreign exchange requirements of its loans for farm machinery and tubewells. The foreign exchange required for the import of items covered by the I.D.A. Credit is released directly to the importers by the Ministry of Finance.

The first I.D.A. Credit of \$27 million meant for the first three years of the Third Plan period—will be fully utilized before the current year is out. It is, however, expected that the Bank will continue to finance farm machinery and tubewell loans through another (second/interim) credit during the year 1968-69.

The foreign exchange requirements during 1968-69 are estimated at Rs. 8.00 crore (or \$1.63 crore). Details of the items for which foreign exchange will be required are given below:—

(Crore rupees)

| Items | Foreign exchange required |
|--------------------------|---------------------------------|
| 1. Tractors | 5.50 |
| 2. Power tillers | 0.54 |
| 3. Power pumps | 1.75 |
| 4. Other items | 0.15 |
| Total | 7.94 * |

*Rounded off to Rs, 8.00 crore.

The total financial requirements of the Bank during 1968-69 are estimated at Rs. 30.78 crore. Their details are as under:—

(Crore rupees)

| Requirements of funds during 1968-69 | | | |
|--------------------------------------|------------------------------------------------------------|-------|--------------|
| 1. | Loan Payments | .. .. | 24.30 |
| 2. | Administrative Expenses | .. .. | 1.50 |
| 3. | Financial Expenses | .. .. | 1.98 |
| 4. | Repayment to SBP/Govt. out of TDC & Marine Fisheries Funds | .. .. | 3.00* |
| | Total: | .. .. | 30.78 |

* Nothing will be repaid if equity capital of Rs. 3.00 crore requested for 1968-69 is not subscribed by the Central Government.

The expected sources of financing the above requirements during 1968-69 are given below:—

(Crore rupees)

| | | | |
|----|-------------------------------------------|-------|--------------|
| 1. | Recoveries of the Bank's own loans | .. .. | 13.00 |
| 2. | Enquiry capital by the Central Government | | *3.00 |
| 3. | Loans from S.B.P. | .. .. | †6.69 |
| 4. | Loan from I.D.A. | .. .. | †7.14 |
| 5. | Deposits | .. .. | 0.95 |
| | Total | .. .. | 30.78 |

* In case equity capital is not subscribed, no repayment will be made to State Bank of Pakistan.

† If interim assistance of Rs. 7.14 crore is not allowed by the IDA, borrowings from the State Bank of Pakistan will increase correspondingly.

(e) Major problem likely to arise during 1968-69

As already indicated, the Bank's emphasis is to enable the farmers undertake improvement in farming practices, particularly by changing over to mechanisation, wherever possible. The Bank has programmed to advance loans in a much bigger volume during the year 1968-69 and a larger portion has been allocated for mechanisation items.

Difficulties, however, arise for the Bank's loanees where farm machinery and tube-well, parts, etc. are not available in sufficient quantities. The Bank's rules require that its loans be granted, as far as possible, in kind. Sometimes loans sanctioned remain undisbursed due to non-availability of the loanees' requirements. For example there is an acute shortage of tractors and hundreds of agriculturists to whom loans for tractors have been sanctioned have to wait for them for a long time. If the loans are disbursed in cash there is a risk that they may be misutilized or the loanees may have to purchase their requirements from the black market. The only solution of this difficulty lies in adequate and convenient availability of the materials financed by the Bank.

It has been contemplated that the Bank will be able to obtain further credit from IDA for advancing its loans for mechanisation items during the last two years of the Third Plan period after the interim/credit has also been exhausted. In case, however, the required assistance from the IDA is not forthcoming, the Government may have to release foreign exchange from their own sources for import of farm machinery, etc. for the Bank's loanees.

II. Issues for consideration by the Annual Plan Coordination Committee:

1. Certificate of Credit Worthiness.

The Committee constituted by West Pakistan Government to consider the matter of provision of credit in the light of the report of Food and Agriculture Commission had recommended that in order to save the farmers from harassment to which they are subjected by the subordinate officials connected with the procedural requirements of obtaining loans from institutional agencies, a system of issuing certificate on credit-worthiness of land owners by the District Collector in the form of a "Pass Book" should be introduced. The Pass Book should contain the details of immoveable property held by the applicant; encumbrances, if any, attached to the property and their values; and the market value of the property assessed in the manner which may be prescribed for the purpose. The Pass Book should be issued to the applicant within three months without requiring him to be physically present before the Collector.

It was also recommended that a list of all such persons to whom such certificates are issued should be supplied to the concerned Registrar/Revenue Officer with the direction that no deed purporting to transfer any right in the land held by such a land-owner is registered and no mutation purporting to transfer any property held by such a land owner is sanctioned without the approval of the competent authority.

It is felt that if a Pass Book as referred to above is issued to the intending loanees of the Bank, the pace of sanctioning loans will be accelerated to a great extent.

2. Exemption from payment of Income-tax

The Cooperative Societies and the Cooperative Banks have been exempted by the Government of Pakistan from the payment of any Income-tax on their earnings in dealing with their members. The Central Government has also decided to give the Industrial Development Bank by way of grant a refund of Rs. 89,13,318 on account of interest paid on borrowings, dividends paid and income-tax paid to the Government to enable it create a Special Development Assistance Fund. Since the Agricultural Development Bank of Pakistan is engaged in financing improvements in agriculture and raising food production which is one of the main objectives of the revised Third Plan, it may also be exempted from payment of income-tax. This will help the Bank to make adequate provision for bad debts and for transfer of a substantial amount to its General Reserve Fund. The Bank may also be allowed to claim set-off against the losses incurred by the former A.D.F.C. and A.B.P. for the purpose of payment of income-tax on its profit from 1960-61 onwards. The income-tax paid by the Bank to the Government on its profits may also be refunded to it as has been done in the case of I.D.B.P.

3. Entry of Mutations in respect of the Mortgage Deeds executed in favour of the Bank.

According to the present practice the Revenue/Settlement officials in West and East Pakistan are informed of the charge created in favour of the Bank immediately after the mortgage deed is executed by the loanee and requested that the mutation in favour of the Bank may be made in the Record of Rights. The Board of Revenue, Government of West Pakistan have already issued instruction to this effect, *vide* their Memorandum No. 2067/57/1057-IR, dated 23rd April, 1957. A number of instances have come to notice where the entries creating charge in favour of the Bank have been considerably delayed and in some cases the property mortgaged with the Bank has been sold out by the loanee of the Bank without the knowledge of the Bank. This delay is very dangerous and as it involves security of the Bank's funds, instructions may again be issued by the respective Provincial Governments to the Revenue Authorities to ensure that entries of charge in favour of the Agricultural Development Bank are recorded in their records immediately. The higher revenue authorities, *viz.*, Deputy Commissioners/Commissioners may keep a watch on recording of loan entries by calling periodical statements from the revenue officers showing the number of cases received from the Bank for recording entries in revenue records and the number of cases where such entries have been recorded. The reason for not recording entries where they have not been recorded should also be indicated in the said statement.

HOUSE BUILDING FINANCE CORPORATION

SUBJECT: *Annual Plan for 1968-69*

(a) The activities of the H.B.F.C. are in the private sector inasmuch as we help individuals in building residential houses. The Third Five-Year Plan envisages construction of 2,12,500 new houses in urban areas which should cost Rs. 4,250 million (taking that each house will cost on an average Rs. 20,000) throughout the country. This means that houses to be built annually are 42,500 involving annual investment of Rs. 850 million. Against these the houses which have actually been constructed with our financial assistance are 2,942 and 1,551, respectively, during the years 1965-66 and 1966-67. Obviously these achievements are far short of targets. Investment of the HBFC during 1965-66 and 1966-67 and 63 million and 50 million, respectively. We do not have of course many statistics about houses constructed in the private sector without our help and Government might collect this information regarding private and public sector other than that relating to the HBFC from the Provincial Statistical Bureau.

At the outset of the Third Five Year Plan our estimate of investment was Rs. 50 crores during the plan period (i.e. on an average of Rs. 10 crores per annum). But our resources being limited and due to other handicaps we have gradually cut down our estimates and investments. In reply to the Ministry of Finance's U. O. No. 4(56)SO (DF)-67, dated 15/1/68 we stated that we would invest during 1967-68 Rs. 45 million, during 1968-69 Rs. 75 million and during 1969-70 Rs. 77.50 million, *vide* our letter No. HBFC/HO/Admn/26/66/291 dated 24-1-68 wherein it was stated that we would collect finance for our loaning operation as in the following table:

(Figures in millions)

| | 1965-66 | 1966-67 | 1967-68 | 1968-69 | 1969-70 |
|---------------------------------------------------|---------|---------|---------|---------|---------|
| 1. Loans from Central Govt. .. | 10 | 15 | — | 30 | 30 |
| 2. Sale of debentures including sale to S.B.P. .. | 33.6 | 25.1 | 22.5 | 20 | 20 |
| 3. Recovery of loans (Principal) | 17 | 21.8 | 22.5 | 25 | 27.5 |
| | 60.6 | 61.9 | 45.0 | 75 | 77.5 |

During my last visit to Islamabad it was tentatively decided that instead of our collecting funds from the market by selling debentures in competition with other Govt. financial institutions we would be provided with Rs. 20 million per annum additional funds through Annual Development Programme. It was also decided to reduce our operation to the scale of Rs. 45 million per annum because if the Government is providing Rs. 20 million per annum they cannot provide another loan of Rs. 30 million per annum as envisaged at item (1) above.

(b) In pursuance of Board's decision our endeavour has been to distribute the loaning operation between the two Wings on 50 : 50 basis. A statement showing sanction and payment of loans from 1953-54 to 31-12-67 is enclosed.

(c) The criteria which guide us in our policy of investment of loaning are well known and are stated as follows:

- (1) Title to the land on which the borrower proposes to build his house should be sound and the property non-encumbered in all respects.
- (2) The borrower should have repayment capacity and that the amount applied is justified by the cost of construction.
- (3) The land and the building constructed thereon should stand mortgaged to the Corporation till the loan is fully repaid.
- (4) The minimum amount of loan as provided in the Act is Rs. 2,000 and maximum Rs. 40,000- in any one case in case of individuals and Rs. 15 lakhs in case of cooperative societies.

(d) As regards financial requirements the position has been stated against (a) above. It may be mentioned here that out of Rs. 11 crores earmarked in the Third Five-Year Plan for HBFC the Central Government have so far given us only Rs. 2.50 crores and that out of Rs. 8 crores earmarked as aid from foreign aid-giving agencies nothing has been received as yet. This is why our original estimated loaning operation had to be cut down drastically.

Foreign exchange requirements for importing lifts for our head office building is 26,200 sterling equivalent to Rs. 3,00,000 (Pak currency) during 1967-68 and 1968-69.

(e) and (f): Referring to the problem of housing it may be stated that the pace of construction of houses has been very much retarded since last year on account of rise in cost of materials, fall in rents of houses and also due to reduction in the period of repayment of loans taken from HBFC coupled with non-availability of suitable plots of land. To relieve this position the following suggestions are offered for considerations:

- (1) In East Pakistan land is very difficult to secure on the part of individuals. Developed lands in cities are scarce compared to demand. On the part of even well-to-do persons, it is difficult to procure land at reasonable price. Solution of this problem lies in extension of developed areas and formation of cooperative societies for distribution of lands amongst its members.
- (2) Essential building materials like cement and rods are not always available at reasonable prices. At times prices of these commodities go up beyond ordinary builders' capacity. These materials should be made available

from controlling authorities at reasonable price regularly at least during the building season, viz. October-May. In East Pakistan at the moment cement is selling at Rs. 16/17 per bag containing 1 cwt. Similarly rods are being sold at Rs. 1,450 per ton.

- (3) While cost has gone up in all respects and rent has fallen considerably, the elements of taxes (municipal, urban and income) have risen tremendously. Like approved up industries residential buildings should also be accorded tax exemption for specific periods as has been done in Islamabad. This will encourage building of houses considerably.
- (4) As private enterprise is shy in our country to engage in construction of houses, the Government may encourage formation of construction companies by giving tax concession and other facilities as in other developed countries. It is understood that in U.K. more than 600 construction companies are functioning while in Pakistan only a few companies are in this field.
- (5) So far as HBFC loan is concerned the period of repayment may be raised to 15 years as before, otherwise amount of monthly instalment becomes too heavy for the borrowers.
- (6) The Third Five-Year Plan (*vide* para. 62. page 386) June 1965 Ed. recommends formation of Savings and Loans Societies and Building Associations. Such societies and associations have played a remarkable role in a number of other countries in mobilizing private savings for house building. This recommendation should be pursued for implementation.

Yours faithfully,
Sd/-Sanwar Ali,
Managing Director.

NATIONAL INVESTMENT TRUST LIMITED

Investment Programme for 1968-69

It will be seen from the enclosed Statement 'A' that the National Investment Trust Limited which started operations from 1st January, 1963, has, up to 29-2-1968, been able to mobilize a sum of Rs. 12,43,98,215. Based on recent trends and increasing awareness of the benefits of the Unit Trust movement in Pakistan, it is expected that by 30th June, 1968, the total net mobilization of funds would come to approximately Rs. 13.5 crores. If, as is expected, the existing trends are strengthened, it should be possible for the NIT to mobilize a sum of no less than Rs. 3 crores during the year 1968-69. A vital factor which would affect the success of NIT's sale promotion efforts would be the continuance or abolition of the existing 30% tax at source on income distributed by the NIT to the holders of Bearer Units (this issue has been dealt with in detail in paragraph 7 below). Other factors which are likely to influence this target for better or for worse are the availability of funds with the Management Company for stepping up its public relations programme, the response of the people of East Pakistan to the increased efforts which will be made by the Management Company to mobilize funds in that Wing, and the further fiscal incentives for savings and investment provided in the forthcoming Central Budget. If all goes well, it should be possible for the Management Company through vigorous efforts not only to achieve, but even exceed the projected target.

2. As for the investment of the mobilized funds, the bulk of the investment would, (as has been done hitherto) be invested in the equity of Joint Stock Companies listed on the Karachi and Dacca Stock Exchanges. The Management Company has, however, for some time been feeling the necessity of increasing the proportion of fixed-income investments in its portfolio. During the course of the present year, it has purchased some Debentures and intends to purchase more before 30th June, 1968. This trend is likely to continue during the next year also, and it is quite possible that, if a sufficient number of Debentures on suitable terms and at satisfactory rates of interest become available in the market by 30th June, 1969, about 10% of the total investment of the Trust may comprise of fixed income investments, largely in Debentures of Joint Stock Companies. The National Investment Trust Limited is not inclined to go in for Government Securities, firstly because the rate of interest offered compares unfavourably with the prevailing Debentures rate of $8\frac{1}{2}\%$, and secondly because Government Securities are not easily marketable, and can only be sold in case of necessity at a considerable discount.

Sectoral and Regional Distribution

Sectoral

3. In making its investments on the Stock Market, the NIT is guided by considerations of safety of capital, growth of the Company, capital appreciation

in share prices, and an assured income. It does not, therefore, have in view any rigid sectoral allocations for its future investments. It may, however, be added that among the 17 sectors in which the listed Companies are divided on the Karachi Stock Exchange, the Trust does not intend to make major investments in three sectors, i.e. Banking, Insurance and Sugar. The reasons briefly are that the present prospects of both the Sugar and the Insurance sectors seem to be clouded by so many uncertainties that it is not considered safe to go in for large-scale investments in these two sectors. As for the Banking Sector, there are two clear cut groups. One which has been making considerable profits and also providing regular benefits to its share-holders is already priced high, while the other does not appear to have much prospect in the near future of providing an assured income or a steady appreciation in market prices.

Regional

4. As for the regional distribution of NIT's investments, the enclosed Statement 'B' will show that NIT has already been investing more funds in Companies wholly operating in East Pakistan than it has been able to mobilize from that Wing through the sale of its Units. Although it cannot be guaranteed that the present proportion between resources mobilized and resources invested in East Pakistan would be maintained, every effort will be made to ensure that the funds actually invested in Companies operating wholly in East Pakistan never fall short of the funds mobilized from East Pakistan through the sale of NIT Units. In other words, the operations of NIT would always provide a favourable balance in respect of the transfer of resources from West Pakistan to East Pakistan, for the development of the private sector.

Criteria for Investment

5. The basic criteria which takes precedence over all other considerations is the interest of the Unit holders, which consists of assurance of safety of their investment, an assured but steadily increasing income, and a gradual, but as far as possible, continuous increase in the sale and repurchase prices of NIT Units. Other considerations such as support to the Stock Market or mitigation of regional disparity must necessarily take a position subordinate to the primary consideration, but within the requirements of the primary conditions, efforts will continue to be made as far as possible, to provide support to the Stock Market as well as help in the development of private sector industries in East Pakistan.

Financial Requirements

6. There are no financial requirements, as far as foreign exchange is concerned, but in respect of rupees, it would be a great help to the Management Company in its efforts towards increasing investment consciousness and mobi-

lization of domestic resources if the Government would continue its previous policy of giving interest-free loans to it. At present loans amounting to Rs. 1.25 crores are outstanding, and it is suggested that these loans may be continued, even if they are not increased further, on a interest-free basis for another five years.

Major Problems

7. A major problem in respect of the operations of the NIT which exists at present, is the problem of tax at source on bearer Units of the NIT. The Bearer Units scheme was introduced in 1965 primarily with the objective of mobilising individual savings in the rural areas, the crucial importance of which has been mentioned at more than one place in the Third Five-Year Plan. The imposition of a tax at source on the income derived by Bearer Unit holders has, however, put such a damper on this scheme that, as will be seen from the Statement 'A', only a sum of Rs. 45,74,216 has been mobilised through the Bearer Unit scheme during the last 2½ years. It is, therefore, suggested that irrespective of the small loss in tax revenue that it may cause and the opportunities which it may provide for owners of 'black' money to secure some income from their capital, the present tax at source at the rate of 30% should be abolished completely. Unless this is done it would not be possible to mobilise large amounts of dormant individual savings in the rural areas, and this would particularly affect the mobilisation of resources in East Pakistan, where the process of urbanization has not gone as far as in West Pakistan. It may be added that the proposal to refund the tax-deducted at source which may be in excess of the actual tax liability of an individual Bearer Unit holder is not at all feasible, because of the anonymous nature of the Bearer Units.

Other policy issues:

8. In para. 8 at page 65 of the Third Five-Year Plan (June 65 printing) it has been stated that "a comprehensive review of the interest rate structure is underway to provide greater incentives for a higher rate of saving." Although there has been a slight increase in the rate of interest payable on Savings Banks Accounts and Fixed Deposits recently, the rate officially ruling at present is nowhere near the actual effective rate of interest on the basis of which most of the business is being done. This has on the one hand resulted in the enormous malpractice of 'over the table' and 'under the table' interest payments and on the other has discouraged genuine investors from making a greater effort to save and invest. It is felt that the present rate of interest should be increased further in order to reflect the scarcity value of domestic capital in a more realistic manner. If this is done, apart from increasing the margin of savings, it would also discourage the various malpractices involved in commercial banking operations at present.

9. Closely connected with the issue of interest rate is the question of developing a Debenture market in Pakistan. While an ever increasing number of Joint Stock Companies are now turning attention to the financing of their

capital expansion programmes through Debentures instead of increasing their equity, most of the Debentures are being placed with financial institutions through direct negotiations. It is obvious that not only institutions like Insurance Companies and Banks etc., but also a large number of individual investors would be glad to reduce their risks by transferring some of their investments from variable income equities to fixed-income Debentures. A lively Debenture market would, therefore, not only encourage individual savings, but would also provide a ready source of finance for some of the existing industrial units which would not have to resort to the expansion of their equity, thus leaving the market free for new enterprises. In this connection it may also be added that it is time we revised some of our out-of-date notions about the Debt Equity ratio of Joint Stock Companies. While a rigid enforcement of the 50 : 50 ratio may be all right for a developed country which wants to follow a no-risk conservative financing policy, it hardly fits in with the modern concepts of rapid economic development, and dynamic corporate enterprise. In this connection the experience of Japan where a 70 : 30 Debt Equity ratio is normal and even on 80 : 20 ratio is not frowned upon, is relevant.

10. Coming to the institutional framework of the capital market, the major deficiency seems to be in the working of the Stock Exchanges in Pakistan. While the IDBP and PICIC and the NIT and ICP have made considerable progress in expanding the field of investment and providing additional capital resources, the Stock Exchanges which should be the main pillar of the capital market have not been as active as they should be in a growing economy. Apart from other factors responsible for this state of affairs, one of the principal reasons is poor management of the Stock Exchanges themselves. The major deficiency seems to be the complete lack of research and public relations efforts on the part of the managements of the two Stock Exchanges at Karachi and Dacca. It is felt that until the managements of the two Exchanges are streamlined by the appointment of one or two whole time paid Directors it would not be possible for the Stock Market in Pakistan to grow in a healthy and stable manner, in spite of the reforms which may be introduced in the working of the private corporate sector as such, through modifications of the Companies Act.

11. As regards the working of the corporate sector although there are numerous deficiencies and a large number of obsolete provisions in the Companies Act 1913, continue to clog progress, if one deficiency is to be sign led out for immediate attention, a rectification of which can bring about a tangible improvement in the working of the corporate sector, it would be the Audit and Accounting arrangements. While other aspects of the working of the corporate sector are very complicated and would require considerable time to modify, the audit and accounting arrangements could be set right through an Ordinance. This Ordinance would only need to standardise the form as well as the terminology to be used in all the Annual Accounts Statements such as Balance Sheet, Profit and Loss A/c. details of fixed asset with the depreciation charged thereon, and the detailed statements of the tax provision, etc. At the same time it should provide for a system which would free the Chartered Accountant from the pressure which the Managing Agents are able to bring upon them through their power of selection and fixation of the remuneration of Chartered Accountants.

12. In this connection it may not be out of place to draw attention to the fact that the price-earning ratio of even the most popular and valued shares in the Stock Market of Pakistan is no more than five to ten. For example the present price earning ratio for such leaders of the Stock Market as Burewala, National Shipping, and Premier Tobacco is no more than 7, 4 and 6 respectively. In U.S. this ratio varies from no less than 10 to 60. The lowest ratio is confined to rail-road scrips, which are considered to have the smallest growth potential because their tariff is controlled by the Government. They are followed by Public Utility Companies which have a ratio of 15 to 20, and then come the major industrial enterprises with a ratio of 20 to 30. Lastly come the so-called glamour or growth stocks such as IBR, Xerox and Polarid, whose price earning ratio is anything from 40 to 60. Basically, the low price earning ratio in Pakistan is indicative of the lack of sophistication among the investors and absence of any depth in the market, but the biggest single case of this under pricing of equity values is the lack of confidence of the investors in the future profitability and growth of even the most profitable and most efficiently managed Joint Stock Companies in Pakistan. While any number of measures can be cited which can help in building up the investors' confidence, the one remedy which would have the biggest effect would be the setting up of some form of Security and Exchange Commission, and the earlier this is done, the better for the future not only of the Stock Market in Pakistan, but of the whole private enterprise system as such. Most of the spectacular growth of corporate enterprise in USA can be traced back directly to the establishment of the Security and Exchange Commission in that country in 1935, and it is quite possible that Pakistan's experience in this matter may not be very dissimilar. Only after the confidence of investors, both individual as well as institutional has been built up would there be a really stable and steady capital appreciation in equity values, leading to a tangible improvement in the price earning ratios mentioned above.

13. In para. 1 at page 61 of the Third Five-Year Plan it is stated that "efforts will be required to transfer responsibility for financing a part of the programmes of the public corporations from the Government Budget to the capital market". So far, the only major tangible effort in this direction seems to have been the announcement of the intention of the two PIDC's to disinvest some of their large holdings in those Joint Stock Companies which they have helped to set up or in which they have a large number of shares. However, nothing has so far come out of these plans, nor has there been any major effort on the part of the two PIDCs to go the capital market directly for the financing of their new enterprises. Apparently these Corporations are not quite confident of the response which they would receive from the capital market and are, therefore, still relying heavily on Government support in the form of loans at rates of interest much lower than the open market rates. This is a tendency which needs to be discouraged strongly, because providing such sheltered conditions for the establishment of enterprises which are basically commercial in nature, can only encourage inefficiency and complacency in the management. It is time, the two Corporations were told that for all their future operations and the fulfilment of their development plans, they will have to depend entirely on the capital market of the country in the same way as private industrialist has to depend. The only concession which

may be offered to these Corporations should be a clearly defined subsidy, if they are required in the national interest, to take up projects which cannot be justified on purely economic and commercial considerations. In these cases also the amount of subsidy should be related to the price structure of their products and the quantum of production, and should not take the form of loan at subsidised rates irrespective of the performance of the Corporation and the utilisation of this loan, as is the case at present.

14. In para 8 of the Third Five Year Plan (page 65) it is stated that "with the incentives provided by the present system of taxation as much as 60% to 75% of industrial profits will continue to be re-invested". Apparently this expectation, which was based on the provision of the tax holiday rules evolved in the early sixties, has now clashed with considerations of encouraging greater individual investment in the Stock Market. The result has been last year's budget provisions regarding taxation of excess free reserves and differential rates of taxation on distributed and undistributed profits of Joint Stock Companies. Without going into the pros and cons of the two policy considerations which appear to be in conflict, it may be stated that the result of last year's measures would obviously be a reduction in the direct and automatic re-investment of the profits of industrial units, and the figure of 60% to 75% mentioned above, is not likely to be realised. The shortfall thus caused can be made up by stepping up the incentives for individual savings through a reduction in individual consumption, and for bringing dormant savings or savings which are employed unproductively, into direct productive investment in the Stock Market. Some of the possible measures which can be taken to achieve this purpose are an increase in the tax-free dividend income limit from the existing Rs. 5,000 per annum to Rs. 7,500 per annum, and the abolition of Capital Gains Tax on stocks and shares. Both these measures can go a long way towards providing a very considerable incentive for increasing the rate of individual savings and the mobilisation of such resources for the Stock Market.

15. Since we have now firmly adopted the corporate enterprise system as the basis of economic development in Pakistan, the national distribution between the public sector and the private sector must gradually fade out and by and large all economic development except for some of the very basic infrastructure development should be on the basis of purely commercial and economic considerations, and through the mechanism of corporate enterprise. In view of this, it is vitally necessary that everything should be done to strengthen the market mechanism of financing and management and nothing should be done to weaken this mechanism through preferential treatment for public sector enterprises, such as loans on low rates of interest, and specially generous import licences etc. In this context, the role of development banking and investment banking institutions, which have been evolved over the last 10 years appears to be crucial. So far, institutions like PICIC IDBP and ICP, which are Government-sponsored equivalents of privately-owned investment banking institutions in other countries, have been relying heavily on exceptional Government support. Although in the beginning it may have been necessary to support the operations of these institutions by providing them with Government loans at below market rates, the time

has come when these institutions must look out for themselves, and secure funds for their operations from the open market, just as Investment Banks do in other countries. Unless this is done a certain amount of concealed subsidisation of industrial development at the cost of vitally necessary incentives for saving and investment by individuals would continue. As mentioned earlier it is time that greater incentive was provided for individual savings and investment by increasing the reward for those who provide the funds for running the industries. It may also be noted that the continuance of the existing arrangements for subsidising development and investment banking in Pakistan has led to many malpractices, as well as the less efficient utilisation of the available resources than would be the case if the whole operation was fully exposed to market mechanism. An extract of certain comments in the "Business Recorder" dated the 8th March, 1968, on this point would not be irrelevant. Talking of PICIC, IDBP and ICP, it says "they have surplus rupee resources at their disposal, which are currently being utilized to earn profits from 'Time' and 'Call Deposits'". It then goes on to say that these institutions cannot resist the temptation of "the profit opportunities inherent in having to pay interest of 5% while easily earning it at up to 7½". It concludes by saying that "they must enlarge their operations" by making better use of the resources available with them to increase the quantum of capital financing which they are undertaking at present. Another important consequence of the large employment of market mechanism for financing industrial development would be that the Government would have to leave a larger amount of funds with individuals and institutions, who provide resources for the capital market of the country. This would be inevitable firstly because the capital market would have to provide larger funds to institutions like the PICIC, IDBP and the two PIDC's etc. than it has doing in the past, and secondly because Government's own requirements of funds would be reduced since it would no longer have to provide large loans and credit to the institutions mentioned above.

NATIONAL INVESTMENT TRUST

STATEMENT 'A'

SALE & REPURCHASE OF NIT UNITS IN EAST & WEST PAKISTAN DURING THE PERIOD FROM 1963 TO 30th JUNE, 1967

| Year ended | WEST PAKISTAN | | | | | |
|----------------------------|---------------|--------------|------------|-------------|-----------|-------------|
| | Sale | | Repurchase | | Net | |
| | Units | Amount | Units | Amount | Units | Amount |
| | | Rs. | | Rs. | | Rs. |
| 31-12-1963 Regd Units. .. | 52,68,305 | 5,29,40,430 | 14,38,895 | 1,46,02,604 | 38,29,410 | 3,83,37,026 |
| 31-12-1964, Regd. Units .. | 25,96,568 | 2,90,60,900 | 2,68,393 | 29,06,263 | 23,28,175 | 2,61,54,637 |
| 31-12-1965 | 28,70,801 | 3,24,54,297 | 25,13,958 | 2,83,92,880 | 3,56,843 | 40,61,417 |
| Regd. Units | 2,21,500 | 25,25,100 | .. | .. | 2,21,500 | 25,25,100 |
| 31-12-1966 Regd. Units .. | 16,28,887 | 1,81,74,665 | 6,29,006 | 68,58,167 | 9,99,881 | 1,13,16,498 |
| Bearer Units | 50,160 | 5,67,337 | .. | .. | 50,160 | 5,67,337 |
| 30-6-1967 Regd. Units .. | 16,57,071 | 1,79,83,043 | 6,55,331 | 70,32,109 | 10,01,740 | 1,09,50,934 |
| Bearer Units | 19,070 | 2,08,227 | .. | .. | 19,070 | 2,08,227 |
| Total | 1,43,12,362 | 15,39,13,999 | 55,05,583 | 5,97,92,023 | 88,06,779 | 9,41,21,976 |
| 31-12-1967 Regd. Units .. | 9,69,793 | 1,03,76,785 | 5,21,025 | 55,22,865 | 4,48,768 | 48,53,920 |
| Bearer Units | 11,485 | 1,22,889 | .. | .. | 11,485 | 1,22,889 |
| GRAND TOTAL | 1,52,93,040 | 16,44,13,673 | 60,26,608 | 6,53,14,888 | 92,67,032 | 9,90,98,785 |
| 29-12-1968 (Provisional) | | | | | | |

EAST PAKISTAN

Net Sale in East and West Pakistan

| Sale | | Repurchase | | Net | | Units | Amount |
|-----------|-------------|------------|-----------|-------------|-------------|-------------|---------------|
| Units | Amount | Units | Amount | Units | Amount | | |
| | Rs. | | Rs. | | Rs. | | Rs. |
| 2,02,715 | 30,37,182 | 47,015 | 4,77,252 | 2,55,700 | 25,59,930 | 40,85,110 | 4,08,97,716 |
| 2,67,336 | 30,40,159 | 25,895 | 2,79,474 | 2,41,441 | 27,60,685 | 25,69,616 | 2,39,15,322 |
| 3,40,586 | 38,62,053 | 62,802 | 7,09,079 | 2,77,784 | 31,52,974 | 6,34,627 | 72,14,391 |
| 40,200 | 4,58,280 | .. | .. | 40,200 | 4,58,280 | 2,61,700 | 29,83,380 |
| 1,85,497 | 19,43,020 | .. | 8,05,894 | 1,11,659 | 11,37,126 | 11,11,540 | 1,24,53,624 |
| 74,400 | 8,47,110 | .. | .. | 74,400 | 8,47,110 | 1,24,560 | 14,14,447 |
| 2,05,773 | 25,00,579 | 39,674 | 4,29,036 | 1,66,099 | 20,71,543 | 11,67,839 | |
| 27,260 | 3,01,174 | .. | .. | 27,260 | 3,01,174 | 46,330 | 5,09,401 |
| 14,43,767 | 1,59,89,557 | 2,49,224 | 27,00,735 | 11,94,543 | 1,32,88,822 | 1,00,01,322 | 10,74,10,798 |
| 1,19,690 | 12,80,684 | 58,296 | 6,17,937 | 61,394 | 6,62,745 | 5,10,162 | 55,16,665 |
| 5,000 | 53,500 | .. | .. | 5,000 | 53,500 | 16,485 | 1,76,389 |
| 15,68,457 | 1,73,23,741 | 3,07,520 | 33,18,672 | 12,60,937 | 1,40,05,067 | 1,05,27,969 | 11,31,03,85 3 |
| | | | | | | 9,55,184 | 1,12,94,382 |
| | | | | GRAND TOTAL | .. | 1,14,83,143 | 12,43,99,215 |

NATIONAL INVESTMENT TRUST

STATEMENT 'B'

INVESTMENT OF NATIONAL INVESTMENT (UNIT) TRUST FUND AS ON 29th FEBRUARY, 1968

| Sr. No. | Name of Investment | Companies operating in West Pakistan (Rs. in lacs) | Companies operating in East Pakistan (Rs. in lacs) | Companies operating both in East and West Pakistan | Total (Rs. in lacs) |
|--------------------------------|----------------------------------------|----------------------------------------------------------|----------------------------------------------------------|----------------------------------------------------------|------------------------|
| 1. | Banks | (includes Debentures Rs. 20 lacs) | | 62.25 | 62.25 |
| 2. | Cotton Textile .. | 139.76* | 19.89 | | 159.65 |
| 3. | Woollen Textile .. | 9.00 | | | 9.00 |
| 4. | Synthetic and Rayon .. | 27.31 | 43.83 | | 71.14 |
| 5. | Pharm. and Chemical .. | 11.20 | 3.75 | 12.90 | 27.85 |
| 6. | Jute | 23.16 | 170.55 | | 202.71 |
| 7. | Sugar & Allied .. | 51.65 | | | 51.65 |
| 8. | Miscellaneous .. | 105.35 †(includes Debentures Rs. 7 lacs) | 39.00 | 43.92 (includes Debentures Rs. 5 lacs) | 188.27 |
| 9. | Cement | 66.97 | | 10.00 | 76.97 |
| 10. | Tobacco | 3.71 | 0.50 | 23.24 | 27.45 |
| 11. | Fuel and Power .. | 134.01 | 18.61 | 11.02 | 163.64 |
| 12. | Engg. and Construction .. | 30.40 | 6.59 | | 36.99 |
| 13. | Transport and Communi- tion | | 2.49 | 35.48 | 37.97 |
| | | 611.52 | 305.21 | 198.81 | 1115.54 |
| Government Securities : | | | | | |
| 14. | 4-3/4% Pak Loan 1983 .. | | | | 20.00 |
| | Inter-Bank Call Deposit .. | | | | 125.00 |

IV

**MINUTES OF THE FIRST MEETING OF THE ANNUAL PLAN
CO-ORDINATION COMMITTEE HELD ON 19 MARCH, 1968**

The first meeting of the Annual Plan Coordination Committee was held on 19th March, 1968. The Deputy Chairman, Planning Commission, presided. List of participants is attached. Welcoming the members of the Annual Plan Co-ordination Committee to its first meeting the Chairman explained that the purpose of the Annual Plan exercise which was proposed to be undertaken from next year was to co-ordinate and integrate the planning efforts of all agencies now engaged in development and planning. The Annual Plan within the overall framework of the Five-Year Plan will help integrate forecasts of short-term growth prospects and resource requirements in various sectors of the economy into a consistent framework, to improve the co-ordination of policy formulation and its implementation and to establish consistency and better co-relationship in the growth targets fixed in the private and public sectors. He dispelled doubts that might linger in any quarter about the role of the Planning Commission in this drill and emphasized that it was not of control but to help evolve a more concerted and integrated approach in the field of short-term planning. The uncertainty in the level and composition of foreign aid and the fast changing developments taking place in the economy necessitating ready response to change in policy mix, according to him, make the formulation of an Annual Plan within the framework of Five Year Plan all the more important and necessary. He further stated that on proper analysis and assessment of all relevant elements, the Annual Plan Committee would recommend the various targets, for instance, Gross National Product, Investment, Saving, Exports etc. that should be achieved in the Plan year along with the policies and measures and the development strategy that would be required to attain the various targets for consideration and final decision by the National Economic Council. The Chairman then invited general observations and comments, if any, from the participants.

2. The Governor, State Bank of Pakistan, supported the need for an Annual Plan exercise, specially in view of the past experience of absence of proper consistency in the strategy followed in various fields of the economy. He then explained the main features of the paper on the Annual Plan circulated by the State Bank. He highlighted the fact that investment targets should be related to determination and implementation of proper policy framework.

3. The Secretary, Ministry of Industries and Natural Resources stated that lately many studies had been undertaken specially in industrial investment field which had made many valuable recommendations for implementation. It would be a good idea to have a look at these. He, however, stressed that it was imperative to have an idea of the availability of total resources first as in the past private sector had greatly suffered from inadequate and uncertain supply of raw materials, spares etc.

4. The Chairman drew the attention of the members that the proposed growth target of 7.5% for 1968-69 was based on certain assumptions regarding attainment of self-sufficiency in food and rapid expansion of industrial expansion next year.

5. Explaining the rationale of the private sector investment target of Rs. 5,000 million, the Chief Economist said that the target on the basis of past experience, was not unrealistic. The marginal rate of saving in the first three years of the Plan was estimated to be 22 to 23% and next year the projection was 25%. In the current year private sector investment was estimated to reach Rs. 4,250 million. It would not be difficult to achieve an acceleration of 10% but the mechanism and the policy instruments that would be required needed to be looked into.

6. Joint Secretary, Finance (Budget), explained the exercise carried out to determine the total resources that could be mounted for development purposes. A point was, however, made by him that in absence of adequate data, estimate of private sector investment was a hazardous guess. He contended that the total quantum of resources that the economy could generate should be first determined which may then be channelised into public and private sectors in the desirable way by suitable fiscal and economic policies. At this stage the Chairman said that in determining the resource availability, several factors should be kept in mind. These were:—

- (1) The revised Third Plan envisaged a development programme of Rs. 7,100 million in the public sector for 1968-69.
- (2) Implementation of Plan so far in the Public sector was only 41%.
- (3) With the expected buoyancy in the agriculture sector and arrest of the price rise there could be some room for bold action.

He further stated that the first resource estimate made for 1968-69 indicated the size of Rs. 5,400 million which included an element of Rs. 250 million on account of deficit financing. On further examination it was estimated that another sum of Rs. 500 million could possibly be raised without any additional taxation.

7. The Chairman then drew attention to the list of issues and points for consideration as under:—

- (1) The growth target for 1968-69 including growth targets for the two Provincial Governments.

The Chairman said that in the current year the growth rate was expected to be between 6 to 7%. It was proposed in the working paper to achieve an overall growth rate of 7.5% in 1968-69. According to him this was realisable and this should be broken up into its major components along with regional breakdowns. The Additional Chief Secretary (Development), East Pakistan, then explained

the likely growth rate for East Pakistan and the basis for the estimate. In the current year they expected to achieve a growth of 6.3%. Next year it would show a downward trend to 5.7% as in the case of agricultural production, the benchmark in the current year being high sectoral contribution from agriculture to GNP percentage-wise would decrease. The Chairman, Planning and Development Board, West Pakistan, also expressed his apprehension about the suggested growth target. After discussion it was decided that a Working Group headed by the Chief Economist, Planning Commission and consisting of the Chief Economists in the Planning Departments of the two Provincial Governments and a representative from the State Bank of Pakistan (Dr. Ziauddin) should go into the whole question of growth targets and recommend consistent and realisable targets including provincial breakdowns for the year 1968-69.

(2) Agricultural production targets and requirements of inputs

On this topic there were detailed discussions about the agricultural production estimated in the current year and the targets to be set for the next year in the light of the Food Self-sufficiency Programme of the two Provincial Governments. In this connection the Chairman, Planning and Development Board, West Pakistan, mentioned that the co-efficient of yield earlier fixed for Mexi-Pak varieties of wheat had come down from 16 to 10 which would doubtless have a great impact on the target of agricultural production. A point was made by the Secretary, Ministry of Industries and Natural Resources, that the proposed availability of agricultural inputs not properly co-related with the industrial production programme. He, therefore, pleaded that a representative of the Industries Ministry should be taken in the Agricultural Policy Committee to help establish better co-relation in this respect. Secretary, Ministry of Agriculture & Food, pointed out that there was still much to be done in regard to pesticides. As yet there was no fixed standard about the quantity of pesticides to be used and the efficacy of various types of pesticides for various crops. He suggested that the Special Group on Pesticides that was set up some time back in West Pakistan should be re-vitalised and asked to make concrete recommendations in this respect. Following detailed discussions, the targets for major agricultural crops, as given below, were accepted:

| Commodity. | Targets | |
|----------------------|-----------------------------------------------------------|------------------|
| | 1967-68 | 1968-69 |
| <i>East Pakistan</i> | (10.8 million ton) | 11.5 million ton |
| Rice | (Aus—3 million) (Aman—6.8 million) (Boro—1 million) | |
| Jute | 68 lakh bales | 72 lakh bales. |
| <i>West Pakistan</i> | | |
| Wheat | 6 million ton | 6.5 million ton. |
| Rice | 1.4 million ton | 2 million ton. |
| Tobacco | 3,400 million lb. | |

In this connection Additional Chief Secretary (Development), East Pakistan, brought to the attention of the Committee that the procurement programme of power pumps was not proceeding satisfactorily. He stated that it was earlier decided to procure 14,000 pumps in addition to the existing 6 000 pumps for use for the next Boro crop. While the 5,000 pumps programmed under IDA credit were expected to be received soon, supply from Czechoslovakia was expected to be only 400 out of the 6,400 pumps. Immediate steps were, therefore, needed to expedite the supply from Czechoslovakia or else to provide additional funds from other sources for immediate import of power pumps. The position regarding fractional pumps was also not satisfactory as the required foreign exchange of Rs. 98 lakhs earmarked for this was yet to be released in full.

It was decided that agricultural production targets before incorporation in the Annual Plan should be placed for consideration and vetting by the Agricultural Policy Committee. A letter from the Deputy Chairman of the Planning Commission to the two Governors requesting them to hold Agricultural Policy Committee meetings at an early date would be sent.

(3) Growth target for the manufacturing sector

It was explained that in the large-scale manufacturing sector a growth target of 14% was proposed to be achieved in 1968-69. For the sector as a whole the proposed growth was 11%. This was realisable on the basis of experience of the past provided the industries get their required raw material for maximising their production. It was stressed that next year our development strategy should emphasize increased industrial production as it was from this sector that the largest contribution to GNP could be expected. It was also mentioned that next year due to better agricultural production there would be a saving of about 200 million from less food imports which could be possibly spent for import of industrial raw materials so vitally required by the industries. It was decided that the Working Group on Import Policy should work out the implications of the proposed growth target in the manufacturing sector in terms of requirements of raw materials.

(4) Resource Projection including size of ADP and credit and saving strategy

Detailed discussions were held on the above topics. It was mentioned that according to the estimates by the Working Group on Resources, resource availability next year could be of the order of Rs. 5,480 million. Another estimate, done by the Ministry of Finance, indicated a lower figure by Rs. 200 million. The Provinces could, however, raise another sum of Rs. 500 million—Rs. 400 million by West Pakistan Government and Rs. 100 million by East Pakistan. There was ample scope for additional funds from disinvestment of PIDC projects, increased water rates, reduction in subsidy on fertilizers etc. The Secretary, Finance, West Pakistan and Additional Chief Secretary (Development) East Pakistan said that they were unable to commit anything at this stage regarding raising additional resources by the Provinces.

It was agreed that the Working Group on Resources would re-examine the resource picture and identify areas where additional resources could be raised. It was also decided that the total resources that the economy would be able to generate should also be gone into by the Working Group.

(5) Exports Targets

The export targets mentioned in the working paper on the Annual Plan circulated by the Planning Commission were broadly accepted. The Ministry of Commerce was, however, asked to examine the targets again in the light of the discussions in the meeting and recommendations by the various Working Groups set up by the Co-ordination Committee. For this purpose liaison should be maintained with them.

(6) Investment targets for the private sector

The Secretary, Ministry of Industries and Natural Resources, opened discussion on this topic. He said that in view of the uncertainty of funds that could be provided for raw material imports for industries, he did not see now much need for the formal revision of the Industrial Investment Schedule. He suggested that in the course of the Annual Plan formulation, the priority in the programme could be laid down on the basis of funds that could be made available for the sector. After discussion it was agreed that the revision of the Industrial Investment Schedule which was being done in pursuance of the decision of the ECNEC should continue and would serve a useful purpose.

It was decided that a Working Group headed by Secretary, Ministry of Industries and Natural Resources which would include heads of PICIC, NIT, IDBP, House Building Finance Corporation should be formed to go into the whole question and recommend desirable investment targets in the private sector. The Working Group would also consider the question how the representatives of the private sector could be fruitfully associated in the exercise and make suitable suggestions for it.

The Chief Economist said that drawing up the Annual Plan for the private sector consisted of the following five elements :—

- (1) Evaluation of the past performance in the private sector, both physical and financial and co-relate the same to Plan targets.
- (2) Determination of resources that could be mopped up for use in the various fields of private sector, like industry; agriculture, transport, house building, etc.
- (3) Fixing the targets to be achieved in the Plan based on (1) and (2) above.
- (4) A study of policies, economic, fiscal and monetary, and the changes, if any, that would be needed to stimulate growth in the desirable directions.

- (5) An assessment of institutional framework charged with implementation of the policies and its further improvement, strengthening and rationalisation.

The Chief Economist further observed that the drill in this regard would be more or less on the same pattern as the public sector although the constituent elements may be somewhat different. He did not, however, foresee any major difficulty in this work.

Miscellaneous

1. A point was made by the Chairman, Planning and Development Board, West Paki tan that allocations of development funds made to the Provinces was not in conformity with the Plan phasing. The Centre was getting a higher percentage of allocation at the expense of the Provinces. Additional Chief Secretary (Dev.) East Pakistan agreed with this. Secretary, Planning Division, explained that the Planning Commission was conscious of this development but it was unavoidable in order to accommodate inescapable and most pressing demands in the Central sector like, expenditure on the two Capitals, telecommunication links etc. The Chairman, however, expressed the view that efforts should be made to adhere to the Plan as far as possible.

2. It was decided that the various Working Groups constituted in the meeting should finalise their reports by the first week of April. The next meeting of the Annual Plan Co-ordination Committee would be held in the middle of April when it would finalise the Annual Plan. A meeting of the National Economic Council should be held around 6th—10th of May to consider and approve the Annual Plan paper.

List of Participants

1. Mr. S. A. M. Khan, CSP., Secretary, Agriculture.
2. Mr. S. S. Jafri, S. Pk., SQA., CSP., Secretary, Industries.
3. Mr. Qamar-ul-Islam, S. Pk., SQA., CSP., Secretary, Planning.
4. Mr. Viqar Ahmed, SQA., P.A. & A.S., Secretary, Commerce.
5. Mr. B. A. Qureshi, SQA., CSP., Chairman, Planning & Development Board, West Pakistan.
6. Mr. S. M. Shafiqul Azam, CSP., Additional Chief Secretary, (Dev.) East Pakistan.
7. Mr. Tajammul Husain, P.M.A.S. Secretary, Finance Dept., West Pakistan.
8. Mr. Parvez Hasan, Chief Economist, West Pakistan.
9. Mr. A. B. M. Ghulam Mostafa, CSP., Dy. Secretary, Planning Division.
10. Mr. Sartaj Aziz, Chief, International Economic Section, Planning Commission.
11. Dr. Mahbub ul-Haq, Chief Economist, Planning Commission.
12. Dr. S. A. Meenai, State Bank of Pakistan.
13. Mr. I. A. Khan, SQA., CSP., Secretary, Economic Affairs Division.
14. Mr. M. Raschid, Governor, State Bank of Pakistan.
15. Mr. Ghulam Ishaq Khan, HQA., S.Pk., CSP., Secretary, Finance.
16. Mr. Naseem Ahmed Khan, Jt. Secretary, Finance.
17. Mr. M. Raihan Sharif, Joint Chief Economist, Planning Commission.
18. Dr. M. Ziauddin, Director, State Bank of Pakistan.
19. Mr. Ijlal Hasan, CSP., Joint Secretary, Communications.
20. Mr. O. H. Mohammad, Chief Engineer, T & T Department.
21. Mr. A. K. M. Ghulam Rabbani, CSP., Chief Economist, East Pakistan.
22. Mr. Saudur Rehman, Director, General, Export Promotion Bureau.
23. Mr. Javed Mirza, Deputy Secretary, Industries.
24. Mr. V. A. Jaffery, Joint Secretary, Commerce.

Minutes of the Second Meeting of the Annual Plan Coordination Committee held on 26th and 27th April, 1968

In opening the discussion, the Chairman said that the draft Annual Plan for 1968-69 had been circulated. It was an imperfect document but the time available was limited and data grossly inadequate, particularly that pertaining to the private sector. The portion relating to private sector should be treated as broad guideline rather than a rigid framework. Gradually, as more elaborate and comprehensive information became available, planning for the private sector would improve. For this purpose a Standing Committee could be formed to watch the performance of the private sector and formulate proposals for improving the flow of information and policy-making for the private sector.

2. Inviting comments on the draft Plan, the Chairman suggested that discussion may start with Chapter 4, viz. "Growth Targets for 1968-69", since the first two chapters were introductory and Chapter 3 was a summary of the rest. Since a firm estimate of agricultural production in 1967-68 will not be available till July 1968, the draft Annual Plan had taken the third and fourth year of the Third Plan together and had suggested an average growth rate of 7 per cent for each of the two years. To the extent the growth rate in 1967-68 was higher, that for 1968-69 may be somewhat lower, because it may be difficult to achieve a much larger acceleration from a high bench mark.

3. A statement was read by the Governor, State Bank of Pakistan (Annexure A) in which he endorsed the figure of Rs. 977 crore available for development expenditure during 1968-69 as estimated by the Technical Group on Private Sector. He also emphasized the adverse consequences which were likely to follow if the overall size of the development programme was fixed at a much higher level.

4. Commenting on the statement of the Governor of the State Bank of Pakistan, the Chairman observed that the purpose of the meeting was to reach some agreement on the basic assumptions, viz., (1) total availability of resources (2) the distribution between Public and Private Sectors, (3) the minimum necessary acceleration required in the private investment next year.

5. The major assumptions underlying the projections in the Annual Plan document concerned the growth rate and the marginal rate of saving. The marginal rate of saving was expected to be 28 per cent this year against an average of 22 per cent during the Second Plan period. During 1965-66 and 1966-67, the marginal rate of saving was negative and 4 per cent respectively. The question was whether the two bad years of 1965-66 and 1966-67 should be used as the basis for making projections, as the State Bank of Pakistan suggested, or to take the average during the Second Plan and the expected rate during 1967-68 as the basis.

6. As far as the size of the private sector programme for 1968-69 was concerned, the Chairman felt that this should be permissive and not restrictive. He pointed out that the private sector investment during 1966-67 was Rs. 429

crore and during 1967-68 was estimated at Rs. 450 crore. The State Bank suggestion implied that the actual size of the private sector investment during 1968-69 should be reduced.

7. Secretary, Ministry of Industries, felt that the proposed size of the public sector programme of Rs. 570 crore for 1968-69 was not quite sacrosanct and could be reviewed. The proposed ceiling of Rs. 977 for public and private investment was derived by assuming a marginal rate of saving of 12 per cent. If a marginal rate of saving of 22 per cent could be assumed, as suggested in the draft Annual Plan, the total availability of resources would be higher. In either case, the private sector should not be treated as a residue. It should also be realized that the real constraint in the private sector is the availability of foreign exchange

8. Secretary Finance felt that within the acceptable level of taxation, the targets of the Third Five-Year Plan cannot be fulfilled. He emphasized that this fact should be accepted and kept in mind when making future projections. He went on to say that the total size of the Annual Plan was the function of the growth rate and propensity to save in the economy. The growth rate for 1968-69 was projected at 7 per cent because it was almost impossible to achieve the growth rate of 7.5 per cent annum for the next two years. On the basis of growth of GNP at 7 per cent per annum and money supply increasing at 9 per cent per annum, the size of the Annual Plan should be between Rs. 900 and 907 crore. He felt that in reality the entire Plan document was based on the concept of marginal rate of saving. Although a marginal rate of saving of 28 per cent may be achieved this year the marginal rate of saving during the previous two years which was negative and 4 per cent respectively should not be ignored. He agreed that the average marginal rate of saving during the Second Plan was 22 per cent per annum but the question was how much of it was made up of real savings and how much of it was due to credit creation. He felt that it was important to segregate this effect because if the economy cannot sustain credit creation in future then the desired marginal rate of saving may not be achieved. Furthermore, no accurate estimates for private investment are available and therefore projections on this basis cannot be made. The estimates arrived at by the State Bank of Pakistan should therefore be accepted. He agreed that the size of the private sector programme was notional and largely dependent on the availability of foreign exchange but if a target was set for the private sector programme which was too high then a lot of explaining would be required next year to justify the shortfall. In view of these factors a programme range of Rs. 900 to 1,000 crore should be adopted. If during the implementation of the programme it was felt that the public sector was lagging behind, then the private sector could be activated to ensure against a shortfall in the overall implementation. He also pointed out that the Reports of the Working Groups set up by the Committee on Balance of Payments were not adequately reflected in the Annual Plan.

9. The Chief Economist, Planning Commission, said that it would be useful to identify the assumptions on which the proposals in the Annual Plan were based in respect of the following main elements :—

(1) The growth rate for 1967-68 and 1968-69.

- (2) The likely availability of investment resources in the economy.
- (3) Distribution in the public and the private sector.
- (4) Margin of error and flexibility implicit in these assumptions.

10. It might be difficult to estimate the growth rate precisely for 1967-68 because several assumptions were still tentative, e.g., expected production of wheat and rice. If agricultural targets were fully realised, then a growth rate in GNP of 8.3 per cent was likely. Because of this uncertainty it was felt that it would be safer to take 1967-68 and 1968-69 together for the purposes of defining the growth rate precisely. The second reason for taking the current and the next year together was that the growth rate may be over 8 per cent this year and consequently less than 6 per cent next year. For the purpose of presentation, an average of 7 per cent per annum would be better than a precise lower target for next year.

11. In so far as the saving potential of the economy was concerned, the Chief Economist said, the assumptions underlying the exercise done by the Technical Group on Private Sector in arriving at the estimates of Rs. 977 crore as the total resources available for development in 1968-69, were as follows:—

- (i) GNP in real terms would go up by 7.5 per cent both in 1967-68 and 1968-69;
- (ii) GNP figures at current prices are based on a 5 per cent fall in the overall price index in 1967-68 and no change in prices in 1968-69;
- (iii) Private consumption in 1967-68 and 1968-69 will grow at the same rate as GNP;
- (iv) To calculate the figures of private consumption for 1967-68 in current prices, 6 per cent price deflator has been used because foodgrain prices are expected to fall more than proportionately as compared to the fall in the general price level, and weightage of foodgrains in the total consumption expenditure was high. For 1968-69 no price deflator has been used because of the assumption of no change in the price level in 1968-69;
- (v) Marginal rate of saving has been assumed as 12 per cent; and
- (vi) Foreign assistance is assumed to be at the same level for 1967-68 and 1968-69.

12. He pointed out that the assumption used by the Technical Group on Private Sector that consumption will increase at the same rate as growth in GNP was incorrect. A major part of the increase in agricultural incomes was occurring in large and middle size farms where the propensity to save and re-invest was relatively high. A rough calculation of likely investment in tubewells, fertilizers, seeds, indicated that the marginal rate of saving in the agriculture sector should not be less than 20 per cent. It is important to understand that the marginal rate of saving is savings out of additional income and was quite different from the

concept of the average rate of saving. In the Corporate Sector 50 to 60 per cent of additional profits were reinvested depending upon the availability of foreign exchange and credit. In the Government Sector, the growth of revenues on the basis of existing taxes, showed that the Government sector was generating a marginal rate of saving of 24 per cent. These three were the major sectors of the economy with agriculture contributing about 50 per cent, manufacturing about 10 to 15 per cent and Government 12 to 13 per cent to GNP. Thus it is clear that an estimate of 22 per cent as the marginal rate of saving for 1968-69 was not unrealistic and if this could be managed then another Rs. 65 crore of resources would become available. In addition to this another Rs. 40 crores could be expected from increases in the actual availability of foreign assistance. The Working Group had assumed no increase on this account.

13. He further added that another approach would be to consider the financing available in the Private Sector. A report on the availability of resources in the public sector had already been prepared by the Working Group on Resource Projection. In the private sector, the firm elements (1) lending by financial institutions, (2) availability of foreign exchange, (3) credit budget. Financial institutions had been lending at the rate of Rs. 60 to Rs. 70 crore a year for the past few years. Next year they were asking for Rs. 160 crore. This demand was obviously too high but they should be enabled to manage an acceleration of 15 to 20 per cent in their lending programme next year. Similarly the Consortium Memorandum included a request for £ 185 million of fresh pledges for the private sector. This may not materialize in full but corresponding increase of 15 or 20 in the allocation of foreign credit should be manageable. The third and final element was domestic credit. For this purpose a credit budget for 1967-68 and 1968-69 had been suggested to ensure that the safe limits of monetary expansion were not violated. The reasons for taking the credit budgets for the two years together were that (a) the likely growth rate of GNP over these two years was not certain at that moment and (b) if money supply did not increase to the extent expected in 1967-68, then the shortfall could be made up in the following year.

14. He concluded by suggesting that the realistic nature of the projections of availability of resources in 1968-69 could be checked by taking the implementation of the overall development programmes in the previous years and seeing whether the projections for the next year provided for the desired acceleration.

15. The Chief Economist, West Pakistan Planning and Development Board, felt that marginal rate of saving of 22 per cent could be achieved. The anticipated increase in agricultural income was about Rs. 100 crore. The estimates of fertilizer sales showed an increase from Rs. 20 crore to Rs. 46 crore. The increase of about Rs. 26 crore devoted to the purchase of fertilizers represented savings out of the increase in farm incomes. Therefore the saving potential of the agricultural sector was being underestimated and it was possible to have a marginal rate of saving higher than 22 per cent.

16. The Secretary, Finance, felt that it was not quite correct to presume that the inflationary pressure had been removed from the economy. The prices of foodgrains had gone down but the policies that had been adopted had pushed up the prices of other commodities. Therefore, he felt that the same price deflator should be used for both GNP and private consumption and not a price deflator or 5 per cent for GNP and 7 per cent for private consumption as suggested by the Planning Commission. He also added that the concept of combining the credit budgets for 1967-68 and 1968-69 was not correct because unlike physical resources which could be taken over from one year to the other credit could not be treated as shiftable resources. It could also be considered whether the monetary overhang had been worked off or not.

17. The representative from the State Bank of Pakistan presented the following figures on the monetary situation for the consideration of the Committee:—

| | 1965-66 | 1966-67 | 1967-68 | Average |
|--------------------------|---------|---------|---------|---------|
| Increase in Money Supply | 14.0% | 5.5% | 6.7% | 8.8% |
| Increase in GNP | 4.7% | 5.2% | 7.0% | 5.6% |

He also said that the marginal propensity to consume would be higher next year. The decline implicit in using a 7 per cent deflator was not therefore correct.

18. In clarifying the point regarding the price deflator that should be used, the Chief Economist, Planning Commission, said that the overall price decrease of 5 per cent had various elements—

- (i) Investment goods;
- (ii) Imported goods; and
- (iii) Food etc.,

He emphasized that the major price decline was expected in foodgrain prices. Though other prices may have risen, 70-80 per cent of consumption was foodgrains, investment goods and imported goods being only minor components of consumption.

19. The Central Finance Secretary commenting on the idea of using the past trend of development expenditure for making future projections said that this would not be very realistic because the premises of the Third Plan had changed. There was a shortfall in foreign aid and increase in defence expenditure. In addition to this, the debt servicing burden had become larger necessitating a slow down in the use of short term credits. We should not accelerate the pace of our development by eating up our capital or selling our assets.

20. The Chief, International Economics Section, Planning Commission, pointed out that any decrease in fresh pledges of foreign assistance would not materially affect the disbursement estimates for 1968-69 because a considerable proportion of likely disbursement, 90 per cent in case of project aid and 75 per cent in respect of non-project, will flow from the balances in the pipeline.

21. In discussing the effort being made by the provinces to raise additional resources the Secretary, Finance, West Pakistan, said that an additional effort of Rs. 14 crore would be made during the next year, against a target of Rs. 20 crore indicated by the Finance Minister. Of this, actual availability for the ADP would be Rs. 9 crore since Rs. 5 crore would be required to close a deficit on railway budget caused by the increase in excise duty on diesel. The contribution could however be increased to Rs. 10 crore, if the contingency item was reduced by a crore. There was no more scope for additional revenues in West Pakistan. Their overall contribution, the Finance Secretary pointed out, had gone down because their receipts from shared taxes had gone down.

22. Secretary Finance, East Pakistan, said that an additional effort of Rs. 6 crore at the most could be expected during the next year. This would raise the contribution of East Pakistan to the ADP to Rs. 49 crore and would imply an increase of Rs. 12 crore on a tax base of Rs. 66 crore.

23. The Chairman said that after taking into account the additional effort of Rs. 6 crore by East Pakistan their total contribution of Rs. 49 crore would be only Rs. 2 crore more than last year's. In the case of West Pakistan there would be a real reduction of Rs. 7 crore in their contribution even with an additional effort of Rs. 10 crore. In view of this and the fact that additional taxation will not be possible next year, the provinces should reconsider their position regarding the additional effort they are capable of making this year. He emphasized the need for maintaining the size of the Annual Development Programme and he pointed out that unless the provincial contributions were increased this may not be possible. The measures to close the remaining gap should be discussed in the Finance Ministers' meeting. If the remaining gap could not fully covered, the Annual Plan will mention the gross size of the Plan leaving the net size to be disclosed in the budget document.

23A. The size and composition of 1968-69 ADP were taken up next for discussion. The Chairman, West Pakistan Planning and Development Board, pointed out that the share of the Centre in the ADP for 1968-69 exceeded the allocation given in the Third Plan. This share came to 16.4% compared to 14.9% recommended in the Third Plan. He suggested that the Centre's programme should be reduced and more adequate share given to the Provinces. The Deputy Chairman, Planning Commission, observed that this issue should be included in the summary for the NEC.

Second Session on 27th April 1968

24. Inviting comments on the requirements of financial institutions in

the private sector, the Chairman said that there were four issues to be considered by the Committee:—

- (a) Whether the requirements indicated by the various institutions were correct?
- (b) On what basis should foreign assistance be allocated to various institutions?
- (c) What ceilings should be prescribed, if any, for the provision of rupee resources?
- (d) Whether any specific shares for investment in East Pakistan should be mentioned?

25. The Finance Secretary said that the total requirements of the institutions mentioned in the Working Paper were three times the amount they had spent in the past three years. Besides the availability of raw materials is expected to remain inadequate even in 1968-69 because of paucity of foreign exchange resources. The total amount available for industrial raw materials including commodity aid resources would be Rs. 135-140 crore against requirements of Rs. 330 crore for existing industries.

26. The Additional Chief Secretary, East Pakistan said that the policy measures to accelerate private investment in East Pakistan should be spelled out. For example, the debt equity ratio could be more favourable for East Pakistan and the provision regarding down payments on bonus should not apply to East Pakistan. After discussion the Committee agreed that against total requirements of Rs. 102 crore of foreign credits, attempts should be made to provide at least Rs. 70 crore to these institutions during 1968-69. In addition, rupee resources of 15 crore should be provided to these institutions through the budget. They can mobilize another Rs. 15 crore through their own efforts. This will permit a total lending operation of Rs. 100 crore during 1968-69. It was also agreed that an effort should be made to spend 50 per cent of the proposed allocations in East Pakistan but if the rate of spending could not be stepped up in that region due to various difficulties then the institutions should have the freedom to divert these allocations to West Pakistan.

27. The Committee discussed the export projections in the draft Annual Plan and agreed to recommend an export target of Rs. 415 crore including Rs. 10 crore on account of IRRI rice. The Committee noted the statement by the Commerce Secretary that the Ministry of Commerce will be preparing an annual export policy in pursuance of recent Cabinet decision which will spell out item-wise production and export targets for the next year.

28. The Chairman summed up the main conclusions and recommendations of the Committee as follows:—

- (i) An overall average growth rate of 7 per cent should be adopted for 1968-69.

- (ii) Total resources available for 1968-69 for the public and private sector should be placed at around Rs. 10,000 million.
- (iii) An effort should be made to work on the basis of a marginal rate of saving of 22 per cent.
- (iv) No precise investment target should be mentioned for the private sector but it should be stressed that investment in this sector would be accelerated by at least 10 per cent next year.
- (v) The financing institutions should have a minimum programme of Rs. 100 crore for 1968-69 of which Rs. 70 crore may be provided to them through foreign credits, Rs. 15 crore through the budget and the remaining Rs. 15 crore should be mobilized by the institutions through their own efforts.
- (vi) An effort should be made to spend about 50% of the proposed allocations for financial institutions in East Pakistan. In case the rate of spending could not be accelerated due to various difficulties, these institutions will have the freedom to direct these allocations to West Pakistan.
- (vii) The export target for next year should be fixed at Rs. 415 crore implying a minimum increase of 10 per cent.
- (viii) The sectoral breakdown of growth rate should be given province-wise.
- (ix) The Committee should review the targets and their implementation every quarter.

29. During the discussion, a number of suggestions were made by the members about the editorial and factual changes in the draft Annual Plan in order to improve the presentation and bring the factual data up to date. These suggestions were noted by the Planning Commission for incorporation in the document.

**STATEMENT BY GOVERNOR OF THE STATE BANK OF PAKISTAN
AT THE SECOND ANNUAL PLAN COORDINATION COMMITTEE
MEETING ON 26TH APRIL, 1968**

Mr. Chairman,

I feel it would be helpful at the outset for me to avail myself of this opportunity of stating the State Bank's viewpoint in these deliberations. As I had mentioned at the last meeting of the Plan Coordinate Committee, the decision to associate the State Bank in the proceedings of this forum has been greatly welcomed by us. It has afforded us an opportunity of placing before the Group here our thinking on the main issues in the perspective of which decisions have to be taken regarding the Annual Plan.

I would like to assure you, Mr. Chairman, that, while it is our duty to present the picture which we see from the vantage point of the central bank, we have approached our task discarding our organisational label. In fact if we have created an impression of being somewhat unyielding, our justification is that we feel we are striving for national good rather than win a point for our institution. Indeed, we have welcomed this opportunity of participating in this exercise hoping to gain a great deal of insight into the intricate issues that are before us at the moment. We would only request you to consider our views as designed to facilitate progress rather than to obstruct your course. Permit me to say that it would not be fair for the central bank views to be dismissed summarily on the ground that they stem from a 'conservative' institution. Similarly, it would be equally improper for us to assume that every position taken by the Planning Commission borders on brinkmanship.

In fashioning our approach we have also been conscious of the broad discipline of the Third Plan. We are aware that the intention is to carry through the objectives enshrined in the original Plan. At the same time, we have assumed that the whole purpose of this exercise is not in any way to gloss over the hard realities of the situation which emerged after the Third Plan went into operation. This applies with particular force to the financial targets set out in the Plan.

We were, therefore, particularly gratified when the Plan Coordination Committee at its very first meeting decided to set up a number of working groups to examine various aspects of the problem. A working group was also constituted to suggest the appropriate size of the development programme for the private sector in the framework of the total availability of resources. This main group, in turn, set up a Technical Group consisting of the representatives of the Planning Commission, Ministry of Finance, C.S.O. and the State Bank of Pakistan. We had the honour of being asked to coordinate the work of this Group. After discussions spreading over several days the Group was able to resolve the conceptual and factual differences and to make a unanimous report

which estimated the overall availability of resources for planned development expenditure in 1968-69 in the region of Rs. 977 crores.

I confess to a sense of surprise that the Planning Commission should have brushed aside these figures and substituted them by a new estimate inflating the total resource availability by nearly Rs. 100 crores.

We are no less surprised to find that the monetary policy pursued by the State Bank during the last year or so has been dubbed as 'conservative' (page IX-2 of the draft Annual Plan for 1968-69). We have been in constant touch with the Ministry of Finance in regard to the main elements of monetary policy pursued during recent months and I am happy to say that there is unanimity of views between us in this respect. The rationale of our credit control policies has also been explained to the Planning Commission through written notes and memoranda. We had expected that in the light of the detailed information provided by us there would be no room for misunderstanding. Since misgivings still persist, I think it is my duty to briefly state the facts. It has been our endeavour that monetary policy, like other policies of the Government, should make its maximum contribution to the achievement of national objectives. As is well known, maintenance of monetary stability is one of the important objectives of Government policy because it is only within the framework of monetary stability that sustained economic growth can take place. For the maintenance of monetary stability, it is necessary to maintain a proper balance between monetary demand and availabilities. Bank credit to the Government and private sectors, which results in an increase in purchasing power in the economy, is the main determinant of monetary demand in our conditions and it is the task of the Central Bank to regulate credit creation by banks in the best national interest. As you know, bank credit began to rise rather sharply in the closing years of the Second Plan and this trend continued in the first 18 months of the Third Plan. The evidence was clear that this fast tempo of credit expansion was creating severe inflationary pressures in the economy and was aggravating out balance of payments problem. A continued depletion of foreign exchange reserves due to excess demand conditions in the economy would have created a serious situation and thwarted future growth because foreign exchange availability is of prime importance in feeding our industries with raw materials and maintaining the momentum of growth. Credit expansion far in excess of the growth of bank deposits was also putting a severe strain on the liquidity position of the banks and the trend, if continued, could have undermined confidence in the banking system itself. The State Bank, in consultation with the Ministry of Finance, had therefore, to take a series of credit control measures to slow down bank credit expansion. In operating monetary policy, care was taken that the essential requirements of the priority sectors like agriculture and exports as also the working capital requirements of industry should be fully met.

It is true that the rate of monetary expansion has slowed down considerably in recent months, but there is scant justification for dubbing monetary policy conservative on this score. In the first place, it needs to be borne in mind that, in the background of excessive monetary expansion since 1963-64 and the attendant pressures on the price level and the balance of payments, such as slowing down

in monetary expansion was in the best interest of the economy. Secondly, moderation in the rate of growth of money supply has been achieved without in any way restricting the genuine activities of the commercial banks, particularly financing of the essential short-term credit requirements of the economy. The main emphasis in monetary policy has been on curbing bank loans for less essential and speculative purposes. It is pertinent to mention in this connection that total bank credit on 5th April, 1968, the latest date for which figures are available stood at Rs. 925.93 crores which, compared to the figures of Rs. 834.20 crores at the same time last year, represents a rise of almost Rs. 100 crores. In the coming months banks are going to finance the wheat procurement operation in a big way and their credit operations would show even a sharper rise.

Perhaps the misgivings about monetary policy arise from the fact that money supply has been rising rather slowly this year as compared to the preceding years. This should provide no cause for concern. In the first place, money supply figures this year have been greatly affected by the adjustments made by banks to correct the distortion arising from previous large-scale window dressing. Secondly, it is the extent of credit creation by banks rather than increase in money supply as such which is germane for production activity and as I explained earlier, bank credit has been rising steadily and substantially. Thirdly, there appears to be no dearth of purchasing power in the economy. The most conclusive evidence of this is to be found in the fact that prices of a whole host of goods of everyday use continue to show a rising tendency.

I would earnestly request that policy issues regarding bank credit and deficit financing for 1968-69 should be decided in the above perspective. The theme that seems to run through the *Annual Plan* document we have before us is that there is very large scope for deficit financing and bank credit expansion in 1968-69, because we are going to have a bumper wheat crop and secondly that we have turned the corner and the economy has already made all the adjustments necessitated by the unfavourable developments in the beginning of the Third Plan. May I make a plea for realism here? The bumper wheat crop would not help arrest the rising trend in the prices of non-food grain food items and hundreds of other items of daily use. In fact, as the *Annual Plan* document itself acknowledges (page V-3), the expected rapid rise in agricultural incomes would put further pressure on manufactured goods prices. Our balance of payments position continues to be difficult and the foreign exchange reserves currently stand at a very low level. The rate of growth in exports has slowed down. Foreign aid availability is short of original *Third Plan* expectations. The result is that, as succinctly pointed out by the Working Group on Import Policy, the ratio of unutilised capacity in industry to total installed capacity has been steadily rising. Due to acute shortage of foreign exchange, most of the industrial raw material had to be placed on cash-cum-bonus, which has already meant a substantial rise in the cost of these materials to industry. This has implications for our exchange rate because the volume of transactions which is now going through at depreciated rates has increased markedly. Apart from the exchange rate implications, the import of raw materials under cash-cum-bonus would raise cost of production in industry which can have unfavourable effects both on domestic price situation and the country's foreign exchange earnings.

All these factors require continuance of cautious monetary and fiscal policies as well as adjustments in other directions. It is of utmost importance that the development programme for the next year be framed on the basis of a realistic appraisal of real resource availability. The Working Groups on Export Policy, Import Policy, Rupee Resources and Debt Burden have provided us with valuable material on which to base our future policies. I find that the findings of these export groups are not adequately reflected in the preliminary draft of the Annual Plan document. The Annual Plan also does not appear to take full cognizance of the recommendations of the Technical Group set up to go into the question of appropriate size of development programme for 1968-69. As I mentioned earlier, this expert group consisting of the representatives of the Ministry of Finance, State Bank and the Planning Commission came to the unanimous conclusion that on the basis of a realistic estimation of various items affecting national expenditures, the total resource availability for the combined public and private sector development programmes in 1968-69 would be Rs. 977 crores. It also listed a number of adverse consequences which were likely to follow if the size of the programme was fixed at a substantially higher level. Notwithstanding the unanimous recommendations of this expert group the draft Annual Plan document proposes the size of the next year's development programme at Rs. 1,070 crores. That resources are not in sight for a programme of this magnitude is borne out by the facts and figures in the draft Annual Plan document itself. The net size of the public sector development programme is proposed to be fixed at Rs. 570 crores but real resources of only Rs. 481 crores are expected to be available on the basis of existing tax rates and trends in other revenue and capital receipts. To raise the size of the public sector programme to Rs. 570 crores, a figure of Rs. 88 crores has been included under the head "Deficit Financing a dditional effort" (page V-6). It is further proposed that to fill a part of the resource gap of the specialised corporations a sum of Rs. 30 crores should be provided to them by the Government (page VII-5). This means that additional resources of the order of Rs. 118 crores would have to be raised if the size of the public sector programme is fixed at Rs. 570 crores. I am not aware how much of this is to be mobilised through additional taxation expected during the year 1968-69. I would, however, like to mention that according to detailed projections made by the State Bank, the maximum scope for deficit financing for ADP in 1968-69 would be Rs. 30-35 crores. This was also the conclusion reached by the working group on Rupee Resources Projections consisting of the representatives of the Ministry of Finance, Planning Commission, State Bank and the two Provincial Governments. I wonder whether it would be feasible to raise the remaining Rs. 83-88 crores by way of additional taxation during the year 1968-69 to finance the planned public sector programme. If the consensus is that this expectation is not justified, it follows that the size of the public sector programme would need to be reduced correspondingly.

It might be suggested that instead of reducing the proposed size of the ADP additional recourse should be taken to deficit financing to fill the gap. At quite a few places the draft Annual Plan would appear to convey the impression that on account of expected bumper wheat crop, the scope for deficit financing has

increased considerably. This feeling is apparently based on the reasoning that monetary stability would not be affected by resort to deficit financing on a larger scale, as the resulting increase in monetary demand would be matched by the increased supply of wheat in the market. I would like to submit that in this respect following considerations may be taken into account:

1. The safe limit of deficit financing during 1968-69 has been worked out on the basis of the projected rise of 7.5 per cent in GNP which in turn is based on the optimistic wheat estimates. The calculations therefore make full allowance for the bumper wheat crop.

2. Apart of the increase in wheat will presumably be absorbed in Government stocks in order to sustain wheat prices at the support level. Thus while the safe limit of monetary expansion and scope for deficit financing have been worked out on the basis of the full increase in GNP, a part of the increase in GNP (represented by supplies absorbed in Government stocks) would not be available for consumption. This may warrant a reduction in the scope for deficit financing rather than an increase.

3. The expected rise in the production of wheat will no doubt result in a decline in its prices but the effect of this price decline on the cost of living different classes would not be uniform. The cost of living indices that are prepared by the C.S.O. relate only to industrial workers and clerical wage-earners. These might show a substantial fall in certain centres as they accord heavy weightage to food items. However, the decline in wheat prices would not provide the same quantum of relief to middle class as expenditure on food does not form a substantial part of the family budgets of this class. Prices of other goods and services, which constitute an important element in their cost of living, have been rising steadily in recent years and this secular trend is likely to be maintained in 1968-69. If deficit financing is resorted to on a larger scale compared to its calculated safe limit, the rising tendency in the prices of these goods and services would be accentuated.

4. The decline in wheat prices would result in a rise in real income of different classes of population, the actual extent of the rise depending on the proportion of expenditure on food in respective family budgets. This rise in real income will serve to increase the demand for manufactured goods. If monetary demand in the economy is allowed to rise inordinately by excessive deficit financing, the domestic absorption of locally manufactured goods would rise even further and this can seriously interfere with the objective of maximising export earnings.

The draft Annual Plan suggests the fixation of the Private Sector Programme at Rs. 500 crores. However, it gives no firm indication as to how a programme of this size would be financed. Technical Group on private sector consisting of representatives of Ministry of Finance, Planning Commission and the State Bank had estimated total resource availability for the combined public and private sector development programme at Rs. 977 crores. Allowing for the proposed

public sector development programme of Rs. 570 crores, the feasible size of the private sector development programme may be no more than Rs. 400-410 crores.

Now if we see it from the financing side, we can have at least a rough idea of the amount that would be available for the private sector financing for 1968-69. Private subscriptions to new issues, foreign private investment and foreign loans to the private sector are expected to provide Rs. 10 crores, Rs. 15 crores and Rs. 66 crores respectively during 1968-69. According to monetary projections, an amount of Rs. 56 crores is likely to be available from the commercial banks for financing longer term credit requirements. Adding to this Rs. 100 crores by way of ploughing back of profits and Rs. 125 crores representing non-corporates savings, total financing expected to be available for private sector during 1968-69, would be around Rs. 372 crores. If Rs. 30 crores is transferred from the public sector to the corporations to fill a part of their resource gap, the private sector development programme can be of the order of Rs. 400 crores. Fixation of the private sector programme at more than Rs. 400 crores would mean the perpetuation of the existing pressures. Apart from bursting the credit ceilings fixed by the Fund, such a course would result in the safe limits of monetary expansion being exceeded by a large margin which the Plan document itself acknowledges should not be allowed to happen.

In concluding, may I recall that when the size of the Third Plan was approved by the National Economic Council it was clearly laid down that the overriding consideration would be the actual real resources which would be available for each year's programme. We should not become oblivious of this basic decision and responsibility and seek to propose a development programme for which resources are not insight on the plea that the programme is derived from the Third Plan which has the approval of the NEC. Similarly, though there is perhaps much in the argument that the size of the programme has to be fixed with due regard to the external and internal postures, this should clearly not set us on an unrealistic course. What is more, we should not forget that to the extent that we frame an unduly large programme this year, we are laying up troubles for the next year when again the same question of external and internal postures will arise. In other words, by not making the needed adjustments now we would only be aggravating our difficulties in the future. The lack of realism this year has the risk of leading towards even greater unrealism next year. I need not emphasize the hazards of such a course.

**OBSERVATIONS MADE BY THE FINANCE SECRETARY
GOVERNMENT OF PAKISTAN IN THE MEETINGS OF
THE PLAN COORDINATION COMMITTEE HELD
ON THE 26TH AND 27TH APRIL, 1968.**

General

(i) Overall estimates of resources for public and private sector

2. The Planning Commission projected an estimates of Rs. 1,070 crores to be available for Plan development expenditure in 1968-69 both for the public and private sectors. According to the relevant studies undertaken by the Technical Group set up by the Plan Coordination Committee previously the total availability worked to only Rs. 977 crores. Referring to these estimates, the Finance Secretary pointed out that they were based on a rather low estimates in respect of private current consumption. According to projections made in the Ministry of Finance, the availability of resources for the Plan development expenditure was of the order of Rs. 904 crores.

3. The Finance Secretary further observed that the concept of the marginal rate of savings used by the Planning Commission in arriving at their estimates could not be relied upon due to three factors. Firstly, marginal rate of savings has shown considerable variation in the past. According to the Planning Commission themselves the marginal rate of savings was minus, 1.4 per cent in 1965-66, 4.6 per cent in 1966-67 and 28.4 per cent in 1967-68. Similarly in the previous years, the marginal rate of savings had fluctuated quite violently. Even if one were to take a mean, the deviation from the mean from year to year is so extensive that the concept loses its operational utility. In the absence of any stable and secular trend in the marginal rate of savings, it was not possible to use the concept for the purpose of future projections. Secondly, a major portion of the investment expenditure in the past was financed by credit creation rather than genuine savings. High marginal rate of savings in some of the preceding years were a consequence of excessive monetary expansion which led to pronounced price pressure and balance of payments difficulties. It is difficult to isolate the effects of credit creation for the determination of marginal rate of savings and in such a situation development outlays in future cannot be planned on the basis of the realised marginal rate of savings. Thirdly, estimation of *ex-ante* savings on the basis of *ex-post* marginal rate of savings for the entire economy ignores the problems arising from different rates of growth of various capacities. If marginal rate of savings differ significantly from one sector of the economy to another and if various sectors of the economy grow at different rates at different periods of time, as has been the case in Pakistan, the observed global marginal rate of savings in a past period cannot be used as a standard of reference for estimating the likely amount of total savings in the economy in a future period of time.

4. At this point the Planning Commission advanced the idea that the benchmark of 1966-67 for private sector investment may be used as a standard of reference for the determination of the private sector in 1968-69, assuming an acceleration of 10 to 15 per cent per annum. The Finance Secretary expressed serious doubts as to whether it would be appropriate to fix the size of private sector development programme on the simple basis of extrapolation of the present series on private investments. He pointed out that the Planning Commission's estimates on private sector for 1966-67 suffer from a number of internal inconsistencies. They have used as a benchmark an estimate of investments made for 1963 and the preceding and following years' investments figures are extrapolated based on import data for capital goods and the use of cement and steel. Quite clearly, the figures for all the later years have been estimated on the basis of import co-efficients derived from 1963 estimates. These input co-efficients are likely to differ from year to year depending upon their relative supplies and cannot be assumed unchanged for each year as has been done by the Planning Commission. Even on the basis adopted by the Planning Commission, the estimate of private investment amounted to Rs. 310 crores for the year 1966-67. Subsequently another method has been used and these figures were inflated to Rs. 373 crores for the same year by the Planning Commission. In the Annual Plan document they have put the private sector development expenditure at Rs. 429 crores for 1966-67 and in the same document they also note that according to the evaluation by the C.S.O. and the Planning Commission the actual private sector development expenditure during 1966-67 figure is closer to Rs. 400 crores. The unreliable estimates of private sector development expenditure in 1966-67, therefore, cannot be used as a base for determining the private sector development programme for 1968-69. Similarly the C.S.O.'s estimates of fixed capital formation in private sector suffer from a number of weaknesses. Moreover, their definition of fixed capital formation differs markedly from the definition of planned development expenditure used in the concept of ADP. The CSO's figures also, therefore, cannot be used for extrapolation purposes.

5. Continuing the Finance Secretary observed that the only reliable approach that could be adopted to estimate the overall resources availability for planned development expenditure for 1968-69 was the national income framework. In this framework, there were two crucial variables that need to be decided upon before attempting the required estimates. First, some firm basis must be found about the rate of growth that is likely to be realised in 1967-68 and 1968-69. Second, an agreement ought to be reached as to what is the appropriate price deflator that should be used to convert the G.N.P. and private consumption series at constant prices into current prices.

6. He added that the Plan document circulated by the Planning Commission contains more than one estimates of the expected rate of growth in 1967-68 and 1968-69. He read out various sections of the draft Annual Plan to substantiate this point. However, it was generally agreed that the growth rate at 7 per cent per annum may be adopted both for 1967-68 and 1968-69 for the purpose of estimation.

7. In the case of price deflator it was agreed that in 1967-68, the prices are likely to fall by 5 per cent. There was also a consensus of opinion that the G.N.P. at constant prices for 1967-68 may be deflated by price deflator of 5 per cent. In the case of current consumption, however, various price deflators were suggested. The Planning Commission had used a price deflator of 7 per cent for current private consumption as against 5 per cent they had applied to G.N.P. for 1967-68. The State Bank in their estimates as also the Technical Group had applied a price deflator of 6 per cent for the current private consumption and of 5 per cent for G.N.P. for 1967-68. The Finance Secretary was of the view that there was no firm basis for using higher price deflator for consumption as compared to G.N.P. He, therefore, suggested that the same deflator should be used for current private consumption as is applied in the case of G.N.P. After a general discussion the members of the Committee agreed to the suggestion of the Finance Secretary. The overall size of the availability of resources for planned development expenditure in both the public and private sectors was however agreed to be assumed between the range of Rs. 9,50 to Rs. 1,050 crores.

(ii) Safe limit of Monetary Expansion during 1968-69

8. The Plan document while stating that the safe limits of monetary expansion should in no way be violated had suggested that the monetary budget for the two years 1967-68 and 1968-69 should be considered together. It was argued that as the monetary expansion was somewhat less in 1967-68 than what could be on the basis of the safe limits of monetary expansion, a part of this may be carried forward to 1968-69, meaning thereby that the monetary expansion during 1968-69, could be increased to the extent the actual performance fell short of the target in 1967-68. The Finance Secretary observed that this would be a fallacious and a dangerous basis to proceed from. Firstly monetary expansion should not be confused with the real availability of resources. If therefore the overall monetary expansion has been somewhat restrained in 1967-68 that does not imply that we can accelerate the rate of increase in money supply beyond the safe limits for 1968-69. The idea of a two years' monetary budget, he argued could very well be extended further and we would in that context be not unjustified in looking at the volume of monetary expansion as a whole from the beginning of the current Plan. Secondly despite the checks applied to restrain the increase in money supply, the economy continues to be under stresses and strains. The balance of payments position of the country continues to be difficult and the foreign exchange reserves currently stand at a very low level. The rate of growth in exports has slowed down and excepting foodgrains, the price of a whole host of other goods of everyday use continues to show a rising trend. If the situation continues to be difficult in spite of the fact that money supply was not allowed to expand beyond the safe limits in 1967-68 it clearly means that the overhang from the previous years had not been fully worked off. There was therefore no justification for a further acceleration of monetary expansion in 1968-69. In fact the situation demands that the safe limits of monetary expansion for 1968-69 should in no way be violated. The Finance Secretary pointed out that the theme that seems to run through the draft Annual Plan document is, that there is considerable scope of deficit financing in 1968-69. He

pointed out that there was no justification for such thinking in the light of the past experience and the current economic situation.

9. Proceeding further the Finance Secretary made the following point by point observations on the various issues raised in the Annual Plan document.

Chapter III—Major Objectives and targets, pages 3-4 Paras. 10-11

The assumptions made in these paragraphs will require to be re-assessed in the light of the general observations indicated above. The available estimates do not indicate with any measure of certainty that the private sector programme could be fixed at Rs. 500 crores or that it would be possible to mobilise resources of this magnitude without compromising monetary stability, etc. It is not also possible as explained in the general observations made above to assume that the marginal rates of savings would be of the order of Rs. 22.6 per cent.

Chapter IV—Growth Targets for 1968-69 page 6, Table 4

10. The production targets for 1968-69 were on the high side in the case of certain crops. In the case of the following, modified targets were adopted in the meeting:—

| | <u>Million tons</u> |
|--------------------|---------------------|
| (a) West Pakistan— | |
| Wheat | 6.3 |
| Rice | 2.1 |
| Cotton | 3.1 |
| (b) East Pakistan— | Million bales |
| Jute | 7.5 |

Finance Secretary further observed that it was necessary to fix a target of production in the case of pulses which may be a valuable foreign exchange earner. This question should be examined in consultation with Food and Agriculture Division and the final version of the Annual Plan should incorporate the targets for this item as well.

Page: 7, Table 5

11. Production targets for 1968-69 shown here are on a high side, particularly in the case of jute goods, cotton yarn and white sugar. Figures should be checked by the Planning Commission in consultation with the Division concerned.

Page: 8, Table 6

12. Table 6 indicating consistencies and material balances of the proposed Plan has not been inserted in the document and should be supplied.

Chapter V: Resources and Financing

13. The whole chapter will have to be redrafted in the light of general observations as stated above. In particular, attention was drawn to the following points:

- (i) Table No. 1 at page 2 should be revised to indicate a range of resources between Rs. 950 crores to 1,050 crores.
- (ii) Page 3, para. 5 which implies that the maximum use of deficit financing and additional taxation particularly on consumption should be made to reach the marginal rate of savings at 22.6 per cent should be deleted.
- (iii) The sentence "This allows for considerable scope for deficit financing operations without any fear of price increase" should be deleted.

Page: 5, Table 2

14. The Projections of External Resources for 1968-69 needs to be revised as indicated below:—

Projections of External Resources

| | (Rs. million) | |
|---------------------------------------|---------------|--------------|
| | 1967-68 | 1968-69 |
| 1. Project and Technical Assistance | 1,400 | 1,780 |
| 2. Commodity Assistance | 820 | 1,010 |
| 3. Foreign Private Investment | 130 | 160 |
| 4. PL-480 | 650 | 400 |
| 5. Indus Basin Fund disbursements | 300 | 500 |
| 6. Food Grants and Short-term credits | 60 | 30 |
| Total | 3,360 | 3,880 |
| 8. Debt Repayment | 600 | 940 |
| 9. Net | 2,760 | 2,940 |

Page: 9-6, para. 9

15. The Provinces were supposed to make an additional effort of Rs. 30 crores (Rs. 10 crores by East Pakistan and Rs. 20 crores by West Pakistan). Against this, the promised additional effort is only 16 crores (Rs. 6 crores by East Pakistan and Rs. 10 crores by West Pakistan). This means a shortfall of Rs. 14 crores. This would mean that either we have a smaller development programme or the Provinces raise further resources of Rs. 14 crores. The Central Government would not be in a position to supplement its contribution by another Rs. 14 crores if the size of the A.D.P. is kept at Rs. 570 crores.

Page: 7, paras 10-11

16. As it is not possible to determine the size of the Development Programme in private sector in precise terms, reference to specific figure of Rs. 5,000 million should be deleted. The range of commitment should be indicated in the light of general observations.

Chapter VI—Public Sector Development Programme

17. The size of the programme in the public sector will be discussed and determined by the three Finance Ministers in the light of available resources. It is not correct to say as has been stated in the last sentence of para 4, that "resources are available to finance a programme of this size".

Chapter VII—Private Sector Programme, Page: Paras. 1-3

18. Reference to the size of the programme will have to be modified in the light of general observation. The suggestion in para 3 (iii) that efforts should be made to speed up sanctions to the revised industrial schedule to make up for the slow implementation in the first three years of the Plan, should be modified in the light of the general observation. The available resources for industries in the private sector have yet to be determined.

Page : 5

19. The suggestion regarding the provision of Rs. 30 crores to the credit institutions through the Government budget should be omitted at this stage as no decision has been taken to this effect. As the Financial Institutions cannot raise their resources from the commercial banks, the reference made to that effect should be omitted. No decision has been taken for the appointment of a Standing Committee. A reference to this should be made only after a decision has been taken by the N.E.C.

Page: 6

20. The reference made to two years, credit budget should be omitted in the light of the general observations.

Page: 7

21. The reference to the distribution of requirements of the private sector should also be omitted as they will be determined by the Ministry of Finance in the light of actual development.

Page: 11

22. Table 8 as also the reference made thereto at page 7 should be deleted as the basis on which this table has been drawn up has not been accepted. This has been fully explained in the general observations.

Chapter VIII - Balance of Payment Prospects, Page : 3, Para 7

23. The estimates of foreign exchange earnings at Rs. 415 crores was on the high side. According to the Ministry of Finance the estimate could not go beyond Rs. 405 crores. In particular the estimates adopted for IRRI rice at Rs. 10 crores was unrealistic. The estimates for 1967-68 (at Rs. 385 crores) indicated by the Planning Commission is also high. The revised figure of the Ministry of Finance is only Rs. 377 crores.

Page: 4, Para 9

24. On the basis of existing forecast, Ministry of Finance will budget F.E. expenditure at not more than Rs. 405 crores. This was agreed to in the Plan Coordination Committee meeting. The statement that the international economic situation during 1968-69 will improve in a manner so as to increase the demand for exports from developing countries and also raise the unit value of the exports, is unrealistic. In actual practice the position is likely to be just the reverse of what has been stated.

Page: 10

25. Under the Balance of Payment forecast, the estimates regarding debt service and debt repayment should be corrected as follows in the light of recommendation of the Expenditure Estimates in respect of foreign grants and loans are also on the high side and should be corrected as below on the basis of figures adopted in the budget:

| | 1968-69 |
|-------------------|-------------|
| | Rs. million |
| Payments | |
| 1. Invisibles | 1,060 |
| 2. Debt Servicing | 940 |

Financing

| | |
|------------------------------------|-------|
| 1. Own earnings. | 4,050 |
| 2. Foreign Aid— | |
| (a) Project & Technical assistance | 1,780 |
| (b) Non-project assistance | 1,010 |
| (c) PL-480 | 400 |

Chapter IX—Major Policy Issues and Objectives: Page 2, Para 7

26. It is not correct to say that the prospects for overall price level for 1968-69 are very encouraging. Except for foodgrain, the prices of other commodities are likely to rise and allowance should be made for this factor in planning the economic policy.

Page 2, Para 8

27. This should be deleted.

28. It should be emphasised that the policy action by the Provincial Governments in respect to the fixation and regulation of prices should be properly coordinated at the level of the Central Government. Otherwise as has been experienced in the recent past, diverse lines of action at the Centre and the Provinces would lead to confusion and defeat the purpose of proper regulating of prices.

Page: 4, Para 16

29. This should be deleted.

Page: 5, Para 17

30. This should be reworded as follows:—

“The policy of controlled monetary expansion pursued during years was necessary to counteract the inflationary conditions following the War with India and the successive crop failures. A Working Group with representatives from the Ministry of Finance, State Bank of Pakistan and Planning Commission has concluded that money supply should not increase by about two percentage points more than the percentage increase in G.N.P. On this basis, the safe limit of monetary expansion in 1968-69 has been estimated at Rs. 1,000 million.”

Page 9, Para 34

31. The remarks made about the interest structure are somewhat vague

and should be omitted. The Ministry of Finance are separately reviewing the position.

PART II—SECTORAL PROGRAMME

Agriculture

Mechanisation

32. It was necessary to verify whether necessary organisation *viz.* Mechanics etc. were available for the operation of the 16,000 power pumps to be procured during 1968-69.

Foodgrain Storage

33. The construction of godowns to be undertaken in West Pakistan (45,000 tons capacity) is inadequate.

Fisheries

34. The programme does not indicate the actual targets *i.e.* the quantity of fish to be produced.

35. In conclusion the Finance Secretary observed that the impact of the programmes so far implemented should be given in each Chapter of Sectoral Programmes. The physical targets to be achieved in future and the impact that will be made by the proposed programme in 1968-69 should also be given in full details.

VI-A

**REPORT OF THE GROUP APPOINTED BY THE ANNUAL PLAN
CO-ORDINATION COMMITTEE TO CONSIDER THE LEVEL
AND COMPOSITION OF PRIVATE SECTOR
INVESTMENT IN 1968-69**

Government of Pakistan Ministry of Industries and Natural Resources

The Annual Plan Coordination Committee, in its meeting held on 19th March, 1968, to consider the level and composition of private sector investment in 1968-69 decided to set up a Working Group to consider the following problems:

- (1) Assessment of the overall and sub-sectorwise (i.e. agriculture, industry, housing, transportation and education, etc.) requirements of the private sector for 1968-69 and the adoption of methodology, suitable for making such estimates;
- (2) Preparation of programmes of various financial institutions and determination of the sectoral and regional breakdown of their programmes.

2. The Working Group held two meetings. Minutes are attached as Annexure I and Annexure II. In the first meeting held on 2nd April, 1968, it was decided to set up a sub-group to report on the size of the private sector development programme for 1968-69. In the second meeting held on 12th April, 1968, Dr. Meenai, Executive Director, State Bank, presented the report of the Special Working Group. The report had two enclosures reproduced as Annexures III and IV. The first dealing with methodology and conclusions and the second with the requirements of the private sector. The approach adopted in this report was to determine the appropriate level of total investment in the economy on the basis of a careful evaluation of the likely behaviour of various items of national expenditure and making certain assumptions. The conclusion of this paper was that the total resources likely to be available for development in 1968-69 would be Rs. 977 crore. This estimate was arrived at by making the following assumptions:

- (1) GNP in real terms would go up by 7.5 per cent both in 1967-68 and 1968-69;
- (2) GNP figures of current prices are derived on the basis of a five per cent fall in the overall price index in 1967-68 and no change in the price level in 1968-69;
- (3) Private consumption in 1967-68 and 1968-69 will grow at the same rate as growth in GNP;
- (4) To calculate the figures of private consumption for 1967-68 in current prices, 6 per cent price deflator has been used. This is because foodgrains prices are expected to fall more than proportionately compared to the

fall in the general price level and weightage of foodgrains in the total consumption expenditure in the economy is really high. For 1968-69 no price deflator has been used because of the assumption of no change in the general price level.

- (5) Foreign assistance is assumed to be at the same level for 1967-68 and 1968-69.

3. The Working Group considered these assumptions and decided that it was not correct to assume that the level of foreign assistance will remain the same in 1967-68 and 1968-69. It was agreed after discussion that any increase in foreign resources would be added to Rs. 977 crore after allowing for changes in the composition of PL-480 and increase in debt servicing liability. The budgeted disbursement of foreign assistance in the public sector shows an increase of Rs. 52 crore in 1968-69 over 1966-67. This would raise the figure of total resources available for development in 1968-69 to Rs. 1,029 crore (Rs. 977 crore plus Rs. 52 crore).

4. The Group noted that the marginal rate of savings assumed in the above calculations was only 12 per cent compared to the Plan target of 22 per cent. It recommended that an effort should be made to achieve the Plan target of marginal savings for the following reasons:—

- (1) The marginal rate of saving in the current year (1967-68) is expected to be 28 per cent. Even in the Second Plan, a 22 per cent marginal rate of saving was attained. The experience of the first two years of the Third Plan when marginal saving rate declined to 4 per cent is no indication of the real saving potential of the economy.
- (2) Good agricultural crops will provide a cushion for an acceleration in investment during 1968-69.
- (3) It is not possible to increase the average saving rates and diminish dependence on foreign assistance unless marginal saving rate increases faster than the average saving rate.
- (4) There is considerable saving potential in the corporate industrial sector and agricultural sector where higher incomes are mainly arising on middle-sized forms. Opportunities should be provided for the exploitation of this saving potential.

5. The consensus in the Group, was that the private sector programme could be around Rs. 500 crore if marginal saving rate of 22 per cent could be managed. (The arithmetical figure would actually be Rs. 524 crores.) It was felt that this could be accepted as a tentative size on the following considerations:—

- (1) *The size of the private sector programme will in any case be largely national if only because sufficient information is not available about the actual size and character of existing private investment. What need*

be ensured is that genuine investment propositions in the private sector are not frustrated for lack of adequate incentives and provision of financial and physical resources.

(2) The proposed size of Rs. 500 crore will provide an acceleration of less than 10 per cent per annum from the actual level of investment in 1966-67. It was felt that this was about the minimum rate of increase that should be expected and aimed at considering the investment requirements of the economy and the past experience of acceleration in this sector.

(3) *It would be necessary to concentrate on various firm elements of policy in the private sector while leaving the total size of investment to be determined automatically by these policies.* These firm elements should be the lending policies of financial institutions, the provision of foreign exchange to the private sector and fiscal and credit policies for private investment.

6. *It was agreed by the Group that in an effort to implement a programme of this size, the permissible limit of monetary expansion should not be exceeded.* Money supply can be increased by 9½ per cent in 1968-69 on the assumption of a growth rate of 7.5 per cent and therefore be permissible limit of credit expansion is Rs. 190 crore only.

7. The financial institutions have indicated that their financial requirements in terms of foreign currency and local currency would be as in the table below:—

FINANCIAL REQUIREMENTS

(Rupees in crore)

| | Foreign currency | Local currency |
|---------------|------------------|----------------|
| PICIC | 38.40 | 3.00 |
| IDBP | 42.00 | 15.15 |
| ICP | — | 32.50 |
| NIT | — | 0.75 |
| ADBP | 22.40 | 6.47 |
| HBFC | — | 4.00 |
| TOTAL | 102.80 | 61.87 |

8. The Group attempted to match the requirements of the private sector in general and those of the financing institutions in particular with the financial resources (whether a size of Rs. 500 crore is accepted or Rs. 403 crores proposed by Dr. Meenai's Group) but it was not found possible to do so, firstly because of shortage of time but mainly because it was indicated that the allocation of Rs. 570 crore for the public sector was firm and did not allow for any allocation out of this amount to meet the requirements of financing institutions. It was also indicated that the sums reserved for the public sector as indicated above had taken not of the agreed additional taxation possibility (though there was a section which felt that an additional taxation of the order of Rs. 117 crore was feasible and should be aimed at). If this position must be accepted it is obvious that the financing institutions and the corporate sector in general will not be able to draw upon resources from the public sector and there will be a serious gap because all that can be done is to ensure that the requirements of the financing institutions are reflected in the credit budget as well as the requests made for foreign loans. *The position needs to be reviewed and the Group, therefore, generally felt that the requirements of the public and the private sector should really be assessed together and in our kind of economy, it was wrong to start with the assumption that the public sector requirements have the first call on the resources leaving whatever is the residue for the private sector.*

9. The fact of the matter is that the plan targets and assumptions will fall by the way side if the private sector programme fails to go through and adequate resources will have to be found particularly in the industrial and agricultural sectors if the projected rates of growth are to be achieved. There may be an element of inflation in the demands given by the various financing institutions but it was not possible for the Group to assess the demand precisely partly because the estimates of resource gap are largely based on the commitments already made. Some of these commitments quite evidently do not correspond to the new priorities nor admittedly will their implementation contribute to the growth rate in the same proportion as investments under new priority criteria. However, freezing the existing commitments may create more problems than it would solve. After the Annual Plan Committee has broadly approved the percentages of the allocations for the various sectors based on accepted resource projections, the financing institutions dealing with the private sector will have to make a concerted effort at resource mobilisation. *At this stage, therefore, the Working Group can only seek the approval of the Annual Plan Co-ordination Committee to a break up of private sector resources to be made available to the private sector on the basis of the following percentages:—*

| | |
|--------------|-------------|
| Agriculture | 12% |
| Industry | 54% |
| Construction | 20% |
| Others | 14% |
| Total | 100% |

The elements of foreign exchange of course vary in the various percentages mentioned above but it *should not be difficult after the above recommendations are confirmed and a firm indication given of the total foreign resources which would be released for the private sector to allocate them to the various sub sectors indicated above.*

10. The Committee regrets that in the short time at its disposal it has not been possible to be more detailed and specific. However, the exercise has served one useful purpose in that the methodology for determining the appropriate size of the private sector programme and to assess the requirements of the various specialised agencies in the light of their planned operation has been evolved and generally accepted. It can be applied in future with greater exactitude to determine the size of the programme and the actual requirements of various sectors. *In the final analysis, if a net transfer of funds from the public is not to be countenanced the size of the programme as determined will largely be notional and will merely serve as a target for resource mobilisation from credit institutions, banks and accumulated savings.* The real constraint will, as always be the net resources of foreign exchange placed at the disposal of the private sector.

11. It is recommended that the Annual Plan Co-ordination Committee may give thought to the following points in the light of the above analysis and recommendations:

- (i) Whether a notional programme of around Rs. 500 crore may be approved for the private sector or the size should be limited to around Rs. 400 crore keeping in view the many imponderables and lack of confirmed statistical data and also the fact that whatever size is agreed upon will be largely notional.
- (ii) Whether the proposed allocation of Rs. 570 crore for the public sector should be considered firm or the total programme both for the private and public sector should be assessed together and if need be, there may be net transfer of funds from the public sector to the private sector for the needs of the financing institutions.
- (iii) Whether the notional target as well as the foreign exchange resources made available for the private sector may be allocated more or less on the lines of the percentages given in paragraph 9 above.
- (iv) The State Bank of Pakistan may be requested to indicate the firm element of credit policies for the guidance of the private sector in order to ensure that available resources are fully mobilised without creating an undue strain on the economy.

12. The Working Group received very useful assistance in its exercise from officers of the Planning Commission in particular from Dr. Mahbubul Haq, Mr. Sartaj Aziz and Mr. Javed Hamid and is deeply indebted to the strenuous

work done by the sub group under the able guidance of Dr. S. A. Meenai of the State Bank.

SYED SAEED JAFRI,

S.Pk., S.Q.A., CSP.,

Secretary

Ministry of Industries and Natural

Resources and

Chairman of the Working Group.

Deputy Chairman, Planning Commission:

No. SECY(INR)/2921/68, dated 24-4-1968.

Copy to:

1. Mr. M. Raschid, S.Q.A., T.Pk.,
Governor,
State Bank of Pakistan,
Karachi.
2. Mr. Qamar-ul-Islam, S.Pk., S.Q.A., C.S.P.,
Secretary,
Planning Division,
Rawalpindi.
3. Mr. B.A. Kureshi, S.Q.A., C.S.P.,
Chairman, Planning and Development Board,
Government of West Pakistan, Lahore.
4. Mr. S.M. Shafiul Azam, S.Q.A., C.S.P.,
Additional Chief Secretary (Development),
Government of East Pakistan, Dacca.
5. Mr. K. S. Islam, S.Q.A., C.S.P.,
Chairman, Agriculture Development Bank,
Habib Square, Bunder Road, Karachi.
6. Mr. M.A. H. Qarni, S.Q.A., C.S.P.,
Managing Director, National Investment Trust Ltd.,
National Bank Building, McLeod Road, Karachi.
7. Mr. Majid Ali C.S.P.,
Joint Secretary, Ministry of Finance, Islamabad.

8. Mr. Saudur Rahman,
Director General, Investment Promotion & Supplies, Karachi.
9. Mr. S.U. Durrani, S.K.,
Managing Director, Investment Corporation of Pakistan,
Karachi.
10. Mr. Said Ahmad, S.Q.A.,
Managing Director, PICIC, Karachi.
11. Mr. Z. Huq, S.K.,
Managing Director, I.D.B.P., Karachi.
12. Mr. Sanwar Ali
Managing Director, House Building Finance Corporation,
Dacca.
13. Mr. N. A. Jafery,
Deputy Managing Director, NIT, Karachi.
14. Mr. Abdur Rab.
Deputy Director (Research), I.D.B.P., Karachi.
15. Mr. M. Fasihuzzaman Qureshi,
Director of Planning, Research & Statistics,
Agricultural Development Bank, Karachi.
16. Mr. Zafar Iqbal, C.S.P.,
Deputy Secretary, Ministry of Finance, Islamabad.
17. Mr. Askari Taqvi,
Investment Promotion & Supplies Department, Karachi.
18. Mr. Raihan Sharif,
Joint Chief Economist, Planning Division, Rawalpindi.
19. Mr. Eivind Erichsen
20. Mr. Petter Jacob Bjerve
21. Mr. Millar Long
22. Mr. Adler

} Advisers to the Planning
Commission, Rawalpindi.

CC: Dr. Mahbubul Haq,
Chief Economist, Planning Commission, Rawalpindi.

Government of Pakistan

PRESIDENT'S SECRETARIAT

(Planning Division)

OFFICE MEMORANDUM

Subject:—*Minutes of the Meeting of the Annual Plan Working Group on Private Sector held on 2nd April 1968 at Karachi.*

The undersigned is directed to forward herewith a copy of the Minutes of the meeting of the Annual Plan Working Group on Private Sector held on 2nd April, 1968 at Karachi for information and appropriate action.

(Javed Hamid)

Assistant Chief.

To,

1. Mr. M. Raschid, S.Q.A., T.Pk.,
Governor,
State Bank of Pakistan,
Karachi.
2. Mr. Qamar-ul-Islam, S.Pk., S.Q.A., C.S.P.,
Secretary, Planning Division,
Rawalpindi.
3. Mr. B.A. Kureshi, S.Q.A., C.S.P.,
Chairman,
Planning and Development Board,
Government of West Pakistan,
Lahore.
4. Mr. S.M. Shafiul Azam, S.Q.A., C.S.P.,
Additional Chief Secretary (Development)
Government of East Pakistan, Dacca.
5. Mr. K.S. Islam, S.Q.A., C.S.P.,
Chairman,
Agriculture Development Bank,
Habib Square, Bunder Road, Karachi.
6. Mr. M.A.H. Qarni, S.Q.A., C.S.P.,
Managing Director,
National Investment Trust Ltd.,
National Bank Building,
McLeod Road,
Karachi.

7. Mr. Majid Ali C.S.P.,
Joint Secretary,
Ministry of Finance,
Islamabad.
8. Mr. Saudur Rahman,
Director General,
Investment Promotion & Supplies,
Karachi.
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Managing Director,
Investment Corporation of Pakistan,
Karachi.
10. Mr. Said Ahmad, S.Q.A.,
Managing Director, PICIC,
Karachi.
11. Mr. Z. Huq, S.K.,
Managing Director, I.D.B.P.,
Karachi.
12. Mr. Sanwar Ali,
Managing Director.
House Building Finance Corporation,
Dacca.
13. Mr. N.A. Jafery,
Deputy Managing Director, NIT, Karachi.
14. Mr. Abdur Rab,
Deputy Director (Research), I.D.B.P., Karachi.
15. Mr. M. Fasihuzzaman Qureshi,
Director of Planning,
Research & Statistics,
Agricultural Development Bank, Karachi.
16. Mr. Zafar Iqbal, C.S.P.,
Deputy Secretary, Ministry of Finance, Islamabad.
17. Mr. Askari Taqvi,
Investment Promotion & Supplies Department, Karachi.
18. Mr. Raihan Sharif,
Joint Chief Economist, Planning Division, Rawalpindi.
19. Mr. Eivind Erichsen
20. Mr. Petter Jacob Bjerve
21. Mr. Millar Long
22. Mr. Adler

} Advisers to the Planning
Commission, Rawalpindi.

CC: Dr. Mahbubul Haq,
Chief Economist, Planning Commission, Rawalpindi.

**MINUTES OF THE MEETING OF THE WORKING GROUP
ON PRIVATE SECTOR HELD ON 2ND APRIL, 1968 AT KARACHI**

The first meeting of the Annual Plan Working Group on Private Sector was held on 2nd April, 1968 in Karachi in the office of the Secretary, Ministry of Industries under the Chairmanship of Secretary, Planning Division. The meeting was attended by the representatives of the PICIC, ADBP, HBFC, NIT ICP, Ministry of Finance, State Bank and Planning Division. (List of participants attached).

2. In his opening remarks, the Chairman briefly explained the reasons for introducing the concept of the Annual Plan as follows:—

- (1) Planning was previously concentrated on the public sector and the Private Sector was almost completely neglected. The Annual Plan aimed at including the Private Sector into the Planning process;
- (2) The Annual Plan would provide the means for annual adjustments and thus introduce an element of flexibility in the fulfilment of the Five Year Plans; and
- (3) Policies will be co-ordinated with a view to achieving objectives and targets established annually. This will include import and export policy as well as fiscal and credit policy.

3. The Chairman added that the idea of the Annual Plan was new and since so many agencies were involved, it would take sometime to become reasonably fully institutionalised.

4. The Chairman went on to say that this Working Group would be broadly addressing itself to the following tasks—

- (1) Assessment of the overall and sub-sectorwise (i.e. agriculture, industry, housing, transportation, education etc.) requirements of the Private Sector for 1968-69 and the adoption of a methodology suitable for making such estimates;
- (2) Preparation of programmes of various institutionalised agencies in the credit field and the breakdown of their programmes into: (a) foreign exchange and local currency components; and (b) according to their location in the two Provinces; and
- (3) Mobilization of the required resources and their quantification into: (a) foreign assistance; (b) Government sources; (c) Own resources; and finding the mechanism for obtaining the balance amounts required, if any, (e.g. through grants and interest free loans, subsidised loans and banking sources).

5. In the course of discussion Mr. Durrani of I.C.P. felt that the introduction of the Annual Plan would curtail the freedom in the Private Sector and question the validity of the Investment Schedule. However, the consensus of opinion was that if Private Sector programmes are determined by the Government and then left to the Institutions for decisions about investment, there would be no danger of their existing freedom of action being curtailed. In addition, it was felt that planning in the Private Sector would introduce an element of discipline which was necessary and that all it involved was fixing priorities and then leaving it to the individual Private Investors to invest freely within this overall constraint.

6. Mr. Shafiqul Azam expressed the view that the investment programme of the Private Sector for 1968-69 should be projected on the basis of performance of the Private Sector in the past and against the targets fixed in the Plan. Once these projections are made, the requirements for implementing the projected programme can be estimated and appropriate economic policies framed.

7. Regarding the projections of Private Sector investment, it was felt by the representatives of credit agencies that these should not be made solely on the basis of past trends because (a) investment was handicapped by unavoidable circumstances during the last three years and (b) the figures of applications received and implementation are considerably different. The consensus of opinion was that in addition to past trends, the future needs of these institutions should be taken into account and a provision for improvement in the future should be made.

8. On the question of overall assessment of investment requirements and the application of a proper methodology for projection, it was decided that a sub-committee with a Senior representative of the State Bank, as convenor should undertake this work in association with the Ministry of Finance, the C.S.O. and the Planning Division and submit its report before the 11th April, 1968. The sub-committee was asked to keep in view the foreign currency requirements that could be provided and the local currency that should be provided to ensure the realisation of the investment targets broadly determined for the various sub-sectors.

Estimated Resources required by Financing Institutions:

National Investment Trust:

9. The representative from the National Investment Trust explained that the interest-free loan of Rs. 1.25 crore which was already being provided should be continued for the next three years. He felt that if this amount could be increased to Rs. 2 crores per annum, the working of the Investment Trust would be made more efficient and would thus help mobilize greater savings. He also pointed out that to accelerate the process of mobilizing the saving of the lower income group, the bearer unit scheme should be exempted from taxation at source. He promised to submit a short note on this subject.

Pakistan Industrial Credit and Investment Corporation:

10. The representative from PICIC explained that the investment programme of this institution would depend upon the overall investment targets and the nature of industries that will have to be promoted. In any case, the minimum requirement for 1968-69 would be Rs. 240 million in foreign currency and Rs. 30 million in local currency. Out of the foreign currency, it would be desirable, if 30 million dollars could be made available from I.B.R.D.

Industrial Development Bank of Pakistan:

11. The representative from IDBP explained that the agency was already committed to the extent of Rs. 419 million in the form of sanctioned projects. He felt that there was scope for improvement in the lending operations of this agency and a net programme of Rs. 495 million in 1968-69 would be desirable. The breakup of this would be Rs. 420 million in foreign currency and Rs. 75 million in local currency. He felt that the agency could mobilize Rs. 25 million from its own resources.

Agricultural Development Bank of Pakistan:

12. The representative from ADBP explained that the programme for 1968-69 was of Rs. 243 million. The sub-committee was asked to examine the necessity and feasibility of a bigger programme from the point of view of attaining self-sufficiency in food and other agricultural targets.

House Building Finance Corporation:

13. The representative from House Building Finance Corporation explained that the Corporation envisaged a programme of Rs. 45 million annually for the next two years. It could raise Rs. 25 million from its own realizations. Therefore the extra demand would be for Rs. 20 million annually and another Rs. 20 million would be required in 1968-69 (Rs. 15 million will be required in 1969-70) for redemption of debentures with the State Bank. He also pointed out that in spite of the tempo of urbanization, the demand for loans had fallen to almost half in East Pakistan due to the introduction of more stringent terms in respect of repayment period and rate of interest. He requested that the liberalization of lending policies in East Pakistan should be considered.

Investment Corporation of Pakistan:

14. The representative from Investment Corporation of Pakistan said that applications for equity finance already pending with the Corporation were to the tune of Rs. 167 million (pending applications of already sanctioned projects).

Applications to the extent of Rs. 125 million were also pending for fertilizer projects. The projected demand for the investors scheme for 1968-69 was of Rs. 30 million. Thus the overall requirement of ICP for 1968-69 would be roughly Rs. 300 million under present conditions. However, Mr. Durrani pointed out that these figures were provisional and would be firmed up once the programmes of other financial institutions were known.

15. The Chairman in summing up said that the Annual Plan for the Private Sector was of the nature of an Indicative Plan. It would indicate desirable programmes and fix priorities in the Private Sector. He expressed the view that once these programmes and priorities were approved, the Government would be, by and large, committed to making necessary resources available to implement them. It was also indicated by the Chairman that the next meeting of the Group would be held at Islamabad on the 11th April, 1968, under the chairmanship of Mr. S.S. Jafri, Secretary, Ministry of Industries who was expected to return from abroad by then.

FISCAL & MONETARY SECTION

The following attended the meeting of the Annual Plan Working Group on Private Sector held in Karachi on 2nd April, 1968:—

1. Mr. Qamar-ul-Islam, S.Pk., S.Q.A., C.S.P., *Chairman.*
Secretary, Planning Division.
2. Mr. S.M. Shafiqul Azam, S.Q.A., C.S.P.,
Additional Chief Secretary,
Govt. of East Pakistan, Dacca.
3. Mr. Saudur Rahman,
Director General,
Investment Promotion & Supplies.
4. Mr. S.U. Durrani, S.K.,
Managing Director,
Investment Corporation of Pakistan.
5. Mr. Said Ahmad, S.Q.A.,
Managing Director, PICIC.
6. Mr. Z. Huq, S.K.,
Managing Director, I.D.B.P.
7. Mr. Sanwar Ali,
Managing Director,
House Building Finance Corporation.
8. Mr. N.A. Jafery,
Deputy Managing Director, N.I.T.
9. Mr. Abdur Rab,
Deputy Director (Research),
I.D.B.P.
10. Mr. M. Fasihuzzaman Qureshi,
Director of Planning,
Research & Statistics,
Agricultural Development Bank.
11. Mr. Zafar Iqbal, C.S.P.,
Deputy Secretary,
Ministry of Finance.
12. Mr. Askari Taqvi,
Investment Promotion & Supplies Department.
13. Mr. Raihan Sharif,
Joint Chief Economist,
Planning Division.
14. Mr. Eivind Erichsen

| | | |
|-------------------------|---|-----------------------------------------|
| Mr. Petter Jacob Bjerve | } | Advisers to the Planning Commission. |
| Mr. Millard Long | | |

ANNEXURE-II**MINUTES OF THE SECOND MEETING OF THE ANNUAL PLAN
WORKING GROUP ON PRIVATE SECTOR HELD ON 12TH APRIL,
1968, AT ISLAMABAD**

The meeting of the Annual Plan Working Group on Private Sector was held on 12th April, 1968 in Islamabad in the Committee Room of Ministry of Industries & Natural Resources, under the chairmanship of Secretary, Industries. The meeting was attended by the representatives of the Ministry of Finance, State Bank, PICIC, ADBP, House Building Finance Corporation, NIT, ICP and Planning Division.

(List of participants at Annexure I).

2. The Secretary, Planning Division, said that the minutes of the first meeting of the Group held on 2nd April, 1968, which was presided over by him in the absence of Secretary Industries had already been circulated. He would, however, like to re-emphasize that the Annual Plan for 1968-69 would be somewhat limited in its scope because of limitation of time and data. Except where full facts are available to permit a decision or recommendation, the Annual Plan may only identify problems and issues to permit consideration in the agencies concerned at a later stage. Besides the Annual Plan could not be used to process decisions which were difficult otherwise. The Annual Plan was an instrument for the implementation of the Third Plan and could not, therefore, modify or revise the Third Plan in its fundamental aspects.

3. Dr. Meenai, Executive Director, State Bank presented the report of Special Working Group appointed in the meeting on 2nd April on the size of the Private Sector development programme for 1968-69 (Annexure II). He said the approach adopted by the Working Group was to determine the appropriate level of total investment in the economy on the basis of a careful evaluation of the likely behaviour of various items of national expenditure. The conclusion of this paper was that the total resources likely to be available for development in 1968-69 would be Rs. 977 crore. The assumptions underlying these estimates were—

- (1) GNP in real terms would go up by 7.5 per cent both in 1967-68 and 1968-69;
- (2) GNP figures at current prices are based on a five per cent fall in the overall price index in 1967-68 and no change in the price level in 1968-69;
- (3) Private consumption in 1967-68 and 1968-69 will grow at the same rate as the GNP;
- (4) To calculate the figures of private consumption for 1967-68 in current prices, 6 per cent price deflator has been used, because foodgrains' prices are expected to fall more than proportionately as compared to the fall in the general price level and weightage of foodgrains in the

total consumption expenditure is really high. For 1968-69, no price deflator has been used because of the assumption of no change in the general price level in 1968-69;

- (5) Marginal rate of saving has been assumed at 12 per cent; and
- (6) Foreign assistance is assumed to be at the same level for 1967-68 and 1968-69.

4. The representative from the State Bank said growth rate of 7.5 per cent in 1967-68 and 1968-69 assumed by the Working Group was somewhat optimistic. He also felt that prices are likely to fall by more than 5 per cent this year and the figure of GNP at market prices for 1967-68 and 1968-69 may have to be revised downwards. Also, since no deflator was used for GNP in 1968-69, some price stabilization effort would be necessary in that year. Private consumption as a proportion of GNP has also shown a rising trend in the past and may grow faster than GNP in 1968-69 due to the following factors:—

- (1) Higher agricultural incomes out of which there is a lower propensity to save;
- (2) The corporate sector is being induced to distribute more dividends and this would result in a reduction in corporate savings.

5. The Chief Economist, Planning Division, said that the methodology suggested in the report of the Special Working Group was basically sound but he would make some suggestions about the factual data and assumptions on which the report is based:—

- (a) The report assumes that foreign assistance will increase from Rs. 332 crore to Rs. 333 crore. The latest estimates of E.A.D. and Planning Commission show that foreign assistance in 1968-69 may be Rs. 384 crore or 52 crore higher than assumed by the Special Working Group;
- (b) There was no justification in adopting a marginal rate of savings at 12 per cent. In the Third Five Year Plan, the rate was assumed at 22 per cent. This was necessary to decrease dependence on foreign assistance; and to ensure that saving should increase at a rate much faster than GNP with a view to raise the average rate of saving in the economy. He added that the marginal rate of saving which was negative in the first year of the Third Five Year Plan because of larger defence expenditure became positive in the second year (4 per cent).

6. The marginal rate of saving in the current year (1967-68) is expected to be 28 per cent. Even in the Second Plan, a 22 per cent marginal rate of saving was attained. The experience of the first two years of the Third Plan when marginal saving rate declined to 4 per cent is no indication of the real saving potential of the economy. The Annual Plan for 1968-69 should, therefore, be based on a marginal saving rate of 22 per cent.

7. A marginal rate of saving of 22 per cent does not imply a big tax effort since a large proportion of these savings could be mobilized through self-investment. Even the Agriculture Sector is showing a good response to incentive and 20-25 per cent of the additional incomes can be expected to be reinvested in this sector.

8. In determining a size of the Private Sector Programme in 1968-69, the Chief Economist said, it is necessary to bear the following facts in view:—

- (1) Any investment opportunity in the private sector should not be frustrated and therefore the ceiling proposed should be permissive rather than restrictive;
- (2) Financial institutions should be given resources to enable them to exploit the saving potential in the economy;
- (3) Foreign assistance disbursements to the private sector should be accelerated;
- (4) Good agricultural crops will, in fact, provide a cushion for an accelerating in investment during 1968-69;
- (5) It is not possible to increase the average saving rates and diminish dependence on foreign assistance unless marginal saving rate increases faster than the average saving rate.

9. Adjusting for the larger foreign assistance and a higher marginal rate of saving, the Chief Economist concluded that the size of the Private Sector Programme for 1968-69 can be fixed at Rs. 524 crore.

10. The representative from the Ministry of Finance expressed his doubts about achieving a rate of growth of GNP of 7.5 per cent in the current year. He said that private consumption can be restricted only through heavy taxation in the agricultural sector. He also pointed out that government consumption will not be Rs. 648 crore in 1968-69 but between Rs. 680 crore and 690 crore because of the increased interest payments and defence expenditure. He also warned that the price that would have to be paid in terms of fiscal and monetary stability in implementing a programme of Rs. 524 crore in the private sector should be seriously considered. In realizing an investment programme of Rs. 429 crore in 1966-67 in the private sector, the banks were stretched to the limit and the economy considerably overheated. He felt that the size of the private sector programme should be made notional; the resources available and the safe limit of monetary expansion should be fixed and the programme allowed to adjust itself within these constraints.

11. Secretary, Planning Division, said that the World Bank Mission, which visited Pakistan recently had already accepted a growth rate of over 7 per cent for 1967-68. Current year's development expenditure was estimated at Rs. 956

crore (Rs. 500 crore public and Rs. 456 crore private C.S.O.). The proposed target of 977 crore for 1968-69 in a buoyant year appeared too conservative.

12. The Chairman said that there appears to be a basic agreement on the methodology for estimating the availability of investment resources. The points on which decisions were required:—

- (1) Estimates of likely availability of foreign assistance in 1968-69;
- (2) Marginal rates of saving to be assumed for 1968-69; and
- (3) The breakdown of the overall investment targets between the sectors and institutions.

13. The estimates of foreign assistance, the Chairman said, should be firmed up by the Planning Commission and E.A.D. So far as the marginal rate of savings was concerned, in the light of discussions and the Third Plan targets, the Annual Plan should be based on a 22 per cent marginal rate of saving.

14. The Chairman added that the actual resources, as estimated by the State Bank of Pakistan, did not appear to match the overall investment targets but the report of the Working Group could spell out that according to C.S.O. the sectoral breakdown of private investment of Rs. 456 crore in 1966-67 was as follows:—

| | |
|--------------|----------------|
| Agriculture | 11.3 per cent. |
| Industry | 54.0 per cent. |
| Construction | 20.2 per cent. |
| Others | 14.4 per cent. |
| Total | 100 per cent. |

15. In view of this the Chairman asked whether it would be possible to prepare sectoral breakdown for 1968-69 and whether it could be linked with the programmes of the institutions.

16. The requirement of the financial institutions, as indicated by the representatives, are given in the table below:—

| Financial requirements | Rs. crore | |
|------------------------|------------------|-----------------|
| | Foreign Currency | Local Currency. |
| PICIC .. | 38.40 | 3.00 |
| IDBP | 42.00 | 15.15 |
| ICP | — | 32.50 |
| NIT | — | 0.75 |
| ADBP | 22.40 | 6.47 |
| HBFC | — | 4.00 |
| Total | 102.80 | 61.87 |

17. The representative of the State Bank pointed out that according to the sectoral breakup of 1966-67, Rs. 250 crore approximately would be required for investment in the industrial sector. Against this, only Rs. 193 crore could be made available from different sources as shown below:—

| Financing of Private Sector Investment (Estimate): | | 1967-68 |
|----------------------------------------------------|----|----------------|
| Private floatations | .. | Rs. 10 crore. |
| Foreign Private Investment | .. | Rs. 15 crore. |
| Foreign loans | .. | Rs. 52 crore. |
| Bank credit | .. | Rs. 56 crore. |
| Ploughing back of profits. | .. | Rs. 60 crore. |
| Total | | Rs. 193 crore. |

18. The Chief Economist, Planning Division, pointed out that as far as foreign currency requirements are concerned, the Consortium has already been requested for loan of Rs. 92 crore. This is significantly higher than the past. Even if this request is not met in the full at least 65 to 70 crore rupees can be expected for the private sector from this source. On the question of gap in domestic resources, he felt, that this could be partly financed from within the permissible limit of credit creation and partly from own resources of the private sector.

19. It was decided by the Committee that in an effort to implement a programme of this size, the permissible limit of monetary expansion should not be exceeded. Money supply can be increased by $9\frac{1}{2}$ per cent in 1968-69 and therefore the permissible limit of credit expansion is Rs. 190 crore. The distribution between the public and the private sector can be decided in the light of the requirements of these sectors.

20. It was also decided that an attempt should be made to raise the maximum resources possible from additional taxation of the Agricultural Sector.

21. In summing up, the Chairman said, that the private sector programme could be around Rs. 520 crore if marginal saving rate of 22 per cent could be managed and the assumptions about increase in foreign assistance is realised. He added that as far as the regional breakup of development expenditure was concerned it should reflect the targets of the Third Plan. He also said that in the light of the findings of the Working Group the Annual Plan Coordination Committee may formulate broad recommendations about the allocation of resources to various institutions.

LIST OF PARTICIPANTS

I. Ministry of Finance:

1. Mr. Nasim Ahmad Khan, S.K.,
Joint Secretary.

II. Industries Division:

1. Mr. Syed Saeed Jafri, S.Pk., S.Q.A., C.S.P.,
Secretary.

III. Planning Division:

1. Mr. Qamar-ul-Islam, S.Pk., S.Q.A., C.S.P.,
Secretary.
2. Dr. Mahbub-ul-Haq, T.Pk.,
Chief Economist.
3. Mr. Rehan Sharif,
Joint Chief Economist.
4. Mr. Sartaj Aziz, T.K., P.M.A.S.,
Chief.
5. Mr. Javed Hamid,
Assistant Chief.

IV. Department of Investment Promotion and Supplies:

1. Mr. Saudur Rehman, T.Pk.,
Director General.
2. Mr. N. S. Billimoria,
Director.

V. Government of East Pakistan:

1. Mr. K. M. Islam,
Secretary, Industries.
2. Dr. A. K. M. Ghulam Rabbani,
Chief Economist, Planning Department.

VI. Government of West Pakistan:

1. Mr. B. A. Kureshi, S.Q.A., C.S.P.,
Chairman, West Pakistan Planning
and Development Board.
2. Dr. Pervez Hasan,
Chief Economist, West Pakistan,
Planning and Development Board.
3. Mr. S. Munir Hussain,
Secretary, Industries Department.
4. Mr. Iqbal Saeed,
Economic Adviser,
Industries Department.

VII. State Bank of Pakistan:

1. Dr. S. A. Menai,
Executive Director I.
2. Dr. Ziauddin Ahmad,
Director of Research.

VIII. PICIC:

1. Mr. Said Ahmad, S.Q.A.,
Managing Director.

IX. I.D.B.P.

1. Mr. Z. R. Ahmad,
Deputy Managing Director.

X. A.D.B.P.

- 1.. Mr. F. H. Abbasi,
Deputy General Manager.

XI. I.C.P.

1. Mr. S. U. Durrani, S.K.,
Managing Director.

XII. National Investment Trust:

1. Mr. M. A. H. Qarni, S.Q.A., C.S.P.,
Managing Director.

XIII. Harvard Advisory Group:

1. Mr. M. F. Long, Adviser,
Planning Commission.
2. Mr. R. C. Repetto, Adviser,
Planning Department,
Government of East Pakistan.

PRIVATE SECTOR DEVELOPMENT PROGRAMME FOR 1968-69

The object of this report is to determine the appropriate size of private sector development programme for 1968-69 in the light of past experience and prospective trends. Statistical information about private sector investment activity in Pakistan is so inadequate that forecasting in this field is particularly hazardous. There can be three broad approaches to estimating appropriate size of private sector development programme in any future year, namely: (a) Extrapolation on the basis of past investment trends, (b) National income approach and (c) Flow of funds approach. Each of these suffers from a number of statistical limitations. Extrapolation on the basis of figures of realised private investment in the past years can serve as a reliable guide for future projections only if the past figures are reasonably firm. Unfortunately, the statistics for private investment in Pakistan suffers from a number of weaknesses.

Within the national income framework, there are at least three possible ways of calculating resource availability for development programme in any particular year: (a) marginal rate of savings approach, (b) estimation on the basis of sectorwise savings data and (c) estimation on the basis of the likely behaviour of curcial variables affecting national expenditures.

The approach adopted here is to determine the appropriate level of total investment in the economy on the basis of a careful evaluation of the likely behaviour of various items of national expenditures. This appears to be the best method to follow in our case as projections about a number of items are already available. National income framework shows the origin and flow of total national resources (GNP at market prices plus total current payments) and their utilization (consumption, investment and exports). These figures are available in full details for 1966-67 but the data for 1967-68 are highly provisional as yet. Table I gives the actuals for 1966-67 and projections for 1968-69. The projections for 1968-69 have been arrived on the following basis:

- (a) *GNP at market prices*: The actuals for 1966-67 are available. It is assumed that GNP in real terms would go up by 7.5 per cent both in 1967-68 and 1968-69. GNP figures at current prices are derived on the basis of a 5 per cent fall in the overall price index in 1967-68 and no change in the price level in 1968-69. According to the Planning Commission's working paper on Annual Plan (1968-69) presented at the first meeting of the Annual Plan Coordination Committee, the overall price index has already shown a fall of 4.3 per cent in the first seven months of 1967-68. The assumption of a 5 per cent decline in the overall price index for the entire fiscal year 1967-68, therefore, allows for only a modest decline in prices in the last five months of the current fiscal year. The actual decline in prices may in fact be larger because supplies

from the expected bumper wheat crop would begin to arrive in the market in April—May. In that case the figures of GNP at market prices for 1967-68 and 1968-69 may have to be revised downwards.

- (b) *Current private consumption*: Fairly reliable consumption functions have been developed in several countries which come handy in forecasting the behaviour of consumption expenditures on the basis of expected trends in the independent variables affecting consumer demand. On account of the non-availability of a consumption function in our case, only a rough estimate can be made about the likely behaviour of consumption expenditures in any future year. The relevant factors which need consideration in this connection are changes in the pattern of income distribution, taxes and subsidies. The approach adopted for estimating current private consumption for 1968-69 is as follows. The actuals for 1966-67 are available. It is assumed that private consumption in 1967-68 and 1968-69 will grow at the same rate as growth in GNP though there is evidence that in recent years private consumption as a proportion of GNP has shown a rising trend. Implicitly, therefore, it is assumed that tax effort and other mobilization devices would be used to restrain the rising tendency in private consumption expenditures. To calculate the figures of private consumption for 1967-68 in current prices, a 6 per cent price deflator has been used which is one per cent higher than the deflator used for GNP figures. This is because foodgrains prices are expected to fall more than proportionately compared to the fall in the general price level, and the weightage of foodgrains in the total consumption expenditures in the economy is fairly high. For 1968-69 no price deflator has been used because of the assumption of no change in the general price level in 1968-69.

It may be mentioned that according to these projections private consumption expenditures in 1968-69 are likely to aggregate to Rs. 5,508 crores. Total national resources in that year are estimated at Rs. 7,775 crores. This means that private consumption expenditures are projected to absorb 70.8 per cent of total national resources in 1968-69. It would be relevant to mention here that private consumption expenditures as a proportion to total national resources went up from 68 per cent in 1964-65 to 70.4 per cent in 1965-66 and rose further to 71.5 per cent in 1966-67. Our projections for 1968-69 imply that private consumption expenditures as a proportion of total national resources will go down from 71.5 per cent in 1966-67 to 70.8 per cent in 1968-69. It is necessary to emphasize that revers 1 of this trend would need a great deal of conscious effort. As it is, there would be powerful influences in 1968-69 which would tend to raise the ratio of private consumption expenditures to total national resources. First, a larger proportion of GNP is now originating from the agricultural sector. On account of the lower level of per capita income in rural areas, the

marginal propensity to consume in rural areas is higher than in urban areas; this would tend to push up consumption expenditure. Second, in the corporate sector, fiscal and other policies of the Government are inducing a greater distribution of dividends than formerly. This would reduce the retained earnings of the corporate sector which, in the past, has been the main source of private savings in the industrial sector. Our projections about private consumption expenditures in 1968-69 are therefore based on the expectation that countervailing measures would be taken in the tax and other fields to hold down consumption. In the event of insufficient effort to syphon off a significant part of the increased agricultural incomes through taxation and other devices, the level of consumption expenditures in 1968-69 is likely to be larger than estimated here and the availability of resources for the planned development will be correspondingly less.

Assessment of resource availability on the basis of the present trend in the average and marginal rates of savings leads to the conclusion that the overall size of the public and private sector development programmes in 1968-69 should be Rs. 977 crores. The assumed decline in the ratio of private consumption expenditures to total national resources, when seen in the light of the fact that this ratio rose appreciably both in 1965-66 and 1966-67, implies that at least a modest tax effort would be made to syphon off a part of the agricultural incomes in 1968-69 and other resource mobilization devices would also be used to hold down the rising tendency in consumption expenditures. Even apart from the need for finding additional resources for the development programme the higher agricultural incomes have to be mobilized through additional taxation effort if the pressures on manufactured goods prices, exportable surpluses and cost of living of urban classes have to be avoided.

Framing of the Annual Development Programme for 1968-69 on the above basis would mean that the marginal rate of saving of about 22 per cent postulated in the Third Five-Year Plan would be far from attained and investment levels during the Third Plan period would be substantially lower than what was anticipated in the Plan projections. If the planned rate of marginal savings and the investment targets set down in the Third Plan are to be adhered to, this would mean that marginal rate of saving in the economy of about 12 per cent at present would have to be nearly doubled. The calculations made show that if the marginal rate of savings is to go up from 12 per cent to 15 per cent, the additional resources of the order of Rs. 22 crores would need to be mobilized for investment. If the marginal rate of saving is to go up to 22 per cent the additional resource mobilization effort would amount to Rs. 65 crores.

The above resources can be mobilized only through measures of additional taxation or increased resort to credit creation or more effective mobilization of savings. It is a policy decision whether the country can afford to raise taxation levels to such heights which would result in the additional resource mobilization or the orders indicated above. The political implications of such a sharp rise in the levels of taxation, their disincentive effects and the price effects are

obvious. If these additional resources are sought to be mobilized from increased credit creation the following implications would arise:—

- (a) The liquidity of the banking system which is already under considerable strain would be strained further, seriously jeopardising the health of the banking system.
- (b) Credit creation of such an order would result in monetary expansion considerably in excess of what would be "safe" in the perspective of the likely growth in GNP and other relevant factors and would lead to all the known consequences for internal price level and the balance of payments.
- (c) The middle class would experience a further squeeze on its standard of living which can lead to a great deal of social discontent.
- (d) It would not be possible to conform to the conditions being set by the IMF in regard to credit ceilings in connection with the standby arrangement that is being entered into with them. This would mean loss of faith with the IMF and endangering prospects of future drawings.
- (e) As a result of an excessive monetary expansion the domestic demand for manufactured goods produced in the country would register a sharp rise which would result in a severe decline in the foreign exchange earnings of the country from manufactured goods exports. This will put additional strain on our balance of payments.
- (f) If in order to keep up our manufactured goods exports we try to maintain the incentives through the Export Bonus Scheme by increasing bonus entitlements, the effective exchange rates in the country would depreciate further and would further complicate our exchange rate problem.
- (g) Due to severe pressures on the price front and the balance of payments it may become inevitable to resort to price control and direct controls on imports. This would mean a reversal of the trend towards freer functioning of the price mechanism that we have aimed at all these years.

It is, therefore, suggested that the total magnitude of the investment programme should be decided upon with due regard to the above considerations. In any case the "safe" limits of monetary expansion and credit creation as agreed to earlier by the Working Group on Rupee Resources, should not be violated.

TABLE NO. I.—*Estimates of Planned Development Expenditure for 1968-69 derived through National Income approach*

(Rs. in crores)

| | 1966-67 (Actuals) | 1968-69 (Estimates) |
|-------------------------------------------------------------------|----------------------|------------------------|
| 1. GNP at Market Prices | 6,396 | 7,022 |
| 2. Total Current Payments | 690 | 753 |
| 3. Total National Resources (1+2) .. | 7,086 | 7,775 |
| 4. Current Private Consumption | 5,071 | 5,508 |
| 5. Current Government Consumption. .. | 609 | 648 |
| 6. Total Current Consumption (4+5) .. | 5,680 | 6,156 |
| 7. Own Foreign Exchange Earnings. .. | 358 | 420 |
| 8. Total availabilities for Development Expenditure (3-6-7). | 1,048 | 1,199 |
| 9. Indus Basin and Tarbela | 96 | 100 |
| 10. Inventories | 50 | 60 |
| 11. Non-monetised Investment | 58 | 62 |
| 12. Available for Planned Development Expenditure (8-9-10-11). | 844 | 977 |

REQUIREMENTS OF FINANCIAL INSTITUTIONS

The Technical Group held discussions with the representatives of various financial institutions, namely, PICIC, IDBP, ADBP, ICP, NIT and HBFC to ascertain their programmes for 1968-69 as also the resource availability to finance these programmes. Detailed statements were obtained from them indicating their operations during 1967-68 and the projections for 1968-69. The information supplied by these institutions has been consolidated in Annexure I, showing their operations in local and foreign currencies in 1967-68, planned operations in local and foreign currencies in 1968-69 and estimates of resource availability in 1968-69. The break-up of their operations between East and West Pakistan has also been indicated, wherever the information has been made available.

The programmes of the individual institutions are discussed below:—

Pakistan Industrial Credit and Investment Corporation:

The disbursements of loans by this institution during 1967-68 are estimated at Rs. 17.32 crores, comprising of foreign currency loans of Rs. 15.90 crores and local currency loans of Rs. 1.42 crores. This estimate has been made on the basis of actual figures up to March 30, 1968.

The loan disbursements during 1968-69 have been projected at Rs. 22.49 crores, denoting a rise of 29% over 1967-68. Of this, foreign currency loans have been estimated at Rs. 20.74 crores and local currency loans, at Rs. 1.75 crores. The projection for foreign currency loans represents an increase of 30 per cent over 1967-68, while local currency loans are estimated to show a rise of 23 per cent, as compared to 1967-68. In addition to loans, provision has been made for equity investments in local currency to the extent of Rs. 0.78 crore during 1968-69.

As regards resources to finance the planned operations during 1968-69, the foreign currency requirements have been placed at Rs. 38.40 crores which is higher than the projected foreign currency loan disbursements amounting to Rs. 20.74 crores. The estimate for foreign currency requirement is not based on the expected amount of loan disbursements but on the likely magnitude of sanctions of foreign currency loans during 1968-69 including the carry-over from the previous year. This is for the reason that as a pre-condition for sanction of a loan, PICIC needs to have firm commitment in regard to the availability of the requisite foreign resources. There is, however, on the average, a time lag of 15 months between the sanction of a loan and its actual disbursement.

The above foreign currency requirement is expected to be met from the

following sources:—

| | | | (In crores of rupees) |
|-----------------------------|----|----|-----------------------|
| I.B.R.D. Credit | .. | .. | 16.66 |
| Asian Bank Credit | .. | .. | 11.90 |
| Swiss Credit | } | .. | 2.38 |
| German Credit | | .. | 2.38 |
| Italian Credit | | .. | 1.90 |
| Belgian Credit | | .. | 0.95 |
| Eastern European countries. | | .. | 2.23 |
| Total | | .. | 38.40 |

None of the above credits has so far been committed. PICIC, however, expects that except in the case of the Asian Bank Credit, other credits would be available. If the Asian Bank Credit does not become available, the gap will need to be met by the Government by allocating additional credit from Consortium funds.

The total local currency need during 1968-69 has been estimated at Rs. 3.24 crores. This is based on expected loan sanctions of Rs. 1.45 crores, equity investments of Rs. 0.78 crore and a sum of Rs. 1.01 crores representing the difference between PICIC's debt serving liability and recoveries of its loans. Out of this, an amount of Rs. 0.24 crore is expected to be provided by PICIC from its own resources, leaving a gap of Rs. 3 crores. This gap is required to be met by a loan from the Government.

Industrial Development Bank of Pakistan:

The loan disbursements of IDBP during 1967-68 are estimated at Rs. 21.75 crores of which foreign currency loans are Rs. 10.80 crores and local currency loans Rs. 10.95 crores.

The estimated loan disbursements during 1968-69 are placed at Rs. 31.19 crores. This will mean an increase in the overall lending operations of the institution by 43 per cent over 1967-68. The estimate for 1968-69 comprises of foreign currency loans of Rs. 18.24 crores and local currency loans of Rs. 12.95 crores. At these levels foreign currency loans will denote a sharp rise of 69 per cent over 1967-68, while the rate of increase in local currency loans will be 18 per cent.

As for resources, foreign currency requirement is estimated at Rs. 20.16 crores, as against the projected foreign currency loan disbursements of Rs. 18.24 crores. The estimate for funds has been placed somewhat higher, as compared to the expected loan disbursements, to take care of the total foreign currency loans likely to be sanctioned during 1968-69, even though all sanctioned loans will not be disbursed during the same year. This amount of foreign loans will need to be arranged for IDBP to enable it to step up its lending operations in foreign currency to the extent indicated earlier.

The total local currency need is estimated at Rs. 19.65 crores. This will cover the expected local currency loan disbursements of Rs. 12.95 crores during 1968-69 and the anticipated shortfall of Rs. 6.70 crores carried forward from 1967-68. Out of this amount, sums of Rs. 3.00 crores and Rs. 1.50 crores are expected to be available from recoveries of loans and deposit mobilisation respectively. There will thus be a resource gap of Rs. 15.15 crores in respect of the planned operations of IDBP in 1968-69.

Agricultural Development Bank of Pakistan:

The total loan disbursements by ADBP are estimated to amount to Rs. 20.00 crores during 1967-68, while the projection for 1968-69 places loan disbursements at Rs. 24.30 crores, an increase of 22 per cent over 1967-68.

The requirement of funds for 1968-69 is estimated at Rs. 30.78 crores, of which Rs. 24.30 crores will be required for loan disbursements, Rs. 3.00 crores, for part repayment of outstanding loans from State Bank and Rs. 3.48 crores, for meeting administrative and financial expenses. This requirement is expected to be financed by recoveries of the outstanding loans to the extent of Rs. 13.00 crores, by a foreign currency loan from IDA to the tune of Rs. 7.14 crores and by additional deposit mobilisation of Rs. 0.95 crore. There will thus be a gap of Rs. 9.69 crores. The gap is proposed to be met partly by equity participation by the Central Government to the extent of Rs. 3.00 crores.

Investment Corporation of Pakistan:

The total investments of ICP in shares and debentures are estimated at Rs. 9.75 crores during 1967-68. This amount comprises of investments of Rs. 5.58 crores under under-writing commitments, Rs. 1.90 crores under ICP portfolio investments and Rs. 2.27 crores under Investor's Scheme.

For 1968-69 ICP has projected total investments at Rs. 34.56 crores, that is, 2.54 per cent higher than in 1967-68. Of the total investment, Rs. 12 crores will be invested in the four fertilizer projects sponsored by the Adamjees, Hyesons, Dawoods and Jaffers, Rs. 16 crores, in non-fertilizer projects, Rs. 3.00 crores under the Investors' Scheme, Rs. 0.56 crore under ICP portfolio Investment and Rs. 3.00 crores on account of disinvestments of Public Sector Projects to be absorbed by ICP. So far as the fertilizer projects are concerned, the necessary foreign investments are understood to have been already lined up, but due to the

depressed conditions of the stock market, they have not so far made issue of their shares and debentures to raise the rupee resources. They propose to procure Rs. 10.84 crores through issue of shares and Rs. 7.00 crores through issue of debentures. It is estimated that of these total issues, Rs. 8.50 crores in shares and Rs. 3.50 crores in debentures will need to be taken up by ICP. As regards the projected investment of Rs. 16 crores by ICP in non-fertilizer projects, Rs. 10 crores is estimated to be in the form of shares and Rs. 6 crores, in the form of debentures.

Having regard to the proposed investments as indicated above, the total requirement of funds of ICP during 1968-69 work out to Rs. 34.56 crores. The Corporation expects to arrange Rs. 2.06 crores through rolling over of its portfolio investments and recovery of loans under the Investors' Scheme. There will, therefore, be a shortfall in its resources to the tune of Rs. 32.50 crores.

National Investment Trust:

The net investments of the Trust in shares and debentures are estimated to amount to Rs. 3.00 crores during 1967-68. The target for investments during 1968-69 has been fixed at the same level.

The projected investment during 1968-69 is proposed to be financed entirely by mobilisation of resources through sales of Trust Certificates. The net sales of Trust Certificates during 1968-69 are expected to be of the order of Rs. 3.00 crores. The Trust, however, hopes to push up the sales of Trust Certificates to Rs. 5 crores and increase its investments in shares and debentures accordingly if—

- (a) the interest-free loan given by the Government to the Trust, at present amounting to Rs. 1.25 crores, is increased by Rs. 75 lakhs to Rs. 2 crores and no repayment of this loan is insisted upon during the next three years; and
- (b) the request made by the Trust for abolition of deduction of income-tax at source in respect of income from bearer units is accepted by the Government.

House Building Finance Corporation:

The disbursements of loans by the Corporation are estimated at Rs. 4.50 crores during 1967-68. Its lending programme for 1968-69 is of the same magnitude.

Its total requirement of funds during 1968-69 is placed at Rs. 6.50 crores comprising of Rs. 4.50 crores on account of disbursement of loans and Rs. 2.00 crores for redemption of debentures maturing on 31st March, 1969. It proposes to meet this requirement to the extent of Rs. 2.50 crores by recoveries of its outstanding loans. The balance of Rs. 4 crores represents the shortfall in resource availability.

Summing up

In so far as rupee resources are concerned, the gap in the resource availability during 1968-69 works out to Rs. 64.34 crores. The institution-wise break-up of this amount is as follows:

| | | | | (In crores of rupees) |
|-------|----|----|----------|-----------------------|
| PICIC | .. | .. | .. | 3.00 |
| IDBP | .. | .. | .. | 15.15 |
| ADBP | .. | .. | .. | 9.69 |
| ICP | .. | .. | .. | 32.50 |
| HBFC | .. | .. | .. | 4.00 |
| | | | Total .. | 64.34 |

In addition, National Investment Trust has, as mentioned earlier, pleaded for an additional interest-free loan of Rs. 75 lakhs from the Government as a means to accelerate its resource mobilisation efforts. Making allowance for this amount, the resource gap will increase to Rs. 65.09 crores (that is, Rs. 64.34 crores plus Rs. 0.75 crore).

As regards foreign resources, the requirements of PICIC, IDBP and ADBP during 1968-69 have been estimated at Rs. 38.40 crores, Rs. 20.16 crores and Rs. 7.14 crores, respectively, that is, Rs. 65.70 crores in the aggregate.

VII-A

INDUSTRIAL DEVELOPMENT BANK OF PAKISTAN
ANNUAL DEVELOPMENT PROGRAMME FOR 1968-69

I—The Lending Programme

The Annual Development Programme of the IDBP for 1968-69 which was earlier submitted to the Working Group engaged in preparation of the Annual Development Plan for the private sector has now been revised to incorporate, as far as possible, the changes in data warranted by the actual operations during 1967-68. The lending programme for 1968-69 together with data of the actual 1967-68 operations and the estimates of resource availability and resource gap for 1968-69 is recorded in a table annexed hereto. A brief explanatory memorandum follows the table. The salient features of the programme for 1968-69 are as follows:

1. It envisages fresh lending amounting to a total of Rs. 2,919 lacs, Rs. 1,095 lacs in local currency and the rest in foreign currency. This does not include the local currency disbursements which may have to be made to meet the undisbursed commitments carried over from 1967-68. The additional amount required to meet these commitments is not yet firmly known but is expected to be about Rs. 670 lacs.

2. The total planned level of lending operations for 1968-69, as could be seen from the table, is about 172 per cent higher than the actual operations in 1967-68 and constitutes about 5 per cent of the total provision envisaged in the Priority List of Industries of the Comprehensive Industrial Investment Schedule recently announced by the Government.

3. The regional breakdown of the programme is as follows: Rs. 1,411 lacs for East Pakistan and Rs. 1,508 lacs for West Pakistan. This is roughly in conformity with the past pattern of the Bank's regional allocations.

4. The foreign currency component of the lending programme is Rs. 1,824 lacs which is nearly 63 per cent of the total programme. Compared to the past pattern, the foreign currency component shows a significant relative decline (in the past, it was as high as 75 per cent). The foreign exchange lending programme is based on the past average yearly utilisation and it does not take into account anticipated increase in sanctions during 1968-69.

5. The local currency part of the programme takes into account some new developments which call for a significant increase in the local currency lending programme of the Bank compared to the past pattern. These new developments are as follows:—

- (a) Anticipated increase in implicit refinancing required to meet the repayment obligation of some foreign loans including those of projects administered on behalf of the Government.

- (b) Additional anticipated liability under supplier's credit for down payment in bonus vouchers: the requirement that down payment should be paid in bonus vouchers has involved additional rupee requirements for the Bank's borrowers, for which they may require additional rupee loans from the Bank.
- (c) Additional assistance to the existing projects: experiencing financial difficulties due to overruns, delay in implementation, etc.

II—Resource Availability and Resource Gap

The amount of financial resources that is likely to be available at the disposal of the Bank in 1968-69 is given in the table. The amount of Rs. 2,016 lacs shown under foreign loans and credits is based on the average yearly allocations made by the Government. No other source of foreign exchange is available to the Bank. As we have already noted above, the foreign exchange part of the lending programme is on the basis of the past average yearly utilisation and does not take into account either the existing shortfall of Rs. 100.00 million approximately between the outstanding sanctions and available resources of foreign exchange, or the anticipated increase in sanctions during 1968-69. If an anticipated increase in sanctions of foreign loans is allowed, for this will mean an equivalent increase in the total lending programme of the Bank and will as well necessitate new appropriate allocations of foreign credit by the Government. It may also be noted that a part of the available foreign credit may remain unutilised.

So far as the likely available rupee funds are concerned, the details are given in the table and in the explanatory memorandum. The total amount which is likely to be available is Rs. 750 lacs. Estimated total rupee requirement both for the 1968-69 planned lending operations and to meet the anticipated shortfall carried forward from 1967-68, is shown as Rs. 1,765 lacs (Rs. 1,095 lacs as the planned rupee programme and Rs. 670 lacs to meet the short-fall carried forward from 1967-68). This means that the Bank is faced with a rupee resource gap amounting to Rs. 1,015 lacs. To meet this gap, additional loans from the Government and/or from the State Bank or other sources are necessary.

III—Criteria of Investment

So far as the criteria adopted by the Bank for its lending operations are concerned, a few points may be briefly noted. The Bank has been operating within the broad framework of the Industrial Investment Schedules. While remaining within that broad framework, the Bank follows its avowed policy of providing special assistance to the small and medium-sized industries, and it gives priority to those industries which are export-oriented or import-substituting or agro-based. It endeavours also to promote the development of the relatively backward regions of the country.

IV—Some Major Problems of the Bank

As is obvious from the planned lending programme and the estimated likely available resources of the Bank, the greatest problem to be faced by the Bank is the shortage of funds. While there may be no point in the Bank's stressing the shortage of foreign credit (since this may not result in increased allocations from the Government which are subject to the general conditions with regard to the overall availability of foreign aid and credit to the country as a whole), shortage of rupee resources poses a serious problem.

Other problems faced by the Bank or by its financed projects include: (a) frequent changes in import policy leading, *inter alia*, to increased restrictions on imports of raw materials, (b) increased down payments, (c) lack of appropriate foreign credit lines, (d) shortage of equity capital of the small and medium class entrepreneurs, etc.

The Bank is called upon to provide assistance to the small and medium-sized industries where risks are heavier, equity shortage is more acute and lack of various facilities more serious.

STATEMENT OF IDBP DISBURSEMENTS AND RESOURCES

(Rupees in lacs)

190

| A | | | | | | B | | | | | | C | | | | | | | |
|----------------------------------------|------|---------|------|-------|------|---------------------------------------|------|---------|------|-------|------|-----------------------------------------------|----------|-------------------------------------|-------------------------|---------------|---------------|---------|----|
| Lending Operations in 1967-68 (Actual) | | | | | | Planned Lending Operations in 1968-69 | | | | | | Estimates of Resource Availability in 1968-69 | | | | | | | |
| Local | | Foreign | | Total | | Local | | Foreign | | Total | | Recoveries | Deposits | Debentures from non-banking sectors | Foreign loan and Credit | Other Sources | Resources gap | | |
| E.P. | W.P. | E.P. | W.P. | E.P. | W.P. | E.P. | W.P. | E.P. | W.P. | E.P. | W.P. | | | | | | Local | Foreign | |
| 1 | 2 | 3 | 4 | 5 | 6 | 1 | 2 | 3 | 4 | 5 | 6 | 1 | 2 | 3 | 4 | 5 | 6 (a) | 6 (b) | |
| Disbursements | 163 | 209 | 330 | 371 | 493 | 580 | 643 | 452 | 768 | 1056 | 1411 | 1508 | 300 | 150 | -- | 2016 | 300 | 1015 | -- |

EXPLANATORY MEMORANDUM

Items A—1 and 2 of the statement are made up of the following:

- | | | |
|----------------------------------------------------------------------------------------------------------------------------------------------|-------|--------------|
| 1. Actual rupee disbursements | .. .. | Rs. 218 lacs |
| 2. Actual increase in implicit refinancing in the case of foreign loans of projects including those administered on behalf of the Government | .. .. | Rs. 154 lacs |

B-1 and 2

- | | | |
|------------------------------------------------------------------------------------------------------------------------------------------------|-------|--------------|
| Estimated rupee disbursements | .. .. | Rs. 595 lacs |
| Anticipated increase in implicit refinancing in the case of foreign loans of projects including those administered on behalf of the Government | .. .. | Rs. 200 lacs |
| Additional anticipated liability under Suppliers' credit for down payment in bonus vouchers | .. .. | Rs. 150 lacs |
| Additional assistance to existing sick projects | .. .. | Rs. 150 lacs |

B-3 and 4

Estimates of foreign exchange lending operations are based on the past average yearly utilisation and do not take into account either the existing shortfall of Rs. 100.00 million approximately between the outstanding sanctions and available resources of foreign exchange, or the anticipated sanctions during 1968-69 against which appropriate allocation of foreign credit would be necessary.

C-2

The figure represents 60 per cent of anticipated additional deposits to be mobilised, 40 per cent being required to be maintained in liquid form under IDBP Ordinance.

C 4

Figures based on average yearly allocations made by the Government. No other source of foreign exchange is available to the Bank.

C-5

Represents request made to the Government for budgetary allocation.

C-6

Rupee gap consists of Rs. 345 lacs for the year 1968-69 and Rs. 670 lacs anticipated short fall carried forward from 1967-68.

VII B

**PAKISTAN INDUSTRIAL CREDIT AND INVESTMENT
CORPORATION LTD.**

ANNUAL PLAN FOR 1968-69

Investment Programme for 1968-69

The extent of PICIC financing in any given period is determined by the inflow of loan applications and since disposal of such applications is relatively quick in PICIC, forecasts cannot be made on the basis of pending projects. This remark applies both to the extent of financing, and to industry-wise and regional breakdown of such financing. However, annual forecasts (plans) are a normal feature in PICIC and these are constructed on the basis of past quantitative performance modified by the outlook for the future, the emphasis on particular sectors of industry based on interest shown in such sectors by private entrepreneurs, the economic priority enjoyed by such sectors and available provisions in the Industrial Investment Schedule.

Based on these criteria we expect loan sanctions in 1968-69 to amount to Rs. 260 million, of which foreign currency financing would constitute about Rs. 245 million. This figure compares with a total sanction of Rs. 235 million in 1967-68 (based on 8 months' actuals). Financing by non-PICIC sources (foreign investments and loans owners', institutional and public equity contributions) in projects to which the above loans would be sanctioned is estimated to be Rs. 200 million giving a total investment commitment of Rs. 460 million for the year (1968-69).

Based on present trends, industry-wise breakdown of projects to which PICIC is expected to sanction loans in 1968-69 is estimated to be as below:

| Sectors | Rs. in million (PICIC financing) |
|-------------------------------------------|-------------------------------------|
| Food Products & Processing | 55.8 |
| Cotton and Other Textiles | 52.7 |
| Fertilisers, Chemicals etc. | 41.1 |
| Jute Processing | 34.6 |
| Cement Ceramic and Glass | 24.6 |
| Paper, Paper Products and Printing | 15.5 |
| Engineering | 13.8 |
| Inland Water Transport and Shipping | 4.6 |
| Other Miscellaneous Industries | 17.3 |
| Total | 260.0 |

Region-wise breakdown of the above financing is projected as under:

| | | | | Sanctions (Rs. in million) |
|---------------|----|----|----|-------------------------------|
| East Pakistan | .. | .. | .. | 104.0 |
| West Pakistan | .. | .. | .. | 156.0 |
| | | | | <hr/> |
| All Pakistan | .. | .. | .. | 260.0 |
| | | | | <hr/> |

Financing operations in East Pakistan are expected to be 40% of the total for the year, representing a higher percentage than in 1967-68 (21%).

Loan disbursements in 1968-69 are expected to amount to Rs. 225 million. These disbursements would relate principally to loans already sanctioned and, being based on specific cases, the forecast is expected to be fairly accurate.

Criteria for financing

PICIC is an institution in the private sector with the objective of financing the private sector of industry. By its very character PICIC is interested in making investments in industries which are expected to be profitable and which involve no more than the normal risk that a financial institution operating on commercial basis can be expected to carry. But, whereas PICIC is interested in the safety of its investment and adequate profit potential of enterprises financed by it, economic considerations rule paramount in the selection of projects. Thus those projects which have the most significant impact on the GNP (value added) or on the balance of payments (foreign exchange earnings/savings) and which are based primarily on local materials are given preference. Additionally, financing activity is within the framework of Government planning as represented by the Industrial Investment Schedule.

Requirements for funds

In order to sustain its loan sanctioning activity PICIC would need fresh local as well as foreign currency funds during 1968-69. Net funds requirements are estimated to be as follows:

- (i) Foreign currency funds required Rs. 430 million;
- (ii) Total rupee funds required Rs. 30.0 million.

Foreign currency requirements are easily explained as they represent the shortfall of existing resources over requirements projected on the basis of estimated loan operations. This position is statistically presented in Annexure I. The requirements for rupee funds, however, require a more careful explanation. Excluding

some liquid resources which are required to service PICIC's liabilities from time to time, the only source of rupee financing presently available with PICIC is the US AID loan. Of this loan (Rs. 30 million), Rs. 9.16 million has already been disbursed while the balance (Rs. 20.84) million stands fully committed for specific projects. PICIC's rupee resource position has a significant tale to tell. At the time the US AID Loan Agreement was signed (December 7, 1966) it was expected that the full amount of Rs. 30 million would be committed by the end of 1968. However, the shortage of rupee funds in the long-term market arising partly because of the shyness of investors to put money in industrial equities and partly by the very magnitude of the developmental effort put a strain on PICIC's rupee resources and since substantial portion of the demand came from reputable companies operating potentially sound enterprises, PICIC's commitments in 1967 for rupee loans and underwritings showed a substantial acceleration and the entire amount of the US AID rupee loan was committed almost a year ahead of schedule. PICIC's financing in rupees, it should be noted, was occasionally of considerable importance as it helped potentially good enterprises to overcome critical shortage of funds and enabled them to become operational and contribute to the GNP. In fact this financing has functionally been so useful that it is felt that it would be more than worthwhile for PICIC to continue to accelerate its operations in local currency. For this purpose PICIC would require a fresh loan of Rs. 30 million from the Government. PICIC would desire such a loan to be subordinated to its share capital (as was the case with the previous Government loans) so that it could enlarge to the requisite degree of the equity base to constitutionally make possible the additional borrowings in foreign currency reflected in Annexure I. As is well known, under its constitution and by agreement with the World Bank, the size of PICIC's borrowing is determined by the size of its equity. Unless, therefore, the equity base is enlarged from time to time borrowings in foreign currency could hit the ceiling and bring PICIC's operations to a halt. The requested loan in local currency is, therefore, not only required for resource augmentation but also for providing the constitutional equity base to enable PICIC to borrow additional amounts in foreign currency with a view to sustaining its lending operations.

Problems and Policies

An important problem facing PICIC is the ceiling that has been placed by Government on the interest it can charge in foreign currency loans. In May 1962, (through EAD Office Memorandum No. 1 (19)-EA(CRO)/62 dated May 26, 1962) the Government regulated the remuneration that financing agencies could charge an interest on foreign currency loans was fixed at the uniform rate of $7\frac{1}{2}\%$ p. a. irrespective of the type of project or its size. In 1965, as a result of increase in the World Bank lending rates PICIC was allowed to charge 8% in respect of funds sub-loaned from the World Bank lines of credit.

Considering the circumstances obtaining in 1962, the rate of interest fixed by the Government, viz. $7\frac{1}{2}\%$ was reasonable. The Bank rate then was 4% p.a. and resulting from adequate supplies of local currency funds to meet current requirements, short-term commercial bank rates varied from 5 to 6% p.a. Rates for long

and medium term rupee loans were around $6\frac{1}{2}$ % and the capital market was a buyer's market with plentiful fund availabilities for new issues of equity. The import licencing policy was also liberalised by the Government and most industrial raw materials were put on the free or automatic licencing list. Viewed in this context the $7\frac{1}{2}$ % interest rate on foreign currency loans was not only reasonable but also reflected a recognition of the fact that foreign currency financing ought to be more expensive than financial assistance in rupees.

The situation has since very substantially changed. Consequent upon the shortage of funds in the money market and lack of response in the long-term capital market, interest rates have risen to around 8% p.a. on short term inventory financing by commercial banks and $8\frac{1}{2}$ % on medium and long-term rupee bonds and debentures. Resulting from monetary stringency the unofficial rates are still higher. In addition, imports of most industrial raw materials and spares have been placed on bonus vouchers and the rate of import duty on capital equipment has risen from $12\frac{1}{2}$ % to nearly 35%.

The "*raison d'être*" of controlling the interest rate on foreign currency loans was to ensure financial assistance on reasonable terms and keep down production costs. In the present circumstances, however, when other important factors of cost such as the cost of local currency and the cost of capital goods (resulting from increase in duty) and raw materials (resulting from bonus voucher imports) have risen phenomenally, it appears illogical to keep the rate on foreign currency loans pegged down at an artificially low level. It is noteworthy in this context that whereas in 1962 the rate of $7\frac{1}{2}$ % was substantially higher when compared to the prevailing rates on rupee loans, the present is a complete reversal of the position and foreign currency loans could be had at the cheapest rate available. The untenability of this rate is also demonstrated by the fact that the World Bank rate has risen to $6\frac{1}{4}$ % and the alternative to foreign currency financing is bonus voucher imports of machinery.

In view of the aforesaid it is felt that there is urgent need to rationalise the foreign currency interest rate structure so as to bring it in line with the interest rate prevailing within the country and outside. For this purpose it is suggested that PICIC should be permitted by Government to charge its borrowers up to $8\frac{1}{2}$ % p.a. by way of interest. It is only increased earnings that would give PICIC the financial strength to assume larger risks in financing the private sector of industry in Pakistan.

Although apart from the problem of interest rate PICIC has no organisational or operational problems and given the resources indicated earlier in this paper should be able to operate at projected levels, some discussion seems necessary on the quality of PICIC's resources. In the financing of private sector projects, the operations of which are governed not only by commercial profitability considerations but also by "national profitability" criteria such as foreign exchange earnings, it is essential that the excellence of technology should govern the source of financing. It is only by induction of the best technology that Pakistani industry can obtain optimum efficiencies and compete in the Interna-

tional markets. To the extent that some of the countries which offer assistance to Pakistan do not possess the best (and sometimes even acceptable) technology and offer equipment which has already become obsolete, it is best to utilise credits from such countries for infrastructural projects in the public sector, for commodity imports and for simple equipment required for small-scale enterprises. For large and medium industries advanced technology is of primary importance and in allocation of funds to PICIC this should be kept in view.

Referring to specific requirements, the Planning Commission is aware that PICIC is playing a leading role in the financing of cotton and jute textile industries and has so far during the Third Plan financed 2,12,500 cotton spindles and 3,840 jute looms. Whereas Japan is the most competitive source for cotton textile machinery, the United Kingdom alone can supply jute machinery. PICIC so far has received no allocations from the Special Japanese textile credit or for the import of jute machinery under the U.K. credit. Inevitably, PICIC has diverted World Bank funds to these industries which in effect meant that other industries have been denied the qualitative advantage which they would have derived if World Bank funds were made available to them. It is imperative, therefore, that PICIC should be supported by allocations from Japanese textile and U.K. jute credits for financing the textile and jute industries so that World Bank funds are not used for traditional industries and are made available to projects which can by their use obtain the maximum leverage in terms of cost, efficiency and competitive ability. Such an arrangement is also desirable from another point of view. The total World Bank lending to PICIC constituted 56% of its entire foreign exchange resources as on 31st December, 1967. The World Bank has of late become critical of PICIC's heavy reliance on World Bank funds and it is of utmost importance that allocation of foreign exchange funds to PICIC from other source is increased without of course reducing the present level of World Bank assistance.

The measure of success of sound industrialisation is the cost and quality of products that are made available to the consumer. Whereas quality is determined by the efficiency of equipment, labour and management, cost is highly susceptible to external factors such as taxes, duties etc. Unfortunately, however, the cost structure of our industry is being increasingly burdened. Apart from the fact that customs duty on machinery has increased from 12½ % in 1965 to 35% in 1967, the Economic Affairs Division have recently decided that down payments under Suppliers' credits should be met against bonus vouchers. As down payments vary between 10% to 15% of the cost of machinery the effect of this decision would be an increase of 17% to 25½% (based on a bonus voucher premium of Rs. 170) in the cost of machinery. This and all other measures affecting production costs should be reviewed to ensure that a cost structure is not established which would affect the competitive ability of Pakistani industry in the export markets or bring about an upward trend in prices internally.

In this context it would also be desirable to establish appropriate procedures for issue of import licences especially to those industrial units which are about to go into production. The issue of licences to such units should be streamlined and quickened because experience shows that new units cannot go into production on schedule because of delays in getting their import categories established. In addition, in the context of import licensing of raw material, special consideration should be given to accepting a principle that, except in some defined cases, new industrial units should be issued cash licences for the first two years of their operation even if their raw materials are ordinarily on the bonus list. Industries which are primarily based on imported raw material are carefully screened by the Economic Co-ordination Committee of the Cabinet with a view to establishing their economic priority and as such would be deserving of assistance in the initial stages of their operations by issue of cash licences.

(in million Rs.)

| Country | 1966-67 | 1967-68 |
|----------------|---------|---------|
| Denmark | 1,343 | 0.93 |
| Belgium | 23,810 | 3.00 |
| Italian II | 28,371 | 6.00 |
| France II | 14,802 | 2.30 |
| Japan VI | 10,807 | 1.30 |
| India | 14,788 | 2.00 |
| Poland | 14,348 | 3.00 |
| Czechoslovakia | 14,288 | 3.00 |
| Germany IV | 11,902 | 1.50 |
| Japan V | 13,870 | 2.00 |
| BRD-III | 142,857 | 10.00 |

**PICIC's FOREIGN CURRENCY FUNDS REQUIREMENTS
UP TO JUNE 1969**

(Rupees in thousands)

Foreign Currency Requirements

| | | |
|---------------------------------------------------------------------------------------|---------|-----------|
| Amount sanctioned up to 30-6-1965 .. | 848,950 | |
| Total Lines of Credits available to PICIC at the beginning of Third Plan Period .. | 745,475 | |
| Deficit at the beginning of Third Plan Period | | (103,475) |

**Credits allocated to PICIC during Third Plan
Period**

| 1965-66 | | (\$ in million) | | |
|--------------------|-------|-----------------|---------|--------|
| IBRD—421 | 30.00 | 142,857 | | |
| Japanese V | 5.00 | 23,810 | | |
| German IV | 2.50 | 11,905 | | |
| Czechoslovak | 3.00 | 14,286 | | |
| Polish | 3.00 | 14,286 | | |
| Italian | 3.00 | 14,286 | 221,430 | |
| 1966-67 | | | | |
| Japanes VI | 3.50 | 16,667 | | |
| French II | 2.50 | 11,905 | | |
| Italian II | 6.00 | 28,571 | | |
| Belgian | 5.00 | 23,810 | | |
| Danish | 0.32 | 1,543 | | |
| | | | | 82,496 |

1967-68 up to December 31, 1967)

| | | | |
|-----------------------------------------------------------------------------|------------------|----------------|----------------|
| IBRD—509 | 35.00 | 166,667 | |
| German V | 3.75 | 17,857 | |
| German VI | 2.00 | 9,524 | |
| Japanese VII | 3.00 | 14,280 | |
| | <u>114.57</u> | <u>209,328</u> | |
| Total additional credits available to PICIC during Third Plan Period | | | <u>513,254</u> |
| Net Funds available | | | 409,779 |
| Additional sanctions during Third Plan Period up to December 31, 1967 | | 480,322* | |
| Add: Estimated sanctions: | | | |
| 1968 January-July | | 118,000* | |
| 1968-69 | | 240,000* | 838,322 |
| Net additional funds requirements up to June, 1969 | | | <u>428,543</u> |
| | Say | | <u>430,000</u> |

(*Net of cancellations.)

**PICIC's FUNDS REQUIREMENTS AND
RESOURCES UP TO JUNE 1969**

| | | (Rs. in million) | |
|--------------------------------------------------------------------------------------|-------|------------------|------------------|
| Foreign Currency Requirements | | | |
| Total sanctions up to June 30, 1968 | .. | | 1447.27 |
| Net foreign currency funds available up to June 30, 1968. | .. .. |  | 1303.24 |
| Resource gap at the beginning of 1968-69 | | | 144.03 |
| Estimated sanctions during 1968-69 | .. | | 240.00 |
| Net Additional Foreign Currency Funds Requirement during 1968-69 | .. | | 384.03 |
| Proposed Foreign Currency Sources of Funds during 1968-69 | | | |
| | | (\$ in million) | (Rs. in million) |
| Eighth IBRD Credit | .... | 35.00 | 166.60 |
| Asian Bank Credit* | .. .. | 25.00 | 119.00 |
| Government Allocation out of Consortium funds including suppliers' credit as under:— | | | |
| Swiss Credit | .. .. | 5.00 | 23.80 |
| German Credit | .. .. | 5.00 | 23.80 |
| Italian Credit | .. .. | 4.00 | 19.04 |
| Belgian Credit | .. .. | 2.00 | 9.52 |
| Eastern European Credits | .. .. | 4.65 | 22.27 |
| Total Foreign Currency Sources | | 80.65 | 384.03 |

* Application to Asian Bank for this loan has already been made. If this loan does not become available equivalent additional credit allocations by Government to PICIC out of Consortium funds would be required.

Local Currency Requirements

(Rs. in million)

| | |
|--------------------------------------------------------------------------------------------|--------------|
| Loans and Equity Investments in January to June resulting in a resource deficit of | 10.75 |
| Loans in 1968-69 | 14.50 |
| Equity investments in 1968-69 | 7.75 |
| Difference between own debt servicing liability and recoveries of loans | 10.13 |
| Total local currency requirements in 1968-69 | 43.13 |
| Deduct use by PICIC of its own resources | 13.13 |
| Resource gap to be met by a Government Loan to PICIC | 30.00 |

NOTES :—

(1) The proposed Government advance of Rs. 30 million, besides filling the resource gap is also otherwise necessary. Under agreement with the IBRD which is also PICIC's major creditor in foreign currency, PICIC's borrowings (other than the Government) are restricted to six times the aggregate of its share capital and reserves and Government advances outstanding at the time of the last instalment of the existing advances from the IBRD is scheduled to be repaid. Keeping in view this basis PICIC has nearly reached the limit of its borrowing. In order that it can continue to borrow foreign currency and sustain its operations in the financing of the industrial sector it is essential that its borrowing base is further broadened. Such broadening would be provided by the proposed loan from the Government.

(2) Resource requirements in foreign currency are linked with loan sanctions because without resource being available PICIC cannot enter into legal commitments with its borrowers or establish letter of credit against foreign currency loans. It should be noted that the average time gap between legal commitment and disbursement is about 15 months.

VII-C

**PICIC's COMMENTS ON STATE BANK OF PAKISTAN PAPER
ENTITLED "CRUCIAL ASPECTS OF ANNUAL PLAN
COORDINATION"**

The State Bank of Pakistan in their paper on "Crucial Aspects of Annual Plan Coordination" have commented on what they call the "insufficient" planning in the framing and execution of the private sector development programme. They have stated that the private sector investment ceilings are not coordinated with the Annual Development Programme of the public sector so that there occur excesses of investment outlays over what can be justified by the availability of real resources. As a result, the Bank feels that the price level and the economy have been subjected to serious stresses and strains. They have cited many adverse repercussions, including misallocation of scarce resources, dependence on excessive tariff protection for survival, large bonuses for exports, increase in import requirements, steady worsening in the balance of payments, increase in bank financing of capital requirements and weakening of the par value of the rupee.

Preliminary Remarks

The gist of State Bank's comment is that there are wastage and inefficiencies in the country's industrialisation programme. Although on the one hand there is some truth in this view one has on the other hand to admit that wastage is characteristic not only of under-developed economies but occurs in varying degrees even in advanced countries possessed of all essential facilities and expertise. It is, therefore, not the incidence of such wastages but their extent that should properly be a matter for concern and it is only when the wastages and losses exceed the gains and profits that a serious situation arises. The State Bank, however, have not deemed it necessary to examine this question from this angle but have confined themselves to some generalisations.

It cannot seriously be contended that the rapid industrial expansion in the last 10 years has not contributed significantly to the growth and strengthening of the economy in different ways: diversification, lessened vulnerability to the vagaries of nature and vicissitude of external demand, generation of employment, GNP growth, increased exports receipts and self-sufficiency in consumer goods; and this list can be further multiplied. Naturally, the fast industrial expansion has also led to sacrifices and tensions but it is PICIC's conviction that the adverse repercussions have been relatively modest and Pakistan's experience compares favourably with numerous other countries.

Attention may be drawn to a brief analysis of data pertaining to PICIC's operations so as to throw some light on the cost of various achievements. During the 10 years of its existence, PICIC has provided assistance to 581 projects the tune of Rs. 1,833.25 million, mainly in terms of foreign exchange. This is expected to lead to a gross investment of Rs. 4,033.00 million or more than double

the amount. The counterpart resources have to a marked extent been provided by PICIC's borrowers out of their own resources and through ploughbacks from their existing enterprises, indicating thereby that a substantial portion of industrial development expenditures has been financed out of genuine savings.

PICIC financed projects are expected to pay the foreign exchange component of their capital costs through import savings/export earnings (net) in less than three years. Of Rs. 595 million that is estimated in savings/earnings, more than half is attributable to exports and the balance to import savings. In the case of import substitution the annual liability for import of raw materials and spares is less than 1/3rd of the total production. Total employment generated and value added are placed respectively at 97,000 persons and Rs. 1,130 million. The capital cost per employed person comes to Rs. 31,200 which, considering the large average size of industry financed by PICIC, is reasonably low. The capital output ratio is 3.7 : 1, which also is satisfactory.

Many of PICIC's projects have been established as public limited companies and their capital is widely distributed. Endeavour is constantly made to broaden the industrial structure and so far 87 units have been set up by persons attempting their first venture in industrial promotion. This conforms to the social objectives of the government in promoting industrial development.

With this as background, some of the specific issues raised in the State Bank's paper may now be considered.

A—Industrial Investment Schedule

The State Bank asserts that the initial provisions or revisions of the Schedule do not take into consideration resources availability and the monetary situation with the result that the economy has been subjected to the tensions of over-investment and a continued rising price level. They contend that the Schedule is not so much a guide as a passive entity and its quantum and direction are determined by entrepreneurs' choice and not necessarily by the national objectives.

While the Industrial Investment Schedule is to a certain extent not supported by an articulated survey of the economic benefits of the industries included therein it would be wrong to say that there is no discipline in its operation. To the extent that most of the sanctions under the Schedule are given by PICIC and the IDBP and to the extent that these institutions make a careful appraisal of all the factors involved, it can be asserted that an articulated drill does exist to screen all industries included in the Schedule and sanction only those which make a positive impact on the economy and for which resources are forthcoming. In the discharge of its functions, PICIC has come across innumerable cases where it has refused finance to industries included in the Schedule on the ground that the promotion of such industries would not bring about commensurable benefits to the economy. In the examination of loan applications resources

availability emanating principally through savings, the contribution to the GNP and the balance of payments impact are important criteria and no industry is sanctioned financial assistance unless it passes the test of these and other criteria.

The Industrial Investment Schedule has in practice proved to be an excellent instrument for promoting industrial development. While providing a wide and flexible framework for industrialisation, it has superimposed on this flexibility the strict screening and selectivity of development banks. In this context it is desirable to remember that the essence of sound planning is for projects and targets to be constantly tested on the touchstone of changing economic realities leading to relaxation and redistribution of priorities such as is possible under the flexible framework provided by the Industrial Investment Schedule rather than imposition of any system under which priorities are rigidly fixed. It would be good to emphasize in this connection that the private sector essentially requires freedom to operate and endeavours to rigidly control it, other than through viability tests applied by development banks, could lead to a loss of private sector interest in industrial development. This in turn could adversely affect the private sector's will to save, leading to consequences not entirely desirable for a healthy growth of the economy.

B—Misallocation of Resources

The State Bank has suggested that the country's scarce resources are not being rationally utilised and instead are being frittered away in uneconomic units requiring large subsidies and concessions for their survival. Once again no endeavour has been made by the Bank to substantiate this view and evaluation of the Banks' contention is, therefore, again rendered difficult.

Nearly 80% of PICIC's assistance so far has gone to finance jute, cotton textiles, sugar, cement, paper and paper boards, leather and processing of food, vegetables and fishes and of local wool. To the extent that these industries used local raw materials it was most important they were developed on a priority basis. They are not only meeting essential home demand and putting into the market goods which can satisfy the increasing purchasing power within the economy but are also contributing to the export endeavour.

With regard to industries based on imported material, such as the engineering and chemical group of industries, their establishment was meant to satisfy essential local demand and in all cases there is a net saving in foreign exchange resulting from local manufacture. Further discipline on the promotion of these industries is, however, being imposed by the current review in the provisions of the Schedule and by the additional screening of proposals by the Economic Coordination Committee of the Cabinet. In this content it needs to be emphasized that the concept of essentiality of an industry is a relative one and PICIC strongly feels that the resources earmarked for industrial development have on balance been well spent.

Carrying the theme further it is difficult to postulate, as does the State Bank, that because investments have not been made in the most sophisticated industries the money invested in the relatively simpler industries has not been well spent. Successful industrialisation pre-suppose adherence to stages of growth. Foundation must first be laid in the relatively easy (though useful) industries even though they might fall somewhat short of certain ideal criteria. The quality of entrepreneurship as that of professional management and labour improves with experience and is only with time that the heavier and more difficult industries can be established. Already endeavour is being made to promote sophisticated producer goods industries and although the attendant risks are greater, the experience, the management skills and capital resources which have been built up in the past would stand us in good stead in these ventures.

“Inefficient” industrialisation has also been hinted by citing the rising imports of raw materials. These imports, in the majority of cases, are justified because they are used to produce goods which would otherwise have been imported. Additionally, in all such cases local manufacture has resulted in a net saving in foreign exchange. In viewing this problem, therefore, it is important to see rising imports of raw materials against the background of self-sufficiency that has been achieved in a growing and more prosperous environment and it is wrong in this context, to compare the current import bill on account of raw materials with import of consumer goods 10 years ago.

Criticism has also been voiced, because of the inability in some cases, of Pakistani industry to compete against imports and this has been inferred to indicate lack of efficiency. Besides the fact that Pakistani industries do not always enjoy the optimum economies of scale and labour and management for obvious reasons are not quite as efficient as in developed countries, it should not be forgotten that most imports into Pakistan are subsidised in one form or the other by the exporting countries and that even developed economies often resort to tariff protection.

C—Balance of Payments

The State Bank's opinion on the impact of industrialisation on balance of payments deserves close attention. The industrial sector has undoubtedly generated some pressure on balance of payments but it is well to remember that the situation was hardly satisfactory before the import of raw material and capital goods for the industrial sector began in a big way. The weakness of our balance of payment has not, therefore, originated from industrial expansion. In fact, it has strengthened it directly through very considerable export of finished goods and indirectly by checking the steady deterioration in terms of trade and bringing about domestic self-sufficiency of many items. During the last decade, both the import of raw materials and export of finished goods have markedly increased

as shown below:

Pakistan Trade

| | Import of Industrial Raw Materials | Export of Manufactured Goods |
|-----------------|---------------------------------------|------------------------------------|
| | (Rupees in million) | |
| 1957-58 | 501 | 149 |
| 1961-62 | 1048 | 543 |
| 1964-65 | 1623 | 877 |
| 1966-67 | 1372 | 1,403 |

(Source : C.S.O.)

The above table shows that export of industrial goods has tended on the whole to increase faster than import of industrial raw material and the gap between the two has steadily narrowed. It could be confidently expected that very soon the gap would be fully closed and there would be a significant surplus of exports over imports of raw materials, even after allowing for relaxation of import restrictions in the future.

It is very likely in view of the considerable expansion now under way in both major and minor industries that the surplus of exports over import of raw materials will be larger, even after allowing for further relaxation of restrictions on imports of raw materials in the future.

In a consideration of the effect of industrialisation on the external situation it is not enough to focus attention on short-run consequences which in any case must be adverse. A longer term perspective needs to be taken and also whether there is any scheme for imparting built-in safeguards against the deterioration in the balance of payments on account of industrialisation. In this respect the position looks promising.

D—Export Bonus Scheme

In the context of the Export Bonus Scheme, the State Bank have expressed concern about multiple exchange rates and the undermining of the par value of the rupee. PICIC appreciates this concern but feels a broader view is desirable.

A large number of countries, both great and small, developed and under-developed, encourage exports through a variety of concealed as well as open measures. Apart from the sanctity of universal usage, incentives are also justified on rational economic considerations, such as, the infant status of our

industries and the high cost of domestic production—the latter resulting from restrictive imports, small-scale production and lack of supporting and ancillary industries. Although export incentives and subsidies have a monetary value, they do not represent the *net* true income. They are in the nature of cost-equalising and effort-compensating factors. Export incentives have thus a definite place in our development strategy. However, by themselves alone incentives can never be sufficient and it is in frank recognition of this that a serious drive for higher productivity and efficiency through research, labour incentives and import of better equipment in key industries from technologically most advanced sources is necessary.

E—Bank Financing

The State Bank assets that “hasty” industrialisation is interfering with the objective of raising the marginal rate of savings in the economy and the industrialists are turning increasingly to commercial banks for meeting their financial requirements. The bank feels that a good deal of private investment is financed by bank credit rather than genuine savings which is adversely affecting their liquidity position and jeopardising the financing of their normal operations.

In the case of existing projects seeking ‘B & M’ assistance, the financing of rupee expenditure does not raise insurmountable difficulties since the enterprise normally possesses sufficient reserves or else the directors could lend the required funds themselves or raise it from the market. In the case of new projects to be established by well-known industrial houses, the rupee portion of investment is again met with relative ease. The sources may be surplus funds in their other enterprises and/or public subscription of shares which is arranged. The problem really arises in the case of medium-sized projects where the amount needed is small and the sponsors are not well-known to make public floatation of capital possible. Support to such enterprises is, however, necessary to fulfil the social objectives of Government’s policy to broadbase industrial ownership.

Bank financing of capital needs and its desirability merits serious attention and cannot be rejected merely by a conservative concern for liquidity. The requirements of resources for industrial development are rapidly expanding. Through the existing agencies and facilities these are met to a large extent but these resources are limited and cannot cater fully to the growing needs. Commercial banks’ participation in industrial financing is, therefore, clearly indicated and it is heartening to note that under State Bank’s guidance we have again begun to move in this direction.

VII-D

AGRICULTURAL DEVELOPMENT BANK OF PAKISTAN
LENDING PROGRAMME FOR 1968-69

I. Activities and Achievements

1. The Agricultural Development Bank of Pakistan was established on the 18th February, 1961, by the merger of the former Agricultural Development Finance Corporation (established in 1952) and the former Agricultural Bank of Pakistan (established in 1957) for better provision of credit facilities to agriculturists. The authorised share capital of the Bank is Rs. 20 crores, of which Rs. 10.75 crores have been fully subscribed, the Central Government having contributed Rs. 9.75 crores and the two Provincial Governments Rs. 50 lakhs each.

2. The Bank provides credit facilities to agriculturists for the purpose of agriculture and to persons engaged in cottage industries in rural areas for the purpose of such industries. Individuals as well as corporate bodies engaged in agriculture or development of agriculture are eligible for loans. Short-term loans repayable within 18 months are generally given for seasonal requirements such as seeds, fertilizers, plant protection measures and hire of plough cattle. Medium-term loans, for periods exceeding 18 months but not exceeding 5 years, are given for such items as small agricultural implements, levelling of land, digging of wells and purchase of draught animals. Long-term loans for period over 5 years, are advanced for major improvements in lands, installation of tubewells, purchase of tractors, power tillers, power pumps and establishment of orchards, etc. The Bank also provides credit facilities for forestry, fishery, animal husbandry, poultry farming, dairy farming, bee-keeping and sericulture.

3. The outstanding feature of the Bank's loan operations is that it advances loans after having satisfied itself as to the feasibility and economic return of the scheme for which a loan is given. As a natural corollary of this, the Bank exercises such checks as may ensure proper utilization of its loans. For the same reason it advances loans in kind as far as possible.

4. For making credit available to the farmers at the shortest possible distance, the Bank has expanded the network of its field offices at a fast pace. On the eve of the merger, i.e. on 17th February 1961, the total number of branches and pay offices of the Bank's pre-merger constituents, ADFC and ABP, was 74, in addition to their Head Offices at Karachi and 6 Chief Regional Offices in the two Wings. The Bank now has 126 offices, in addition to the Head Office at Karachi, the East Pakistan Office at Dacca and 11 Chief Regional Offices (5 in East Pakistan and 6 in West Pakistan).

5. Up to March 1968, the total loans given by the Bank, including those by its pre-merger constituents, have amounted to Rs. 84.49 crores. The table

below shows the year-wise details of the loans disbursed:

(Rupees in lakhs)

| Plan period | Year | East Pakistan | West Pakistan | Total |
|-----------------------------|---------|------------------|------------------|---------|
| 1 | 2 | 3 | 4 | 5 |
| | 1952-53 | Nil | 0.80 | 0.80 |
| | 1953-54 | 1.91 | 6.16 | 8.07 |
| | 1954-45 | 4.15 | 10.86 | 15.01 |
| Total .. | | 6.06 | 17.82 | 23.88 |
| First Plan .. | 1955-56 | 6.84 | 9.88 | 16.72 |
| | 1956-57 | 16.52 | 17.49 | 34.01 |
| | 1957-58 | 37.18 | 36.27 | 73.45 |
| | 1958-59 | 86.01 | 56.56 | 142.57 |
| | 1959-60 | 190.78 | 247.72 | 438.50 |
| Total First Plan .. | | 337.33 | 367.92 | 705.25 |
| Second Plan .. | 1960-61 | 381.91 | 308.99 | 690.90 |
| | 1961-62 | 373.80 | 427.45 | 801.25 |
| | 1962-63 | 376.69 | 406.71 | 783.40 |
| | 1963-64 | 383.44 | 466.51 | 849.95 |
| | 1964-65 | 364.83 | 404.69 | 769.52 |
| Total Second plan .. | | 1880.67 | 2014.35 | 3895.02 |

| | 1 | 2 | 3 | 4 | 5 |
|--------------------------------------------------|----|--------------------|---------|---------|---------|
| Third Plan | .. | 1965-66 | 415.47 | 679.75 | 1095.22 |
| | | 1966-67 | 470.84 | 1004.81 | 1475.65 |
| | | 1967-68 | 474.00 | 780.00 | 1254.00 |
| | | (Up to March 1968) | | | |
| Total (During Third Plan) | | | 1360.31 | 2464.56 | 3824.87 |
| Total. Since Inception (up to March 1968) | | | 3584.37 | 4864.65 | 8449.02 |

Note.—Figures relating to 1967-68, for the Third Plan period and total since inception are provisional.

6. As is evident from the above table, the yearly amounts of disbursements show a general upward trend (there were short periods of decline when loaning had to be restricted due to paucity of funds). During the First Plan period, i.e. 1955-56 to 1959-60, the Bank had disbursed a total Rs. 7.05, crores, the average annual amount of disbursements being Rs. 1.41 crores only. During the Second Plan period the Bank disbursed loans totalling Rs. 38.95 crores or Rs. 7.79 crores yearly on average. In the Second Plan the target contemplated for the Bank's two pre-merger institutions was Rs. 15 crores but the loans actually advanced were more than two and half times that amount. The yearly average of disbursements during this period increased by over 450% as compared to the First Plan period.

7. During the first two years of the Third Plan period, i.e. 1965-66 and 1966-67, the Bank disbursed Rs. 10.95 crores and Rs. 14.76 crores respectively and expects to advance Rs. 17.00 crores during 1967-68.

8. Ever since the merger in 1961, the Bank has been keen not only to expand its operations but also to give increasing attention to medium and long-term loans for developmental purposes, particularly for mechanisation of farm operations, so as to speed up the pace of increasing the agricultural production as envisaged in the country's development programmes. With the start of the Third Plan period the share of developmental loans has increased more remarkably. In 1964-65, i.e. the last year of the Second Plan period, the percentage of these loans to the total loans was 67.0% which rose to 81.3% in 1966-67.

9. In order to accelerate its loans for mechanisation of farming, the Bank obtained in June 1965 a line of credit for \$27 million from the International Development Association for loans for farm machinery and tubewells. Because of the peculiar requirements of East Pakistan where, due to smaller holdings, use of tractors and tubewells is not economical, the IDA credit has been utilized

in that Wing for loans for power tillers and low lift power pumps. The entire allocation for farm machinery has already been utilised and that for tubewells is expected to be fully committed by September 1968. In view of the fast increasing demand for the Bank's loans for mechanisation items, the Bank has obtained a second credit of \$15 million from the International Development Association for giving loans for farm machinery and power pumps.

10. The benefits of the Bank's loans in terms of increased production are estimated to be quite large. During the Second Plan period, loans amounting to Rs. 17.72 crores, for which the benefits are measurable, are estimated to have brought about an increase in agricultural production, mostly recurring annually, of the value of Rs. 18.30 crores. During 1965-66 and 1966-67, the loans amounting to Rs. 16.39 crores (for which benefits are measurable) are estimated to have brought about increased produce worth about Rs. 13.87 crores.

II. Lending Programme for 1968-69

11. (a) The Bank expects to advance loans amounting to Rs. 36.35 crores during the year 1968-69. The size of its lending programme for that year is, however, subject to full availability of foreign exchange involved in the importation of materials for its loanees, as explained in the foot note No. 4 to the table given under para 15.

(b) Sectoral and Regional Distribution of the expected lending

12. The expected distribution of loans by major items and by provinces for the year 1968-69 is as follows:

(Crore rupees)

| Item | East Pakistan | West Pakistan | Total |
|-----------------------------------|------------------|------------------|--------|
| 1 | 2 | 3 | 4 |
| 1. Tractors and Attachments | 0.75 | 15.60 | 16.35* |
| 2. Tubewells | 0.20 | 3.30 | 3.50 |
| 3. Power Pumps (2-cusec) | 1.75 | — | 1.75 |
| 4. Power Pumps (Fractional) | 0.35 | — | 0.35 |
| 5. Power Tillers | 1.35 | — | 1.35 |

| | 1 | 2 | 3 | 4 |
|-----------------------------------|-----------|-------|-------|-------|
| 6. Tea Machinery | | 0.83 | — | 0.83 |
| 7. Overhead Irrigation Equipments | | 0.56 | — | 0.56 |
| 8. Mechanised Fishing Vessels .. | | 0.56 | — | 0.56 |
| 9. Other Items (Developmental) .. | | 0.18 | — | 0.18 |
| 10. All Other Items† | | 6.92 | 4.00 | 10.92 |
| | Total: .. | 13.45 | 22.90 | 36.35 |

(c) *Criteria guiding the formulation of the Programme*

13. The criteria which have guided formulation of the Bank's lending programme for 1968-69, in fact its entire Expanded Programme of the Third Plan period, are briefly as follows:

- (1) The supply of agricultural credit by the three institutional agencies, namely, Government (Taccavi), Cooperatives and Agricultural Development Bank of Pakistan has been far from adequate as compared with the total demand for it (estimated to be Rs. 300 crores annually). Only about 10% of the total requirements of agricultural credit is supplied together by these agencies and the remaining by private sources. The Bank has expanded its operations remarkably in the recent years and wishes to expand them further at an even faster rate. It may be worthwhile to mention here that the Bank has to play the role of the leader in the field of agricultural credit as envisaged by the Credit Enquiry Commission which had so opined after examining the credit situation thoroughly in the year 1959. The required leadership calls for a continuous growth of the Bank's activities.

*Loaning for this item will show a steep rise as compared with that in 1967-68 due to a large number of tractor loans sanctioned in that year but not disbursed due to shortage of tractors in the country. These loans are expected to be disbursed during 1968-69.

†"All other items" include loans for seasonal requirements of raiing crops, e.g. seeds, fertilizers, labour charges and for items like plough cattle, levelling and jungle clearance, reclamation and excavation of land, establishment of orchards, construction of godowns, development of tea gardens, etc.

- (2) Development of agriculture in the country is mainly dependent on improvement of farming practices. The institutional assistance for providing credit, therefore, should be so directed as to help the agriculturists adopt better methods of production particularly mechanised farming, wherever possible. While the number of farms which can make beneficial use of tractors in West Pakistan and of power tillers in East Pakistan is quite large, lack of finance has so far been the main limitation to their usage. The required financial assistance should come forth from the Bank.
- (3) The developmental items requiring materials which are not locally available necessitate adequate supply of these materials through imports, beside enabling the agriculturists to build up the capacity to purchase them, through provisions of credit facilities.
- (4) In order to boost food production and achieve food self-sufficiency in the country due emphasis should be laid on advancing loans for seeds and fertilizers liberally and expeditiously, specially to small farmers. As a development bank, the Bank is supposed to provide finance for developmental purposes, but it cannot ignore the short-term seasonal requirements of the small farmers unless and until the other institutional agencies adequately grow to meet these requirements.
- (5) Tea being an important cash crop of the East Wing, its production needs all possible encouragement and assistance from the Bank. The Bank contemplates to further accelerate this assistance.
- (6) Fisheries can become a large source of national income but are not sufficiently developed as yet due to fishing practices being old. If mechanised fishing vessels are made available through the Bank's loans, it is expected that development of fisheries can be sufficiently accelerated.

(d) Financial Requirements: (Funds required and the foreign exchange involved)

14. The Bank does not advance loans directly in foreign exchange for any of its loanable items. However, foreign exchange requirements are involved in the importation of the materials (e.g. farm machinery) for which the Bank advances loans. As earlier stated, a credit for \$27 million was obtained from the International Development Association by the Government of Pakistan who relented it to the Bank for meeting the foreign exchange requirements of its loans for farm machinery and tubewells.

15. The foreign exchange requirements during 1968-69 are estimated to

be Rs. 22.41 crores. Their details are given below:

(Crore rupees)

| Item | Loan payments programmed | Foreign exchange involved |
|--------------------------------------|-----------------------------|------------------------------|
| 1 | 2 | 3 |
| 1. Tractors and Attachments .. | 16.35 | 15.90 |
| 2. Tubewells .. | 3.50 | 1.75 |
| 3. Power Pump (2-cusec) .. | 1.75 ¹ | 1.67 ¹ |
| 4. Power Pumps (Fractional) .. | 0.35 | — ² |
| 5. Power Tillers .. | 1.35 | 1.26 ³ |
| 6. Tea Machinery .. | 0.83 | 0.72 |
| 7. Overhead Irrigation Equipments .. | 0.56 | 0.48 |
| 8. Mechanised Fishing Vessels .. | 0.56 | 0.48 |
| 9. Other items .. | 0.18 | 0.15 |
| Total .. | 25.43 | 22.41 ⁴ |

(1) To be utilized by the EPADC in 1968-69 winter. For the 1969-70 Winter loans amounting to Rs. 1.53 crores (involving foreign exchange of Rs. 1.46 crores) for 5,000 power pumps are expected to be advanced through a foreign credit which EPADC will presumably obtain direct for the purpose.

(2) Foreign exchange requirements of fractional pumps have not been included, as the Government have confirmed that these will be imported under Free List for which foreign exchange would be provided by the Government. The foreign exchange involved would be about Rs. 0.31 crores.

(3) This is in addition to the imports of power tillers worth \$ 1.00 million under Yen Credit.

(4) Out of this total, foreign exchange to the extent of Rs. 7.14 crores will be available through \$15 million second IDA Credit, agreements in respect of which will be signed this month (April 1968). The Government have requested the Asian Development Bank for a \$ 7.00 million credit for Agricultural Development Bank for financing the items mentioned at Nos. 6, 7 and 8 to be utilized in two years, i.e., 1968-69, and 1969-70. Half of this amount (Rs. 1.67 crores), if received, will be utilised during 1968-69. The balance amount of foreign exchange, i.e., Rs. 13.60 crores will have to be arranged to enable the Bank to fulfil its loaning programme in respect of the items involving foreign exchange. This amount will be required in early 1968-69 (July—August), so that the items required for the Bank's loanees can be imported timely and supplied during 1968-69.

16. The total financial requirements for the Bank during 1968-69 are estimated at Rs. 42.83 crores. Their details are as under:

| Requirements | (Crore rupees) |
|----------------------------------------------------------------------------------------|----------------|
| 1. Loan Payments | 36.35 |
| 2. Administrative Expenses | 1.50 |
| 3. Financial Expenses | 1.98 |
| 4. Repayment to S.B.P. and to Government out of TDC and Marine Fisheries Funds | 3.00.* |
| Total | 42.83 |

* In case equity capital (item 2 of the sources) is not subscribed, no repayment will be possible to the State Bank of Pakistan.

17. The expected sources of financing the above requirements during 1968-69 are given below:

| Sources | (Crore rupees) |
|-----------------------------------------------------|----------------|
| 1. Recoveries of the Bank's own loans | 13.00 |
| 2. Equity capital by the Central Government | 3.00 |
| 3. Loans from S.B.P. | 3.47 |
| 4. Loan from IDA/SIDA | 7.14 |
| 5. Loan from A.D.B. | 1.67 |
| 6. Deposits | 0.95 |
| 7. Other foreign credit | 13.60 |
| Total | 42.83 |

VII-E

INVESTMENT CORPORATION OF PAKISTAN

Annual Plan for 1968-69

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ANNUAL PLAN OF INVESTMENT CORPORATION OF PAKISTAN FOR 1968-69

I. Introduction

The financial operations of the Investment Corporation of Pakistan broadly fall into three categories: (a) Underwriting of public issues and placement of debentures of new and existing Public Limited Companies in the country that are listed or fulfil the conditions for being listed on the Stock Exchange. (b) Investment loan facilities under the Investors' Scheme with the object of mobilizing savings of small and medium investors for investment in bonds and stocks. (c) Developing an inventory of sound stocks through direct purchases on the market when prices appear attractive and purchase of shares by direct negotiation for block offers outside the market.

The financial operations of the Corporation were financed initially through its paid-up capital of Rs. 5 crore and a long-term loan of Rs. 10 crore provided by the Government at the bank rate. These resources are replenished by disinvestment of its investment portfolio (underwriting take-ups and existing shares purchased from the market) through the device of periodic Mutual Funds and direct sales on the market and to the investors under the Investors' Scheme. However, self-financing through rolling over of existing portfolio can be a major source only after the projects whose shares are taken-up by the Corporation mature to a point where the return on shares becomes attractive enough to be acceptable to investors and common stocks become a popular media of investment. Given the important role of the ICP to meet the equity gap of corporate private investment in the industrial sector for the achievement of the plan targets, it would be imperative to find resources to enable the Corporation to perform its functions. In any given period the size of financial operations of ICP is to be determined by the equity gap and the rupee-debt gap that has to be filled in to realise the investment targets of the Plan. An indication of the financial role of ICP and the extent of equity gap can be obtained by measuring the response of the public to the new issues processed by ICP, the extent to which rupee-debt burden has been shared between ICP and other financial institutions and the speed with which underwriting cases are processed by ICP. While these ratios are a good measure of the financial role of ICP, it would be incorrect to project the absolute size of future operations of ICP on the basis of the size of operations in the preceding two years of its existence. For one thing the Corporation started at a time when investment activity was at a low ebb. And secondly limitations of resources and pooling of investment expertise in the initial years did not permit ICP to operate at its optimum capacity. In short, the size of ICP's operation in the next year has to be determined by the relative role required to be played by ICP as indicated by the flow of funds analysis and the size of the industrial investment programme that would emerge from the lending operations of PICIC and IDBP (Table I). These have been further counter-checked with the past relationship between pending applications, rejections and sanctions for public issue and debentures (Table VI). The Corporation also followed this technique in the estimation of its size of operations for the year 1968-69.

The estimates of investment loans under Investors' Scheme have been made keeping in view the pace of expansion of the Investors' Scheme and our own

plans to open new offices and intensify efforts for country-wide merchandizing of shares and stocks to small and medium savers.

The underwriting liability of the Corporation to help materialize the disinvestment programme of the two Provincial PIDCs is also kept in view while estimating the requirements of funds for the next year.

II. Review of Progress during 1966-67 and 1967-68

Table Nos. VII, VIII and X summarize the position of sources and uses of funds of ICP during 1966-67 and 1967-68. The total financial resources of Rs. 15 crore with which the Corporation started its operations were disbursed to the extent of Rs. 6.19 crore during the first year of its operation (1966-67). These included underwriting take-ups of Rs. 2.94 crore for public issues and debenture take-ups of Rs. 23.5 lac. The Investors' Scheme which was started towards the middle of the first year claimed only Rs. 28 lac by way of investment loan facility. The Corporation built a portfolio of Rs. 2.74 crore through direct purchases both inside and outside the Stock Exchange. Excluding the investment portfolio which cannot be classified 'by regions' the financial operations of the Corporation were distributed in the ratio of 1:3 between East Pakistan and West Pakistan. The ratio was disproportionate in favour of West Pakistan owing to the fact that more West Pakistan projects were mature for being offered to the market. Similarly, the Investors' Scheme took some time to pick up in East Pakistan.

The extent to which the Corporation has provided financial support in the two regions has to be measured by its level of underwriting take-ups in each region. Thus for instance, the Corporation's share in the underwriting of public issues was 51% in East Pakistan as against 36% in West Pakistan. Moreover, the underwriting take-up of the Corporation was large for East Pakistan projects than for West Pakistan projects, the ratio being as high as 95% for East Pakistan and ranged between 30—70% for West Pakistan. This points to the Corporation meeting a large equity gap in East Pakistan. Similarly in the case of debentures, whereas the Corporation absorbed only one-third of the amount involved in debentures for West Pakistan, it had to carry the entire burden of debenture financing in East Pakistan.

The Corporation started the year 1967-68 with total unutilized resources of Rs. 8.8 crore. These were replenished to the extent of Rs. 50 lac by sale of its investment portfolio (underwriting and market purchases) to the First ICP Mutual Fund. As against total resources of Rs. 9.3 crore the Corporation has disbursed or is committed, to disburse in the near future an amount of Rs. 9.57 crore, thus resulting in a shortfall of Rs. 44 lac. These resources will be utilised to the extent of Rs. 4.08 crore for underwriting of public issue and Rs. 1.5 crore for debenture take-ups and will help in materialisation of private investment to the tune of Rs. 34 crore. An amount of Rs. 2.3 crore has been obligated for loans under the Investors' Scheme. In addition, the Corporation added to its investment portfolio shares worth Rs. 1.9 crore.

Excluding the investment portfolio, a near parity has been achieved in the distribution of resources between the two wings in 1967-68. Of the issues that have gone to the market, the Corporation absorbed as much 35% of the public issue for East Pakistan projects and nearly 32% for West Pakistan projects. As in the preceding year the extent of Corporation's take-up continued to be larger for East Pakistan than for West Pakistan. A behaviour similar to that of the preceding year is observed in the case of debenture financing.

The Corporation had to carry a larger burden of equity financing during 1967-68 owing mainly to the fact that the other financial institutions which shared underwriting liability to the extent of two-thirds in 1966-67, drastically curtailed their participation.

The Investors' Scheme gathered momentum during 1967-68 and has been significant in injecting funds into the capital market through investors' deposit and investment loan facilities to the extent of nearly Rs. 3 crore. This has proved to be an important factor for the buoyancy of the capital market and has introduced many new investors which were hitherto un-accustomed to investment in shares. The Scheme has helped to bring about some depth in the capital market and is strengthening investors confidence in shares and stocks.

III. Criteria for Investment

In our underwriting operations the main criterion for financing private investment is the ability of the project to yield a return that meets with the expectations of investors in shares and stocks. By its very character only such projects can be profitable that seek to maximize gains from the backlog of demand in the country, favourable treatment given by the fiscal and monetary policy in the location and selection of projects and advantages accruing from greater use of domestic raw materials, substitution of imports and manufacture of exportable products for availing of the benefit from liberal export incentives. Apart from these considerations, the other criteria that govern the selection of projects are the quality of management, nearness to dividend distribution and soundness of financial plan. In effect the Corporation enters at that stage in the financing of projects when foreign exchange has been lined up, letters of credit have been opened, sponsors have given a proof of investing their contribution in land and buildings and the progress of project is held up for want of rupee resources to carry out the remainder of the civil works, meet pre-production preliminary expense and the funds for meeting permanent working capital requirements of the project. In short the injection of funds through underwriting take-ups of public issues and absorption of debentures by ICP represents the critical financial factors essential to bring the project to the point of production. More recently the Corporation has gone a step further and has appointed directors in some of its underwritten projects where the progress of implementation is slow or projects have run into difficulties due to inadequate attention by sponsors. The Corporation is also contemplating controlling disbursement of funds committed by way of underwriting take-ups and debenture financing so as to release them only as and when they are needed for implementing the project.

In providing investment loan facilities through the investors' Scheme the main criterion is to assess potential savings capacity of small and medium savers in the country and commit it for investment in shares and stocks on the Stock Exchange. This serves two purposes: (a) it channels savings into the capital market and (b) attempts to develop a clientele that would help ICP and other investment agencies to disinvest their holdings among genuine savers in the country.

The Corporation's main consideration in developing an inventory of stocks is to make available a portfolio of attractive securities that can be used to 'sweeten' the underwriting take-ups of the Corporation at the time of their disinvestment. This device was used with success in the floatation of the First ICP Mutual Fund when the Corporation offered four existing stocks out of its investment portfolio along with two stocks from its underwriting portfolio. It is proposed to develop new mutual funds disinvesting its underwritten portfolio by matching them with selected stocks out of its investment portfolio. Incidentally the investment portfolio of the Corporation also helps to stabilize share values on the Stock Exchange, it insulates share values against the pressure of heavy off-loading by institutions and keeps in check an undue upsurge in share values by appropriate and selective sales to financial institutions and investors under the Investors' Scheme.

IV. Requirement of Funds for 1968-69

In 1968-69 the Corporation will start with a negative balance of Rs. 44.34 lac, being the short-fall between its disbursements/commitments and the resources available to it as carry-over from 1967-68. The Corporation expects to raise Rs. 1.5 crore through the Second ICP Mutual Fund, recover loans under the Investor's Scheme to the extent of Rs. 75 lac and sell shares out of its investment portfolio to the extent of Rs. 25 lac. Adjusted for the shortfall, the net resources available to the Corporation for carrying out its investment programme during 1968-69 will be Rs. 2.06 crore (Table IX attached).

The investment programme of the Corporation during 1968-69 is based on estimates of counterpart equity funds essential to materialize investment in projects that would be provided with loan facilities (foreign and rupee) by PICIC and IDBP. The extent to which the Corporation will have to undertake equity financing has been determined by estimating the size of investment in the corporate industrial sector, the larger underwriting burden to be absorbed by the Corporation in view of reduced participation by other financial institutions and the past experience of the extent to which the Corporation had to absorb its underwriting obligations in the light of public response to new issues on the market. The estimates have been further firmed up on the basis of the past relationship between the total number of applications received and carried over to that rejected and/or sanctioned. The underwriting projections have been classified into "fertilizer" and "non-fertilizer" because the fertilizer projects carry a high national priority and their claims for debenture/equity finance cannot be deferred or considered on the same plane as other projects. The equity burden has been further adjusted downwards by substituting equity for debenture keeping

in view the fact that it is easier to place debentures with financial institutions than equity, as debenture financing commit sponsors to a fixed payment and thus induces early profitability. Besides the development of a debenture portfolio will help in the promotion of a bond market in the country.

Investment loan liability under the Investors' Scheme is expected to increase to Rs. 3 crore as the Corporation anticipates that it will be possible to mobilize additional investment deposits* to the extent of Rs. 1 crore through its growing network of branches.

The Corporation does not expect to develop an investment portfolio larger than Rs. 0.5 crore as with rising prices it will become less and less attractive to purchase shares from the market.

EPIDC and WPIDC envisage a total disinvestment programme of Rs. 6 crore (Rs. 3 crore each). The ICP is expected to provide underwriting facility to the extent of 50% for the success of this programme. In our resources for 1968-69 we have therefore estimated a further requirement for meeting our underwriting liability for this disinvestment to the extent of Rs. 3 crore.

These figures are spelled out in tables II, VI and IX (attached).

Even though West Pakistan would claim all the funds for fertilizer projects, to overall distribution of resources between the two regions will more or less follow the pattern of 1967-68. The Corporation will maintain parity in the distribution of its investment loans while in its underwriting of public issues and financing of debentures 58% of the resources will go to West Pakistan (including fertilizer projects) and 42% to East Pakistan. The total investment programme of the Corporation during 1968-69 will be (table IX) Rs. 34.56 crore against which it expects to have resources to the extent of Rs. 2.06 crore, thus leaving a resource gap of Rs. 32.5 crore.

V. Problems and Policies

The problem of finances for meeting the resource gap for ICP's operations should be viewed from four main standpoints : (a) the rate of accumulation of internally generated savings in the corporate sector (b) public response to new floatations (c) fundamental limitations of ICP to roll over its portfolio and (d) the ability of ICP to share its burden with other financial institutions.

It appears that the rate of accumulation of retained earnings is tending to decline for a number of reasons. With debt-equity ratio increasing over time retained earnings are showing a tendency to decline. Another factor depressing retained earnings is that most high profit industries are nearing completion of their tax holiday periods and are being exposed to greater competition with more units coming in the field. This is reducing the margin on sales and profits available for retention. Finally the emphasis placed on greater distribution by the fiscal policy is also reducing the size of retained earnings. As a result the

* Investment deposits are not treated as a resource for ICP as, together with investment loans and after adjusting for sale of shares from ICP portfolio, these are immediately injected into the capital market for direct purchase of existing stocks.

volume of requirements of the corporate sector to raise capital from the market is assuming greater proportions.

Direct resort to the market does not appear to be a dependable source of raising equity partly because most of the entrepreneurs are new and have yet to establish their image before the market and partly because investors' interest in the new issues market is not growing in the same measure as the demand for funds. Whereas until 1963-64 over-subscription was a rule it is an exception now; an exception that relates to projects belonging to managing agents of high standing.

The ability of the Corporation to generate funds by rolling over its portfolio is limited by the time-lag between the underwriting take-ups of the Corporation and the ability of the projects to distribute dividends that meet the expectations of the market. This period ranges between 3-5 years in the case of existing underwriting take-ups of the Corporation and will probably be longer for fertilizer projects. Another fundamental limitation is the pace at which share-consciousness will grow to offer a large enough market for easy merchandising of ICP holdings. Mutual Fund no doubt offers a media but it has to be used carefully so that the confidence being developed among investors is not impaired by inadequate subscription or low return due to inclusion of low dividend yielding scrips in the Fund.

Sharing of under-writing liability with other financial institutions was the technique that ICP adopted when it appeared on the underwriting scene in Pakistan. The other financial institutions maintained their willingness to participate in underwriting consortiums with ICP as long as their commitments were less than the unutilised funds placed by ICP with banks in the form of short-time deposits. This cooperation coincided with slackness in economic activity due to poor agricultural crops, reduced imports and decline in the rate of investment. Gradually as economic activity revived and commercial banks were required to be more selective in entering into long-term commitments the extent of their participation tended to taper off. This highlights the increase in the underwriting liability of the Corporation.

I. PROJECTIONS OF PRIVATE INVESTMENT IN LARGE AND MEDIUM INDUSTRIES FOR THE YEAR 1968-69 AND THE ROLE OF I.C.P.

| | | (Rs. in lac) | |
|---------------------------|---------|--------------|---------|
| I. Paid-up Capitals | .. .. . | 74,20 | 46.4 |
| East Pakistan | .. .. . | 28,51 | 17.8 |
| West Pakistan | .. .. . | 45,69 | 28.6 |
| (1) Sponsors and Retained | | | |
| Earnings | .. .. . | 41,20 | 25.8 |
| East Pakistan | .. .. . | 18,54 | 11.6 |
| West Pakistan | .. .. . | 22,66 | 14.2 |
| (2) Public Issues | .. .. . | 33,00 | 20.6 |
| East Pakistan | .. .. . | 9,97 | 6.2 |
| West Pakistan | .. .. . | 23,03 | 14.4 |
| (a) Fertilizer | .. .. . | 10,84 | 6.8 |
| East Pakistan | .. .. . | .. .. . | .. .. . |
| West Pakistan | .. .. . | 10,84 | 6.8 |
| (b) Non-Fertilizer | .. .. . | 22,16 | 13.9 |
| East Pakistan | .. .. . | 9,97 | 6.2 |

| | | | | | | | | | |
|------------------------------------|----|----|----|----|-------|-------|-------|-------|------|
| West Pakistan | .. | .. | .. | .. | 12,19 | .. | .. | .. | 7.6 |
| (c) I.C.P. take-ups of (2) above.. | .. | .. | .. | .. | 18,50 | .. | .. | .. | 11.6 |
| East Pakistan | .. | .. | .. | .. | 4,50 | .. | .. | .. | 2.8 |
| West Pakistan | .. | .. | .. | .. | 14,00 | .. | .. | .. | 8.8 |
| (i) Fertilizer | .. | .. | .. | .. | 8,50 | .. | .. | .. | 5.3 |
| East Pakistan | .. | .. | .. | .. | .. | .. | .. | .. | .. |
| West Pakistan | .. | .. | .. | .. | 8,50 | .. | .. | .. | 5.3 |
| (ii) Non-Fertilizer | .. | .. | .. | .. | 10,00 | .. | .. | .. | 6.2 |
| East Pakistan | .. | .. | .. | .. | 4,50 | .. | .. | .. | 2.8 |
| West Pakistan | .. | .. | .. | .. | 5,50 | .. | .. | .. | 3.4 |
| (d) N.I.T. Take-ups of (2) above | .. | .. | .. | .. | 2,70 | .. | .. | .. | 1.7 |
| East Pakistan | .. | .. | .. | .. | 1,35 | .. | .. | .. | 0.8 |
| West Pakistan | .. | .. | .. | .. | 1,35 | .. | .. | .. | 0.8 |
| II. Long-term Loans | .. | .. | .. | .. | .. | .. | .. | 85,80 | 53.6 |
| East Pakistan | .. | .. | .. | .. | .. | .. | 38,55 | .. | 24.1 |
| West Pakistan | .. | .. | .. | .. | .. | .. | 47,25 | .. | 29.5 |
| (i) Foreign Loans | .. | .. | .. | .. | .. | .. | 67,00 | .. | 41.9 |
| East Pakistan | .. | .. | .. | .. | .. | 29,80 | .. | .. | 18.6 |
| West Pakistan | .. | .. | .. | .. | .. | 37,20 | .. | .. | 23.3 |
| (a) PICIC | .. | .. | .. | .. | .. | 24,50 | .. | .. | 15.3 |
| East Pakistan | .. | .. | .. | .. | 9,80 | .. | .. | .. | 6.1 |
| West Pakistan | .. | .. | .. | .. | 14,70 | .. | .. | .. | 9.2 |
| (b) IDBP | .. | .. | .. | .. | .. | 42,50 | .. | .. | 26.6 |
| East Pakistan | .. | .. | .. | .. | 20,00 | .. | .. | .. | 12.5 |
| West Pakistan | .. | .. | .. | .. | 22,50 | .. | .. | .. | 14.1 |
| (2) Rupee Loans | .. | .. | .. | .. | .. | .. | 18,80 | .. | 11.8 |
| East Pakistan | .. | .. | .. | .. | .. | 8,75 | .. | .. | 5.5 |
| West Pakistan | .. | .. | .. | .. | .. | 10,05 | .. | .. | 6.3 |
| (a) PICIC | .. | .. | .. | .. | .. | 1,50 | .. | .. | 0.9 |
| East Pakistan | .. | .. | .. | .. | 60 | .. | .. | .. | 0.4 |
| West Pakistan | .. | .. | .. | .. | 90 | .. | .. | .. | 0.5 |
| (b) IDBP | .. | .. | .. | .. | .. | 7,50 | .. | .. | 4.7 |
| East Pakistan | .. | .. | .. | .. | 5,00 | .. | .. | .. | 3.1 |
| West Pakistan | .. | .. | .. | .. | 2,50 | .. | .. | .. | 1.6 |
| (c) ICP (debentures) | .. | .. | .. | .. | .. | 9,50 | .. | .. | 5.9 |
| East Pakistan | .. | .. | .. | .. | 3,00 | .. | .. | .. | 1.9 |

| | | | | | | | |
|----------------------|-----|-----|------|-----|-----|--------|--------|
| West Pakistan | ... | ... | 6,50 | ... | ... | ... | 4.1 |
| (i) Fertilizer | ... | ... | 3,50 | ... | ... | ... | 2.2 |
| East Pakistan | ... | ... | ... | ... | ... | ... | ... |
| West Pakistan | ... | ... | 3,50 | ... | ... | ... | 2.2 |
| (ii) Non-Fertilizer | ... | ... | 6,00 | ... | ... | ... | 3.8 |
| East Pakistan | ... | ... | 3,00 | ... | ... | ... | 1.9 |
| West Pakistan | ... | ... | 3,00 | ... | ... | ... | 1.9 |
| (d) NIT (debentures) | ... | ... | ... | 30 | ... | ... | 0.2 |
| East Pakistan | ... | ... | 15 | ... | ... | ... | 0.1 |
| West Pakistan | ... | ... | 15 | ... | ... | ... | 0.1 |
| Total | ... | ... | ... | ... | ... | 160,00 | 100.00 |
| East Pakistan | ... | ... | ... | ... | ... | 67,10 | 41.9 |
| West Pakistan | ... | ... | ... | ... | ... | 92,90 | 58.1 |

II. SUMMARY OF REQUIREMENT OF FUNDS FOR ICP FOR THE YEAR 1968-69

(Rs. in lac)

| | | | | | | | |
|-----------------------------------------------------------------------------------|-----|-----|-----|-----|-----|-------|-------|
| I. Fertilizer Projects:— | | | | | | | |
| Estimated ICP Take-up Liability : | | | | | | | |
| Public Issues: | | | | | | | |
| East Pakistan | ... | ... | ... | ... | ... | — | |
| West Pakistan | ... | ... | ... | ... | ... | 8,50 | 8,50 |
| Debentures: | | | | | | | |
| East Pakistan | ... | ... | ... | ... | ... | — | |
| West Pakistan | ... | ... | ... | ... | ... | 3,50 | 3,50 |
| II. Non-Fertilizer Industrial Projects:— | | | | | | | |
| Estimated ICP Take-up Liability : | | | | | | | |
| Public Issues: | | | | | | | |
| East Pakistan | ... | ... | ... | ... | ... | 4,50 | |
| West Pakistan | ... | ... | ... | ... | ... | 5,50 | 10,00 |
| Debentures: | | | | | | | |
| East Pakistan | ... | ... | ... | ... | ... | 3,00 | |
| West Pakistan | ... | ... | ... | ... | ... | 3,00 | 6,00 |
| III. Loans & Advances to Investors under ICP Investors' Scheme: | | | | | | | |
| East Pakistan | ... | ... | ... | ... | ... | 1,50 | |
| West Pakistan | ... | ... | ... | ... | ... | 1,50 | 3,00 |
| IV. Disinvestment of Public Sector | | | | | | | |
| Projects to be absorbed by ICP: | | | | | | | |
| East Pakistan | ... | ... | ... | ... | ... | 1,50 | |
| West Pakistan | ... | ... | ... | ... | ... | 1,50 | 3,00 |
| Gross Requirements: | | | | | | | |
| East Pakistan | ... | ... | ... | ... | ... | 10,50 | |
| West Pakistan | ... | ... | ... | ... | ... | 23,50 | 34,00 |
| Less Rolling over of ICP Portfolio and Recovery of loans under Investors' Scheme: | | | | | | | |
| ... | ... | ... | ... | ... | ... | 1,50* | |
| Net Requirements | | | | | | | 32,50 |

*Although gross receipts under this head are expected to be Rs. 2,50 lac (Rs. 1,50 lac from 2nd ICP Mutual Fund, Rs. 25 lac from sales out of Investment Portfolio to investors under Investors' Scheme and Rs. 75 lac from recoveries of investment loans) net availability is taken as Rs. 150 lac as Rs. 56 lac will be used for addition to ICP portfolio investment and Rs. 44 lac to met the shortfall for 1967-68 commitments.

III. FERTILIZER PROJECTS

Requirement of Funds

(Rs. in lac)

| | Public Issue | Debentures | Total |
|-----------------------------|--------------|-------------|--------------|
| Adamjee Fertilizer | 3,50 | 2,00 | 5,50 |
| Hysesons Fertilizer | 2,86 | 2,00 | 4,86 |
| Dawood Fertilizer | 3,48 | 2,00 | 5,48 |
| Jaffer Fertilizer | 1,00 | 1,00 | 2,00 |
| Total | 10,84 | 7,00 | 17,84 |
| Estimated ICP Take-up | 8,67 | 3,50 | 12,17 |
| | | Say | 12,20 |

(80% of Public Issues and 50% of Debenture Issues)

IV. CAPITALIZATION OF NEW PROJECTS UNDERWRITTEN BY ICP AS ON 31.12.1967

(in per cent)

| | | |
|---------------------------|------|------------|
| I. Paid up capital | | 47.8 |
| (i) Sponsors | 19.1 | |
| (ii) Public Issues | 28.7 | |
| Of this ICP take up | 17.1 | |
| II. Long-term Loans | | 52.2 |
| (i) Local | 3.9 | |
| (ii) Foreign | 49.1 | |
| Total | | 100 |

V. SUMMARY OF APPLICATIONS FOR UNDERWRITING OF PUBLIC ISSUES AND PLACEMENT OF DEBENTURES AS AT MARCH 31, 1968.

(Rs. in lac).

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| | | | EAST PAKISTAN | | | WEST PAKISTA | | | TOTAL | | |
|-----------------------------------------------------------|----|----|---------------|-------------------|----------------------------------------|--------------|-------------------|----------------------------------------|-------|-------------------|----------------------------------------|
| | | | No. | Amount of Issues. | Amount under-written/Subscribed by ICP | No. | Amount of Issues. | Amount under-written/Subscribed by ICP | No. | Amount of Issues. | Amount under-written/Subscribed by ICP |
| A.—Applications for underwriting of Public Issues. | | | | | | | | | | | |
| Sanctioned | .. | .. | 17 | 771.80 | 421.80 | 12 | 983.40 | 349.00 | 29 | 1755.20 | 770.80 |
| Pending | .. | .. | 10 | 464.45 | — | 10 | 998.06 | — | 20 | 1462.51 | — |
| Declined | .. | .. | 14 | 473.86 | — | 23 | 662.74 | — | 37 | 1136.60 | — |
| Total | .. | .. | 41 | 1710.11 | 421.80 | 45 | 2644.20 | 349.00 | 86 | 4354.31 | 770.80 |
| B.—Applications for Purchase of Debentures. | | | | | | | | | | | |
| Sanctioned | .. | .. | 3 | 49.47 | 49.47 | 11 | 511.20 | 235.00 | 14 | 560.67 | 284.47 |
| Pending | .. | .. | 3 | 60.20 | — | 3 | 135.00 | — | 6 | 195.20 | — |
| Declined | .. | .. | 4 | 136.32 | — | 5 | 263.30 | — | 9 | 399.62 | — |
| Total | .. | .. | 10 | 245.99 | 49.47 | 19 | 909.50 | 235.00 | 29 | 1155.49 | 284.47 |
| Total of A + B: | .. | .. | 51 | 1956.10 | 471.27 | 64 | 3553.70 | 584.00 | 115 | 5509.80 | 1055.27 |

VI. REQUIREMENT OF FUNDS FOR 1968-69*

(Rs. in lac)

| | East Pakistan | West Pakistan | Total |
|----------------------------------------------------------------------------------------------------------------------------|------------------|------------------|---------|
| I. Total Applications to be Processed | | | |
| (a) Public Issues | | | |
| (i) Pending Applications upto 31-3-1968 .. | 464.45 | 998.06 | 1462.51 |
| (ii) Applications to be received during March- June, 1968 | 250.00 | 250.00 | 500.00 |
| (iii) Applications to be received during 1968-69 .. | 1000.00 | 1000.00 | 2000.00 |
| Sub-Total (a) | 1714.45 | 2248.06 | 3962.51 |
| (b) Debentures | | | |
| (i) Pending Applications upto 31-3-1968 .. | 60.20 | 135.00 | 195.20 |
| (ii) Applications to be received during March- June, 1968 | 100.00 | 100.00 | 200.00 |
| (iii) Applications to be received during 1968-69 | 500.00 | 500.00 | 1000.00 |
| Sub-Total (b) | 660.20 | 735.00 | 1395.20 |
| Total: I | 2374.65 | 2983.06 | 5357.71 |
| II. Applications to be sanctioned during 1968-69 | | | |
| (i) Public Issues equal to 45% of I (b) .. | 771.50 | 1011.63 | 1783.13 |
| (ii) Debentures equal to 60% of I (b) .. | 398.00 | 442.00 | 840.00 |
| Total II | 1169.50 | 1453.63 | 2623.13 |
| III. ICP's Commitments | | | |
| (i) Public Issues equal to 70% of II (i) .. | 540.05 | 708.14 | 1248.19 |
| (ii) Debentures equal to 75% of II (ii) in case of East Pakistan and 68% of II (ii) in case of West Pakistan | 300.00 | 300.00 | 600.00 |
| Total: III | 840.05 | 1008.14 | 1848.19 |
| IV. ICP's Estimated Take-up Liability | | | |
| (i) Public Issues equal to 85% of III (i) .. | 450.00 | 550.00 | 1000.00 |
| (ii) Debentures equal to Commitments as in III (ii) | 300.00 | 300.00 | 600.00 |
| Total: IV | 750.00 | 850.00 | 1600.00 |

*Excluding Fertilizer Projects.

| | East Pakistan | West Pakistan | Total |
|---------------------------------------------------------------------------------|------------------|------------------|---------|
| V. Disinvestment of Public Sector Projects .. | 150.00 | 150.00 | 300.00 |
| VI. Investor's Scheme | 150.00 | 150.00 | 300.00 |
| VII. Net Addition to ICP Portfolio Investment (Out of Market Purchase) | | | 100.00 |
| VIII. Total Requirements (IV+V+VI+VII) ... | | | 2300.00 |
| IX. Less Rolling over of Portfolio and Recoveries of Loan -- -- -- | | | 250.00 |
| X. Net Requirements (VIII minus IX) ... -- | | | 2050.00 |

VII. SOURCES AND USES OF ICP RESOURCES 1966-67

| Sources | (Rs. in lacs) | | |
|--------------------------------------------------------------|---------------|---------|-----------------|
| Paid-up Capital | | | 5,00.00 |
| Long-term Loan | | | 10,00.00 |
| Total | | | <u>15,00.00</u> |
| Uses | | | |
| I. Underwriting and Debenture Take-ups during 1966-67 | | | |
| (a) East Pakistan | | | |
| (i) Public Issues | | 79.01 | |
| (ii) Debentures | | 17.47 | 96.48 |
| (b) West Pakistan | | | |
| (i) Public Issues | | 2,14.93 | |
| (ii) Debentures | | 6.00 | 2,20.93 |
| Total : I | | | <u>3,17.41</u> |
| | | | <u>2,73.71</u> |
| II. ICP Portfolio Investments | | | |
| III. Investors' Scheme | | | |
| Loan Liability to Investors | | | 28.18 |
| Total Uses | | | <u>6,19.30</u> |
| Carry Over | | | <u>8,80.70</u> |

VIII. SOURCES AND USES OF ICP RESOURCES 1966-68

| Sources | (Rs. in lacs) |
|--------------------------------------------------------------------------------------------------------------------|----------------|
| Carry Over from 1966-67 | 8,80.70 |
| Receipt from Sale of ICP Portfolio (Underwritten (less Market Purchases) to the First ICP Mutual Fund* | 50.00 |
| Total: | 9,30.70 |

Uses

I. Underwriting and Debenture Take-ups upto 31-3-1968

| | | | |
|-------------------------|---------|----------------|--|
| (a) East Pakistan | | | |
| (i) Public Issues | 1,13.41 | | |
| (ii) Debentures | 15.00 | 1,28.41 | |
| (b) West Pakistan | | | |
| (i) Public Issues | 111.63 | | |
| (ii) Debentures | 55.00 | 66.63 | |
| Total : I | | 1,95.04 | |

II. Existing Commitments expected to be finalised by 30-6-1968

| | | | |
|-------------------------|---------|----------------|--|
| (a) East Pakistan | | | |
| (i) Public Issues | 2,50.00 | | |
| (ii) Debentures | | 2,50.00 | |
| (b) West Pakistan | | | |
| (i) Public Issues | 33.00 | | |
| (ii) Debentures | 80.00 | 1,13.00 | |
| Total : II | | 3,63.00 | |

*Although the cost at which the shares were purchased by ICP was Rs. 52,63,500 the shares were offered at a discount of Rs. 2,63,500. As a result net generation of resources to ICP was Rs. 50,00,000 only.

| | | | |
|---------------------------------|----|----|----------|
| III. ICP Portfolio Investments* | | | 190.00 |
| IV. Investors' Scheme | | | |
| Loan Liability to Investors | .. | .. | 2,27.00† |
| Total Uses | .. | .. | 9,75.04 |
| Shortfall | .. | .. | (44.34) |

IX. SOURCES AND USES OF ICP RESOURCES 1968-69

Sources

| | | | |
|----------------------------------------------|----|----|---------|
| I. Recovery of Loans under Investors' Scheme | .. | .. | 75.00 |
| II. Rolling over of ICP Portfolio** | .. | .. | 1,75.00 |
| III. Less Shortfall in 1967-68 | .. | .. | 44.34 |
| IV. Net Available Resources | .. | .. | 2,05.66 |

Uses

I. Fertilizer Projects—

Estimated ICP Take-up Liability

West Pakistan:

| | | | | |
|-------------------|----|----|---------|-----------------|
| (i) Public Issues | .. | .. | 8,50.00 | |
| (ii) Debentures | .. | .. | 3,50.00 | 12,00.00 |
| Total : I | .. | .. | | 12,00.00 |

*Net change in ICP Portfolio represents addition after sale to the First ICP Mutual Fund, sales to investors under Investors' Scheme and on sales on the market.

†Net increase in loan liability up to 31-3-68 was Rs. 180 lacs. Anticipating a further mobilization of Rs. 16 lac as investors' deposits, loan liability is expected to increase further by nearly Rs. 47 lac to Rs. 227 lac.

**Includes transfers to proposed Second ICP Mutual Fund of Rs. 150 lac and sale of shares of Rs. 25 lac from existing Portfolio to ICP investors and the market.

II. Non-Fertilizer Industrial Projects
Estimated ICP Take-up Liability

(a) East Pakistan:

| | | | | |
|-------------------|----|----|---------|---------|
| (i) Public Issues | .. | .. | 4,50.00 | |
| (ii) Debentures | .. | .. | 3,00.00 | 7,50.00 |

(b) West Pakistan

| | | | | |
|-------------------|----|----|---------|----------|
| (i) Public Issues | .. | .. | 5,50.00 | |
| (ii) Debentures | .. | .. | 3,00.00 | 8,50.00 |
| Total : II | .. | .. | | 16,00.00 |

III. Loans and Advances to Investors under ICP
Investors' Scheme

| | | | | |
|-------------------|----|----|--|---------|
| (a) East Pakistan | .. | .. | | 1,50.00 |
| (b) West Pakistan | .. | .. | | 1,50.00 |
| Total : III | .. | .. | | 3,00.00 |

IV. Disinvestment of Public Sector Projects to be
absorbed by ICP

| | | | | |
|-------------------|----|----|--|---------|
| (a) East Pakistan | .. | .. | | 1,50.00 |
| (b) West Pakistan | .. | .. | | 1,50.00 |
| Total : IV | .. | .. | | 3,00.00 |

V. ICP Portfolio Investments

| | | | | |
|----------------------------------------|----|----|--|----------|
| | .. | .. | | 55.66 |
| Total Uses | .. | .. | | 34,55.66 |
| Net Requirements of Funds (BVI-AIV) | .. | .. | | 32,50.00 |

X. DISBURSEMENT OF ICP FUNDS

(Including Fertilizer Projects) (Rs. in lac)

| | 1966-67 (Actuals) | 1967-68 * (Estimates) | 1968-69 (Estimates) |
|-----------------------------------------------------------------------|----------------------|--------------------------|------------------------|
| I. Public Issues: | | | |
| (i) East Pakistan | 79.01 | 3,63.41 | 4,50.00 |
| (ii) West Pakistan | 2,14.93 | 44.63 | 14,00.00 |
| Total | 2,93.94 | 4,08.04 | 18,50.00 |
| II. Debentures: | | | |
| (i) East Pakistan | 17.47 | 15.00 | 3,00.00 |
| (ii) West Pakistan | 6.00 | 1,35.00 | 6,50.00 |
| Total | 23.47 | 1,50.00 | 9,50.00 |
| III. Investment Loan, Liabilities under Investors' Scheme: | | | |
| (i) East Pakistan | 7.45 | 75.67 | 1,50.00 |
| (ii) West Pakistan | 20.73 | 1,51.33 | 1,50.00 |
| Total | 28.18 | 2,27.00 | 3,00.00 |
| IV. Investment Portfolio | 2,73.71 | 1,90.00 | 55.66 |
| V. Disinvestment of Public Sector Projects: | | | |
| (i) East Pakistan | — | — | 1,50.00 |
| (ii) West Pakistan | — | — | 1,50.00 |
| Total | — | — | 3,00.00 |
| VI. Total Disbursements** | 6,19.30 | 9,75.04 | 34,55.66 |

XI. PUBLIC RESPONSE TO NEW FLOATATIONS ON THE STOCK EXCHANGE

1963-64 to 1967-68 (nine months only) (Rs. in lac)

| Years | No. of Issues | Amount offered to Public*** | Amount subscribed by Public | Percentage (Col. 4 to Col. 3) |
|---------------------|------------------|-----------------------------------|-----------------------------------|-------------------------------------|
| 1 | 2 | 3 | 4 | 5 |
| 1963-64 | 25 | 5,58.35 | 68,96.89 | 12,35.2 |
| 1964-65 | 22 | 10,20.94 | 29,32.26 | 2,87.2 |
| 1965-66 | 15 | 3,27.55 | 20,43.19 | 6,23.8 |
| 1966-67 | 19† | 6,08.45† | 1,78.61 | 2,9.4 |
| 1967-68 | 15 | 3,34.40 | 2,52.89 | 75.6 |
| (1-7-67 to 31-3-68) | | | | |

*Actuals for first nine months upto 31.3.1968 and estimates for the remaining three months.

**Regional break-up is not given because Investment Portfolio (item IV) cannot be sub-divided region-wise.

***Excluding Sponsors' contribution and the amount offered to NIT.

†Excludes 1st ICP Mutual Fund amounting to Rs. 50 lac offered to public which was subscribed by the public to the extent of Rs. 3.79 crores.

**XII. NEW FLOATATIONS ON THE STOCK EXCHANGE CLASSIFIED BY LOCATION OF PROJECTS BY REGIONS
1963-64 TO 1967-68 (NINE MONTHS ONLY)**

(Rs. in lac.)

| Years | Region. | No. of Issues | Public Issues Taken-up By | | | | | | | | | |
|------------------------|---------------------|------------------|---------------------------|------|---------|------|----------|------|----------------------------------|------|----------|-----|
| | | | Public | | I C P. | | N.I.T. | | Other Financial Institutions. | | Total * | |
| | | | Amount. | % | Amount† | % | Amount. | % | Amount. | % | Amount. | % |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 |
| 1963-64 | .. East Pakistan .. | 6 | 1,54.72 | 89.0 | — | — | 19.10 | 11.0 | — | — | 173.82 | 100 |
| | .. West Pakistan .. | 19 | 7,12.67 | 96.3 | — | — | 27.42 | 3.7 | — | — | 740.09 | 100 |
| | .. All Pakistan .. | 25 | 8,67.39 | 94.9 | — | — | 46.52 | 5.1 | — | — | 9,13.91 | 100 |
| 1964-65 | .. East Pakistan .. | 6 | 1,80.38 | 73.0 | — | — | 31.50 | 12.8 | 35.12 | 14.2 | 2,47.00 | 100 |
| | .. West Pakistan .. | 16 | 8,59.96 | 74.4 | — | — | 1,91.00 | 16.5 | 1,04.70 | 9.1 | 11,55.66 | 100 |
| | .. All Pakistan .. | 22 | 10,40.34 | 74.1 | — | — | 2,220.50 | 15.9 | 1,39.82** | 10.0 | 14,02.16 | 100 |
| 1965-66 | .. East Pakistan .. | 3 | 1,65.82 | 64.5 | — | — | 79.70 | 31.0 | 11.58 | 4.5 | 2,57.10 | 100 |
| | .. West Pakistan .. | 12 | 2,11.76 | 70.0 | 19.96 | 6.6 | 9.50 | 3.1 | 61.28 | 20.3 | 3,02.60 | 100 |
| | .. All Pakistan .. | 15 | 3,77.62 | 67.5 | 19.96 | 3.6 | 89.20 | 15.9 | 72.82** | 13.0 | 5,59.60 | 100 |
| 1966-67 | .. East Pakistan .. | 7 | 50.82 | 22.0 | 79.01 | 34.2 | 13.13 | 5.7 | 88.34 | 38.1 | 2,31.30 | 100 |
| | .. West Pakistan .. | 12 | 1,28.82 | 18.9 | 2,14.93 | 31.5 | 6.50 | 1.0 | 3,31.75 | 48.6 | 6,82.00 | 100 |
| | .. All Pakistan .. | 19 | 1,79.64 | 19.7 | 2,93.94 | 32.2 | 19.63 | 2.1 | 4,20.09 | 46.0 | 9,13.30† | 100 |
| 1967-68 | .. East Pakistan .. | 8 | 1,21.20 | 45.1 | 50.96 | 18.9 | — | — | 96.84 | 36.0 | 2,69.00 | 100 |
| (1-7-67 to 31-3-68) | .. West Pakistan .. | 7 | 2,13.37 | 92.7 | 11.63 | 5.1 | 5.00 | 2.2 | — | — | 2,30.00 | 100 |
| | .. All Pakistan .. | 15 | 3,34.57 | 67.1 | 62.59 | 12.5 | 5.00 | 1.0 | 96.84** | 19.4 | 4,99.00 | 100 |

Notes : * Excluding Sponsors' contribution to paid-up capital.

** Includes PICIC and EPIDC.

† Excludes Rs. 13 lac taken up by EPIDC and the First ICP Mutual Fund which was floated on June 15, 1967. As against the offer of Rs. 50 lac the Fund attracted a total subscription of Rs. 3,79 lac.

National Investment Trust Limited

INVESTMENT PROGRAMME FOR 1968-69

It will be seen from the enclosed Statement A that the National Investment Trust Ltd. which started operations from 1st January, 1963 has upto 22.3.1968 been able to mobilise a sum of Rs. 12,78,21,347. Based on recent trends and increasing awareness of the benefits of the Unit Trust movement in Pakistan, it is expected that by 30th June, 1968, the total net mobilisation of funds would come to approximately Rs. 13.5 crores. If, as is expected, the existing trends are strengthened, it should be possible for the NIT to mobilise a sum of no less than Rs. 3 crores during the year 1968-69. A vital factor which would affect the success of NIT's sale promotion efforts would be the continuance or abolition of the existing 30% tax at source on income distributed by the NIT to the holders of Bearer Units (this issue has been dealt with in detail in paragraph 7 below). Other factors which are likely to influence this target for better or for worse are the availability of funds with the Management Company for stepping up its public relations programmes, the response of the people of East Pakistan to the increased efforts which will be made by the Management Company to mobilise funds in that Wing, and the further fiscal incentives for savings and investment provided in the forthcoming Central Budget. If all goes well, it should be possible for the Management Company through vigorous efforts not only to achieve but even exceed the projected target.

2. As for the investment of the mobilised funds, the bulk of the investment could, (as has been done hitherto) be invested in the equity of Joint Stock Companies listed on the Karachi and Dacca Stock Exchanges. The Management Company, has however, for some time been feeling the necessity of increasing the proportion of fixed income investments in its portfolio. During the course of the present year it has purchased some Debentures and intends to purchase more before 30th June, 1968. This trend is likely to continue during the next year also, and it is quite possible that if a sufficient number of Debentures on suitable terms and at satisfactory rates of interest, become available in the market by 30th June, 1969 about 10% of the total investment of the Trust may comprise of fixed income investments, largely in Debentures of Joint Stock Companies. The National Investment Trust Ltd. is not inclined to go in for Government Securities, firstly because the rate of interest offered compares unfavourably with the prevailing Debenture rate of 8½%, and secondly because Government Securities are not easily marketable, and can only be sold in case of necessity at a considerable discount.

Sectoral and Regional Distribution

Sectoral

3. In making its investments on the Stock Market, the NIT is guided by considerations of safety of capital, growth of the Company, capital appreciation in share prices, and an assured income. It does not, therefore, have in view any rigid sectoral allocations for its future investments. It may, however, be added that among the 17 sectors in which the listed Companies are divided on the Karachi Stock Exchange, the Trust does not intend to make major investments

in three sectors i.e. Banking, Insurance and Sugar. The reasons briefly are that the present prospects of both the Sugar and the Insurance sectors seem to be clouded by so many uncertainties that it is not considered safe to go in for large scale investments in these two sectors. As for the Banking Sector, there are two clear cut groups. One which has been making considerable profits, and also providing regular benefits to its share-holders is already priced high, while the other does not appear to have much prospect in the near future of providing an assured income or a steady appreciation in market prices.

Regional

4. As for the regional distribution of NIT's investments, the enclosed Statement 'B' will show that NIT has already been investing more funds in Companies wholly operating in East Pakistan than it has been able to mobilise from that Wing through the sale of its Units. Although it cannot be guaranteed that the present proportion between resources mobilised and resources invested in East Pakistan would always be maintained, every effort will be made to ensure that the funds actually invested in Companies operating wholly in East Pakistan never fall short of the funds mobilised from East Pakistan through the sale of NIT Units. In other words, the operations of NIT would always provide a favourable balance in respect of the transfer of resources from West Pakistan to East Pakistan, for the development of the private sector.

Criteria for investment

5. The basic criteria which takes precedence over all other considerations is the interest of the Unit-holders, which consists of assurance of safety of this investment, an assured but steadily increasing income, and a gradual, but as far as possible, continuous increase in the sale and repurchase prices of NIT units. Other considerations such as support to the Stock Market or mitigation of regional disparity must necessarily take a position subordinate to the primary consideration, but within the requirements of the primary conditions, efforts will continue to be made as far as possible, to provide support to the Stock Market as well as help in the development of private sector industries in East Pakistan.

Financial requirements

6. There are no financial requirements, as far as foreign exchange is concerned, but in respect of rupees, it would be a great help to the Management Company in its efforts towards increasing investment consciousness and mobilisation of domestic resources if the Government would continue its previous policy of giving interest-free loans to it. At present loans amounting to Rs. 1.25 crores are outstanding, and it is suggested that these loans may be continued, even if they are not increased further, on an interest free basis for another five years.

Major Problems

7. A major problem in respect of the operations of the NIT which exists at present is the problem of tax at source on Bearer Units of the NIT. The Bearer

Unit scheme was introduced in 1965 primarily with the objective of mobilising individual savings in the rural areas, the crucial importance of which has been mentioned at more than one place in the Third Five-Year Plan. The imposition of a tax at source on the income derived by Bearer Unit-holders has, however, put such a damper on this scheme that, as will be seen from the statement, only a sum of Rs. 45,74,216 has been mobilised through the Bearer Unit Scheme during the last 2½ years. It is, therefore, suggested that irrespective of the small loss in tax revenue that it may cause and the opportunities which it may provide for owners of 'Black' money to secure some income from their capital, the present tax at source at the rate of 30% should be abolished completely. Unless this is done it would not be possible to mobilise large amounts of dormant individual savings in the rural areas, and this would particularly affect the mobilisation of resources in East Pakistan, where the process of urbanization has not gone as far as in West Pakistan. It may be added that the proposal to refund the tax deducted at source which may be in excess of the actual tax liability of an individual Bearer Unit-holder is not at all feasible, because of the anonymous nature of the Bearer Units.

Other Policy Issues

8. In para 8 at page 65 of the Third Five-Year Plan (June, 1965 printing) it has been stated that "*A comprehensive review of the interest-rate structure is underway to provide greater incentives for a higher rate of saving.*" Although there has been a slight increase in the rate of interest payable on savings Banks Accounts and Fixed Deposits recently, the rate officially ruling at present is nowhere near the actual effective rate of interest on the basis of which most of the business is being done. This has on the one hand resulted in the enormous malpractice of 'over the table' and 'under the table' interest payments and on the other has discouraged genuine investors from making a greater effort to save and invest. It is felt that the present rate of interest should be increased further in order to reflect the scarcity value of domestic capital in a more realistic manner. If this is done, apart from increasing the margin of savings, it would also discourage the various malpractices involved in commercial banking operations at present.

9. Closely connected with the issue of interest rate is the question of developing a Debenture market in Pakistan. While an ever increasing number of Joint Stock Companies are now turning attention to the financing of their capital expansion programmes through Debentures instead of increasing their equity, most of the Debentures are being placed with financial institutions through direct negotiations. It is obvious that not only institutions like Insurance Companies and Banks, etc. but also a large number of individual investors would be glad to reduce their risks by transferring some of their investments from variable-income equities to fixed-income Debentures. A lively Debenture market would, therefore, not only encourage individual savings, but would also provide a ready source of finance for some of the existing industrial Units which would not have to resort to the expansion of their equity, thus leaving the market free for new enterprises. In this connection it may be also added that it is time we revised some of our out-of-date notions about the Debt Equity ratio of Joint Stock Companies. While

a rigid enforcement of the 50:50 ratio may be alright for a developed country which wants to follow a no-risk conservative financing policy, it hardly fits in with the modern concepts of rapid economic development, and dynamic corporate enterprise. In this connection the experience of Japan where at 70:30 Debt Equity ratio is normal and even an 80:20 ratio is not frowned upon, is relevant.

10. Coming to the institutional framework of the capital market, the major deficiency seems to be in the working of the Stock Exchanges in Pakistan. While the IDBP and PICIC and the NIT and ICP have made considerable progress in expanding the field of investment and providing additional capital resources, the Stock Exchanges which should be the main pillar of the capital market have not been active as they should be in a growing economy. Apart from other factors responsible for this state of affairs, one of the principal reasons is poor management of the Stock Exchanges themselves. The major deficiency seems to be the complete lack of research and public relations efforts on the part of the Managements of the two Stock Exchanges at Karachi and Dacca. It is felt that until the managements of the two Exchanges are streamlined by the appointment of one or two whole-time paid Directors, it would not be possible for the Stock Market in Pakistan to grow in a healthy and stable manner, in spite of the reforms which may be introduced in the working of the private corporate sector as such, through modification of the Companies Act.

11. As regards the working of the corporate sector although there are numerous deficiencies and a large number of obsolete provisions in the Companies Act, 1913, continue to clog progress, if one deficiency is to be singled out for immediate attention, a rectification of which can bring about a tangible improvement in the working of the corporate sector, it would be the Audit and Accounting arrangements. While other aspects of the working of the corporate sector are very complicated and would require considerable time to modify, the audit and accounting arrangements could be set right through an Ordinance. This Ordinance would only need to standardise the form as well as the terminology to be used in all the Annual Accounts Statements such as Balance Sheet, Profit and Loss Account, details of Fixed Assets with the depreciation charged thereon, and the detailed statements of the tax provision, etc. At the same time it should provide for a system which would free the Chartered Accountants from the pressure which the Managing Agents are able to bring upon them through their power of selection and fixation of the remuneration of the Chartered Accountants.

12. In this connection it may not be out of place to draw attention to the fact that the price earning ratio of even the most popular and valued shares in the Stock Market of Pakistan is no more than five to ten. For example, the present price earning ratio for such leaders of the Stock Market as Burewala, National Shipping and Premier Tobacco is no more than 7, 4 and 6 respectively. In U.S. this ratio varies from no less than 10 to 60. The lowest ratio is confined to rail-road scrips, which are considered to have the smallest growth potential because their tariff is controlled by the Government. They are followed by Public Utility Companies, which have a ratio of 15 to 20, and then come the major

industrial enterprises with a ratio of 20 to 30. Lastly come the so-called glamour or growth stocks such as IBM, Xerox and Polaroid, whose price-earning ratio is anything from 40 to 60. Basically, the low price earning ratio in Pakistan is indicative of the lack of sophistication among the investors and absence of any depth in the market, but the biggest single cause of this under pricing of equity values is the lack of confidence of the investors in the future profitability and growth of even the most profitable and most efficiently managed Joint Stock Companies in Pakistan. While any number of measures can be cited which can help in building up the investors' confidence, the one remedy which would have the biggest effect would be the setting up of some form of a security and Exchange Commission, and the earlier this is done, the better for the future not only of the Stock Market in Pakistan, but of the whole private enterprise system as such. Much of the spectacular growth of corporate enterprise in USA can be traced back directly to the establishment of the Security and Exchange Commission in that country in 1935, and it is quite possible that Pakistan's experience in this matter may not be very dissimilar. Only after the confidence of investors, both individual as well as institutional has been built up would there be a really stable and steady capital appreciation in equity values, leading to a tangible improvement in the price earning ratios mentioned above.

13. In para 1 at page 61 of the Third Five-Year Plan it is stated that *"Efforts will be required to transfer responsibility for financing a part of the programmes of the Public Corporations from the Government Budget to the capital market."* So far, the only major tangible effort in this direction seems to have been the announcement of the intention of the two PIDC's to disinvest some of their large holdings in those Joint Stock Companies which they have helped to set up or in which they have a large number of shares. However, nothing has so far come out of these plans, nor has there been any major effort on the part of the two PIDC's to go to the capital market directly for the financing any of their new enterprises. Apparently these Corporations are not quite confident of the response which they would receive from the capital market and are, therefore, still relying heavily on Government support in the form of loans at rates of interest much lower than the open market rates. This is a tendency which needs to be discouraged strongly, because providing such sheltered conditions for the establishment of enterprises which are basically commercial in nature, can only encourage inefficiency and complacency in the management. It is time, the two Corporations were told that for all their future operations and the fulfilment of their development plans, they will have to depend entirely on the capital market of the country, in the same way as a private industrialist has to depend. The only concession which may be offered to these Corporations should be a clearly defined subsidy, if they are required in the national interest, to take up projects which cannot be justified on purely economic and commercial considerations. In these cases also the amount of subsidy should be related to the price structure of their products and the quantum of production, and should not take the form of a loan at subsidised rates irrespective of the performance of the Corporation and the utilisation of this loan, as is the case at present.

14. In para 8 of the Third Five Year-Plan (page 65) it is stated that *"With the incentives provided by the present system of taxation as Much as 60% to 75% of industrial profits will continue to be re-invested"*. Apparently this expectation, which was based on the provisions of the tax holiday rules evolved in the early sixties, has now clashed with considerations of encouraging greater individual investment in the Stock Market. The result has been last year's budget provisions regarding taxation of excess free reserves and differential rates of taxation on distributed and un-distributed profits of Joint Stock Companies. Without going into the pros and cons of the two policy considerations which appear to be in conflict, it may be stated that the result of last years' measures would obviously be a reduction in the direct and automatic re-investment of the profits of industrial units, and the figure of 60% to 75% mentioned above, is not likely to be realised. The shortfall thus caused can be made up by stepping up the incentives for individual savings through a reduction in individual consumption, and for bringing dormant savings or savings which are employed unproductively, into direct productive investment in the Stock Market. Some of the possible measures which can be taken to achieve this purpose are an increase in the tax free dividend income limit from the existing Rs. 5,000 per annum to Rs. 7,500 per annum, and the abolition of Capital Gains Tax on stocks and shares. Both these measures can go a long way towards providing a very considerable incentive for increasing the rate of individual savings and the mobilisation of such resources for the Stock Market.

15. Since we have now firmly adopted the corporate enterprise system as the basis of economic development in Pakistan, the notional distribution between the public sector and the private sector must gradually fade out and by and large all economic development except for some of the very basic infrastructure development should be on the basis of purely commercial and economic considerations, and through the mechanism of corporate enterprise. In view of this, it is vitally necessary that everything should be done to strengthen the market mechanism of financing and management and nothing should be done to weaken this mechanism through preferential treatment for public sector enterprises, such as loans on low rates of interest, and specially generous import licenses etc. In this context, the role of development banking and investment banking institutions, which have been evolved over the last 10 years appears to be crucial. So far, institutions like PICIC, IDBP and ICP, which are Government sponsored equivalents of privately owned investment banking institutions in other countries, have been relying heavily on exceptional Government support. Although in the beginning it may have been necessary to support the operations of these institutions by providing them with Government loans at below market rates the time has come when these institutions must look out for themselves, and secure funds for their operations from the open market, just as Investment Banks do in other countries. Unless this is done, a certain amount of concealed subsidisation of industrial development at the cost of vitally necessary incentives for saving and investment by individuals would continue. As mentioned earlier it is time that greater incentive was provided for individual savings and investment by increasing the reward for those who provide the funds for running the industries. It may also be noted that the continuance of the existing arrangements for subsidising

development and investment banking in Pakistan has led to many malpractices, as well as the less efficient utilisation of the available resources than would be the case if the whole operation was fully exposed to market mechanism.' An extract of certain comments in the 'Business Recorder' dated the 8th March, 1968, on this point would not be irrelevant. Talking of PICIC, IDBP and ICP, it says "They have surplus rupee resources at their disposal, which are currently being utilised to earn profits from 'time' and call" deposits". It then goes on to say that these institutions cannot resist the temptation of "The profit opportunities inherent in having to pay interest of 5% while easily earning it at up to 7½%". It concludes by saying that "they must enlarge their operations" by making better use of the resources available with them to increase the quantum of capital financing which they are undertaking at present. Another important consequence of the larger employment of market mechanism for financing industrial development would be that the Government would have to leave a larger amount of funds with individuals and institutions, who provide resources for the capital market of the country. This would be inevitable firstly because the capital market would have to provide larger funds to institutions like the PICIC, IDBP and the two PIDC's etc. than it has been doing in the past, and secondly because Governments' own requirements of funds would be reduced since it would no longer have to provide large loans and credits to the institutions mentioned above.

Statement 'A'

NATIONAL INVESTMENT (UNIT) TRUST LTD

STATEMENT OF SALE OF UNITS IN EAST AND WEST PAKISTAN AS ON 22ND MARCH, 1968.

| Period | West Pakistan | East Pakistan | Progressive Total of East and West Pak |
|----------------------------------|---------------|---------------|----------------------------------------|
| As on 31st December '1963 | | | |
| | Rs. | Rs. | Rs. |
| No. of Units holders | 5,634 | 758 | 6,392 |
| Net No. of Units | 38,29,410 | 2,55,700 | 40,85,110 |
| Net Value of Units | 3,83,37,826 | 25,59,930 | 4,08,97,756 |
| As on 31st December, 1964 | | | |
| No. of Unit holders | 9,054 | 1,094 | 10,148 |
| Net No. of Units | 61,57,585 | 4,97,141 | 66,54,726 |
| Net Value of Units | 6,44,92,463 | 53,20,615 | 6,98,13,078 |
| As on 31st December, 1965 | | | |
| No. of Unit holders | 16,826 | 1,576 | 18,402 |
| Net No. of Units | 67,35,928 | 8,15,125 | 75,51,053 |
| Net Value of Units | 7,10,78,930 | 89,31,869 | 8,00,10,849 |
| As on 30th June, 1966 | | | |
| No. of Unit holders | 17,976 | 1,760 | 19,736 |
| Net No. of Units | 74,20,882 | 9,46,624 | 83,67,506 |
| Net Value of Units | 7,89,14,805 | 1,04,34,168 | 8,93,48,973 |
| As on 30th June, 1967 | | | |
| No. of Unit holders | 20,756 | 3,519 | 24,275 |
| Net No. of Units | 88,06,779 | 11,94,543 | 1,00,01,322 |
| Net Value of Units | 9,41,21,976 | 1,32,88,822 | 10,74,10,798 |
| As on 22nd March, 1968 | | | |
| No. of Unit holders | 21,408 | 3,502 | 24,910 |
| Net No. of Units | 1,05,26,897 | 13,08,708 | 1,18,35,605 |
| Net Value of Units | 11,32,27,542 | 1,45,93,805 | 12,78,21,347 |

INVESTMENT OF NATIONAL INVESTMENT (UNIT) TRUST.

FUND AS ON 31ST MARCH, 1968.

| Sr. No. | Name of investment. | Companies Operating in West Pakistan (Rs. in lacs) | Companies Operating in East Pakistan (Rs. in lacs). | Companies Operating in both East and West Pakistan. | Total (Rs. in lacs) |
|------------------------------|---------------------------|----------------------------------------------------|-----------------------------------------------------|-----------------------------------------------------|---------------------|
| 1. | Banks .. | | | 62.25 | 62.25 |
| 2. | Cotton Textile. | 143.77 (includes debentures Rs. 20 lacs) | 19.89 | | 165.66 |
| 3. | Woollen Textile. | 9.01 | | | 9.01 |
| 4. | Synthetic and Rayon .. | 29.49 | 43.98 | | 73.47 |
| 5. | Pharm. and Chemical .. | 11.18 | 3.75 | 12.90 | 27.83 |
| 6. | Jute .. | 32.16 | 172.44 | | 204.60 |
| 7. | Sugar and Allied. | 52.15 | | | 52.15 |
| 8. | Miscellaneous. | 105.35 (includes debentures Rs. 7 lacs) | 44.13 | 44.32 (includes debentures Rs. 5 lacs) | 193.80 |
| 9. | Cement. .. | 67.50 | | 10.00 | 77.50 |
| 10. | Tobacco .. | 3.71 | .50 | 24.25 | 28.46 |
| 11. | Fuel and Power. | 134.01 | 18.60 | 11.02 | 163.63 |
| 12. | Engg. and Const. | 30.06 | 6.59 | | 36.65 |
| 13. | Trans: and Commu. .. | | 2.49 | 35.12 | 37.61 |
| | | 620.39 | 312.37 | 199.86 | 1132.62 |
| Government Securities | | | | | |
| 14. | 4-3/4 % Pak. Loan 1983 .. | | | | 20.00 |
| | Inter Bank Call Deposits. | | | | 125.00 |

VII-G

HOUSE BUILDING FINANCE CORPORATION

ANNUAL PLAN FOR 1968-69

In accordance with the Third Five-Year Plan 2,12,000 urban houses are to be constructed in the private sector. The House Building Finance Corporation has not got with them the figures of houses constructed by—

- (1) Private individuals without assistance from House Building Finance Corporation.
- (2) Houses constructed by Government or other autonomous bodies for residential accommodation of their officers and staff.
- (3) Houses constructed by private industrialists for their labour staff.

2. Judged by the figures of construction of houses during the first two years of the Five-Year Plan and taking into account severe restrictions, such as, increased rate of interest, reduced period of repayment and higher cost of construction, not more than 10,000 houses can be expected to be built with the financial assistance from the House Building Finance Corporation during the current Plan Period. If we add to this another 50,000 units likely to be built by all other parties, mentioned above, without any assistance from the House Building Finance Corporation, the total would not exceed 60,000 as against a target of 2,12,000. It may be of interest to state that the target of 2,12,000 itself was only a small percentage of the total requirement of urban housing accommodation required by the end of the 3rd Plan period. It is evident, therefore, that this sector of the economy would lag behind unless special ways and means are devised to step up the construction of more houses in urban areas. Spectacular results are stated to have been achieved in many countries in this field. I may be in a position to offer some useful suggestions in the light of the experience that I would gain if my projected tour to South-East Asian countries under the Colombo Plan materialises.

3. In these circumstances, if we are to restrict our loaning operations to Rs. 4½ crores during 1968-69, I would like to state that as I had pointed out in the meeting of the Annual Development Plan Committee held at Karachi on 2nd April, 1968 under the Chairmanship of Mr. Qamarul Islam, our minimum requirement of finances with the constraints mentioned above would be:

- (1) Rs. 2 crores for redemption of two debentures of the State Bank of Pakistan maturing on 31-3-69.
- (2) Rs. 2 crores for normal loaning operations during 1968-69 (in addition to 2½ crores from our recoveries).

The latter amount will be in substitution of the sale of debentures of House Building Finance Corporation hitherto in vogue. It has been very kindly agreed, I am told, by the Economic Co-ordination Committee that in future financial requirements of the House Building Finance Corporation for their loan operation would be met by Annual Loans through Annual Development Plan.

4. Again if the rate of interest and the period of recovery existing period to 1st of August, 1967, are restored the demand for House Building loan would step up because the reduced rate of monthly instalment would be within the capacity of a larger number of borrowers. In that case our loan operations will amount to Rs. 6 crores which is the average figure for three years prior to 1967-68. Correspondingly, therefore, our demand for loan from the Government during the year 1968-69 would be Rs. 5½ crores (3½ crores for loan operations plus 2 crores for restoration of debentures).

5. At the suggestion of Mr. Shafiul Azam, C.S.P., Additional Chief Secretary (Development), Government of East Pakistan, Mr. Qamarul Islam agreed that if there are any recommendations for stepping up investments in East Pakistan, these could also be submitted. As I mentioned in the meeting itself, the demand for House Building loans in East Pakistan has come down by about 50% during the year 1967-68 as compared with the average for the previous three years. The reasons for this fall have already stated and are within the knowledge of the Government. It appears necessary that special measures on the line indicated below would be necessary to encourage building of urban houses in the private sector in East Pakistan:

- (1) If the Government is not prepared to reduce the rate of interest and raise the period of recovery for the whole of the country, atleast in respect of East Pakistan an exception be made and the position obtaining period to 1.8.67 may be restored for East Pakistan.
- (2) Exemption of the new houses from urban property tax, income tax and municipal tax may be granted (as has been stated to be done in Islamabad) for houses in all urban areas of East Pakistan for a period of at least 10 years.
- (3) Encouragement of the formation of well-organised construction companies, allotment of land to such companies for construction of multi-storied buildings as in Karachi, grant of tax concessions to construction companies (as in the case of approved new industries in relatively backward areas) and ensuring regular supply of building materials at reasonable prices to the construction companies.

VIII

STATE BANK OF PAKISTAN

CRUCIAL ASPECTS OF ANNUAL PLAN COORDINATION

The object of this paper is to focus attention on some of the crucial aspects of Plan coordination in the light of past experience. It may be noted at the outset that so far the annual plan exercise has been concerned almost exclusively with the framing of an Annual Development Programme for the public sector. The practice has been to fix the size of the public sector programme in the context of the suggested annual phasing of the public expenditures over the five year Plan period influenced, of course, by shorter term trends in revenues and other variables like foreign assistance. The composition of the public sector programme is determined on the basis of a detailed scrutiny of development schemes submitted by various ministries and development agencies. Though the process employed to weight the competing claims of various schemes is by no means perfect, the elaborate scrutiny that is carried out at various levels of Government conduces to fairly satisfactory results. The same cannot be said about the private sector development programme. Neither the size of the private sector programme nor its composition have so far been given the attention they deserve. No systematic quantification is attempted on an annual basis in regard to the overall size of the private sector development programme. Nor is its composition decided or influenced on the basis of any set criteria as discussed later in this paper.

2. From the viewpoint of maintaining overall financial balance in the economy, it is necessary that regulation of private investment should be undertaken with reference to the same time horizon as applies to other variables affecting monetary demand. However, the fact of the matter is that though public expenditures are planned on a fiscal year, basis, the Industrial Investment Schedule, which is supposed to regulate private investment expenditures, is framed with reference to the entire five year Plan period. How much of the Schedule is taken up in any particular fiscal year is determined by the investors' own decisions rather than the needs of the economic situation. This has militated against an effective coordination of public and private sector expenditures on a fiscal year basis which is the basic period of reference for most economic policy decisions in Pakistan.

3. There are reasons to believe that insufficient attention to these aspects of the planning process has proved costly to the country in many ways. The magnitude of private investment activity from year to year has been governed not by rational calculations as to its appropriate size from the viewpoint of overall financial balance in the economy but by *ad hoc* entrepreneurs' decisions, based in most cases on extremely short run profit possibilities and ability to command financial resources from one source or the other. The replacement of direct

administrative controls on investment by the mechanism of the Industrial Investment Schedule has not made much of a difference in this respect. Monetary ceilings are, of course, set in respect of different types of industries in the Schedule but neither the original ceilings nor subsequent revisions of these ceilings are related to the state of monetary demand in the economy.

4. Lack of coordination between the public and private sector programmes on the basis of a careful assessment of the overall availability of resources has given rise to a number of problems. Excepting a year or two since 1960, claims on resources have far outstripped the availability of resources with the result that the economy has been subjected to the tensions of a continually rising price level and recurrent foreign exchange difficulties*. Inequalities of income and wealth have increased on account, among other things, of the persistence of inflationary pressures. The middle classes and fixed income groups, which can lend great stability to the society, have been caught in the vertex of a continually rising cost of living and shrinking real income. The dependence of the economy on* foreign aid and loans has increased and foreign assistance has become indispensable even for running the existing industries.

5. The problems arising from lack of coordination are not confined to the realm of prices and balance of payments alone. They run through the entire gamut of the economy. There is evidence that structural problems of a serious character affecting not only agriculture and industry but also the viability of the exchange rate and the country's banking system have sprung up on account of lack of proper coordination.

6. It is well known that regulation of the overall size of investment activity in the country is essential for keeping the economy on an even keel. Over-investment generates monetary instability and disequilibrium in the balance of payments, leading most often to exchange rate depreciation. Under-investment, on the other hand, interferes with the realisation of the full productive potential of the economy. "Once the appropriate size of public sector development programme has been determined, it is not difficult to estimate the economically desirable level of private investment. This projection can be attempted in terms of national income analysis or on a flow of funds basis. In terms of national income analysis, what one needs to ensure is that the total of public and private investment should not differ substantively from the estimated *ex ante* savings. In the framework of the flow of funds analysis, the appropriate size of private sector development programme can be determined on the basis of the past and prospective trends in the various financing items such as subscription to new equity issues, foreign private investment, ploughing back of profits etc. The economically desirable level of private investment having thus been estimated, various policy instruments can be used to ensure that actual investment does not vary too much from that norm. This

*Reflecting this imbalance between claims and resources, money supply during the past 12-13 years has, on the average, increased at more than double the rate of growth in GNP. This has naturally given rise to a serious price problem and aggravated balance of payments difficulties.

is in fact the *modus operandi* of regulating private investment activity in most countries. The forecasting etc. that are involved in such an exercise have been developed into something of a fine art in economically advanced countries. Newly developing countries like Pakistan are less well placed in this respect on account of relative inadequacy of statistical data needed for such projections. Nevertheless, whatever the statistical limitations, it is vital that as precise an exercise as possible along these lines is undertaken annually.

7. Hitherto, the only field of private sector activity where some attempt at conscious regulation is made is that of industry. Prior to 1960 a complex system of direct administrative controls was in operation to regulate investment in industry. Since then there has been a gradual relaxation of direct investment controls, the most significant development being the introduction of the Industrial Investment Schedule. Direct Government sanction is now required only in the case of industries requiring foreign private loans and investment or the country's own foreign exchange resources. For all others, the main instrument of control is the Industrial Investment Schedule which lays down broad targets and specific ceilings for different industries. The industrialists do not require any further permission from the Government to set up industry included in the Schedule. The more detailed function of appraising and sanctioning specific projects falling within the scope of the Schedule is left to PICIC and IDBP which provide foreign exchange as well as a part of the domestic finance needed in connection with the setting up of such industries. Though the device of the Industrial Investment Schedule is a useful one and is better suited to regulate private sector investment activity than direct administrative controls in existence previously, one cannot help observing that its operation in practice has been far from satisfactory.

8. It is noteworthy that revisions in the Schedule in respect of monetary ceilings have, in the past, been made on the basis of entrepreneurs' response to the original Schedule provisions rather than on the basis of a careful assessment of the overall monetary and economic situation. It may be relevant to mention here that the first Industrial Investment Schedule announced in November, 1960, provided for private sector investment in large and medium sized industries in an amount of Rs. 284 crores. For as many as 67 industries out of 107, the provision in the Schedule was completely exhausted during the first two years of the Schedule's operation. As against the total provision of Rs. 284 crores, the actual utilizations in the first two years of the Second Plan period were reported to be Rs. 376 crores. A revised Schedule envisaging an investment of Rs. 153 crores was issued in February, 1963. In addition, monetary ceilings were done away with in the case of several large industries. It is estimated that actual utilizations exceeded the Second Plan target by about 26 per cent.

9. It is pertinent to note that the above changes in the Investment Schedule were made on the basis of the "buoyancy" displayed by the private sector; the likely effect of these changes on the economic situation in general and monetary

and balance of payments situation in particular do not appear to have received the attention they deserved. Thus, though the Investment Schedule was meant to serve as a device for regulating the overall size of private investment as well as an indicator of relative priorities amongst various industries, in actual fact it has become a passive entity moving in whatever direction private entrepreneurs have succeeded in pulling it. In other words, instead of actually guiding the entrepreneurs it has followed the lead given by industrialists.

10. The Investment Schedule could serve as a regulatory device only if its original formulation and subsequent revisions were based on a careful appraisal of the overall trends in the economy and a definite set of criteria rather than dictated by investors' proclivities and preferences. It is the essence of planning that individual preferences should be suitably influenced to serve national objectives. The outstanding "success" of the successive Investment Schedules in bringing forth more than expected response from the private sector, however, served to blur this consideration. The overfulfilment of specific targets in the Schedule was considered to provide enough justification for increased allocations without a careful examination of its financial and economic implications. Such an examination would have shown that successive enlargement of the Investment Schedule was giving rise to a number of stresses and strains in the economy. These stresses and strains could have been minimised if adjustments had been made either in the private sector programme itself or in the public sector programme on the basis of a careful assessment of the overall availability of resources.

11. It appears that the tendency to go on expanding the Investment Schedule on the basis of the earlier Investment Schedule having been over-fulfilled has also led to the neglect of the composition of the Industrial Development Programme resulting in mis-allocation of resources. When direct administrative controls on investment were replaced by the mechanism of the Industrial Investment Schedule, it should have been realized that on account of the existence of excess demand conditions in the economy and a highly sheltered market, private entrepreneurs would be unduly keen to establish all sorts of industries. Indiscriminate industrial expansion had, however, to be guarded against in the interest of a rational allocation of resources. There is nothing wrong in letting the private sector operate freely within a broad policy framework so long as it is ensured that the investment choices which this sector is making are consistent with other basic objectives of economic policy. It appears that the logic of this principle was not adhered to in practice. In the first place, though private enterprise was allowed a new freedom to establish industries on a broad front under the Industrial Investment Schedule, the danger of mis-allocation of resources on account of inappropriate pricing of "key inputs" was not guarded against. It was clear that the official par value did not reflect the true scarcity value of foreign exchange. Greater freedom to private enterprise in the matter of establishing industries should have been accompanied, therefore, by appropriate changes in the prices of imported capital goods, spare parts and raw materials. Secondly, to the extent this was not done, the concept of shadow pricing should have been used to determine the fitness

of an industry for inclusion in the Investment Schedule. Both these aspects seem to have suffered from a large measure of neglect. The pattern of import licensing as well as the tariff structure have till recently been such as to give the highest protection to the least essential consumer goods industries, thus making them more profitable for investment relative to others*. Similarly, the incentive pattern of the commercial and tariff policies has encouraged the use of imported inputs by industries and provided insufficient inducement to local substitutes. The result has been that a large number of industrial units, heavily dependent on imported inputs, have sprouted, operating at minimal level of cost efficiency in comparison to international standards. Further, since these industries operate on a small scale because of an extremely limited market with the benefit of high tariff they are under no compulsion to lower costs. In general, therefore, despite increased industrialization there has been no appreciable impact on the price situation, while in a number of cases there has been a definite worsening.

12. It also appears that the foreign exchange constraint has not been kept in view while operating the Industrial Investment Schedule. It is known that our own foreign exchange resources are sufficient to finance only about one-half of our total imports, the rest being financed by foreign assistance. The contractual obligations in respect of defence, food, debt servicing, invisibles etc. pre-empt a substantial portion of our cash resources with the result that only small amounts are available for the import of raw materials from cash. Notwithstanding this, setting up of new industries requiring large imports of raw materials from abroad was liberally allowed till recently. The result has been that, as the recent Working Group on Import Policy has pointed out, "our requirements of imported industrial raw materials have been going up at a much faster pace than our ability to meet this demand so that the proportion of idle capacity to total installed capacity has been going up." This obviously does not represent a skilful use of scarce resources.

13. Insufficient attention to economic criteria in operating the Industrial Investment Schedule has given rise to several other problems also. Permissions to set up a large number of industries on a broad front appear to have interfered with the objective of raising the marginal rate of saving in the economy. Once the production of a commodity that was formerly imported is undertaken locally, its domestic absorption frequently exceeds the quantities which would have been otherwise imported. It is always easier to raise an effective barrier at the national frontier than to check the consumption of goods at home. The anxiety to work industries to full capacity so as to maximise the growth rate also plays an important role in this connection. Establishment of a large number of consumer goods

*The Planning Commission have estimated that in 1964 the average weighted rate of tariff was about 50 per cent on consumer goods, 18 per cent on raw materials and 10 per cent on machinery. The disparity was even more pronounced in earlier years. Exactly the same bias was noticeable in the pattern of import licensing. Capital goods, industrial raw materials and spare parts were licensed most liberally. The real pinch of import licensing was felt by consumer goods sector. Within the group of consumer goods, allocations were made on the basis of "essentiality" i.e., the more essential the commodity the more liberal its import licensing. Under this pattern of import licensing and tariff structure, industries producing less essential consumer goods have received the greatest encouragement.

industries, quite a few of which cater to less essential consumer requirements, has therefore meant undue liberalisation of consumption with adverse effects on savings. Since a good part of industrial raw materials needed by these industries are imported from abroad under commodity loans, the consequences for the balance of payments are fairly serious. While commodity loans represent a future liability for the balance of payments, they do not result in an expansion of productive capacity from which one could hope to obtain increased export earnings to service the debt. In fact, in the case of consumption goods industries heavily dependent on imported raw materials financed by commodity assistance, the situation is tantamount to a virtual using up of foreign loan proceeds for consumption rather than investment.

14. In the context of our conditions one of the chief aims of industrial strategy should have been to achieve a basic improvement in our balance of payments. The performance in this respect also does not seem to be satisfactory. Establishment of a large number of industries, heavily dependent on imported inputs and oriented largely towards the home market, has meant that while our import requirements have been increasing at a fast pace, our export earnings have not shown a commensurate rise. It is pertinent to mention here that out of a total increase of Rs. 112 crores in export earnings between 1960-61 and 1966-67, industries based on imported raw materials accounted for a rise of only Rs. 10 crores. The bulk of the increase in export earnings from manufactured goods (about 87 per cent) has accrued from industries based on local raw materials. While the contribution of industries based on imported raw materials to the increase in export earnings has been far from impressive, there has been a very large increase in imports of raw materials and spare parts to keep them going. This has been an important factor in aggravating pressure on our balance of payments.

15. Some of the consequences flowing from lack of sufficient coordination between the public and private sector programmes and various economic policies pursued during recent years find expression in the Third Plan document also at various places. For example, it is stated on page 116.

“...high rates of growth in a highly protected market have tended to mask the basic problems of the relative inefficiency of the industrial sector.....The cost of many industrial products has not come down even after a decade of production experience and many of our industries can still not compete in the international market except through special incentives....Most of the industrialization is ‘imported’ in the sense that the import component of the raw material, spare parts and machinery is predominant in the installation and operation of industrial capacity and very little research has gone into the use of alternative domestic raw materials or technology adaptation. Secondly, the value added in some consumer goods industries has been fairly small”.

Again, on page 34, the point is made that pattern of industrialization in Pakistan has created difficulties in obtaining a high rate of saving for the economy and that:

“It is a better strategy to limit the expansion of the capacity of the

consumer goods sector in the very first instance and to deny the economy the temptation of an unplanned increase in its consumption.”

16. It may be appropriate also to invite attention to two other vital aspects of plan coordination. These relate to the exchange rate and the pressures on the country's banking system. It appears that the exchange rate implications of some of the policies we have pursued in respect of the industrialization of the country have not been kept in view. We have attached high importance to maintaining the par value of our rupee. But our industrial strategy have not been in conformity with this objective. We have in operation since 1959 a multiple exchange rate system. Under the Export Bonus Scheme, exports of manufactured goods take place at a depreciated rate while a part of our import trade is also governed by depreciated rates. The Export Bonus Scheme has all along been considered a temporary expedient to boost our exports. This aspect should have been kept in view while formulating our industrial development programme. The fact that instead of an unitary rate we had a multiple exchange rate system in which effective exchange rates vary from time to time depending on rates of bonus entitlements, bonus voucher premium and bonus import list, warranted a more careful approach towards industrial development so as to guard against the undermining of the par value of the rupee.

17. It may be mentioned that a unitary rate imposes its own discipline in as far as investment decisions are concerned. As both exports and imports are governed by the same rate, industrialists have to carefully examine the import intensity of their investment projects in the light of export prospects which conduces to an overall economy in imports. On the other hand, a unitary rate compels private entrepreneurs to give greater attention to the cost structure of their industries and the general quality of their products. Thus, only industries which can export profitably without artificial props come into existence. The multiple exchange rate system in operation in Pakistan, however, created no such compulsion as imports of capital goods, raw materials and spare parts were allowed at the official rate of exchange while exports earned a bonus.* The industrial strategy should therefore have been designed in such a way as to reduce dependence on the Export Bonus Scheme in accordance with official policy pronouncements on the subject. In actual fact, results achieved have been almost the opposite of what the situation required.

18. Far from diminishing, our dependence on the Export Bonus Scheme has gone on increasing over the years. On account of steady increase in bonus entitlements, the spread between the official rate of exchange and the effective rates has widened considerably over the years. This has been the result of coming into being of large number of industries which, on account of their inefficiency require higher subsidization. A much more selective policy in regard to future industrialization needs, therefore, to be pursued if effective rates are to be prevented from deteriorating further.

19. The experience of the Second Plan period shows that the policy of

*There has been a basic departure from this practice in the current shipping period in which most of the industrial raw materials have been placed on cash-cum-bonus, bringing about a considerable increase in the costs of these materials to industries.

continuously expanding the Industrial Investment Schedule without careful examination of its financial and economic implications has also had serious repercussions on the country's banking system. With the onset of depression in the stock exchange round about the middle of the Second Plan period, private sector financing ran into severe difficulties. Response to equity issues became highly discouraging. Concurrently, the medium term and longer term financing requirements of industries were also increasing but the financing arrangements for this purpose were inadequate. The institutional framework for financing the longer term requirements of industry had no doubt been created through the setting up of PICIC and IDBP but these institutions did not have sufficient resources to finance the industries on the required scale. The conditions in the stock market and inability of specialised finance institutions to adequately finance the medium term and longer term requirements of industries warranted a careful appraisal of the industrial development programme and its financing aspects. In actual fact, permissions for the setting up of new industries continued to be given on a large scale without regard to this situation. Industrialists were very keen to utilise the sanctions available under the Industrial Investment Schedule on account of the high profit expectation in the demand expansionary situation and sheltered market. When they were unable to secure the necessary finances from the equity market and/or specialised finance corporations, they turned to the commercial banks. This has resulted in excessive involvement of commercial banks in capital financing. A good deal of private investment has thus been financed by bank credit rather than genuine savings. Capital financing by banks has taken several forms. In the first place, banks have openly participated in equity financing. This is reflected in the substantial increase in the holdings of shares and debentures in their investment portfolios. Banks' investment in private securities which stood at Rs. 6.99 crores in June, 1963 had risen to 57.95 crores by the end of June, 1967. Secondly a sizeable portion of bank credit, though ostensibly provided for a short period, was in fact "rolled over", assuming the character of long term lending. The system of Industrial Investment guarantees, under which banks provide guarantees on behalf of borrowers to industrial finance institutions, has also led, in cases of default, to a semi permanent locking up of funds. Large scale involvement of banks in capital financing has led to serious strain on their liquidity position. The turn over of bank funds has been drastically reduced and their credit deposit-ratio has shown an inordinate rise. The assets structure of banks has lost the flexibility which should characterise the portfolio of a commercial bank. On account of the locking up of bank funds in longer term financing, banks' ability to meet the short term credit requirements of the priority sectors, which is their primary function, has been adversely affected. Large scale capital financing by banks has also led to heavy borrowings from the State Bank with all its inflationary implications. The banks' liquidity position has improved somewhat after the issuance of directives in June last year to take prior permission of the State Bank before involving themselves further in capital financing. Recently, banks with a good liquidity position have been allowed to undertake capital financing within certain limits without reference to the State Bank. In the context of the still generally high credit-deposit ratio of most banks, however, it would not be realistic to expect substantial assistance from the banking system in the form of capital financing.

20. The importance of coordination between the public and private sector programmes in the light of the overall availability of resources and harmonisation of various economic policies to achieve our basic national objectives has increased in the context of reduced availability of foreign aid. The constitution of an Annual Plan Coordination Committee where all these issues can be considered and an integrated approach evolved is therefore a very welcome step. One had expected that the Working Paper prepared by the Planning Commission would have given adequate attention to the much needed elements of coordination which have been missing from Annual Plan exercises so far. As the Working Paper itself recognises "an Annual Plan can provide the framework for consistency in the establishment of economic targets and in the selection and use of policy instruments required to achieve the targets." However, from the contents of the Working Paper it appears that the type of exercise that is needed to ensure consistency between various targets is yet to be undertaken. One of the main tasks of the Annual Plan Coordination Committee, as set out on page 2 of the Working Paper, is to make an assessment of the financial resources internal and external, likely to be available during the year and to outline the economic policies that may be necessary to achieve various targets. The Working Paper, however, attempts no evaluation of financial resources likely to be available for public and private sector investment during 1968-69. It suggests the fixation of public sector programme at Rs. 670 crores. This is based partly on the estimate of resource availability for the public sector by the Working Group on Rupee Resource Projections plus a further sum of Rs. 50 crores representing possible additional scope for mobilization of internal resources. The size of the private sector programme is proposed to be fixed at Rs. 500 crores but no indication is given as to how this figure has been arrived at. The only observation that the Working Paper contains in regard to the size of the private sector programme is that "on the whole there is considerable scope for accelerating the pace of private investment in 1968-69 beyond the level visualised in the revised phasing. Tentatively, it is proposed that the target for private development expenditure in 1968-69 be fixed at Rs. 5000 million." If the size of the public and private sector programmes is to be fixed on the basis of a general assertion like this, the real aims of Plan coordination would be far from met. For determining the appropriate size of public and private sector programmes during 1968-69 it is necessary to evaluate first the likely overall availability of resources during the year and then to fix the respective sizes of the public and private sector programmes keeping in view the objectives of growth maximisation, price stability and improvement in the balance of payments.

21. Before concluding, it would be useful to highlight the requirements of effective Plan coordination emerging from this paper:

- (1) The total size of public and private sector investment programmes for 1968-69 should be fixed on the basis of a careful resource estimation. This exercise should be carried out both in the framework of national income analysis as also on a flow of funds basis so as to cross check the results. Even though adequate data are not available for undertaking these exercises in a comprehensive manner, at least some rough

estimates should be possible. There should be at least some basis for the planned level of public and private sector outlays.

- (2) The respective sizes of the public and private sector programmes should be determined on the basis of "essentiality". It is not necessary that all the resources which the public sector is in a position to mobilise should be earmarked for public sector projects. If the growth rate of the economy can be improved, consistent with other policy objectives, by transference of resources from the public to the private sector, there should be no hesitation in doing so. In fact, as the private sector has been facing difficulties in financing the projects which it is expected to undertake and continued use of bank funds for filling this gap is not desirable, the Annual Development Programme of 1968-69 should make specific provisions for funds needed by specialised financing institutions like IDBP, PICIC and ICP to put through the private sector programme. It may be recalled that the Economic Coordination Committee of the Cabinet has already given a directive to that effect in September last year.
- (3) The Industrial Investment Schedule should be operated on an annual basis and the monetary ceilings of industries included in the Schedule should be in conformity with the availability of resources. In no case should the Schedule be enlarged just on the basis of original provision having been over-fulfilled.
4. The industries to be included in the Industrial Investment Schedule and the monetary ceilings in respect of individual groups of industries should be determined after a full and careful consideration of the following aspects:—
 - (a) Likely contribution towards the improvement in the balance of payments and reduction in dependence on foreign assistance;
 - (b) Likely impact on the marginal rate of saving;
 - (c) Likely impact on the price situation; and
 - (d) Likely implications for the exchange rate of the country.
- (5) A comprehensive study of the Export Bonus Scheme and its bearing on the exchange rate problem and resource allocation may be undertaken. It should also make recommendations as to the elements of the exchange rate policy best suited for the country.

VIII-A
WORKING PAPER FOR THE WORKING GROUP ON PRIVATE
SECTOR

by
THE GOVERNMENT OF EAST PAKISTAN

PLANNING AND DEVELOPMENT DEPARTMENT

The Working Group should

- (1) Evaluate the performance of the private sector during the last 3 years *vis-a-vis* the Third Plan targets;
- (2) Firm-up the investment programme for the private sector for 1968-69;
- (3) Indicate resource requirement and source of finance;
- (4) Prescribe economic policies necessary for encouraging and sustaining private investment on regional basis.

1. Past Performance

The Planning Commission in its Working Paper for the Annual Plan Co-ordination Committee has indicated private sector development expenditure of Rs. 3910 million, Rs. 3940 million and Rs. 4460 million for 1965-66, 1966-67 and 1967-68 respectively, giving a 56% implementation of the plan target. The magnitude of investment in East Pakistan has not been indicated separately. It is necessary, first of all, to know this magnitude.

The Planning and Development Department, Govt. of West Pakistan, has estimated private sector development expenditure during the first three years of the Plan at Rs. 8465 million, giving 77% implementation of the Plan target. On this basis private sector in East Pakistan would have spent Rs. 3845 million or only 35% of the Plan target. This estimate cannot, however, be unquestioningly accepted because we do not know the basis of estimate made by the West Pakistan Planning and Development Department.

The other estimate of private investment in East Pakistan is that of the C.S.O. According to them private sector fixed investment during the first three years of the Plan period has been of the following order:

| | | (Rs. in crores) | | |
|---------------|----|-----------------|---------|---------|
| | | 1965-66 | 1966-67 | 1967-68 |
| Manufacturing | .. | 42.2 | 55.8 | 75.4 |
| Construction | .. | 18.5 | 19.3 | 20.0 |
| Others | .. | 7.3 | 6.9 | 8.4 |
| | | 68.0 | 82.0 | 103.8 |

The above estimate includes EPIDC's investment. If we exclude EPIDC's estimate fixed investment, the above figures would come down to

| 1965-66 | 1966-67 | 1967-68 | Total |
|---------|---------|---------|-------|
| 54.6 | 63.2 | 79.8 | 197.6 |

We also feel that the 1967-68 investment estimate is unlikely to be realised due to current shortage of key inputs like cement, coal etc. The likely investment during 1967-68 will be around Rs. 80 crores.

On the basis of this estimate only about 19% of the Plan target has been achieved during the 3 years.

2, Investment Programme for 1968-69

The Planning Commission's working paper has tentatively indicated a private sector investment programme of Rs. 5000 million for the whole of Pakistan in 1968-69. It does not, however, indicate the regional or sectoral break up of the investment.

In our annual plan document for East Pakistan we indicated a tentative investment size of Rs. 315 crore for the Public and private sectors taken together. The size of *fixed* investment under the tentative ADP has been estimated at Rs. 212 crore, leaving Rs. 100 crores for the private sector. This estimate is based on the C.S.O.'s estimate of fixed capital formation in the past three years and the ratio of investment to income that this estimate gives (0.105). This figure of Rs. 100 crores can be taken as the minimum figure for reasons explained in the next para.

The average ratio of investment to income in 1965-66 and 1966-67 according to the Planning Commission's estimate, come to 0.115 (compare: 0.115 above). Assuming that this ratio will hold for 1968-69, we get an investment estimates of Rs. 337 crores (out of the projected GDP of Rs. 2930 crores for 1968-69.) The private sector investment works out to be Rs. 125 crores (Rs. 337 crores minus Rs. 212 crores for the public sector). This figure of Rs. 125 crores for the private sector can be viewed as the ceiling of fixed private investment in 1968-69.

The tentative distribution of private sector fixed investment would be as below:

(Rs. in crores)

| | Low | High |
|-----------------------------------------|-----|------|
| Manufacturing | 64 | 81 |
| Large scale | 54 | 68 |
| Small scale | 10 | 13 |
| Construction | 25 | 30 |
| Others (agriculture, transport etc.) | 11 | 14 |
| | 100 | 125 |

This is fairly consistent with past trend of private sector investment.

In addition to the fixed investment of Rs. 100—125 crores and additional non-investment development expenditure of Rs. 70—88 crores which includes working capital and spares, financial charges associated with investment expenditure, is to be added. This gives a private sector programme of Rs. 170-213 crores.

3. Source of Finance

Tentative estimates of finance availability from different sources to match the investment programme are given below on the basis of the Rs. 170 crore programme.

| | | | | | (Rs. in crores) | |
|----------------------------|----|----|----|----|-----------------|------------------------------------------|
| | | | | | Our estimate | Planning Commission's indications. |
| I.D.B.P. | .. | .. | .. | .. | 20.0 | 23.00 |
| P.I.C.I.C. | .. | .. | .. | .. | 7.0 | 9.00 |
| I.C.P. | .. | .. | .. | .. | 1.0 | — |
| N.I.T. | .. | .. | .. | .. | 1.0 | 1.50 |
| Foreign Private investment | | | .. | .. | 4.0 | — |
| A.D.B.P. | .. | .. | .. | .. | 10.0 | 12.15 |
| H.B.F.C. | .. | .. | .. | .. | 4.5 | 2.25 |
| Co-operatives | .. | .. | .. | .. | 6.0 | — |
| Commercial banks | .. | .. | .. | .. | 62.5 | — |
| Corporate Savings | .. | .. | .. | .. | 20.0 | — |
| House hold savings | .. | .. | .. | .. | 29.0 | — |
| Total: | | | | | 170.0 | — |

Our estimate of credit availability from financing institutions assumes a substantial acceleration over the past years. If the private sector programme of Rs. 213 crores is to be attained, credit availability from the financing institutions and the commercial banks must increase substantially. A considerable portion of the increased need must be met from foreign private investment.

The working Group should now attempt a firmer estimate of resource availability from different sources for financing the private sector investment programme.

4. Policy Measures

The major task for the Working Group would be to indentify the various economic policies necessary for encouraging private sector investment. On our part we feel that the following policy issues should receive consideration of the group.

(i) *Monetary policy*

We support the Government policy of maintaining price stability but this should not be attained at the cost of private investment. In particular, a tight money policy, squeezing the credit, should not be applied to East Pakistan in view of the urgent need for activation of the sector in the Province. Price stability should be promoted through ensuring availability of real resources especially food, the price of which, rather than money supply, is the main determinant of the price level in this province.

Desired level of money supply should be judged on regional basis rather than on national basis. Over the period December, 1966 to December 1967 the provincial money supply recorded virtually no increase, despite an estimated income growth of 6%. As a result fixed capital formation in the private sector has been retarded and many projects deferred due to lack of financing. To make good this deficiency and to meet the private investment target for 1968-69 the money supply should be expanded through credit liberalisation from about Rs. 306 crores in December 1967 to Rs. 363 crores in December 1968 and to Rs. 378 crores in July 1969.

(ii) *Institutional Credit*

I.D.B.P. & P.I.C.I.C.

(a) There is dearth of equity capital in East Pakistan which inhibits the capacity of private investors to absorb credit. The disbursement of the development banks presently bears little relationship to the sanctions, because the entrepreneurs are unable to raise 40% equity currently required. The debt equity ratio should be raised from 60:40 to 80:20 for East Pakistan.

(b) Foreign loans from non-conventional sources available to IDBP are tied loans which reduce the flexibility in IDBP lending operations.

- (c) Recent Government decision regarding down payment of 10—% in respect of foreign suppliers credit by the borrowers through surrender of bonus vouchers has created strain on the resources of lending institutions. This policy decision should be reconsidered.

A.D.B.P.

The World Bank mission (November—December 1967) on Agriculture and Water Resources Development had reviewed the loans operations of the ADBP in East Pakistan. We support the recommendations of the Mission in respect of (a) ADBP should give priority to the financing inputs and support the power pump operation within the private sector, (b) activation of existing 5 regional advisory committees in East Pakistan (Para 4.10 and 4.13—4.15 of the Report). In particular recommendations at paras 4.11 and 4.12 merit consideration of the group. They are

“4.11 On the premise that the agrarian structure is different from that of West Pakistan and that the need for a seaprate East Pakistan credit policy exists ADB should institute at the Dacca level a policy Advisory Committee; in addition to *ex-officio* Government representatives, this Committee should include leading farmers and citizens and at least one representative of the machinery dealers”. “4.12 ADB Karachi should broaden the authority and autonomy of the General Manager for East Pakistan in accordance with the needs of specified lending programmes. The objective should be to avoid excessive waiting periods before decisions on urgent action programs are finally approved”.

Commercial banks

The Commercial banks must expand the lending operations in East Pakistan. The recent decisions of the State Bank to refinance term loans of upto five years extended by commercial banks to industry and permit the commercial banks to invest in securities and to engage in undertaking are steps in right direction. Credit guarantees and refinance facilities should be utilised for encouraging Commercial banks to lend to the agricultural sector.

Stock Exchange

To step up equity finance in the province the passive Dacca Stock Exchange should be activise.

(iii) Fiscal Policy

The Working Group should review the existing taxation and tariff structure and recommend necessary changes for accelerating growth in East Pakistan

during 1968-69. While we will be able to offer more specific fiscal measures for East Pakistan in the subsequent meetings of the Group, following fiscal issues may be considered by the Group at this stage.

- (a) Central excise duty on the basis of determined capacity rather than the volume of production should be deferred on the textile industries of East Pakistan until such time when the problems of full capacity utilisation will be reasonably resolved.
- (b) Import duty on machinery has been re-adjusted after devaluation of sterling at 25% for East Pakistan and 35% for West Pakistan. In view of the stage of industrialisation in East Pakistan we recommend that the rate of duty on machinery should be restored to June 1965 level (12½%).
- (c) Suitable changes should be made in tax rates to leave dividend income largely tax free and permit companies and corporations to declare dividend income upto a specified minimum limit.
- (d) The depreciation allowance permitted to industry should be greater for East Pakistan *vis-a-vis* West Pakistan especially because of maintenance costs and climatic hazards.

(iv) Import Policy:

(a) The import policy for the next shipping period should be so constructed that it could remain unchanged for the remainder of the Third Plan.

(b) The long-term assurance would provide the present industrialist and potential entrepreneur some degree of certainty in the projection of his profits and insulate him from both windfall profits and windfall losses that come from more frequent changes in the policy.

(c) Any deviations from the established policy should be in the direction of greater liberalization and if possible in the direction of less expensive spares and raw materials.

(d) Cash foreign exchange allocation for the Province should be made at least on half yearly basis to avoid present uncertainties in foreign exchange release.

Industrial raw materials provided under commodity assistance should be properly allocated between the provinces.

(v) Industrial Policy:

(a) Once the revised Industrial Investment Schedule is approved it must be freed from administrative controls. If the group does not consider it feasible

at high Level Committee comprising a Central Secretary, two representatives of the Provincial Governments, representatives of Business and Industry should be constituted to look into the existing procedural rigidities and recommend relaxation of controls.

(b) The ban on the sanction of all industries with greater than 20% import component should be lifted for all investment under Rs. 10 lakh. If this ban is not lifted then the private sector industries target of the Third Plan must be revised radically downwards, since case-by-case examination of the small and medium investment renders the targets unreachable.

(c) All bans should be lifted on Agriculture supporting and agriculture based industries.

(d) To even approach the Third Plan target of Rs. 50 crores for small industries in the private sector at least Rs. 9 crores in balanced foreign exchange credit should be earmarked for new investment to the EPSIC—Commercial banks bilateral agreement. This crucial foreign exchange allocation will step up investment in the small industries sector.

(vi) *Inputs Programme for Investment:*

The efforts for encouraging private sector investment through accelerated monetary allocations will not produce the desired results unless it is backed by a well-conceived programme of making key inputs available at the right time and place. The shortage of Cement, Coal and POL has caused a serious set-back to the investment programme of East Pakistan during the current year. If the investment programme for 1968-69 is to be implemented necessary steps must be taken to schedule all the imports we have indicated in our draft annual plan paper.

IX

COMMENTS ON THE DRAFT ANNUAL PLAN 1968-69

(As prepared by the Planning Commission)

CHAPTER II: PROGRESS OF THE THIRD PLAN

(a) Growth rates

Summary

The economy maintained an average growth of 5% in the first two years of the Third Plan and is likely to achieve a rate between 7-8% in the third year, yielding an average growth rate of 6% for the three year period, against the plan target of 6.5%.

The average growth rate in the agriculture sector in the first three years of the plan period is estimated at 3.2% as against the target of 5%.

The growth rate in the industrial sector was of the order of 6%, 11% and 13% in the first three years respectively. The average is below the Second Plan average rate of 15%.

The growth of non-agricultural sector was affected by the shortage of imported inputs and sluggish demand due to lower agricultural production.

Comments:

The growth rate of G.D.P. in East Pakistan was 4.8%, 3.9% and 8.6% (Estimated) in 1965-66, 1966-67, and 1967-68 respectively, giving an annual average of about 5.8% compared to the national average of 6%. This is all right.

(b) Investment

Summary

By the end of the first three years of the Plan only 41% of the total Plan allocation in the public sector will have been utilized. The short-fall in the first three years of the plan is thus substantial and there is little prospect of reaching the plan investment targets in the public sector. The estimated shortfall will be of the order of 17% in current prices and 25% in constant prices.

About 56% of the investment target in the private sector will have been attained during the same period. However, the performance of the private sector in East Pakistan has been disappointing as only 22% of the total private investment has taken place in the province as against a target of 50%.

Comments

Implementation in the public sector in East Pakistan during the first 3 years will be about 34% of against the national total of 41%. In the private sector implementation of the plan target will have been only about 19%, compared to the national figure of 56%.

(c) Balance of payments*Summary*

The balance of payment remained under considerable strain during the first three years of the plan despite an increase in export earnings of 8.2% per annum. The disbursement of foreign assistance was 22% below plan expectations. Development imports were 24% below the plan projection resulting in severe shortage of raw materials and under utilized capacities.

Comment

No Comment.

(d) Price situation*Summary*

The general level of prices increased by 5% per annum over the first three years. However, in the later half of 1967 price level started declining and is expected to decline further after the harvesting of crops is over.

Comments

The increase in the general price level has been higher in East Pakistan than in West Pakistan because of difficult food situation and shortage of imported commodities.

CHAPTER II & IV: MAJOR OBJECTIVES AND GROWTH TARGETS**(a) Objectives***Summary:*

The specific objectives of the Annual Plan are:

- (i) To accelerate the pace of investment in the economy, particularly in the private sector;
- (ii) To maintain and consolidate the progress in agriculture sector in West Pakistan and to step up the growth of agricultural production in East Pakistan by bringing larger area under Boro crop, provision

of additional irrigation facilities and extension of fertilizer and improved seed programmes;

- (iii) To accelerate the rate of growth in the industrial sector from 9 to 11 percent and large scale industry from 11 to 14 percent through a more liberal availability of raw materials and better utilisation of installed capacity;
- (iv) To achieve a minimum increase of 10% in exports;
- (v) To maintain monetary and price stability in the economy;
- (vi) To restore some of the cuts imposed on social programmes, particularly education and health;
- (vii) To step up employment opportunities in the economy by expanding labour intensive programme such as Works Programme.

Comments:

No comment.

(b) Growth targets

Summary:

Tentative growth targets for 1968-69 have been set as follows:

| | | | |
|---------------|----|----|-----|
| G. N. P. | .. | .. | 7% |
| Agriculture | .. | .. | 5% |
| Manufacturing | .. | .. | 11% |

The rate of growth for East Pakistan's GDP has been set at 6%.

Comments:

The sectoral break up of the 6% growth target for East Pakistan for 1968-69 should be worked out and incorporated in the Annual Plan. What has been done in the present document is to work out the sectoral break up of the *average growth rate for 1967-68 and 1968-69 taken together.*

(c) Size of the Plans

Summary:

The total size of the Plan is Rs. 10,700 million. Of this the public sector programme is for Rs. 5,700 million. Rs. 5,000 million has been earmarked for the private sector.

The regional break up of the Plan is as follows:

(Rs. in million)

| | <i>East Pakistan</i> | <i>West Pakistan</i> | <i>Total</i> |
|-------------------|----------------------|----------------------|---------------|
| Public sector .. | 3,055 | 2,645 | 5,700 |
| Private sector .. | — | — | 5,000 |
| | | | <u>10,700</u> |

Comments:

A firm regionwise break up of the Private sector programme should be incorporated in the Annual Plan. (More comments in chapter VIII.)

CHAPTER V: RESOURCES AND FINANCING

Summary

Resources for financing the public and private sector programme will be mobilized from the following sources:

(Rs. in million)

Public sector:

| | |
|------------------------------------------------------|-----------------|
| (a) <i>Rupee resources</i> | 2,282.2 |
| (a) Centre | 1,392.2 |
| (b) East Pakistan | 430.0 |
| (c) West Pakistan | 460.0 |
| (b) <i>Foreign assistance</i> | 2,530.0 |
| (c) <i>Deficit financing additional effort</i> | 887.8 |
| Total (a) + (b) + (c) | <u>5,700.00</u> |

Private sector:

| | |
|------------------------------------------------|---------|
| (a) Credit institutions (PICIC, IDBP, etc.) .. | 1,300.0 |
| (b) Commercial banks | 1,100.0 |
| (c) Foreign private investment | 160.0 |
| (d) Others | 2,440.0 |

Comments:

In the public sector Rs. 887.8 million is to be mobilized through deficit financing additional efforts. The Co-ordination Committee should indicate the extent of additional effort Government of East Pakistan are to make.

The sources of financing of the private sector programme have been very inadequately specified. The sources should be clearly indicated and a regional budget should be incorporated.

CHAPTER VI: PUBLIC SECTOR DEVELOPMENT PROGRAMME

Summary:

The break up of the public sector gross programme by executing agencies is as below:

| | (Rs. in million) |
|-----------------------|------------------|
| East Pakistan | 2,961 |
| West Pakistan | 2,388 |
| Centre | 1,051 |
| | <hr/> |
| | 6,400 |
| | <hr/> |

Assuming an operational shortfall of 11%, the net size of the programme has been fixed at Rs. 5,700 million.

In the determination of sectoral priorities emphasis has been laid on the essential programme for attaining food self-sufficiency, completion of on-going and short-gestation projects and matching provision for aided projects.

Comments:

No comment.

CHAPTER VII: PRIVATE SECTOR PROGRAMME

Summary:

The size and composition of the private sector programme is as below:—

| | (Rs. in million) |
|----------------------------------------|------------------|
| 1. Agriculture | 1,000 |
| 2. Manufacturing and mining | 2,500 |
| 3. Construction | 800 |
| 4. Transport and Communication | 400 |
| 5. Other Sectors | 300 |
| | <hr/> |
| | 5,000 |
| | <hr/> |

The aims of the private sector programme are:

- (a) To provide facilities for increased investment in agriculture through greater provision of financial and physical resources.
- (b) To speed up sanctions within the framework of Revised Industrial investment Schedule.
- (c) To encourage investment in transport sector through more adequate availability of commercial vehicles and other policy adjustments.

Comments:

No regional break up of private investment in East Pakistan has been given apparently on the ground that acceleration of investment from a level of 22% (of National total) to about 50% is unlikely to be attained. This is extremely unsatisfactory. Regional break-up of investment targets, however tentative, should be given. It is maintained in the Plan document that policy measures will be directed towards diverting as big a proportion of the total private investment (Rs. 5,000 million) to East Pakistan as possible. In the absence of a target, and particularly a credit budget, it is not understood what these policy measures are intended to achieve.

CHAPTER VIII: BALANCE OF PAYMENTS

Summary:

The balance of payments situation in the first three years of the Third Plan was under considerable strain, despite a satisfactory export performance, because actual disbursement of foreign assistance were 20% less than Plan projection. Development imports were 25% lower than those projected in the plan, thus creating a serious shortage of raw materials in the economy.

Exports are projected at Rs. 3,450 million for 1968-69 which is about 9% higher than the 1967-68 estimated level.

Import requirements for raw materials for 1968-69 have been estimated at Rs. 1,865 million.

Comments:

No regional break up of important requirements has been indicated. This is unsatisfactory as levels of output envisaged for each region is closely, if not uniquely, dependent on certain minimum level of imports. As the main element in the Plan exercise is to ensure certain consistencies, particularly between import requirements and output and investment levels, it is not understood why regional import requirements have not been specified although output and investment levels are (the former only implicitly in the rate of growth assumed).

CHAPTER IX: MAJOR POLICY ISSUES AND OBJECTIVES

Summary:

The policy issues have been discussed in most general terms and have not been related to specific goals, except on a few points given below.

It has been emphasized that expansion of money supply should be in conformity with the projected rate of GNP growth. A net addition to money supply to the tune of Rs. 1,270 million is envisaged for 1968-69.

Inputs required for agricultural development must be available at the right time.

Substantial import of rice will be necessary for East Pakistan, despite substantial increase in production, if economic stability is to be maintained in the province.

Comments:

No specific policy directed towards attainment of individual goal of the Annual Plan has been suggested. The issues are broadly discussed in long-term perspective which is of little direct relevance to a short term plan. In particular, no specific policy measure for East Pakistan has been spelt out.

The lack of concrete policy suggestions for attainment of the plan targets, particularly in relation to their regional dimension (which is again lacking in many cases), appears to us an unsatisfactory state of affairs, from the point of view of actual implementation of the Plan. To make the Annual Plan operationally successful specific economic policies should be identified so as to provide the Ministries and executing agencies concerned a sense of direction as well as to define their area of responsibilities.

In particular, definite policy measures must be evoked for activation the private sector in East Pakistan, which, after all, was the original idea behind the introduction of the Annual Plan.

We have suggested a number of specific policy measures in our Annual Plan proposals and in our Working Paper on private sector (Copy enclosed). We feel that these measures should be incorporated in the final Annual Plan document. The Plan document itself has suggested (at page VII—7) incorporation of these policy measures.

Sd/- S. M. SHAFIUL AZAM,

*Additional Chief Secretary (P & D),
Government of East Pakistan.*

IX-A

GOVERNMENT OF WEST PAKISTAN
PLANNING AND DEVELOPMENT BOARD
COMMENTS ON ANNUAL PLAN FOR 1968-69

West Pakistan Economic Performance during 1965-68

The major economic indicators relating to West Pakistan are summarised in the Table I. The figures show a fairly satisfactory rate of growth but an extremely disappointing and disturbing trend in investment particularly in public sector investment.

TABLE I
Performance of West Pakistan Economy, 1965-1968.

| | Second plan Average | 1965-66 | 1966-67 | 1967-68 | | Average | | Third Plan Target | Percentage achieve- ment low estimates |
|-----------------------------------------------------------------|---------------------------|----------------|----------------|----------------|----------------|---------|----------------|-------------------------|-------------------------------------------------|
| | | | | Low | High | 1965-68 | | | |
| | | | | | | Low | High | | |
| Growth of the Economy percentage Increase | | | | | | | | | |
| Gross Provincial Product .. | 5.0% | 3.1% <i>a</i> | 7.4% <i>b</i> | 8.0% <i>e</i> | 9.0% <i>e</i> | 5.9% | 6.2% | 6.1% | 91% |
| Agriculture | 3.8% | 0.5% <i>a</i> | 6.1% <i>a</i> | 8.0% <i>e</i> | 10.0% <i>c</i> | 4.9% | 5.5% | 5.0% | 98% |
| Non-Agriculture ... | 6.2% | 5.1% <i>a</i> | 8.3% <i>b</i> | 8.2% <i>d</i> | 8.2% <i>d</i> | 6.5% | 6.5% | 7.2% | 90% |
| Large-scale Mfg. ... | 12.9% | -0.4% <i>a</i> | 12.0% <i>b</i> | 15.0% <i>d</i> | 15.0% <i>d</i> | 8.9% | 8.9% | | |
| Per capita Income. <i>f</i> .. | 2.4% | 0.5% <i>a</i> | 4.8% <i>b</i> | 4.5% <i>e</i> | 6.0% <i>e</i> | 3.3% | 3.8% | 3.5% | 94% |
| Indus Basin Development Expenditure and Domestic Savings | | | | | | Total | | | |
| Rs. millions. | | | | | | 1965-68 | | | |
| Indus Basin Public Sector .. | 1964-65 930 | 1,195 <i>g</i> | 1,000 <i>g</i> | 700 <i>g</i> | | 2,895 | <i>n a</i> | | |
| Provincial <i>g</i> | 1,682 | 1,309 | 2,416 | 1,600 <i>p</i> | | 4,553 | 6,000 <i>n</i> | | 76% |
| Central <i>h</i> | 350 | 329 | 447 | 457 | | 1,233 | 1,200 <i>n</i> | | 97% |
| Private sector <i>j</i> .. | 2,545 | 2,113 | 2,917 | 3,435 | | 8,465 | 5,500 <i>n</i> | | 154% |
| Net Exports <i>k</i> ... | -2,196 | -1,120 | -1,688 | -1,490 | | -4,298 | | | |
| Domestic Savings ... | 3,311 | 3,826 | 4,092 | 47.2 | | 12,848 | | | |
| Average Savings Rate .. | 13.7% | 14.9% | 13.3% | 14.3% | | 14.4% | | | |

For footnote, see Appendix I.

2. The Third Plan growth target for West Pakistan is 6.1 percent per annum. Even if we adopt the low estimate for the current year (1967-68) an annual growth rate of 5.9 percent during the first three years appears to be indicated. The high projections for 1967-68 would raise this rate to 6.4 percent per annum. The agricultural picture has been particularly satisfactory. After the bad harvest year and stagnant production in 1965-66, agricultural out-put grew by 6.1 percent during 1966-67 and is expected to show an increase of 8 to 10 percent during 1967-68. This gives us a growth rate in the range of 4.9% to 5.5 percent per annum during first three years compared with Third Plan target of 5 percent and the actual achievement 3.8 percent during the Second Plan. The large scale manufacturing production after declining slightly during 1965-66 rose by 12 percent, according to our estimate, during 1966-67 and may show an increase 15 to 20 percent during 1967-68. In the export sector also the performance has been reasonably satisfactory. The target of exports of West Pakistan in the first three years of the Third Plan appears to have been met to the extent of about 90 percent. The targets of manufactured goods exports has been met almost to the full extent. The short-fall has been almost entirely in the primary commodities most notably cotton, hide and skins and fish. It is clear, therefore, that the limited agricultural production is still acting as a constraint on the expansion of exports of certain commodities.

3. The most disturbing aspect of West Pakistan's development is the sharp decline in public investment in the first two years of the Third Plan. According to the Mid-Plan Review, development outlays amounted to Rs. 272 crores only or 22.5 percent of the plan total during the first two years. The prospects of the current year are not much more cheerful. The net size of the ADP for the current year is Rs. 197 crores. The actual financial releases suggest, however, that the programme would not exceed Rs. 160 crores. This would mean total implementation of a little over 36 percent in first three years as against over 40 percent for the country as a whole. The average annual development expenditure in West Pakistan in the first three years comes to Rs. 144 crores as against 168 crores already attained in 1964-65. Assuming that the prices of capital goods in first three years of the Plan were on the average 10 percent higher than in 1964-65, the public sector investment in real terms during 1965-68 appears to have been about 20 percent below the level reached towards the end of Second Plan.

4. Despite this squeeze, West Pakistan was required and has in fact provided considerably larger sums of money for essential programmes of agriculture, water, power and transport. For instance, the allocations for SCARP projects, power distribution and generation, fertilizer subsidy, railways and roads are currently much larger than a few years ago. The cut has fallen largely on the social sectors (health, education) and physical planning, housing and Rural Works. The programme indeed has become lop-sided and because of large commitments on on-going aided projects in key sectors, the scope for flexibility and manoeuvrability has been reduced very considerably. We believe that the problem caused by the decline in public development outlays and consequent neglect of social sectors is a serious and an urgent problem.

5. The Planning Commission seems to imply (para. 10) that the problem posed by the shortfalls in public development spending could be made up by the acceleration of private investment. This is an over-simplified view of the development process. The fact is that substantial part of the investments in the public sector, namely in Water, Power, Transport, Education and Health cannot be easily switched to the private sector. The question that must be faced is how far the goal of protecting the production targets in the short run can or should be carried at the cost of balanced growth in the long run. As there is very little prospect of the revised plan to be implemented in full, the consequences of the ad hoc choice of priorities within the broad plan framework need to be faced. In West Pakistan, it is estimated that the public sector development spending would be implemented at best to the extent of 75 per cent of the total. In real terms, it will be close to 2/3 of the total. Since priority continues to be given to protecting the growth rate in the next few years, the allocation for sectors like Education and Health, Rural Works and Physical Planning and Housing may not exceed 50 per cent of the Third Plan allocations. The Plan Co-ordination Committee may like to discuss this general issue and give more precise directions than have been available hitherto.

Major targets for 1968-69

6. The gross provincial product of West Pakistan is expected to grow by about a per cent on the low agricultural estimate and about 9 per cent on the high agricultural estimate during 1967-68. In projecting the growth rate for next year, the crucial position of the Agriculture is obvious. The Agricultural Policy Committee for West Pakistan has already made and approved the kharif targets for next year. The wheat target is given under the Food Self-Sufficiency Programme at 6.1 million tons. Assuming these targets to be realized, the agricultural growth during 1968-69 in West Pakistan would be 7 per cent over the low production estimate during 1967-68 and 5 per cent over the high production projections.

7. It is realised in the Planning and Development Department that the cotton target for next kharif is very ambitious and indeed there may be a shortfall. However, the rice target is perhaps too conservative. We could easily go up to 2 million tons of rice if the programme of production of IRRI Pak is even moderately successful. The livestock and minor crops sub-sectors could also grow more rapidly than estimate and this would provide a further cushion.

8. We expect 15% growth in large-scale manufacturing, provided that three critical conditions are met: first, that the cotton crop reaches at least 29 lac bales; second that the construction programme of cement and fertilizer goes ahead on schedule; and third, that the import targets set forth by the Planning Commission for industrial raw materials are met. Assuming the service sectors grow at 6.5%, these figures imply a GNP growth of 6.5% — 7.5%, depending upon agricultural output in 1967-68.

9. We anticipate 1968-69 visible exports, excluding raw jute and jute textiles, to reach Rs. 1,810—1,860 million. This projection is some Rs. 100 million

lower than the revised forecast offered by the Planning Commission. The Planning Commission has set too high an estimate for raw cotton and cotton textiles, since for planning purposes the crop should not be taken to be more than 29 lac bales. On the other hand, the Planning Commission's rice export projection, at Rs. 200 million, does not adequately reflect the potentials of IRRI rice. With appropriate incentives, rice exports could, perhaps, reach Rs. 300 million during 1968-69.

Size of the West Pakistan A.D.P. for 1968-69

10. The Revised Plan allocation by executing agencies as follows:—

| | | | | (Rs. in crores) | |
|---------------|----|----|----|-----------------|--------|
| East Pakistan | .. | .. | .. | Rs. 1,439 | 40.4% |
| West Pakistan | .. | .. | .. | Rs. 1,200 | 38.7% |
| Centre | .. | .. | .. | Rs. 461 | 14.9% |
| | | | | _____ | _____ |
| Total: | .. | .. | .. | Rs. 3,100 | 100.0% |

11. In terms of the implementation of the plan in the first three years, the position is going to be as follows:—

| | | | | | |
|---------------|----|----|----|------------------|--------|
| East Pakistan | .. | .. | .. | Rs. 535 crores | 45.2% |
| West Pakistan | .. | .. | .. | Rs. 435 crores | 36.6% |
| Centre | .. | .. | .. | Rs. 216 crores | 18.2% |
| | | | | _____ | _____ |
| Total: | .. | .. | .. | Rs. 1,186 crores | 100.0% |

12. The above figures show that not only has been the total implementation very unsatisfactory (barely 40%) but that the Central Programme has been implemented relatively to a greater extent than both East and West Pakistan's programmes. The Centre was allocated 14.9 percent of the revised plan allocation but has in fact used up 18.2 percent of the total implementation so far. In the case of East Pakistan the allocation was 46.4 percent and the implementation

Note.—The figures have been compiled from the Mid-Plan Review except that the actual implementation for West Pakistan Development Programme for 1967-68 has been taken at Rs. 160 crores as against Rs. 182 crores estimated by the Planning Commission.

has been 45.2 percent. In West Pakistan the allocation was 38.7 percent and the implementation has been 36.6 percent.

13. The larger implementation by Centre reflects mainly larger budgetary allocations. For instance, in the tentative ADP for 1968-69 the Centre has been allocated Rs. 110 crores out of total of Rs. 670 crores. This means an allocation of 16.4 per cent whereas on the plan pro rata basis they should receive only 14.9 percent. In fact since the Centre has already received relatively larger allocations in the first three years, their allocation might be limited say to 13 percent of the total this year. This would mean that their allocation should be Rs. 87 crores only as against 110 crores suggested tentatively. Thus nearly additional Rs. 23 crores could be diverted to the Province for 1968-69 development programme without falling out of line with the plan priorities.

Priorities of the ADP 1968-69 Programme

14. Table II compares sector-wise allocations for A.D.P. 1968-69 tentatively agreed to by the P & D Department with the suggested allocations of the Planning Commission. The major differences are noted and discussed below:—

- (a) We have proposed an allocation for Water sector of Rs. 52.26 crores as against the Planning Commission's suggestion of Rs. 45 crores. Planning Commission allocation is extremely unrealistic and indeed is 10 per cent below the allocation made during 1967-68. We have provided a marginal increase in the allocation for the water sector and this would mainly go to commitments for approved Dams notably Khanpur and Karachi. If it is decided to drop Gomalzam some savings in Water sector could result.
- (b) For Power we have suggested an allocation of Rs. 35 crores as against Planning Commission's figure of Rs. 34 crores. The allocation during 1967-68 was Rs. 32 crore and the 10 percent increase we have provided is necessary for improvement in Power distribution facilities particularly to meet the target of the electrification of 8,000 private tubewells.
- (c) For Physical Planning and Housing, we have made an allocation of Rs. 14.4 crores as against Rs. 13 crores suggested by Planning Commission. This compares with the allocation of Rs. 11.63 crores during 1967-68. Most of the increase has been provided for the urban water schemes of Karachi and Lahore. The only other sub-sector which has been given a liberal treatment is the Government servant housing where the position has become very acute indeed to cutbacks in the last two or three years.

- (d) In the Education we have provided Rs. 16.8 crores as against Rs. 18.5 crores suggested by Planning Commission. Our tentative allocations represent an increase of nearly 25 percent over the allocation of 1967-68. Every attempt has been made to protect the absolutely essential targets of technical and primary education. 5,000 new primary schools will be established next year provided 10,000 additional teachers can be provided from the non-development budget. While we are not satisfied with the allocations for education sector, we feel that in technical, vocational and education schemes delays are taking place not so much due to lack of financial allocations as to absence of clearout project and concepts.
- (e) The Health sector allocation stands at Rs. 10.5 as against Rs. 12.0 crores suggested by the Planning Commission. Again this is substantially higher than the current years allocation of Rs. 8.42 crores. The Programmes of Malaria Eradication and Family Planning are being protected.
- (f) In Transport and Communications our allocation is Rs. 50.4 crores as against Rs. 53 crores suggested by the Planning Commission. The aided roads have been protected.
- (g) Works programme has been allocated at the current year level of Rs. 10 crore as against the Planning Commission's suggestion of Rs. 14.6 crores.
- (h) The Agriculture Schemes allocations at Rs. 37.6 crores are in line with the Planning Commission's suggestion.

Table II.—*West Pakistan Annual Development Programme 1968-69*

| (Rs. in million) | | | | |
|--------------------------|----------------------------------------|------|-----------------------------------------|------|
| Sector | Suggested by Planning Commission | % | Proposed by Provincial Government | % |
| 1 | 2 | 3 | 4 | 5 |
| 1. Agriculture .. | 380 | 15.2 | 376 | 15.2 |
| 2. Water and Power .. | 790 | 31.6 | 872.6 | 35.3 |
| Water .. | 450 | 18.0 | 522.6 | 21.1 |
| Power .. | 340 | 13.6 | 250.0 | 14.2 |
| 3. Industry .. | 170 | 6 | 184.5 | 7.5 |
| 4. Fuels and Minerals .. | 30 | | 0.7 | |

| | 1 | 2 | 3 | 4 | 5 |
|--------------------------------|---|------|-------|--------|-------|
| 5. Transport & Communication | | 530 | 21.2 | 504.5 | 20.5 |
| 6. Physical Planning & Housing | | 130 | 5.2 | 144.2 | 5.8 |
| 7. Education and Training .. | | 185 | 7.4 | 168.9 | 6.8 |
| 8. Health | | 120 | 4.8 | 105.4 | 4.3 |
| 9. Social Welfare | | 10 | 0.4 | 7.6 | 0.3 |
| 10. Manpower | | 9 | 0.4 | 7.0 | 0.3 |
| 11. Works Programme .. | | 146 | 5.8 | 100.0 | 4.0 |
| Total: .. | | 2500 | 100.0 | 2471.5 | 100.0 |

Price Policy

15. One of the policy objectives of the Annual Plan for 1968-69 is to maintain monetary and price stability and to ensure that the increase in prices is not more than 2% during the year. The concern with price stability is welcome and indeed has all along been a major feature of our economic policies. However, it must be realised that during the next year due to the expected bumper agricultural crops, we shall be faced with the prospect of a substantial decline in prices of agricultural commodities. It is widely felt that in West Pakistan wheat prices which have already been falling for some months, will drop further by 25% in the next few months. If the wheat prices are stabilized at around Rs. 17 i.e. the Government support price, it would mean an overall drop in the West Pakistan wholesale price index of 6% between 1967-68 and 1968-69.

16. In formulating the price policy for the next year, the Plan Coordination Committee should, therefore, take into consideration not only the extent of the increase in prices which will be tolerated, but about the extent of the drop which might have to be coped with. If the feeling is generally against encouraging a decline in the overall price level, quite substantial doses of deficit financing could be administered in view of the very easy supply position of basic agricultural commodities. One must realise, however, that even in this way, a relative shift of prices against agriculture cannot be prevented. The price policies should therefore, as explicit as possible about the terms of trade of agricultural versus non-agricultural products. This may carry certain implications for subsidies for agricultural inputs.

17. The implications of a large wheat crop for the price support operations are being worked out by the Provincial Government and will be submitted to EC/NEC as required.

APPENDIX I

- NOTES: (a) Based on data supplied by the Central Statistical Office.
- (b) The Central Statistical Office' revised estimate of 17.6% has been revised downwards to 12.0%. The estimates for Gross Provincial Products, non-agricultural products, and per capita income have likewise been revised.
- (c) Based on the estimates of the Planning and Development Deptt.
- (d) Based on the 15% estimates for large-scale manufacturing and an estimated 6.5% growth in the other non-agricultural sectors.
- (e) Derived from the estimates of agricultural and non-agricultural growth.
- (f) Assuming a population growth rate of 2.6% throughout.
- (g) From *Mid-Plan Review*, revised Chapter 4. The figure for 1967-68 is based on the completion of Mangla.
- (h) From *Mid-Plan Review*
- (j) Based on the CSO data for overall fixed capital formation figures for Indus Basin and Public Sector development expenditures, assuming that Rs. 200 million of Public sector development expenditures takes the form of non-fixed capital formation. These figures are not necessarily consistent with those in Table 3.
- (k) Exports of goods and services minus imports, allowing Rs 557 million, Rs. 600 million, and Rs. 650 million as the positive trade balance with East Pakistan during 1965-66, 1966-67, and 1967-68 respectively. No account is taken of invisible trade.
- (m) In real terms, that is, after allowing for price increase.
- (n) Assuming that one half of revised Third Plan allocations are targeted for the first three years of the plan. The original plan target for private investment. Rs. 11,000 million was not revised. CF. *The Third Five Year Plan 1965-70. 1965 and revised phasing, sectoral priorities and allocations of the Third Five Year Plan 1967*. No price adjustments have been made in the original allocations.
- (p) This is reduced from the revised estimate in the Mid-Plan Review (Rs. 1828 million).

IX-B

GOVERNMENT OF PAKISTAN
MINISTRY OF FINANCECOMMENTS OF THE MINISTRY OF FINANCE ON THE
PLANNING COMMISSION'S WORKING PAPER ON THE
ANNUAL PLAN FOR 1968-69

As mentioned in para 1 of the Working Paper, the Annual Development Plan has been prepared in accordance with the directives of the National Economic Council with a view to ensuring a proper coordination of the private and public sectors. As further indicated in para 4 of the Working Paper and as contained in the Planning Commission's summary dated November 1, 1967, the ADP should, among other things, indicate:—

- (i) An assessment of the financial resources, internal and external likely to be available during the year, and
- (ii) An outline of the investment programme in the public and private sectors and of the physical targets to be achieved in major sectors/files.

2. Whereas a rough assessment of these aspects has been made in the public sector programme, the private sector programme remains perfunctory as in the past. A programme of Rs. 500 crores has been suggested in para 26 of the paper without indicating the basis as to how this size has been determined. In paras 52 & 53, it has been mentioned that it is not possible this year to undertake the type of studies necessary for formulating intelligent policies for the private sector. No attempt has been made to develop a comprehensive plan for the private sector and in this respect, there has been no improvement in procedure from the past in spite of the directive of the National Economic Council.

3. The proposed size of Rs. 500 crores in the private sector, if accepted, will result in an overall size of Rs. 1170 crores for the Annual Plan as a whole. No attempt has been made in the paper to assess whether the overall available resources (both private and public) would add up to this size. Without such an analysis the financing of the programme will create distortions and undesirable pressure on resources during the year. A paper prepared by the State Bank of Pakistan on this subject is circulated separately.

4. So far as the public sector is concerned, the following observations have been made in the Working Paper:—

- (1) The estimates of external and internal resources available for 1968-69 is Rs. 548 crores in accordance with the report of the Working Group of resources.
- (2) There is a possibility of additional internal resources of Rs. 50 crores to be mobilised during the year.

- (3) The Planning Commission in consultation with the Ministry of Finance has indicated a tentative gross size of Rs. 670 crores to the two Provincial Governments and the Central Ministries concerned.

The following comments are offered on these observations.

Estimate of Resources

5. The Working Group on Resources had provisionally estimated the available resources at Rs. 548.1 crores but there has since been a deterioration of Rs. 20.66 crores made up as follows:—

| | | <u>Remarks</u> |
|---------------------------------------------|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (i) Shortfall in Central taxes | Rs. 3.07 crores | Mainly under income tax and excise duties counter-balanced by improving under certain other heads. |
| (ii) Provision for AID Expenditure | Rs. 2.60 crores | |
| (iii) Shortfall in Central Capital Receipts | Rs. 9.08 crores | Due to exclusion of the estimated receipts on income tax bonds from Part I Estimates and shortfall in the estimated receipts of postal savings and reserve funds. |
| Total | <u>Rs. 14.75 crores</u> | |
| (iv) Shortfall in West Pakistan's Resources | Rs. 5.91 crores | |
| Total | <u>Rs. 20.66 crores</u> | |

The level of available resources would, therefore, be Rs. 527 crores instead of Rs. 548 crores as indicated in the previous report of the Working Group. This estimate is based on the provision for Defence expenditure at a level of Rs. 260 crores. To the extent the provision for Defence is increased there would be further corresponding reduction in resources.

Provincial Resources

6. *West Pakistan*: As separately discussed in the paper placed below the West Pakistan Resources would have to be brought down from Rs. 64 crores to Rs. 58 crores subject to the conditions indicated in that paper.

The effect of revenue assignment on the Provincial Resources

7. The estimates of revenue assignment adopted by the Working Group were based on the original scheme of taxes in the current year's budget. This has,

however, undergone a change due to the merger of certain items of sales tax with central excise duties. The level of revenue assignment would, therefore, next year be Rs. 122.71 crores instead of Rs. 132.00 crores as adopted by the Working Group. The provincial contribution as indicated by the Working Group would, therefore, come down by Rs. 3.33 crores in case of East Pakistan and Rs. 5.96 crores in case of West Pakistan. The revised position would be as under:—

| | <u>East Pakistan</u> | <u>West Pakistan</u> |
|------------------------------------------|----------------------|----------------------|
| I. Revenue Assignments | | |
| (As adopted by Resource Committee) | 66.00 | 66.00 |
| Present Estimates of Revenue Assignments | 62.67 | 60.04 |
| Difference .. | <u>—3.33</u> | <u>—5.96</u> |
| II. Provincial Contribution | | |
| (As adopted by the Working Group).. | 53.40 | 58.09 |
| Present Estimate on the basis of I above | 50.07 | 52.13 |
| Difference | <u>—3.33</u> | <u>—5.96</u> |

The deterioration of about Rs. 10 crores in the Provincial contribution would, however, be compensated by a corresponding improvement in the central sector and there will be no overall effect on the available resources.

8. As regards the Planning Commission's adopting of a gross programme of Rs. 670 crores, it is not correct to state that the programme was indicated in consultation with the Ministry of Finance. Secretary Planning Division had informed the Secretary Finance on phone that he was tentatively suggesting to the provinces a gross ADP of Rs. 670 crores. The Finance Secretary in the reply told him that the real resources as worked out by the Balance of Payments Committee at that stage were not likely to exceed Rs. 550 crores and may be even less and that while the Planning Commission could suggest the size of the gross programme at any level the Ministry of Finance could not endorse a figure in terms of real resources beyond what the Committee's estimates were. The excess of the programme over and above the level of the real resources would have to be shown in the budget as operational shortfall as it would not be covered by real resources. Since it would be embarrassing to provide so large a shortfall the gross size of the programme to be advised to the provinces even though on a provisional basis ought to be kept at a reasonable level. Secretary Planning promised that they would take care of this aspect of the matter after the Provincial proposals have been received. So far as the Ministry of Finance is concerned the position remains unchanged.

Estimates of Foreign Aid

9. The estimates of foreign assistance have been worked out by the Working Group on Resources on a rough basis for lack of adequate details at that stage. It would, as in the past, be essential to identify the estimates of disbursements of project assistance and to reconcile them with the provisions made for the relevant project in the ADP. Without such an exercise, it will not be possible to work out the exact requirement of rupee finance either. It is accordingly suggested that the Plan Coordination Committee may direct this exercise to be carried out expeditiously by a Working Group consisting of the representatives of the Economic Affairs Division, the Planning Division, Provincial Governments and the Ministry of Finance.

10. The Estimates of foreign aid include a sum of Rs. 112 crores on account of generations of commodity aid and Rs. 40 crores on account of allocations from PL 480 imports. These figures are purely provisional subject to the conclusion of agreements during the next year.

Provision for Specialised Credit Institutions

11. The Economic Coordination Committee in their meeting held on 4th September, 1957, decided that the requirement of the Specialised Credit Institutions should be provided through the mechanism of the Annual Development Programme. Accordingly, the Ministry of Finance forwarded an estimate of Rs. 15.70 crores for the requirements of these Institutions to the Planning Commission for inclusion in the tentative programme as per details below:—

| <u>Name of Corporation</u> | <u>Amount required Rs. crore</u> |
|----------------------------------------------------------|------------------------------------------|
| Agricultural Development Bank of Pakistan .. | 3.00 |
| House Building Finance Corporation | 3.00 |
| Pakistan Industrial Credit and Investment Corporation .. | 3.00 |
| Industrial Development Bank of Pakistan | 3.00 |
| Refinance Corporation of Pakistan | 3.00 |
| House Building Advances | 0.70 |
| | <hr/> 15.70 <hr/> |

The Planning Commission has only included a provision of Rs. 3.50 crores for the Agricultural Development Bank and House Building Advances. This will still leave a provision of Rs. 12.20 crores for the rest of the institutions to be provided in the ADP. If this is not done and the necessary provision is made in

the non-development budget, the available resources will undergo a further corresponding reduction.

Balance of Payments Projection

12. Certain assumptions made in the balance of payments projection (para 42 of the Paper refers) do not correspond with the actual commitments, e.g.,

- (1) A provision of Rs. 70 crores only has been made for debt servicing whereas in accordance with the available estimates it should at least be of the order of Rs. 80 crores.
- (2) For invisibles including Reference, a sum of Rs. 85 crores only has been provided against possible requirements of Rs. 106 crores.
- (3) The provision for commodity assistance at Rs. 112 crores is on the high side. The availability as indicated to the Working Group of Resources is only of the order of Rs. 103 crores.

If due allowance is made for all these items, the provision for Development imports would have to be reduced by about Rs. 40 crores, i.e. Rs. 405 crores as assumed in the Projection of the Planning Commission to Rs. 365 crores.

These allocations would have to be kept in view while fixing the size of the ADP.

X

SUMMARY FOR THE NATIONAL ECONOMIC COUNCIL

(as approved by NEC)

SUBJECT:—*Draft Annual Plan for 1968-69*

The National Economic Council decided at its meeting held on 14th November, 1967, that in future comprehensive Annual Plans should be prepared each year, incorporating the development programmes of public and private sectors and economic policies for their implementation. In accordance with this directive, a Draft Annual Plan for 1968-69 has been prepared and is submitted for the approval of the National Economic Council.

2. The Draft Annual Plan has been prepared with the active cooperation of the two Provincial Governments and the Central Ministries and Divisions concerned. The preparation of the Draft Plan was supervised by the Annual Plan Co-ordination Committee constituted by the National Economic Council under the Chairmanship of the Deputy Chairman, Planning Commission. The Committee received valuable support from the two Working Groups set up by it, one to suggest investment targets and policies for the private sector and the other to recommend growth and production targets for the two provinces. The composition of the Annual Plan Co-ordination Committee and the two Working Groups is shown in Annexure I.

3. The Draft Annual Plan is based on a large number of research studies undertaken in the Planning Commission, proposals and suggestions received from various financial institutions (PICIC, IDBP, ADBP, HBFC, NIT and ICP), and valuable documents prepared by the two Provincial Planning Departments. These studies and background papers are being printed separately for reference and record.

4. As a first exercise in comprehensive annual planning, the Draft Annual Plan for 1968-69 is somewhat limited in its scope and presentation. It will take some time before more complete information can be collected and institutional arrangements devised, particularly for the private sector. The preparation of the Annual Plan this year was compressed in a short period of time and, as such, the Draft Plan will require extensive revision before it is printed and released along with the budget. A copy of the Draft Plan as presented to the Annual Plan Co-ordination Committee is placed below. It will be modified in the light of the recommendations of the Committee and the decisions taken by the National Economic Council on this Summary.

Growth Targets for 1968-69

5. Detailed studies have been carried out to identify the growth potential in 1968-69 and the policies required to exploit this potential. The Committee

would recommend that the following specific targets should be adopted:—

- (a) The growth rate in the GNP should be at least 7 per cent during 1968-69. This appears to be in line with the growth possibilities existing in the economic system and will also ensure that the overall Plan target of 6.5 per cent per annum is met.
- (b) A determined effort should be made to achieve a higher growth rate in East Pakistan compared to West Pakistan so as to reduce regional disparity.
- (c) The production in the industrial sector should be accelerated so that a balanced and complementary development of agricultural and industrial sectors is ensured.

6. During the first three years of the Third Plan, the average annual growth rate in the GNP is expected to be nearly 6 per cent. It is too early to firm up the GNP estimates for 1967-68 since these depend on final estimates of agricultural crops which will not be available for some time. If wheat production in West Pakistan reaches a level of 6 million tons and rice production in East Pakistan a level of 10.8 million tons, the overall growth rate in 1967-68 will be 8.3 per cent. The record agricultural crops expected in the current year will make it more difficult to manage a similarly large increase in agricultural production next year from such high bench-marks, so that the overall growth rate may not be more than 6 per cent in 1968-69 on the basis of these assumptions. For purposes of presentation, it is better to take the two years (1967-68 and 1968-69) together, in which case it can be safely forecast that an average growth rate of about 7 per cent can be managed over these two years.

7. In the first two years of the Third Plan, the annual growth rate in East Pakistan has been about 4.4 per cent compared to 5.4 per cent in West Pakistan. The growth rate in East Pakistan was depressed largely due to the stagnation in the production of rice. The improved agricultural prospects during 1967-68 and 1968-69 promise an average growth rate of 7.3 per cent per annum in these two years in East Pakistan. This will raise the average annual growth rate in East Pakistan during the first four years of the Third Plan to nearly 6 per cent, implying a considerable acceleration from the actual growth rate of a little over 4 per cent achieved in the Second Plan.

8. The Annual Plan Co-ordination Committee has reviewed the agricultural production targets for 1968-69 in the light of the expected size of agricultural crops in 1967-68. Tentatively, it has adopted a production target of 6.3 million tons for wheat, 2.1 million tons for rice and 3.1 million bales for cotton in West Pakistan and 11.5 million tons of rice and 7.5 million bales of jute in East Pakistan. These targets will have to be kept under continuous review by the two Agricultural Policy Committees in the light of the developing situation.

9. It would be necessary to accelerate the growth rate in the industrial sector during 1968-69 in order to produce a larger supply of consumer goods for domestic consumption, arising particularly out of larger agricultural incomes, and to increase industrial exports. In the first three years of the Third Plan, industrial growth rate is likely to be only 7 per cent per annum as against the Plan target of 10 per cent. A minimum target of 11 per cent increase in industrial production, which will imply a 14 per cent growth in large-scale industrial production, is being proposed for 1968-69. It is estimated that the provision of industrial raw-materials and spares will have to be increased by about 25 per cent compared to the current year in order to achieve this target.

Size of Development Programme

10. The Annual Plan Co-ordination Committee has carefully considered the total size of the development programme that can be financed in 1968-69. In formulating its proposals, the Committee has kept the following principles in view:

- (a) The development effort next year should be in line with the growth and saving potential of the economy.
- (b) It should provide for a reasonable acceleration in development expenditure from the level of the current year.
- (c) It should not strain the domestic price level or the balance of payments of the country.
- (d) It should constitute a respectable national effort on the basis of which adequate levels of foreign assistance can be negotiated.

11. In fixing a definitive target for 1968-69, the Committee faced the difficulty of not having sufficient information about the actual size of development expenditure in the current year, particularly in the private sector. The estimates of private investment in the current year vary from Rs. 3,500 to 4,500 million. This investment consists of expenditure on tube-wells, fertilizers, improved seeds, new industries, private construction, transport etc., the bulk of which is financed by private resources and savings. The total public and private sector development expenditure during the current year may be between Rs. 8,500 to 9,500 million. Depending on the actual level of development expenditure in the current year, the size of the development programme for next year can be between Rs. 9,500 to 10,500 million. In view of inadequate data for the private sector (for which basic studies are being initiated to improve the quality and quantity of information for the formulation of future Annual Plans), the Committee agreed on adopting the following approach for 1968-69:

- (i) A net programme of Rs. 5,700 million should be provided in the public sector, depending on the additional effort of the Provincial Governments, as mentioned in para 16 below.

- (ii) An acceleration of about 10 per cent should be built into the investment programmes of the private sector.
- (iii) An effort should be made to mobilise about 22 per cent of the *additional* income next year for saving and investment. The actual marginal saving rate was over 20 per cent in the Second Plan; it fell to about 2 per cent in the first two years of the Third Plan due to the war and its aftermath but will recover to 28 per cent in the current year.
- (iv) The development effort should be contained within safe limits of monetary expansion and credit creation.

Public Sector Development Programme

12. The implementation of the development programme in the public sector during the first three years of the Third Plan has lagged considerably behind Plan targets. The total implementation during this period of three years will be about 41 per cent against the Plan size of Rs. 30,000 million. It is imperative that a major acceleration in the development programme is managed next year in order to prevent huge shortfalls in the financial implementation of the Plan and to establish reasonable bench-marks for the Fourth Plan period. Keeping in view both the requirements and the likely availability of resources, the Committee would propose that the size of the public sector development programme should be fixed at Rs. 6,400 million (gross) and Rs. 5,700 million (net).

13. The regional break-down of the proposed size of Rs. 6,400 million (gross) by executing agencies is given below :

| | | | | (Million rupees) |
|---------------|----|-------|----|-------------------|
| East Pakistan | .. | .. | .. | 2,964 |
| West Pakistan | .. | .. | .. | 2,388 |
| Centre | .. | .. | .. | 1,054 |
| | | Total | .. | 6,406 (say 6,400) |

If the Central expenditure is divided between the two provinces according to location/benefit of projects, the share of East Pakistan in the total development expenditure will be Rs. 3,420 million, *i.e.*, 53 per cent of the total allocation. The share of West Pakistan will be 2,986 million, *i.e.*, 47 per cent. This is in line with the Third Plan allocations for the two regions.

14. In the formulation of the public sector development programme, the following order of priorities has been kept in mind:

- (i) Agriculture sector has been accorded the highest priority. All essential programmes for attainment of food self-sufficiency, as laid down by the Agricultural Policy Committees, are fully protected.

- (ii) Projects/programmes in the Water and Power sector which have a direct bearing on the increase in food production and augmentation of power and transmission facilities have been provided for.
- (iii) Aided projects are fully protected and provision made according to the schedule of disbursement.
- (iv) On-going projects in a fairly advanced stage of implementation have been adequately provided for with a view to completing them early.
- (v) Schemes/programmes having a relatively shorter gestation period have been given preference.
- (vi) Construction content of programmes has been kept at the minimum possible level.
- (vii) Adequate allocation has been made for the Works Programme as it has a great potential for the creation of income and employment opportunities in the rural areas.
- (viii) No new scheme, unless it is absolutely essential, has been taken up.

15. The sectoral composition of the programme is given in the following table. The detailed Annual Development Programmes for the Centre, East Pakistan and West Pakistan are being circulated separately as annexures to this Summary.

SECTORAL DISTRIBUTION OF THE PUBLIC SECTOR DEVELOPMENT PROGRAMME
(1968-69)

(Million rupees)

| Sector | Third Plan Allo- cations | % | Proposed Allocations for 1968-69 | % |
|----------------------------------|--------------------------------|-------|----------------------------------------|-------|
| 1. Agriculture | 4,115 | 13.2 | 892 | 13.9 |
| 2. Water and Power | 8,047 | 26.0 | 1,855 | 29.0 |
| 3. Industry | 3,513 | 11.3 | 805 | 12.6 |
| 4. Fuels and Minerals | 592 | 1.9 | | |
| 5. Transport and Communications | 6,711 | 21.7 | 1,292 | 20.2 |
| 6. Physical Planning and Housing | 2,477 | 8.0 | 472 | 7.4 |
| 7. Education and Training | 2,374 | 7.6 | 731 | 6.7 |
| 8. Health | 1,175 | 3.8 | 246 | 3.8 |
| 9. Social Welfare | 90 | 0.3 | 21 | 0.3 |
| 10. Manpower | 86 | 0.3 | 16 | 0.2 |
| 11. Works Programme | 1,820 | 5.9 | 366 | 5.7 |
| 12. Block Provision | — | — | 10 | 0.2 |
| Total | 31,000 | 100.0 | 6,406 | 100.0 |

Several issues require consideration in this context:

(i) The implementation in the social sectors (education, health, social welfare etc.), in the first three years of the Third Plan has been only 35 per cent compared to the overall implementation of 41 per cent. Efforts should be made in the balance of the Plan period to accelerate this programme.

(ii) The allocation for programmes to be executed by the Centre stands at 16.4 per cent of the total allocations in 1968-69 as against 14.9 per cent provided for in the revised Third Plan. The West Pakistan Government has represented that this allocation should be reduced and a larger provision made for the programmes to be directly executed by the Provincial Government.

(iii) Adequate provision should be made in the non-development budget for the recurring expenditure of development schemes; otherwise considerable unutilized capacity will emerge in educational institutions and other programmes in the social sectors.

16. According to an assessment of internal and external resources available for the public sector development programme on the basis of existing taxes and without including any deficit financing, Rs. 4,810 million should be available in 1968-69. The gap between the proposed size of Rs. 5,600 million (net) and the available resources of Rs. 4,810 million is to be met by additional effort and reasonable level of deficit financing. It is expected that the Provincial Governments will raise Rs. 250 million of additional resources during 1968-69 and that the balance will be made up by the Central Government. The programme may have to be adjusted to the extent that there is a shortfall in the effort of the Provincial Governments.

Private Sector Development Programme

17. The Annual Plan Co-ordination Committee felt that since the private sector is being included in the Annual Plan for the first time in 1968-69, satisfactory procedures for determining its size and regional and sectoral priorities can be evolved only over a period of time. At the present stage, the size of private investment should be regarded as to location/benefits of projects, the share of East Pakistan in the total national and our policies should be such that the full saving potential of the private sector can materialise into actual investment. For this purpose, the Committee recommended that special attention should be paid to the lending policies of the financial institutions (PICIC, IDBP, ADBP, HBFC, NIT, ICP, etc.), provision of foreign exchange to the private sector and formulation of suitable credit and fiscal policies consistent with monetary and price stability and with due regard to safeguarding the balance of payments position.

18. The financial institutions have been lending a total amount of Rs. 600 to 700 million in the private sector in recent years. They have formulated a total programme of Rs. 1,646 million for 1968/69. The Committee

considered that this programme was too ambitious and that it would not be possible to finance a programme of more than Rs. 1,000 million during 1968-69. An effort will be made to secure about Rs. 700 million of foreign credits for these institutions. Another Rs. 150 million will be channelled to them through the Government budget. It is expected that these institutions will be able to raise about Rs. 150 million of credit from the domestic capital market. Thus, it should be possible for them to increase their lending to the private sector from the present level of about Rs. 700 million to about Rs. 1,000 million during 1968-69.

19. The Committee recommended that a proportion of 50 : 50 should be provided for the two regions in the lending operations of the financial institutions. This will entail a certain amount of flexibility in the lending operations of the financial institutions and adoption of concrete measures on the part of the Government of East Pakistan to give positive encouragement to private investment in that province.

20. It was felt that there was a need for a Standing Committee to watch the progress of the private sector during the course of the year so as to guide and adjust the size and composition of private investment. It was suggested that the Committee on Balance of Payments, Problems and Policies, set up by the Cabinet under the chairmanship of the Deputy Chairman, Planning Commission, should look after this aspect.

Balance of Payments

21. An export target of Rs. 4,150 million has been formulated for the next year. This compares with the latest estimate of Rs. 3,770 million of export earnings for 1967-68. The actual export earnings during the current year will be only 5 to 6 per cent above the level of the last year, which shows a reduction in the average annual growth rate of about 10 per cent in the preceding years. It is proposed that, through vigorous policies, an increase of about 10 per cent in exports should be achieved in 1968-69. This should become possible if foreign markets can be found for surplus IRRI rice which is expected to be available in substantial quantities next year.

22. The import strategy for 1968-69 should be based on consolidating and enlarging the area of import liberalisation introduced in the January—June shipping period. A review of the experience of the current import policy will be helpful in determining how this policy can be rationalised further during the next shipping period. As mentioned earlier, an effort should be made to provide for an increase of about 25 per cent in the availability of industrial raw materials and spares so as to achieve the growth rate of 14 per cent in large-scale industry.

23. A request for \$550 million is being presented to the Consortium Meeting to be held in May, 1968, \$300 million for commodity assistance and \$250 million for project assistance. It is not possible to predict at the present stage what amounts may actually become available. A certain level of economic assistance will also become available from non-Consortium sources.

24. During 1968-69, a cautious policy will have to be adopted in regard to our debt management in the light of the studies recently completed by the Committee on Balance of Payments Problems and Policies. The following principles are suggested for future debt management policy:—

- (a) the country's debt liability should not appreciably exceed 20 per cent of its total foreign exchange earnings in the foreseeable future;
- (b) the debt servicing liability should normally not increase faster than the rate of increase in export earnings.
- (c) for this purpose, short-term credits (with repayment periods of less than 10 years) should be restricted and used only selectively for export industries, essential import substitution programmes of other quick payoff projects; and
- (d) the amount of hard loans which can be accepted each year should be determined in the Annual Plan in the light of expected availability of soft credits so that an appropriate blend is maintained between soft and hard loans.

25. The National Economic Council is requested to approve the proposals outlined in this Summary and authorise the Planning Commission to modify the Draft Plan in the light of the decisions of the National Economic Council on this Summary and from the point of view of internal consistency and presentation.

26. Deputy Chairman, Planning Commission, has seen and approved the Summary.

QAMAR-UL-ISLAM,

April 29, 1968.

Secretary to the Government of Pakistan.

COMPOSITION OF THE ANNUAL PLAN CO-ORDINATION
COMMITTEE

- | | |
|------------------------------------------------------------------|-------------------------------|
| (1) Deputy Chairman, Planning Commission. | <i>Chairman.</i> |
| (2) Secretary, Ministry of Finance | <i>Member.</i> |
| (3) Secretary, Ministry of Industries | <i>Member.</i> |
| (4) Secretary, Ministry of Commerce | <i>Member.</i> |
| (5) Secretary, Economic Affairs Division | <i>Member.</i> |
| (6) Secretary, Planning Division | <i>Member.</i> |
| (7) Secretary, Ministry of Communications | <i>Member.</i> |
| (8) Secretary, Ministry of Agriculture | <i>Member.</i> |
| (9) Governor, State Bank of Pakistan | <i>Member.</i> |
| (10) Chairman, Planning and Development Board, West Pakistan. | <i>Member.</i> |
| (11) Additional Chief Secretary (Development), East Pakistan. | <i>Member.</i> |
| (12) Finance Secretary, West Pakistan | <i>Member.</i> |
| (13) Finance Secretary, East Pakistan | <i>Member.</i> |
| (14) Chief Economist, Planning Commission | <i>Member- Secretary.</i> |

WORKING GROUP ON PRIVATE SECTOR PROGRAMMES

- | | |
|-------------------------------------------------------------------------------|------------------|
| (1) Secretary, Ministry of Industries | <i>Chairman.</i> |
| (2) Governor, State Bank of Pakistan | <i>Member.</i> |
| (3) Chairman, Planning and Development Board, Government of West Pakistan. | <i>Member.</i> |
| (4) Additional Chief Secretary (Development), Government of East Pakistan. | <i>Member.</i> |
| (5) Managing Director, PICIC. | <i>Member.</i> |
| (6) Managing Director, IDBP | <i>Member.</i> |
| (7) Chairman, ADBP. | <i>Member.</i> |
| (8) Managing Director, National Investment Trust Ltd. | <i>Member.</i> |
| (9) Managing Director, Investment Corporation of Pakistan. | <i>Member.</i> |

- | | |
|------------------------------------------------------------|-------------------|
| (10) Managing Director, House Building Finance Corporation | <i>Member.</i> |
| (11) Joint Secretary, Ministry of Finance | <i>Member.</i> |
| (12) Representative of Planning Division | <i>Secretary.</i> |

WORKING GROUP ON GROWTH TARGETS

- | | |
|-----------------------------------------------------------------------------|------------------|
| (1) Chief Economist, Planning Commission | <i>Chairman.</i> |
| (2) Chief Economist, Planning and Development Board, West Pakistan. | <i>Member.</i> |
| (2) Chief Economist, Planning and Development Department, East Pakistan. | <i>Member.</i> |
| (4) Director, Research Department, State Bank of Pakistan | <i>Member.</i> |