RESTRICTED
PCR:PAK 15035

ASIAN DEVELOPMENT BANK

This Report has been prepared for the exclusive use of the Bank.

PROJECT COMPLETION REPORT

OF THE

AGRICULTURAL DEVELOPMENT BANK OF PAKISTAN
[Loan No. 617-PAK(SF)]

IN

PAKISTAN

January 1994

CURRENCY EQUIVALENTS

Currency Unit - Rupees (PRs)

Currency Unit	At Appraisal (October 1982)	At PCR (October 1993)
$ 1.00	PRs 12.45	PRs 30.12
PRs 1.00	$0.0803	$ 0.0332

(i) The exchange rate of the Rupee is determined by the State Bank of Pakistan under a system of managed float since 7 January 1982.

(ii) In this Report the rate of $1.00 = PRs 18.15 has been used; this is the average of the exchange rates prevailed when the Bank made disbursements under the Loan.

ABBREVIATIONS

AAPU	-	Agro-Industries Advisory and Promotion Unit
ADBP	-	Agricultural Development Bank of Pakistan
AR	-	Appraisal Report
BBPB	-	Big Bird Poultry Breeders
BME	-	Benefit Monitoring and Evaluation
DFI	-	Development Finance Institution
FIRR	-	Financial Internal Rate of Return
HBL	-	Habib Bank Ltd.
mt	-	metric ton
NDFC	-	National Development Finance Corporation
NOC	-	No-Objection Certificate
PA	-	Project Agreement
PCO	-	Project Credit Officer
PCR	-	Project Completion Review
PLD	-	Project Loan Department/Project Loan Division
RADP	-	Ravi Agricultural and Dairy Products
SBP	-	State Bank of Pakistan
TA	-	Technical Assistance
UHT	-	Ultra Heat Treated
UK	-	United Kingdom
US	-	United States

NOTE

(i) The fiscal year of the Government of Pakistan and Agricultural Development Bank of Pakistan is 1 July-30 June.

(ii) In this Report, "$" refers to US Dollars.

PCR:PAK 255

PROJECT COMPLETION REPORT

OF THE

AGRICULTURAL DEVELOPMENT BANK OF PAKISTAN

(Loan No. 617-PAK(SF))

IN

PAKISTAN

January 1994

Note: This Report was prepared by a Bank Mission comprising Nimal A. Fernando (Project Economist/Mission Chief), P. Soriano (Staff Consultant/Agro-Industrial Specialist) and A.C. Deguito (Senior Assistant-Subloans). The Mission undertook the fieldwork from 16 October to 4 November 1993.

TABLE OF CONTENTS

BASIC DATA

A. Loan Identification

1.	Country	:	Pakistan
2.	Loan Number	:	617-PAK(SF)
3.	Project Title	:	Agricultural Development Bank of Pakistan
4.	Borrower	:	Government of Pakistan
5.	Name of Executing Agency	:	Agricultural Development Bank of Pakistan
6.	Amount of Loan		
	- Original	:	$50.00 million
	- Net of Cancellation	:	$43.48 million

B. Loan Data

1.	Appraisal		
	- Date Started	:	18 July 1982
	- Date Completed	:	10 August 1982
2.	Loan Negotiations		
	- Date Started	:	03 November 1982
	- Date Completed	:	12 November 1982
3.	Date of Board Approval	:	14 December 1982
4.	Date of Loan Agreement	:	23 December 1982
5.	Date of Loan Effectiveness		
	- In Loan Agreement	:	23 March 1983
	- Actual	:	02 June 1983
	- Number of Extensions	:	2
6.	Terminal Date of Commitments		
	- In Loan Agreement	:	30 June 1987
	- Actual	:	01 June 1987
	- Number of Extensions	:	None
7.	Closing Date		
	- In Loan Agreement	:	30 April 1988
	- Actual	:	16 June 1993
	- Number of Extensions	:	4 extensions
8.	Terms of Loan		
	- Interest Rate	:	1% per annum
	- Maturity (number of years)	:	40 years
	- Grace Period (number of years)	:	10 years
	- Free Limit	:	$300,000

9. Terms of Relending to ADBP
   - Interest Rate : 4% per annum
   - Maturity (number of years) : 15 years
   - Grace Period (number of years) : 5 years

10. Terms of Onlending to Sub-borrowers
   - Interest Rate : 11 % plus 3% foreign exchange risk fee
   - Maturity (number of Years) : 10 years
   - Grace Period (number of years) : 3 years

11. Disbursements
   a) Dates

Initial Disbursement	Final Disbursements	Time Interval
20 Jan 1984	02 Sept 1991	92 months

Effective Date	Original Closing Date	Time Interval
02 Jun 1983	30 Apr 1988	59 months

   b) Amount

($ million)

Category	Original Allocation	Last Review Allocation	Net Amount Disbursed	Amount Cancelled
Credit Facilities	48.97	38.91	32.67	6.24
Consultants' Services				
A. Review of Constraints on Agro-industrial Development	0.08	0.07	0.07	
B. Strengthening of Project Loan Department	0.47	0.44	0.44	
Overseas Travel for Agricultural Development Bank of Pakistan Personnel	0.15	0.09	0.09	
Administrative Support to Agro-Industries Advisory and Promotion Unit	0.10	0.06	0.09	(0.03)
Training	0.23	0.11	0.12	(0.01)
Fertilizers & Diesel Fuel	0.00	10.32	10.00	0.32
TOTAL	50.00	50.00	43.48	6.52

C. Implementation Data

1. Total Number of Subloans - 24

2. Subloans Above Free Limit ($ million)

Number	Aggregate Amount
18	31.543

D. Data on Bank Missions

Type of Mission[a]	Dates	Members	Person-days	Expertise of Members
Inception/ SLA	5-15 Mar 1984	2	15	Agricultural Credit Development Specialist Agro-Processing Engineer
SLA	15-26 Feb 1985	3	36	Senior Agricultural Credit Specialist Consultant - Financial Analyst Consultant - Dairy Expert
SLA	18-22 Dec 1985	1	5	Agricultural Credit Development Specialist
Disbursement	29 Apr 1986	2	2	Control Officer Engineering Specialist
Review	16-30 Jan 1987	2	22	Agricultural Credit Development Specialist Agricultural Credit Specialist
SLA	16-28 Mar 1987	1	6	Agricultural Credit Specialist
SLA	16 Nov-13 Dec 1987	3	84	Agricultural Credit Specialist Consultant - Marketing Specialist Consultant - Agricultural Business Management
Review	9-23 Mar 1988	3	20	Agricultural Credit Specialist Consultant - Financial Institutinal Expert Senior Assistant
Review	12-21 Dec 1989	2	20	Agricultural Credit Specialist Senior Assistant
Review	12-21 Nov 1990	3	15	Agricultural Credit Specialist Consultant - Financial Expert Senior Assistant
Review	21 Apr-2 May 1992	2	10	Agricultural Credit Specialist Senior Assistant
PCR	15 Oct-5 Nov 1993	3	66	Project Economist Consultant - Agro-Industry. Senior Assistant
TOTAL	12	27	301	

[a] SLA - Special Loan Administration; PCR - Project Completion Review

I. PROJECT BACKGROUND AND DESCRIPTION

A. History

1. The Government of Pakistan (the Government) requested Bank assistance in June 1981 in support of the agro-industrial lending program of the Agricultural Development Bank of Pakistan (ADBP). Before considering this request, the Bank provided technical assistance (TA) to enable ADBP to assess the investment potential in agro-industries with a view to identifying priority areas and formulating suitable lending strategies, policies and programs.[1] The Report of the TA consultants indicated potential for agro-industrial development. The TA Report was discussed at a meeting in Islamabad in July 1982. The Bank Mission that participated in the meeting concluded that the Government's request for Bank financing ADBP's agro-industrial lending merited Bank's consideration.

2. The Appraisal Mission (July-August 1982) concluded that a Bank credit line to ADBP "could make a significant impact on agro-industrial development" (Appraisal Report [AR], para. 1). The Mission firmed up the scope and objectives of the Project at a meeting held in Islamabad in August 1982. The Bank approved the Loan for $50.0 million on 14 December 1982. The Loan Agreement was signed on 23 December 1982 and the loan became effective on 2 June 1983. The loan was closed on 16 June 1993 (Basic Data, page (ii)).

B. Project Objectives and Rationale

3. The Project was to develop agro-industries that would contribute towards increased farm production and productivity or improved utilization of the economic potential of farm produce. To realize this objective, the Project was to provide ADBP with foreign exchange resources to finance lending to agro-industrial investment subprojects and strengthen ADBP's capacity in agro-industrial lending.

4. It was recognized that ADBP has a comparative advantage over other development finance institutions (DFIs) in agro-industrial lending partly because of its sector-wide involvement in financing agricultural production and its countrywide branch network with greater rural sector penetration.[2] However, since ADBP had made a purposive entry into project lending only in 1979, its experience and capacity to expand project lending was considerably limited in 1982. Moreover, ADBP did not have adequate financial resources to scale up agro-industrial lending activities. The State Bank of Pakistan (SBP) did not provide concessional finance to ADBP (or any other DFI) for agro-industrial lending at that time, nor was there any credit line funded by external agencies to ADBP to support agro-industrial lending. This provided the rationale for the Project.

C. Project Scope

5. The TA, (see para. 1), formed the basis of the Project and identified and recommended a number of enterprises that would be viable in the market given the policy environment for investment support from ADBP. The enterprises were based on rice, cotton, sugar, fruit or vegetable, dairy and livestock, or were producing farm inputs. On the basis

---

[1] TA 443: Agro-Industries Credit, for $150,000, approved on 23 December 1981.

[2] See Appraisal Report of the Agricultural Credit Project (Loan No. 1044-PAK(SF)) for a detailed history and review of ADBP. This loan was approved by the Bank on 6 November 1990.

of the TA findings and its own analysis, the Appraisal Mission identified three key categories of enterprises deserving priority under the Project: (i) enterprises concerned with processing and marketing fruit and vegetables and developing livestock and dairy; (ii) enterprises based on the use of agricultural wastes, crop residues and by-products; and (iii) agro-industrial projects in underdeveloped areas.

6. In view of the limited institutional capacity of ADBP for the large-scale project lending that was envisaged under the Project, the Project also aimed at strengthening the capacity of ADBP's Project Loan Department (PLD)[1] to design and install an appropriate project appraisal, monitoring and evaluation system and to train PLD staff in project appraisal and management.

7. Of the Bank approved loan, $48.97 million was allocated for financing foreign exchange requirements of agro-industrial subprojects and $1.03 million for strengthening ADBP's project lending capacity. The Project aimed at financing about 172 subprojects at a total estimated cost of $97.94 million (AR, Appendix 6).

D. Implementation Arrangements

8. The Bank's loan from its Special Funds (SF) resources carried service charge of 1 per cent per annum on the amount of the loan withdrawn from the loan account and outstanding from time to time. The loan is repayable in 40 years, including a 10-year grace period.

9. According to a subsidiary loan agreement (SLA) between ADBP and the Government, the latter was to relend the loan proceeds to ADBP at an annual interest rate of 4 per cent and the maturity period of the relent funds was limited to 15 years, including a 5-year grace period. The Government bore the foreign exchange risk, for which it charged ADBP a fee of 3 per cent per annum.

10. Under the Project Agreement (PA), ADBP was required to onlend the loan funds to sub-borrowers at a rate of 11 per cent per annum exclusive of any foreign exchange risk fee. The foreign exchange risk passed on to the sub-borrower was fixed at 3 per cent per annum, thus effectively raising the onlending rate to 14 per cent. The amortization schedule stipulated in PA allowed a maximum of 10 years, including a grace period not exceeding 3 years, for subloans financed with the loan proceeds. The sub-borrowers were required to repay their loans in approximately equal semi-annual or annual aggregate payments of principal plus interest. Implementation was the responsibility of ADBP's PLD which was required to promote the Project in general; identify, select and appraise subproject proposals; and supervise and monitor the subprojects financed.

11. Under the Project, Bank funding was made available for financing the foreign exchange component of the investment cost of subprojects appraised and approved by ADBP. When selecting subprojects for financing, ADBP was required to give preference to those in dairy, fruit and vegetables, rice, cotton, sugar, livestock and poultry and industries

---

[1] In March 1988, the Project Loan Department was upgraded to a Division and named Project Loan Division (see para. 41). In this Report the acronym PLD is used to denote both Project Loan Department and Project Loan Division.

supplying inputs for agricultural development. When making subloans, ADBP was also required to satisfy itself that the sub-borrowers had at their disposal, or had made appropriate arrangements to obtain as and when required, all local currency funds required for the successful operation of the subprojects, including adequate working capital and other resources.

12. To be eligible for financing, individual sub-borrowers were required to (i) contribute equity equivalent to a minimum of 30 per cent of the subproject investment cost, and (ii) have had no defaults in any financial assistance extended by ADBP. Sub-borrowers were required to submit to ADBP detailed feasibility reports on the subprojects for which they sought financing. ADBP was required to appraise these reports in accordance with the guidelines for appraisal agreed between the Bank and ADBP. ADBP could use the Bank's loan proceeds to finance the foreign exchange cost of consultants' services for feasibility studies, subject to an aggregate ceiling of $500,000 with prior concurrence of the Bank to the detailed terms of reference and the cost of such study. When appraising subproject proposals, ADBP was required to consider, inter alia: (i) operational difficulties encountered in similar subprojects, (ii) the subprojects installed capacity and level of utilization in the agro-industrial subsector concerned, and (iii) the appropriateness of technology to be employed in the subproject (PA, Schedule, para 2 (d)).

13. The maximum subloan size, under the PA, was $2.0 million and the free limit was $300,000. Although ADBP did not require prior Bank approval for granting subloans below the free limit, summary appraisals of such subprojects had to be submitted for Bank ratification. Subprojects above the free limit required the Bank's prior approval.

14. ADBP was required to maintain records and accounts adequate to identify separately the goods financed out of the proceeds of the subloans, to disclose the use of the loan proceeds and to assess the progress and cost of the Project and furnish the Bank with copies of its annual audited financial statements not later than six months after the close of each financial year. Further, ADBP was responsible for ensuring that procurement procedures adopted by the sub-borrowers were appropriate in the circumstances and acceptable to the Bank.

15. Since ADBP did not have a benefit monitoring and evaluation (BME) system when Project implementation started, ADBP was required to design and establish an appropriate BME system in consultation with the Bank, carry out regular monitoring and evaluation of subproject benefits and progress, and provide such information to the Bank periodically.

E. Institutional Strengthening

16. To increase ADBP's limited capacity for project lending, $1.03 million of the loan amount was allocated for institutional strengthening of PLD and training of its staff. The loan provided foreign exchange facilities to cover the cost of 36 person-months of foreign consulting services, comprising three experts (a development banking specialist, an engineer, and a marketing specialist) to help PLD design and install an appropriate appraisal, monitoring and evaluation system for subprojects. The Project also provided further consulting services to review constraints to agro-industrial development at the early upstream stages of the Project implementation, with a view to fine-tuning its agro-industrial lending activities. To address its capacity constraint, ADBP was required to establish an

Agro-Industries Advisory and Promotion Unit (AAPU) within three months of loan effectiveness and thereafter to properly staff and administer that unit. AAPU was expected to play a key role in promoting agro-industrial lending (see AR para. 84).

17. To overcome staff constraints in PLD, ADBP was required to increase PLD staff by at least 12 new officers with appropriate experience and qualifications in business management, economics, finance and engineering. The loan also provided foreign exchange for ADBP to cover the cost of 42 person-months of fellowships for training the PLD officers in formal courses in project appraisal and management.

18. As a part of the institutional strengthening program, ADBP was required to prepare and adopt a strategy paper and a policy statement concerning its development objectives and corporate strategy in the agro-industrial sector. The paper and the statement were expected to define ADBP's role in developing agro-industries and to establish a detailed five-year lending program for the sector.

II. EVALUATION OF IMPLEMENTATION

A. Project Lending Policies

19. An immediate objective of the Project was to support ADBP's agro-industrial lending activities by making funds available to meet the foreign exchange cost of potentially viable subprojects. The strategy paper and policy statement prepared and adopted by ADBP in compliance with para. 6 of the Schedule of PA formed the basis of its lending policy. The policy statement defined the key objectives of its lending to the agro-industrial sector as:

(i) promoting agricultural development and economic growth by providing financial and technical assistance for establishing new agribusiness enterprises as well as modernizing, replacing and expanding existing agribusiness firms and financing working capital requirements;
(ii) supporting and complementing ADBP's general credit program in order to improve the quality of its farm loan portfolio; and
(iii) identifying and promoting new agribusiness projects and investment proposals.

20. When making loans, ADBP was required to satisfy itself that sub-borrowers had an assured supply of adequate working capital (para.11). In practice it was extremely difficult for ADBP to ensure that each sub-borrower actually had such a source. Often ADBP did not provide adequate working capital to subprojects, although there was no legal constraint on such financing. Therefore, sub-borrowers were compelled to seek working capital loans from other financial institutions, which were reluctant to support an investment loan of ADBP with their own working capital loans. In several cases, sub-borrowers obtained conditional letters of intent from other financial institutions merely to satisfy ADBP's requirement regarding working capital.[1] Such letters did not commit the issuing financial

---

[1] The PCR Mission was told by several sub-borrowers that those who had good contacts with, or close relatives in, other financial institutions could easily get such letters. This was confirmed by ADBP staff as well.

institutions to provide money. Thus instead of ensuring successful project implementation, the requirement caused delays and contributed towards subproject failures.

21. Although the policy on sub-borrower equity contribution was clear and sound, it was not implemented rigorously and consistently. In a large number of cases the actual equity contribution by sub-borrowers was below the minimum specified 30 per cent of the investment cost of their subprojects. The sub-borrowers were permitted to contribute value as equity through land and building, which made assessment of the actual equity contribution a difficult and a controversial task. Often a good portion of sub-borrowers' equity comprised inflated land values. This also led to a neglect of the principle of "equity first, debt financing last" and made some projects highly leveraged and vulnerable to adverse market conditions.[1]

22. Lending decisions had to be made on the basis of rigorous analysis of the financial viability of the subproject proposals, among other factors. Yet, in practice PLD staff had found it difficult to follow financial analysis guidelines when appraising some subprojects in part because of external pressure.[2] Also, PLD staff had inadequate financial appraisal skills and tended to place too much stress on security and insufficient emphasis on cash flow assumptions, which often had been over optimistic. This is particularly evident from the inadequate emphasis given to marketing aspects, including procurement of raw materials for processing. Lending policies paid little attention to the managerial skills of subloan applicants. Several subprojects failed, partly because the sub-borrowers lacked management skills.

23. Although "initial conditions"[3] dictated a cautious approach to expansion of loan volume there was no mechanism to ensure that ADBP would in fact follow such an approach. Because there were no subsectoral ceilings on exposure the overall subsectoral portfolio deteriorated: a case in point is the subloans made to the dairy sector.

B. Project Cost and Financing

24. At appraisal it was estimated that a total of 172 subprojects with an aggregate cost of $97.94 million would be financed under the Project, with the Bank financing $48.97 million (50 per cent), ADBP $19.59 million (20 per cent) and sub-borrower equity amounting to $29.38 million (30 per cent). The total number of subprojects financed amounted to only

---

1 ADBP could also participate in the equity of the subprojects it financed subject to the approval of the Government and its own Board of Directors. However, there was a ceiling on such participation: 30 per cent of the paid-up capital of the enterprise or 25 per cent of the enterprise's paid-up capital and reserves, whichever was lower. The total equity participation by ADBP could not exceed 10 per cent of its share capital.

2 A Bank-funded study on Pakistan noted in 1991 that "since there is no accountability process which forces the DFIs to finance only socially and financially viable projects, more often than not, loans are sanctioned on political grounds rather than on the basis of the project appraisal" (see ADB, Pakistan Industrial Sector Policy Review, May 1991 draft, p. 68).

3 These conditions included, among other things, imperfect familiarity with and lack of adequate experience of ADBP staff in the complexities of agro-industrial lending, limited technological capabilities in the agro-industrial sector, weak sectoral institutional framework for agro-industrial development, lack of adequate knowledge of constraints on agro-industrial development and imperfections in capital markets.

24 with a total project cost of $78.75 million, comprising $32.16 million (41 per cent) from the Bank (see Appendix 1), $17.69 million (22 per cent) from ADBP and $28.90 million (37 per cent) from sponsors' equity. The Appraisal Mission expected that the Project would finance small subprojects with an average investment cost of about $569,000. The actual average subproject size, however, was about $3.28 million (see para. 33).

25. The actual utilization of the loan was $6.52 million lower than the amount approved by the Bank (see Basic Data, page (iii)). Had it not been for the change in the project scope and reallocation of $10.0 million to finance fertilizer and diesel fuel imports, in response to a request made by the Government in view of the Gulf crisis, the utilization would have been lower. Of the total undisbursed and finally canceled amount, $6.24 million was out of the funds allocated for onlending to subprojects.

C. Project Schedule

26. There were no significant changes in the project schedule for loan effectivity and the terminal date of commitments (see, Basic Data, page (ii)). However, although the Appraisal Mission expected that the loan would be fully committed within four years and drawn within five years, the closing date of the loan had to be extended four times, by a total of 61.5 months, to accommodate disbursements of committed subloans. The time elapsed between the initial disbursement and the final disbursement was 92 months.

27. The long lapse in loan closing date was mainly a result of delays in disbursement of funds by ADBP, which in turn was partly a combined result of delays in importing machinery, cumbersome government procedures relating to importation and sub-borrowers' failure to take timely action for subproject implementation.

D. Characteristics of Subprojects Financed

1. Subloan Approvals

28. ADBP approved and the Bank confirmed or ratified 50 subloans amounting to $58.86 million. Of these, 26 subloans were either canceled or withdrawn because sub-borrowers did not comply with various requirements (including the required equity), they did not pursue their subprojects, and subloan validity expired. Thus, at loan closing, only 24 subloans with an aggregate loan amount of $33.08 million were left (Appendix 1). ADBP took an average of 298 days to approve a subloan from the date of application. Of the 24 subloans, 18 were above the free limit of $300,000, and, hence, required the Bank's prior approval. The approval as well as disbursement of subloans showed an uneven pattern of distribution over the implementation period. The approvals reached a peak in 1985 while disbursements, partly reflecting the implementation delays, peaked in 1987 (Appendix 2, Tables 1 and 2).

2. Sectoral Distribution of Subprojects

29. Of the total loan amount utilized for onlending, 48 per cent was accounted for by the dairy sector and 29 per cent by the fruits and vegetables sector (see Appendix 2, Table 3). The Appraisal Mission had identified these two sectors as having considerable potential for expansion; thus, the heavy concentration of subloans therein does not seem unusual.

3. Geographical Distribution of Subprojects

30. The Appraisal Mission envisaged that agro-industrial subprojects in underdeveloped areas would also attract priority under the loan. The Appraisal Mission did not specify or define what these areas were. However, all Pakistan Provinces, except Punjab are considered relatively underdeveloped. However, of the 24 subprojects, 21 (88 per cent) are located in the Punjab (Appendix 2, Table 4). Within Punjab Province, Lahore received eight subprojects and Kasur four. Three subprojects could be considered to have been located in underdeveloped areas. The concentration of subprojects in Punjab is because that province has relatively better facilities for agro-industries.

4. Average Size of Subloans

31. The Appraisal Mission expected that the average subloan would be $285,000. The actual average, however, was much higher at $1.34 million. None of the subloans, except two given for farm implements, came close to the Appraisal Mission's expected average. The significant variation in this was brought about largely, but not solely, by the high average size of subloans in the fruit and vegetable sector and the dairy sector. On the basis of requests made by ADBP, the Bank relaxed the ceiling of $2.0 million on maximum loan size for five subloans in the dairy sector and two in the fruit and vegetable sector (Appendix 2, Table 5). The average sectoral subloan sizes are as follows:

Sector	Size ($ million)	Sector	(Size ($ million)
Crops	0.818	Livestock	0.767
Fruits & Vegetables	2.408	Farm Implements	0.295
Dairy	1.77	Others	0.660

E. Subproject Performance

1. Introduction

32. The PCR Mission visited 8 (33 per cent) of the 24 subprojects, conducted a detailed review of them and had discussions with their sponsors. The subprojects visited were (i) Rastgar Engineering (manufacturing tractor and auto parts), (ii) Big Bird Poultry Breeders (producing day-old chicks), (iii) Safa Rice Mills (producing parboiled Basmati rice), (iv) Indus Food Products (producing fruit juice and concentrate), (v) Ravi Agricultural and Dairy (processing ultra heat treatment [UHT] milk), (vi) Uni Milk (processing UHT milk), (vii) Ehtisham Rice Mills (milling rice); and (viii) Rehman Feed Mills (producing poultry feed). A detailed analysis of each is presented in Appendixes 3-10. The Mission also reviewed ADBP's files on the 24 subprojects and discussed the performance of the subprojects with PLD staff. Also, during its field visits the Mission discussed subproject performance with the managers of the Karachi and Lahore branches and with some of the Project Credit Officers (PCOs) who are required to supervise the subprojects periodically. On the basis of the information gathered during the field visits and from ADBP, the Mission classified subprojects as generally successful, partly successful or unsuccessful.

2. Criteria of Performance Classification

33. The Mission classified a subproject as generally successful if it had a satisfactory debt service record and its capacity utilization level exceeded 75 per cent.

Subprojects that had 50-75 per cent capacity utilization during 1992-1993 or that were considered capable of meeting the same in 1994, and had reasonable potential for resolving their debt servicing problems were rated partly successful. Subprojects with capacity utilization levels below 50 per cent and serious debt servicing problems that were unlikely to be settled in the medium term, including subprojects that were closed at the time of the PCR Mission, were considered unsuccessful. The financial internal rate of return (FIRR) of subprojects could not be used for their classification because ADBP did not have updated information for recalculating the FIRR for sick but operating subprojects. (However, the FIRR was recalculated for four of the eight subprojects the PCR Mission visited for detailed review (see Appendixes 3 to 10). Of the other four subprojects, three were closed and the remaining one did not have reliable information to enable recalculation of FIRR.)

3. Analysis of Performance

34. Of the 24 subprojects, 4 were generally successful, 18 were unsuccessful and the remaining 2 were partly successful. The generally successful subprojects account for only 4.8 per cent of the total subloans approved by the Bank under the Project, while those considered unsuccessful account for 83.9 per cent of the total (see Appendix 11). Of the unsuccessful subprojects, 12 had been closed by the time of the PCR Mission while the other 6 were operating well below their rated capacities and had considerable technical, managerial and financial problems. These 6 subprojects showed little prospect of becoming viable in the foreseeable future, and some of them may be closed in near future.

35. The four generally successful subprojects were Big Bird Poultry Breeders, Rastgar Engineering, Maaher Food Industries, and Poly Paper and Board Mills. Their sponsors (i) invested the required equity at the early stages of the subproject implementation; (ii) had adequate technical and management experience in their respective subproject activities; (iii) took timely action and avoided delays in implementation; and (iv) did not start the subprojects at scales of operations that were too ambitious considering their experience, the market conditions or the resources in their command. As a matter of policy they did not allow their subprojects to become highly leveraged. Thus, they have shown a high level of commitment to subproject implementation together with a great deal of realism. These subprojects have also not experienced significant technical problems. Low leverage and timely implementation have been critical factors in the success of the subprojects, enabling the sponsors to satisfactorily service their debts.

36. Though these four subprojects were considered generally successful, some of them did face problems. For example, Rastgar Engineering encountered an unexpected, abrupt marketing problem in its first year of production (see Appendix 3). However, the sponsors of these subprojects responded to problems appropriately.

37. The partly successful subprojects, Safa Rice Mills and Indus Fruit Products, were adversely affected by at least three principal factors: (i) both had to go through a long and tedious process to develop products that were appropriate for the target markets, (ii) both were affected by adverse international market price movements as they were attempting to penetrate export markets (see Appendixes 5 and 6), and (iii) both had inadequate working capital to operate at a higher capacity level. In addition, the installation of Safa Rice Mills' equipment was significantly delayed because the National Development Finance Corporation took 14 months to approve and disburse its loan for local machinery. Both subprojects should have received a great deal of "start up" assistance from

agro-industrial research and development institutions, but they had to resolve product development issues on their own through a lengthy trial and error process that drove them to a precarious financial situation with attendant debt servicing problems. Safa Rice Mills' imported technology required important adaptations to local conditions. The technology development was time consuming and expensive, and this had not been foreseen by ADBP or the sponsor.

38. The unsuccessful subprojects included six UHT milk processing units and three fruit and vegetable processing units (see Appendix 12). The subprojects in this category share several characteristics: (i) they have been designed with unrealistic and optimistic assumptions, particularly in regard to start up time and marketability of their products (some of which were initially of poor quality); (ii) their sponsors did not invest adequate equity capital or demonstrate firm commitment to the projects; (iii) they were highly leveraged and thus were vulnerable to adverse market conditions and unable to service their debts;[1] (iv) they failed to take timely action to implement their subprojects and, hence experienced significant implementation delays; and (v) they lacked adequate management experience in their activities and did not rely on professional managers early on.

39. Many subprojects set up to produce UHT milk were unsuccessful, partly because high packaging and other costs resulted in their products being considerably more expensive than fresh milk. The packaging materials were produced by a monopoly that also had a major investment in a UHT milk processing unit. The marketing problems of the UHT milk units were aggravated by low-priced imported powdered milk, most of which entered the market through food aid programs. Adequate milk collection infrastructure supported by chilling facilities were not established in the production areas. Many sponsors of the UHT milk units lacked adequate prior experience in this field, and some of them borrowed more than needed, intending to divert funds to other activities.[2]

40. Some subprojects that failed had not been subject to rigorous financial appraisal at ADBP, partly because PLD staff lacked appraisal skills. Several subloans were behest loans and hence were unlikely to succeed.

F. Performance of the Agricultural Development Bank of Pakistan

1. Organization and Management

41. Project implementation was the primary responsibility of PLD, which was then in the Credit Division of the Head Office of ADBP. At appraisal, PLD had only five professionals including the Director and a Joint Director. In accordance with the Project Agreement, ADBP established AAPU within PLD at the commencement of implementation. Subsequently PLD was reorganized into four wings: (i) agro-project identification and promotion, (ii) project appraisal, (iii) sanction documentation and disbursement, and (iv) end

---

[1] High leverage in some cases had been due to the sponsors' expectation that the Government would come to their rescue with generous relief packages. High leveraging becomes riskier the more earnings of a subproject fluctuate. The subprojects that can best afford to be highly leveraged have highly predictable earnings. However, a major characteristic of agro-industrial subprojects in general is low predictability of their earnings.

[2] For instance, Pak Pattan Dairies and Sheer Pak had the same rated annual capacity (50,000 liters of milk per day) but the subproject cost of Pak Pattan was PRs 126.84 million, while that of Sheer Pak was only PRs 54.34 million (see also Appendix 9).

use. Its staff strength was also increased to 31 officers. In 1986, two field units, (later renamed "branches") one in Karachi and the other in Lahore, were also set up exclusively to monitor and supervise projects financed by PLD.

42. During the Project period PLD underwent further reorganizations. In March 1988 PLD was upgraded to a separate division and organized into three departments, each having a number of wings: (i) Project Development, (ii) Project Finance, and (iii) Project Supervision and Monitoring. Each department was headed by a Director and PLD was headed by an Executive Director. After further reorganizations, at the time of the PCR Mission, PLD had three departments: (i) Project Appraisal and Finance, (ii) Project Monitoring, and (iii) Sick Projects (see Appendix 13), with 45 officers in the head office. However the quality of the Project loan portfolio does not indicate that the reorganizations have had a positive effect.

43. Subproject loan applications were processed entirely at the head office by PLD and the branches had no role in the processing, except responding to requests from PLD for standard credit checks on subproject sponsors. Branches disbursed funds for sanctioned subloans according to directions from the head office. A Project Loans Committee (PLC) comprised the Chairman of ADBP (who was also the Chairman of the Committee) and senior staff of PLD, and was at the head office. PLD staff were required to obtain concept clearance from the Chairman before starting to appraise a subproject proposal. The final lending decisions were taken by PLC, in theory, on the basis of PLD's appraisal reports and submitted to the ADBP Board for ratification while subloans exceeding the free limit were forwarded to the Bank for approval.

2. Operational Performance

44. ADBP's appraisal of subprojects was less than satisfactory in several respects. PLD appraisal staff tended to rely too heavily on the sponsors' feasibility reports, which were overly optimistic about subproject viability. The PCR Mission was informed by several sub-borrowers that many potential borrowers are reluctant to submit well-prepared appraisal reports because such reports can easily become almost "public property," after submission to a DFI. Often marketing aspects -- consumer preferences for the end products, for example -- were not analyzed adequately. Inadequate attention was paid to procurement and quality of raw materials. Since most of the feasibility studies did not discuss marketing plans and strategies in detail, heavy accent was needed on these aspects during appraisal. The appraisals also paid insufficient attention to risks and their impact on expected benefits.

45. The appraisals of subprojects focused largely on technical issues and issues concerning collateral. The Project was considered by PLD and ADBP's senior management more as a means of introducing and promoting new technology than of developing and supporting potentially viable agro-industrial subprojects. This led to a considerable bias at the early stages of the Project towards introducing new technology, irrespective of a subproject's commercial and financial viability.

46. PLD lacked adequate financial appraisal skills to cope with the demands placed on it by the Project. At the end of 1989, only 2 of the 14 officers in PLD's Department of Project Finance had commerce or economics qualifications. Most of its staff had limited banking experience.

47. The performance of the Project also suffered from discontinuities in ADBP's management. During the implementation, ADBP had six Chairmen and PLD staff changed frequently. These changes led to an overall institutional deterioration from which all project lending activities suffered.

48. ADBP's post-disbursement monitoring and supervision of subprojects was inadequate. The supervision was carried out at the branches mostly by Project Credit Officers (PCOs) who lacked financial and banking skills. Their visits to subprojects were often mere formalities. The PCOs were required to complete a status report on their monthly visits to each subproject, but, most of the PCOs were unable to complete the reports, because they lacked access to vital operational and financial data and information from the sponsors. The PCOs were assigned more subprojects than they could supervise adequately. In Lahore branch, for example, six PCOs were required to supervise 185 subprojects. The quality of supervision suffered further from an almost total lack of guidance and constructive feedback from senior officers at branches as well as from PLD. PCOs do not have basic facilities such as computers and transport vehicles, mainly because of inefficient allocation of such resources in ADBP.

49. Although problem subprojects could be identified easily because the problems were so serious, problems were not analyzed. ADBP does not have the capacity to offer technical assistance to resolve the problems, although one of its objectives, as specified in its Policy Statement on Agro-Industrial Lending, is to promote agro-industrial enterprises by providing financial and technical assistance to establish and expand them. The most frequent assistance ADBP provided to problem subprojects was loan rescheduling, which was often inadequate to resolve operational problems.

3. Subloan Recovery

50. The recovery of subloans is low. As of 30 June 1993, the overall recovery ratio, even after rescheduling, was only 10.3 per cent (see Appendix 14). The recovery ratio of past due amounts was 11.4 per cent, and of current due amounts, 8.5 per cent, after rescheduling. The overall recovery ratio of subprojects considered as generally successful was 92.9 per cent, of partly successful subprojects was 15.6 per cent, and of unsuccessful subprojects was 4.8 per cent.[1]

4. Financial Performance of ADBP

(a) Size and Quality of ADBP's Portfolio

51. ADBP's gross loan portfolio increased at an annual average compound growth rate of 22.1 per cent from FY1984 to FY1993. The annual average compound growth rate

---

[1] Poor loan recovery is the single most formidable problem facing the banks in Pakistan. The entire banking system is saddled with a heavy burden of non-performing loans. In 1989 SBP estimated that around 14.2 per cent of loan portfolio of the Nationalized Commercial Banks needed to be provided against. The position of the DFIs is worse. It is estimated that about PRs 13 billion (approximately $441 million), representing 30 per cent of their portfolio was in non-performing loans. The overall recovery rate of industrial credit extended by all DFIs and banks was only 41.6 per cent and 35.1 per cent in 1992 and 1993, respectively. The rates in food, tobacco and beverage was even lower at 37.5 per cent and 26.7 per cent, respectively. The data seem to show a general problem with debt recovery.

of the net loan portfolio during the same period was 20.2 per cent (see Appendix 15, Table 1). The annual project loan disbursements increased from PRs 185.4 million to PRs 658.2 million between FY1984 and FY1993, at an annual average compound growth rate of 15.1 per cent. The outstanding gross project loan portfolio increased from PRs 557.2 million in FY1984 to PRs 7,776.7 million in FY1993 at an average annual compound growth rate of 34.0 per cent.

52. The loan portfolio of ADBP has many poor quality projects, as is evident from the poor and deteriorating overall recovery rate in recent years. The recovery rate before rescheduling has declined from 55 per cent in FY1990 to 43 per cent in FY1993, and the simple average for the three-year period 1991-1993 was only 50 per cent (Appendix 15, Table 2). The average recovery rate of project loans before rescheduling was only 15 per cent for FY1991-1993. About 50 per cent of the PRs 7,776.7 million outstanding project loans as of 30 June 1993 will probably not be recovered.

53. The provision for bad and doubtful loans increased from 3.9 per cent of the gross loan portfolio in FY1984 to 9.3 per cent in FY1993. A Bank financial review in July 1993 concluded that ADBP needs a minimum additional provision of about PRs 5.6 billion in FY1994.

(b) Financial Performance

54. ADBP's total assets increased from PRs 9,347.4 million in FY1984 to PRs 52,228.3 million in FY1993 (see Appendix 16) at an average annual compound growth rate of 21.1 per cent. However, its net loan portfolio as a percentage of its total assets declined from 82.0 per cent to 76.9 per cent between the same years. ADBP's reported equity increased at an average annual compound growth rate of 21.8 per cent from PRs 1,036.2 million tc PRs 6,113.4 million between the same years. ADBP continued to report profits during 1984-1993 (Appendix 17). Due to changes in accounting policies and practices, the profits reported are not strictly comparable. Profits reported during FY1991-1993 are highly misleading and, to a large extent, fictitious because (i) they include a large amount of accrued income on nonperforming loans, and (ii) they reflect the impact of inadequate provisions for loan losses and the concessional funds received from the Government and the State Bank of Pakistan (SBP). Thus, ADBP's reported equity level during the same period is misleading.[1]

G. Institutional Strengthening Component

55. ADBP used $40,000 more than the revised allocation of $770,000 for this component. Of the amount utilized, 64 per cent was spent for the services of two international consulting firms, one to strengthen PLD's operational and administrative procedures for project loans and to improve the data and information base for better lending decisions, and the other to review constraints to agro-industrial development. The remaining funds were used for training PLD staff in agro-industrial lending and for procuring office equipment for AAPU. The overseas training programs, according to ADBP, contributed substantially to the skill development of PLD staff.

---

[1] The World Bank, Review of ADBP (prepared by International Development Ireland Limited), August 1993.

56. The consulting firm that reviewed the constraints on agro-industrial development commenced its work in July 1984, contributed six person-months of services and completed the report in April 1985. ADBP considered the report satisfactory. While the report highlighted a multitude of constraints, the quality of the subloan portfolio of the Project does not indicate that the study led to a significant improvement in Project performance.

57. The consulting firm selected by ADBP for strengthening PLD commenced its work in February 1985, about 20 months after loan effectiveness. The delay in recruiting the firm was partly because ADBP lacked familiarity with the Bank's procedures in selection of consultants. The firm contributed 36 person-months of consulting services in accordance with the terms of reference agreed with ADBP and approved by the Bank and completed the work in a manner satisfactory to ADBP as well as the Bank, in July 1986. While the consultants' presence benefited PLD staff and their work was relevant and useful, much of the subproject lending did not directly benefit from their services because 16 (67 per cent) of the 24 subprojects implemented had been approved by the time their work commenced. According to ADBP, the consultants' performance and their recommendations were satisfactory. However, the recommendations were not fully implemented by ADBP.

H. Environmental Impact

58. Although the Project did not have explicit environmental protection requirements, the subprojects financed under the loan were required to comply with the provincial governments' locational clearance requirements. While these clearances had little to do with the environmental concerns per se, the PCR Mission was informed that ADBP ensured that the sponsors obtained no objection certificates from the relevant provincial governments before disbursement of funds. The subprojects that the PCR Mission visited for detailed review had no environmental hazards and their sponsors showed considerable concern about the issues relating to environmental impact of their subprojects.

I. Procurement Procedures

59. The procurement procedures for the subprojects were in accordance with the terms stipulated in Schedule 4 of the Loan Agreement. ADBP confirmed that the procurement process followed generally conformed to the procedures contained in the Guidelines for Procurement Under Asian Development Bank Loans. The procurement of machinery was done under the international shopping system and ADBP experienced difficulties, as one would expect, at the early stages of the Project implementation because it was not familiar with Bank procedures in this regard.

J. Project Benefits

60. ADBP has not maintained information on subprojects in a satisfactory manner. There is little reliable information on Project benefits. However, available incomplete information indicated that the Project had generated year-round sustainable employment (in generally successful subprojects) for about 246 persons. The generation of exports by the Project is negligible because only two of the operating subprojects are export-oriented. One of the poultry subprojects has expanded rapidly and contributed considerably to the development of a number of medium-scale poultry production units by supplying quality day-old chicks at reasonable prices. The fruit and vegetable and rice subprojects that are

still operating have had a positive effect on farmers' incomes by generating a relatively more stable demand for their farm products.

K. Loan Covenants

61. ADBP complied with most of the non-financial covenants of the Project Agreement. The covenants relating to the reporting requirements (PA, Article III, Section 3.06 (c)) and benefit monitoring and evaluation (PA, Schedule, para. 8) were not fully complied with during the stipulated time frame. Although ADBP was required to furnish to the Bank copies of annual Benefit Monitoring and Evaluation reports, such reports were submitted for only seven subprojects. ADBP failed to comply with the financial covenants (PA, Article III, Section 3.10 (a)) relating to cost recovery, loan loss provisions and loan arrears. The covenant on debt-equity (PA, Article III, Section 3.10 (b)) was complied with only through adoption of less-than-satisfactory accounting practices (see Appendix 18).

L. Performance of the Bank

62. The Project quality at entry was less than satisfactory. This factor adversely affected the Bank Review Missions' subsequent role in helping the Executing Agency to implement the Project. The Project design rested on two major assumptions: (i) that the most critical constraint on agro-industrial development was lack of credit facilities; and (ii) that PLD's (or ADBP's) capacity for project lending could be built while agro-industrial lending was accelerating. These assumptions proved to be unrealistic. The lack of credit facilities was only one of several critical constraints. The sector was plagued by multidimensional weaknesses. The institutional framework for agro-industrial development was weak. The science and technology and research and development infrastructure for agro-industrial development was highly inadequate. The information base on markets, marketing and technologies was considerably poor. The Appraisal Mission had been overoptimistic concerning the project lending capacity of ADBP and the time needed to address the identified limitations in the capacity.

63. The issues concerning working capital lend further support to the hypothesis that the Appraisal Mission had unrealistic expectations for the Project. The Project did not support provision of working capital to carry out the subprojects it financed, and it did not address the issue in other ways: it simply required ADBP to ensure that the sub-borrowers would have access to working capital.

64. The Bank's role in implementing the Project may be considered less than adequate. The Bank fielded 11 general and special review missions from loan inception in March 1984 to April 1992, utilizing 235 person-days. However, the Bank missions made insufficient effort to interact directly with the sub-borrowers and utilize their particular implementation experience to improve overall Project performance, even though the success or failure of the Project critically related to the performance of the sub-borrowers and their subprojects. Given capacity constraints at ADBP for lending to complex agro-industrial subprojects, ADBP also needed substantial implementation assistance. But such assistance was not a regular part of Bank review missions. The Bank missions often expressed concern over important issues and requested ADBP to pay more attention to address such issues. For example, the Bank's review missions often expressed their concerns regarding over-investments in milk processing and repeatedly requested ADBP to place more emphasis on marketing issues and ensure that the sponsors of subprojects being proposed

or considered have an effective procurement system for fresh milk. ADBP did not respond to such concerns adequately and in time.

65. The Bank's appraisal of some subprojects was not sufficiently rigorous. While appraising five UHT milk plant subprojects, Bank staff correctly identified that a major risk to the subprojects was the cost of packaging material. Yet, the Bank staff simply assumed that the Government would thwart any attempts at profiteering by the packaging manufacturer and approved the subprojects, which subsequently faced serious operational problems because the manufacturer did raise the price of its packaging materials.

III. CONCLUSIONS AND RECOMMENDATIONS

A. Conclusions

66. The PCR Mission considers the Project unsuccessful. Unsuccessful subprojects account for 84 per cent of the subloans disbursed under the Project. The Project has failed to achieve its original objectives for many reasons. The Project design was less than satisfactory and the assumptions on which it was designed were unrealistic. The Project did not take adequate account of the sectoral constraints on agro-industrial development at the time. Nor did it address the critical constraints on such development. It only contributed to a partial and temporary relaxation of the credit constraint.

67. The Project's interventions to address capacity limitations of the Executing Agency were inadequate. The Project's strategy of concurrent capacity building was inappropriate, given initial conditions at ADBP. The inappropriateness was, in part, a result of the Appraisal Mission's overoptimistic assessment of the management capabilities of ADBP. The Project was introduced to ADBP at an inappropriate stage of its development, while ADBP was gradually increasing its agro-industrial lending and at an early segment of its learning curve. What ADBP required at the time was capacity building and more implementation assistance. The Project provided little of these, but more pressure to increase lending. The Project quality at entry appears to have been less than satisfactory.

68. A major lesson from the experience of the Project is the significance of executing agency's implementation capacity, particularly when project scope includes subloaning for activities of pioneering nature. Capacity building is a long-term and complex process and careful attention needs to be paid to this factor in the formulation of DFI credit projects.

69. The Project experience underscores the need for a pilot project approach when capacity of the executing agency is inadequate to implement a full-scale project and the subproject activities involve new technology. The pilot project experience is likely to provide a better foundation to design appropriate intervention measures with greater probability of success.

B. Recommendations

1. Government of Pakistan

70. ADBP needs structural reforms that include injection of fresh capital, adoption of generally accepted accounting practices, rationalization of its branch network and

reduction of redundant staff and other measures to reduce the cost of its operations. Because it is a state-owned and controlled institution, ADBP cannot undertake most of these reforms on its own. The Government has to take the initiative for reforms. It is recommended that the Government, with TA from multilateral lending agencies, undertake a financial and organization restructuring programs to convert ADBP into a commercial financial institution and ensure its sustainability.

2. ADBP and Project-related

71. Since 1991 ADBP management has imposed a moratorium on project lending in general, except for projects already sanctioned. The moratorium should be continued until ADBP addresses the critical issues concerning its project loan portfolio. However, ADBP should make a concerted effort to improve the recovery of its overdue loans, including those financed under the Project. Currently ADBP does not classify the entire outstanding loan amount of the closed subprojects as overdue. This practice needs to be changed. All subloans relating to closed and seriously sick subprojects should be classified overdue, and appropriate action should be taken to recover them. ADBP's current efforts to use legal mechanisms to recover debts should be intensified.

72. ADBP's subproject supervision and monitoring need to be improved considerably with a view to identifying potential problems early on and addressing them in a meaningful and effective manner. Subprojects will have to be classified depending on the nature of their problems and appropriate TA offered to restructure or rehabilitate subprojects that are in distress but could be viable. ADBP should seek donor assistance to carry out such a restructuring program. Also, successful subprojects may require loans for viable expansion and modernization proposals. Disregarding requests for loans for such proposals due to the moratorium on project lending is inappropriate. ADBP should continue to support viable subprojects.

3. Bank-related

73. In future. similar Bank projects should be based on a realistic and detailed analysis of the DFI's institutional capacity to implement the projects. Capacity building for DFIs should be designed as separate projects rather combined with onlending activities.

74. Since project quality at entry is a critical determinant of project implementation efficiency and success, a more concerted effort must be made to improve project preparation. DFI credit projects for agro-industries should be formulated only on the basis of thorough sectoral assessment, which should precede rather than accompany the agro-industrial credit project. Also, during project preparation, adequate emphasis should be placed on technological and marketing aspects. Leaving such issues to be identified and resolved during project implementation by an executing agency and sub-borrowers does not appear to be desirable. Similarly the Bank must determine loan amounts of credit projects on the basis of executing agency's implementation capacity and the general sectoral policy and institutional environment, rather than on potential.

75. Because their performance is likely to be heavily influenced by factors that are often difficult to clearly identify and assess during project preparation, agro-industrial credit projects for DFIs need to be designed with sufficient built-in flexibility for adjustments,

including suspensions and cancellation of loans, if necessary. If a DFI credit project involves lending to pioneer activities, it may be advisable to start with a pilot project.

76. The role of the Bank's project administration missions in agro-industrial credit projects needs to be defined clearly, as does the Bank's responsibility toward approving subloans above the free limit. Effective supervision of project implementation by the Bank missions can improve implementation efficiency as well as project performance to some extent. It is important to ensure that project administration missions interact sufficiently with the sub-borrowers at the right stages of subproject implementation and in a manner that does not adversely affect the ownership aspects of the project. Often, Bank review missions work under time pressure and budgetary constraints, have little time and, hence, are virtually compelled to neglect visits to the subprojects. Yet, the case for strengthening project administration is strong given potential benefits to the Bank's investments.

77. The findings of the PCR Mission are directly relevant to the ongoing ADBP II Project (Loan Nos. 810/811-PAK).[1] Since ADBP II is experiencing the same implementation problems faced by the Project, the Bank should make a concerted and urgent effort to inject the findings of the PCR Mission into the administration process of the ADBP II Project. There is a strong case for diverting part of the ADBP II loan funds for a TA to identify subprojects financed by the Bank that are not performing well but are potentially viable, and to design and carry out a restructuring program for such subprojects. However, to be effective the proposed TA, must be fully implemented by a team of international experts in consultation with the senior management of ADBP.

---

1 The Bank approved a total of $100.0 million on 4 December 1986 for these two loans. The Loans became effective on 30 April 1987. According to the Loan Agreements, the Loans were to be closed on 31 December 1992, but the Bank extended the closing dates to 30 June 1994. As of 30 November 1993, the Bank has approved 137 subloans with a total loan amount of $116.8 million (in anticipation of cancellation of some of the approved subloans). The subloan disbursements as of the same date amounted to $62.5 million. Given the current rate of utilization of the Loan funds (59.5 per cent), it is unlikely that the utilization rate will exceed 75 per cent by the Loan closing date.

APPENDIXES

Appendix 1

SUBLOAN APPROVALS AND DISBURSEMENTS
($ million)

Sub-loan No.	Sub-Borrower	Project Cost PRs. a/	Date of Approval	Type b/	Subloan Approved	Total c/ Loan	Disburse-ment	Undisbursed Balance
1	Sheer Pak Limited	54.342	01 Jun 83	IL	1.070			
			27 Oct 84	Enh.		1.070	0.957	0.113
2	Suraj Mukh Co., Ltd.	29.180	26 Jan 84	IL	0.689	0.689	0.689	0
3	Agro Oil Extraction Ind.	25.829	19 Feb 84	IL	0.750			
			17 Dec 85	Enh.	0.060	0.810	0.810	0
4	Pakpattan Dairies Ltd.	126.835	05 Dec 85	IL	2.262			
			05 Jun 87	Ehn.	0.757	3.019	3.018	0.001
5	Sialkot Dairies Ltd.	86.294	18 Mar 85	IL	2.267			
			02 May 89	Enh.	0.248	2.515	2.664	-0.149
6	Uni Milk Limited	77.394	18 Mar 85	IL	2.333			
			25 May 85	Enh.	0.713	3.046	3.046	0
7	Mubarik Dairies Ltd.	85.138	18 Mar 85	IL	2.200			
			21 Jan 86	Enh.	0.574	2.774	2.774	0
8	Am-Pak Dairies Ltd.	36.966	01 Feb 85	IL	0.472			
			17 Dec 85	Enh.		0.472	0.501	-0.029
9	Rastgar Engineering Co., Ltd.	19.529	18 Mar 85	IL	0.288			
				Enh.		0.288	0.289	-0.001
10	Pak Livestock & Dairy	37.465	18 Mar 85	IL	0.200			
			12 Jan 87	Enh.		0.200	0.195	0.005
11	Big Bird Poultry Breeders	23.646	28 Oct 85	IL	0.168			
			12 Jan 87	Enh.	0.007	0.175	0.175	0
12	Ehtisham Enterprises	45.600	08 May 84	IL	0.708			
				Enh.		0.708	0.671	0
13	Malik Food Ind. Ltd.	127.932	20 Sep 84	IL	2.000			
				Enh.		2.000	1.979	0.021
14	Uqab Breeding Farm	106.462	10 Jan 86	IL	1.800	1.925	1.854	0.071
			15 Jun 89	Enh.	0.125			
15	Maaher Food Ind. Ltd.	20.400	02 Oct 85	IL	0.300	0.300	0.289	0.011
				Enh.				
16	Poly Paper & Board Mills	46.517	25 May 85	IL	0.700			
			21 Apr 87	Ehn.	0.135	0.835	0.699	0.136
17	Techno Agri Pvt. Ltd.	12.604	18 Mar 87	IL	0.231			
			14 Oct 87	Enh.	0.069	0.300	0.302	-0.002
18	Ravi Agri. & Dairy Co.	83.482	18 Apr 86	IL	2.500			
				Enh.		2.500	2.618	-0.118
19	Indus Fruit Prod. Ltd.	109.690	18 Dec 86	IL	2.390			
			16 Jun 88	Enh.	0.286	2.676	2.433	0.243
20	Safa Rice Mills Ltd.	70.551	31 Jul 86	IL	0.977			
				Enh.	0.088	1.065	1.061	0.004
21	Dairy & Food Producers	13.070	01 Jun 87	IL	0.272			
				Enh.		0.272	0.272	0
22	Standard Food Ltd.	85.330	09 Apr 87	IL	1.500			
				Enh.		1.500	0.961	0.539
23	Fresh Juices Limited	83.784	22 Apr 87	IL	2.880			
			17 Feb 88	Enh.	0.570	3.450	3.462	-0.012
24	Rehman Feed Ltd.	19.115	18 May 85	IL	0.290			
			17 Dec 88	Enh.	0.199	0.489	0.437	0.052
	TOTAL	1,427.155			33.078	33.078	32.156	0.922

a/ In millions.
b/ IL = Initial Loan
Enh = Enhancement
c/ Initial loan plus enhancement loans

(Reference in text: pages, 6-7, paras. 28-31)

CHARACTERISTICS OF SUBPROJECTS

(Reference in text: pages, 6-7, paras. 28-31)

Table 1: Distribution of Subloan Approvals by Year

Year	No. of Subloans	Amount of Subloans (PRs million)	Amount of Subloans ($ million)	Percentage: No. of Subloans	Percentage: Subloan Amount ($)
1983	1	27.85	1.07	4.1	3.3
1984	4	62.97	4.15	16.7	12.5
1985	11	185.65	12.25	45.8	37.0
1986	4	129.15	8.24	16.7	24.9
1987	4	107.63	5.94	16.7	18.0
1988	0	21.12	1.06	0.0	3.2
1989	0	7.64	0.37	0.0	1.1
Total	24	542.01	33.08	100.0	100.0

Note: Figures for FY 1985 – 1989 include enhancements made during the year for loans approved in preceding years.

Table 2: Distribution of Subloan Disbursements by Year

Year	Amount of Subloans (PRs million)	Amount of Subloans ($'000)	Percent of Subloans Disbursed ($)
1983	0.42	31.3	0.1
1984	2.14	150.5	0.5
1985	19.97	1,270.3	3.9
1986	110.29	6,449.8	19.7
1987	219.00	12,588.1	38.5
1988	47.68	2,617.8	8.0
1989	160.40	7,999.5	24.5
1990	10.96	502.5	1.5
1991	23.79	1,061.3	3.3
Total	594.64	32,670.9	100.0

Note: Total subloan disbursement includes $0.515 for consultants' services under the credit component.

Table 3: Sectoral Distribution of Subprojects Approved

Sector		No. of Subprojects	Amount of Subloans (PRs million)	Amount of Subloans ($ million)	Percentage Total No.	Percentage Total Amount of $
I.	Crops	4	57.16	3.27	16.7	9.9
II.	Fruits and Vegetables	4	163.68	9.63	16.7	29.1
III.	Dairy	9	251.49	15.97	37.5	48.3
IV.	Livestock	3	37.53	2.30	12.5	7.0
V.	Farm Implements/Spare Parts	2	9.57	0.59	8.3	1.8
VI.	Others	2	22.59	1.32	8.3	4.0
	Total	**24**	**542.01**	**33.08**	**100.0**	**100.0**

Table 4: Geographical Distribution of Subprojects

Location	No. of Subprojects	Amount of Subloans		Percentage	
		PRs. Million	$'000	No.	Amount ($)
Punjab Province	21.00	423.79	29,854	87.5	90.3
Sindh Province	2.00	39.88	2,414	8.3	7.3
North West Frontier Province	1.00	13.78	810	4.2	2.4
Total	**24.00**	**477.45**	**33,078**	**100.0**	**100.0**

Table 5: Size Distribution of Subloans

Size Range ($)	No. of Subloans	Amount of Subloans ($'000)	Percentage	
			No. of Subloans	Amount ($)
Up to 300,000	6.00	1,535	25.0	4.6
301,000 – 1,000,000	6.00	4,003	25.0	12.1
1,000,001 – 2,000,000	5.00	7,560	20.8	22.9
2,000,001 – 3,000,000	4.00	10,465	16.7	31.6
3,000,001 – 3,500,000	3.00	9,515	12.5	28.8
Total	**24.00**	**33,078**	**100.0**	**100.0**

SUBPROJECT PROFILE I

RASTGAR ENGINEERING

A. Organization and Background

1. Rastgar Engineering is a private limited company with its corporate office and plant in the Industrial Area of Islamabad. The Bank approved a subloan of $0.288 million on 18 March 1985 for the expansion of its plant which was producing alloy cast iron grinding balls for the government-owned cement corporation, to include the fabrication of cast iron and machined tractor components. The sponsors' objective was to diversify the production and to reduce market risks to achieve better growth.

2. The Managing Director of the company holds a diploma in Foundry Technology and has had vast experience in foundry since 1968 when the company started production of castings on a modest scale at an annual rate of about 250 to 300 metric tons (mt). The sponsors have displayed their credit-discipline when the loan they obtained in 1978 under the Supervised Credit for Technology Scheme of the National Bank of Pakistan was fully paid in 1981.

3. Rastgar Engineering's decision to expand was based on the favorable findings contained in the feasibility study undertaken for the company by Ken Evans International, a consulting firm based in the United Kingdom (UK).

B. Technical and Commercial Aspects

1. Technical Aspects

4. The subproject was to establish a high technology foundry and machine shop for the production of spheroidal graphite iron tractor components, namely: flywheels, tractor frames, exhaust manifolds, intake manifolds, brake pedal castings and axle housings at an estimated installed capacity of 1,600 mt per year.

5. The subproject was conceptualized by the UK consulting firm, which gave the company valuable advice at various stages of the subproject's implementation. The consultants are specialists in the foundry field and have set up a number of foundries in Pakistan.

6. When international tenders were called for the importation of the machinery required for the expansion, prices quoted were much higher than the estimated cost. Hence, upon advice of the UK consultant, the company decided to import only the core machinery and to fabricate the other machines. As a result, the company was able to save about 16 per cent of the PRs 10.67 million estimated total cost of imported machinery. This further enabled the company to request the cancellation of the rest of its sanctioned loan, amounting to PRs 4.451

(Reference in text: pages 7-8, paras. 32, 35-36)

million. Through local fabrication, the company was able to adapt the technology to suit local conditions.

7. The subproject was implemented on schedule.

2. Commercial Aspects

8. Rastgar Engineering commenced production of tractor components in March 1987, on job order basis exclusively for Millat Tractors. Since this arrangement did not require an inventory in stocks, the company was able to keep its working capital requirements low, thus reducing its financial costs.

9. In 1988 the company faced a crisis situation when Millat Tractors Ltd. suddenly stopped buying castings due to low demand for their tractors. The company diversified its products by negotiating with local vehicle assemblers and the defence industry to supply them with fully machined brake drums, fitted wheel bearings, fully machined wheel hubs and tank track links.

10. In February 1990, the company secured a contract from Hino-Pak to supply fully machined wheel hubs. Although the company already had adequate casting facilities, it had to lease from the National Development Leasing Corporation controlled-numerically-by-computers lathes for machining the hubs casting.

11. Production increased from 1,100 mt in 1988 to 1,300 mt in 1993, and capacity utilization increased from 69 per cent to 81 per cent during the same period. The company's actual sales of PRs 34.10 million in FY 1988, PRs 37.48 million in FY1989, PRs 38.07 million in FY1990, and PRs 31.31 million in FY1991 were more than twice the appraisal estimates for the respective years.

C. Financial Performance

1. Profitability

12. The company consistently posted profits: PRs 0.584 million in FY1988, PRs 0.468 million in FY1989, and PRs 0.923 million in FY1990. For FY1991 the company suffered a net loss of PRs 0.987 million mainly because of an 18 per cent decline in its sales revenue to PRs 31.31 million.

13. The company has shown sound financial management as evidenced by its ability to maintain comfortable debt/equity ratios of 1.65:1 in FY1989, 1.16:1 in FY1990, and 1.53:1 in FY1991. The company sustained these low debt/equity ratios maintaining low leverage at all times.

2. Debt Service Record

14. Rastgar Engineering was required to commence loan repayments in January 1987 and fully repay the loan by July 1994. Although the company had an overdue amount of PRs

1.329 million representing two semi-annual loan repayments as on 30 August 1992, it fully paid its loan from the Agricultural Development Bank of Pakistan by June 1993, before its maturity date, and received a rebate on financial charges amounting to PRs 0.854 million.

D. Environmental and Social Issues

15. The company directly employs 70 persons most of whom are skilled. It has also created indirect employment for about 50 persons in subcontracting certain activities.

16. Dust generated by the manufacturing process poses a threat to the health of the workers, who are not provided with the necessary face masks to protect themselves. The company is aware of this problem and is considering environment-friendly technology, which consists of a chemical-free molding process.

E. Conclusion

17. The success of the company could be attributed to several factors: (i) the sponsors' technical and managerial competence, which was acquired while operating on a small scale, and their familiarity with the production process as well as market trends and requirements; (ii) the sponsors' high commitment to the subproject and their adroitness in evolving a long-range strategic plan focusing on market research that enabled them to handle critical problems (as exemplified by their decision to diversify into vehicle component fabrication in the face of a depressed demand for tractor parts); (iii) management's policy of keeping the company's financial costs at a minimum (illustrated by its decision to fabricate some machinery locally with their own resources); (iv) the absence of implementation delays; and (v) a prudent policy of gradually expanding ongoing operations, depending on market trends.

18. The subproject's Financial Internal Rate of Return (FIRR) is estimated at 28.5 per cent and is lower than the estimated FIRR of 50 per cent at the time of appraisal. The variance of the recalculated FIRR from the estimate made at appraisal may be attributed to higher costs as a percentage of benefits (94 per cent as against 65 per cent). On the whole, the project is successful.

SUBPROJECT PROFILE II

BIG BIRD POULTRY BREEDERS

A. Organization and Background

1. Big Bird Poultry Breeders (BBPB) is a private limited company with an authorized capital of PRs 5.0 million, of which PRs 4.8 million has been issued and paid up. BBPB produces day-old chicks almost exclusively for the domestic poultry industry. Its head office is in Lahore in Punjab Province and the farm is at Kilometer 25, Lahore-Raiwind Road, Lahore. The Bank confirmed a subloan of $0.168 million to this subproject on 28 October 1985. As the loan amount was below the free limit, it did not require prior Bank approval.

B. Technical and Commercial Aspects

1. Technical Aspects

2. The subproject was envisaged at the time of appraisal to set up a modern automatic hatchery with an installed capacity of 120,000 egg setting and 12,000 breeders. During its first year of operations (1986) it was planned to start with 6,000 breeders and a hatchery of 80,000 egg setting and, during its second year onwards, to increase the breeders to 12,000 and egg setting to 120,000. The project target capacity was to produce 1.2 million day-old chicks per annum.

3. In 1986 when the subproject actually started operating it had 12,000 breeders. In 1990 the total annual rated capacity of Big Birds hatchery increased to 3.6 million day-old chicks with leased hatching machinery capable of producing an additional 2.4 million day-old chicks per year. To optimize the utilization of its expanded hatchery capacity, the company also procures breeding eggs from its sister company, Gallus Enterprises, at prices of PRs 3-4 per egg.

4. At the initial stage of its operations, BBPB imported its day-old chicks for breeding from the United States (US). Realizing the potentials for a backward linkage, the sponsors established in 1989 a sister company, Grand Parent Poultry (GPP), under a licensing agreement with the US company. BBPB now procures its parent stocks of day-old chicks from GPP.

5. The company purchases every year two batches of 12,000 of day-old chicks from GPP, which are reared in an open farm house for 20 weeks. The birds are then transferred to a closed house for 44 weeks. On average, a laying bird provides 135 to 140 eggs. When the birds are 64 weeks old they are culled and sold.

6. BBPB uses advanced technology for environmentally controlled rearing and laying houses for the birds. The sheds have been specially designed to suit local weather conditions, which helps conserve energy.

(Reference in text: pages 7-8, paras. 32 & 35)

7. The construction of the subproject buildings was completed a few months before schedule and machines were installed in September 1986. Commercial operations commenced in October 1986 without any delays.

8. The subproject is managed by a technically and managerially competent team that maintains high production standards. The farm is technically sophisticated, because the sponsors are knowledgeable about poultry breeding and hatchery operations. Thus, company maintains very high flock health and low mortality, and produces high quality chicks.

9. The subproject formulates its own feed with raw materials readily available in the market. Mixing is done manually under the supervision of technically competent staff. On-farm mixing has enabled the company to ensure quality of the feed.

2. Commercial Aspects

10. Poultry production in Pakistan grew at an annual rate of about 19 per cent in the 1970s and continued to grow in the 1980s. In the 1980s the industry became highly progressive and competitive allowing opportunities for the more efficient medium and large-scale operators to expand. The subproject, which commenced as a medium-scale operation, is now large scale.

11. At appraisal BBPD's main target market was the Lahore region, where demand for day-old chicks was about 0.9 million per week and the supply was about 0.5 million per week. It was expected that the subproject could sell its entire production in the region at a unit price of about PRs 6.00.

12. At present the subproject does not have marketing problems and the entire production is marketed country-wide at prices ranging from PRs 6.0 to PRs 7.0 per chick. In 1992, about 2.0 million chicks were exported to Dubai with a view to penetrating into export markets in the Gulf. However, the high mortality rate associated with air shipments made exports uneconomical. Current sales are confined to the domestic market. Low mortality rate and high quality enable the company to compete with other producers and expand its market share rapidly. Chicks are sold only if advance payments in cash are made in full, which is the standard practice of all large-scale producers in the industry. The buyers are required to pay at least four days prior to delivery.

13. Annual sales of the company for the past seven years averaged 3.13 million day-old chicks, and the average yearly revenue was PRs 20.594 million. The actual sales have far exceeded the projected figures for the first four years at appraisal, estimated at a yearly average of PRs 6.53 million. The annual compound growth in sales revenue between FY 1987 and FY 1992 was 22 per cent.

14. The combined assets of BBPB and its sister companies (Grand Parents Poultry and Gallus Enterprises) have grown almost 13 times, from PRs 19.00 million in 1987 to PRs 153.13 million as of 31 December 1992, posting a compound annual growth rate of 66.86 per cent. About 51 per cent of these assets are funded by equity.

C. Financial Performance

1. Profitability

15. The subproject reported net profits during FY1987 - FY1992, except in FY1989 and FY1992 when it incurred losses. Its average return on assets during FY1987-FY1992 was 3.84 per cent. The company's total fixed assets (net of depreciation) had increased more than threefold, from PRs 12.48 million in FY 1987 to PRs 42.95 million in FY 1992. Owners' equity has increased from PRs 9.98 million to PRs 27.06 million during the same period.

16. The company's financial policies have been sound: it has maintained a comfortable debt/equity ratio over the past three years. Its total debt/equity ratios were 0.29:1 and 0.25:1 on 30 June 1991 and 30 June 1992, respectively, and current ratios were 0.69:1 and 0.62:1, respectively.

2. Debt Service Record

17. The company has maintained a good record in debt service: it has repaid its loan installments on time. During FY 1993, the company fully repaid the PRs.4.47 million which was due. Its outstanding loan amount to the Agricultural Development Bank of Pakistan (ADBP) as of 30 June 1993 was PRs 17.29 million. The company will have no difficulty servicing this debt, given its assets and growth potential. The company's assets are more than adequate collateral for ADBP's outstanding loan.

D. Social and Environmental Impact

18. The company directly employs 250 persons during the peak production period and provides year-round direct employment for 71 persons. Its indirect employment contribution, through its sales, and through facilitating viable poultry farm growth, is probably several times this number. The company's farm area is about three acres. Its operations are in closed sheds and have little impact on environment.

E. Conclusion

19. The subproject, as expected at appraisal, remains financially and technically viable and has shown a great deal of dynamism. It also has had a significant impact on development of the poultry industry in the country because of the high quality chicks produced and supplied. The subproject's Financial Internal Rate of Return (FIRR) was estimated at 31 per cent at appraisal. On the basis of its actual performance during FY1987-1992 and the projected performance up to 1996 the subproject's FIRR was re-estimated at 38 per cent.

20. Several major factors explain the growth of the firm: completion of construction work and installation of machinery and commencement of production on schedule, access to an adequate working capital, reinvestment of profits to build equity, professional management and emphasis on quality control.

SUBPROJECT PROFILE III

SAFA RICE MILLS

A. Organization and Background

1. Safa Rice Mills is a public limited company, with its head office in Lahore and its rice mill located about 100 kms from Lahore, at Chuinian in Kasur District, which is a major paddy growing area in Punjab Province. The company has an authorized capital of PRs 30.00 million, all of which is fully paid up. The Bank approved a subloan of $1.065 million on 31 July 1986 to the sub-borrower to establish a parboiling rice milling plant.

2. The mill was expected to use mainly Basmati paddy produced in the surrounding areas as its raw materials. Currently, in addition to parboiled Basmati rice, the mill also produces small quantities of Karnal White Basmati rice (raw), and Coral Parboiled Non-Basmati Rice. The parboiled Basmati is exported to Saudi Arabia while other products are marketed in domestic as well as overseas markets.

3. The Chief Executive of the company is an experienced electrical engineer who worked in Saudi Arabia for over 10 years before setting up the company. He is assisted by a team of professional engineers and a marketing manager. The company also employs competent quality control staff.

B. Technical and Commercial Aspects

1. Technical Aspects

4. The mill consists of three units: a 5-metric ton per hour (mt/h) rice parboiling plant along with a precleaning unit, a husk-fired boiler and a complete rice milling plant; a 2.5-mt/h electronic color sorting machine coupled with length and width graders; and a 2.5 mt/h rice reprocessing unit for cleaning, grading and processing white (raw) Basmati rice. These three units provide a rated capacity of 21,600 mt of milled rice per year. The mill is also equipped with a modern rice quality testing laboratory. Since commencement of the subproject, several assets have been added with the sub-borrower's own resources, including new storage facilities, a new packing hall and three fumigation chambers.

5. The parboiling plant and electronic color sorting machine were imported at a total cost of $1.06 million (inclusive of freight, insurance, duties and taxes). Some of the accessories, such as autoclaves and driers, have been manufactured locally under the guidance of the manufacturer of the imported equipment. The color sorter was imported from Taiwan.

6. Technical staff of the mill including those in the laboratory have been trained by the manufacturer of the imported equipment. The mill operators make a concerted effort to maintain high quality: quality control begins from the point of purchase of paddy at the factory

(Reference in text: pages 7-8, paras. 32 and 37)

gate. Continuous sampling and testing is done during milling and packing in accordance with given specifications. The stocks are fumigated after packing by an outside agency approved by the Government and a certificate is issued after each fumigation.

7. The Basmati paddy is procured both directly from local farmers and through authorized agents in outlying districts on a commission basis. The mill also produces a small quantity of white Basmati rice by re-processing already milled rice. The many small mills in the vicinity provide adequate milled rice for re-processing.

8. The Agricultural Development Bank of Pakistan (ADBP) confirms that importation of machinery financed by the Bank subloan has been done in accordance with the Guidelines for Procurement Under Asian Development Bank Loans. Local machinery has been financed partly with a loan of PRs 9.80 million from the National Development Finance Corporation (NDFC) under the concessionary finance scheme for locally manufactured machinery at an interest rate of 3 per cent.

9. At the time of appraisal of the subproject, installation of the machinery was expected to have been completed in April 1989 and commercial production commenced in December 1989. Actually, because of a delay in securing finance from NDFC for the purchase of local machinery, installation of machinery was completed only in November 1990, 11 months after the schedule. The first trial run to produce parboiled rice, in December 1990, was not successful. The company had to undertake intensive research to resolve the problem. After two more trials, in November 1991, parboiled rice of marketable standards could be produced and marketed. The company spent PRs 6.70 million for trial runs.

10. During the milling year 1991-1992, the total production was 10,000 mt, which was 50 per cent of its rated capacity. The underutilization of the capacity was mainly caused by a shortage of working capital to purchase enough paddy. During 1992-1993, total production declined further to 5,000 tons, 25 per cent of the rated capacity, for the same reason and intense competition from Indian parboiled Basmati in the Middle East market.

2. Commercial Aspects

11. Primary objective of the subproject is to export high quality parboiled Basmati rice to the Middle East. In the 1991-1992 production year, 10,000 mt was exported for $0.484 million (PRs 12.0 million) to Saudi Arabia, where the total market for parboiled Basmati rice is over 90,000 mt.

12. Safa Rice Mills expected to substantially increase its exports to Saudi Arabia during the 1992-1993 production year. This, however did not materialize because cheaper Indian rice of comparable quality was available in the Middle East, as a result of the devaluation of the Indian Rupee. The company could not obtain any substantial export orders that year and was forced to accept a price of $500/mt. Production and competitiveness was also adversely affected by the rise in paddy prices from the increase in the Government support price for paddy, by about 12 per cent over the previous year. In the absence of export orders at reasonably high prices and with higher paddy prices, the company faced even a greater working

capital problem to procure more paddy. The result was low production and exports of only 5,000 mt.

13. A major problem of Safa Rice Mills is the intense competition from Indian exports. Milling technology and packing materials in India are comparatively better and Indian exporters enjoy concessionary export finance facilities. The competitiveness of Pakistani rice exports suffered another setback when, in July 1991, the Indian rupee devalued substantially by about 22 per cent and continued to devalue by another 10 per cent a year later. The prospects for 1993-1994, however, appear to be better because of the depreciation of the Pakistani rupee and bumper paddy crop, which may contain local paddy prices. As of 15 October 1993 the company had received export orders worth about $2.0 million.

C. Financial Performance

1. Profitability

14. Safa Rice Mills posted a net loss of PRs 2.62 million in FY 1992 despite sales of PRs 97.0 million, primarily because of accumulated financial charges amounting to PRs 9.74 million, which in turn were a result of delays in commencement of commercial production. NDFC took about 14 months to process and disburse its loan for local machinery. This delay virtually negated the advantage of the lower interest rate offered by NDFC and contributed to a considerably higher cost of production than anticipated at appraisal.

15. The loss would have been lower, or profit would have been possible, had there been adequate working capital to procure more paddy during the harvest season. ADBP provided only PRs 5.0 million for working capital while another PRs 11.0 million was obtained from the Habib Bank at 18 per cent per annum. This represented about 22 per cent of the cost of sales during FY 1992.

16. The issue of working capital was critical, but ADBP in its appraisal of the subproject had not adequately looked into this. Nor had it been adequately dealt with in the financial plan of the feasibility report prepared by a professional accountant. Both the sub-borrower and ADBP have proceeded on optimistic assumptions regarding the availability of working capital without thoroughly examining the issue.

17. Despite its poor profitability, the Company's total debt/equity ratio remained at a reasonable level of 3.38:1 on 31 August 1992. Its long-term debt/equity ratio on the same date was within prudent limits, at 2.28:1 partly because ADBP loans had been rescheduled. The need for rescheduling resulted from adverse export markets and the delays in the commencement of commercial production (see paras. 12 and 13). ADBP responded favorably to the request by rescheduling both the investment loan and the working capital loan.

2. Debt Service Record

18. The company has not been able to satisfactorily service its loan from ADBP during FY 1993 because of poor production and the difficult export market. Although the company was able to fully settle its total past due account of PRs 1.29 million by 30 June 1993,

it was able to repay only PRs 0.91 million of its total current dues of PRs 12.90 million during the year. Thus, on 30 June 1993, its arrears amounted to PRs 11.99 million and the total outstanding loan was PRs 43.88 million. However, the company's assets provide adequate collateral for ADBP's loans.

D. Social and Environmental Impact

19. The company directly employs 39 persons throughout the year and another 18 during the milling season. Indirect employment generated by the company is much larger, as its activities increase the market for farmers' paddy production.

20. The mill operations do not cause an environmental hazard. The paddy husk is used to generate heat for the parboiling plant and the ashes are currently given to local farmers. Water used for parboiling is recycled and reused for the same purpose and little waste water results from the process.

E. Conclusion

21. Through an intensive and tedious process, the subproject has overcome its technical problem in producing rice of acceptable export quality. Its main problem continues to be the lack of working capital to procure sufficient paddy to operate the mill at an optimum capacity.

22. The need for product research and development delayed the start of commercial operations and incurred substantial expenses. However, continuing market research and product development are an essential part of the company's long-term strategic plan if it is to remain competitive.

23. Although the recalculated Financial Internal Rate of Return (FIRR) of the subproject is 27 per cent, lower than the appraisal estimate of 37 per cent, the subproject is assessed partly successful. In anticipation of better prospects for 1993-1994, the subproject could still be viable. The subproject needs ADBP support to restructure the loan and infuse adequate working capital.

SUBPROJECT PROFILE IV

INDUS FRUIT PRODUCTS

A. Organization and Background

1. Indus Fruit Products, originally a private limited company that has been converted to a public limited company, has its head office in Lahore and its processing plant in Chunian, Kasur District of Punjab Province. The company has an authorized capital of PRs 100.00 million, of which PRs 90.00 million was paid-up by 30 September 1993. The Bank approved a subloan of $2.68 million on 18 December 1986 for the establishment of a plant for the production of fruit juice drinks and concentrates.

2. The plant was envisaged to process fruits (mango, apple, guava, orange, tomato and banana) grown in areas surrounding the subproject into fruit concentrates and pulp for exports, and bottled fruit juices for the local market.

3. The Chief Executive of the company is an industrialist with 15 years' previous experience managing a leading company manufacturing carpets for export. He is assisted by a team of qualified and experienced production and marketing managers.

B. Technical and Commercial Aspects

1. Technical Aspects

4. Chunian industrial estate was selected as the plant site because of the tax incentives offered to investors, and complete and dependable infrastructure facilities.

5. The processing plant was set up in collaboration with a United States (US), and an Italian company to create a model "state of the art" fruit processing plant in Pakistan. The factory comprises complete packaging and fruit processing plant. The plant's installed capacity per year is 46.442 million packs of fruit juice drinks and 1,616 tons of concentrates, at hourly rates ranging from 2.5 tons to 6.0 tons depending upon the fruit.

6. The plant comprises imported and locally fabricated machinery and equipment. Imported machinery valued at $2.39 million (inclusive of freight, insurance, duties and taxes) were purchased from Italy through international shopping. The Agricultural Development Bank of Pakistan (ADBP) confirmed that the procurement procedures followed generally conformed to those listed in the Guidelines for Procurement Under Asian Development Bank Loans. In addition, several items of machinery were purchased locally at a cost of PRs 19.79 million, financed with a PRs 16.00 million loan from the National Development Finance Corporation.

7. While procuring the required machinery, the company decided to change the packing of its fruit juices from tetra packs to 250-ml glass bottles as it was believed to be more

(Reference in text: page 8, para. 37)

economical. The locally procured machinery was configured for this change, with a capacity to bottle reconstituted fruit juice at the rate of 16,000 per hour.

8. For Indus to be assured of adequate raw materials, it has entered into purchasing agreements with individual suppliers in surrounding areas. The diversity of sources of raw materials caused processing problems, as fruit characteristics differed from source to source.

9. At appraisal, the new machinery was expected to have been installed in January 1988 and commercial production was to have commenced in April 1988, allowing two months for trial run production. However, the plant was completed only in May, 1990, 27 months behind schedule. For its trial run production, Indus entered into technical assistance and export sales agreement for fruit processing and marketing with the US company. Trial run production started in July 1990, lasted till the end of 1992 and cost the company PRs 11.57 million. Various samples of the exportable products were produced in the 1991 season and sent to potential customers abroad for testing the product quality and shelf life.

10. The samples tested revealed deterioration of the quality of orange concentrate, and of the mango pulp concentrates. The company took 15 months longer than estimated for trial run production so as to meet the quality requirements of the export market, for which certain modifications and adjustments had to be made in the plant and processes.

2. Commercial Aspects

11. Through its prolonged trial runs, Indus was able to overcome the quality problems of its fruit products and develop products that met the requirements of the international market. However, in 1992 international market prices of fruit juices declined. The export price of orange juice per ton declined from $2,200 in 1991 to $1,200-1,700 in 1992 (current price is about $1,000). Likewise, the export price per ton of mango pulp declined from $1,200-1,500 in 1991 to $900-1,000 in 1992 (the current price is in the range $800-900). The devaluation of the Indian Rupee in late 1991 and early 1992 also affected the competitiveness of Indus' mango exports, since India was its major competitor. As a result, Indus was unable to export mango products in 1992. These factors compelled Indus to temporarily shift its production focus from the export of pulps and concentrates to bottled mango juice for the local market.

12. This brought about pressure on the company to augment its stock of empty bottles and crates to produce commercially viable quantities of bottled mango juice. The local market required much larger stocks of bottles, equivalent to about 60 days supply, because of the longer turn around period. The total cost of the required stock of bottles was estimated at PRs 23.44 million.

13. The company's 1992 sales of pulp, concentrates and bottled juice during its trial production amounted to PRs 20.38 million, of which 87 per cent (valued at PRs 17.53 million) represented exports to Germany, Italy and US. This was a significant marketing breakthrough in the international market for the company.

14. The company produced 5.88 million 250-ml bottles of mango juice in 1990, 9.72 million in 1991 and 6.84 million in 1992, representing 13 per cent, 21 per cent and 15 per cent

capacity utilization, respectively. The company was able to produce 167 tons of mango pulp and concentrates equivalent to 10 per cent capacity utilization, and 347 tons of fruit paste, pulp and concentrates in 1991, equivalent to 21 per cent capacity utilization. Sales during 1993 amounted to PRs 15.18 million, compared to PRs 15.42 million in 1991, and PRs 16.11 million in 1992.

15. Indus' capacity utilization during 1991-1993 was below 50 per cent of its installed capacity because the company had to develop appropriate products. Had there been adequate institutional support for product development and greater access to working capital, the company could have shortened the trial production period and utilized its capacity at a much higher level.

16. Its juice products have been successfully launched in the local market and samples of its pulps and concentrates have been despatched to several European countries. The current local demand for bottled juices is estimated at 44.0 million crates while the supply is only about 13.0 million crates. The company's projected sales of bottled fruit juices of 1.0 million crates in 1994, increasing to 1.6 million crates in 1998, represents only about 5 per cent of the estimated demand gap of 31.0 million crates. A shortfall of 7,000 tons of mango pulp is projected as the country's production is estimated at 3,000 tons only and demand is at 10,000 tons. The international market for mango concentrates indicates an estimated demand of 110,000 tons as against available supply of 20,0000 tons. The subproject's production of 600 tons annually represents less than 1 per cent of the estimated supply gap of 90,000 tons. The company has received firm supply orders.

C. Financial Performance

1. Profitability

17. During the production trial runs, Indus incurred a net loss of PRs 6.05 million in 1991 and PRs 6.11 million 1992. The company had to modify and adjust its plant and processes to meet the quality requirements of local and international markets.

18. The company made a concerted effort to overcome the adverse effects on its financial position caused by the 17-month delay in its commercial operations. In early 1993 Indus was converted to a public limited company to allow infusion of additional capital by increasing its authorized capital from PRs 50.00 million to PRs 100.00 million. This resulted in the increase of its paid-up capital from PRs 38.80 million to PRs 90.00 million.

19. The implementation delays and the tedious product and market development caused Indus' financial problems. To overcome its problems, Indus requested ADBP to (i) freeze interest and mark-ups, penal interest and related financial charges on both its foreign and local currency loans; (ii) extend the grace period through 1995; and (iii) extend the repayment schedule of rescheduled loans from 16 to 20 half yearly installments, beginning May 1996.

20. The company strived to improve its debt/equity ratio of 7.44:1 in 1991 to 2.15:1 in 1992 and 1.52:1 as of 30 September 1993 by fully paying up the remaining unissued capital of PRs 30.60 million in 1992 and by converting from a private limited to a public limited

company, which enabled it to generate an additional capital of PRs 40.00 million. On the other hand, its total assets increased from PRs 193.40 million to PRs 218.30 million during the same period indicating a growth of 23 per cent. Its current ratio stands at 0.89:1 in 1991, 0.42:1 in 1992. The abrupt increase of its current ratio to 1:26:1 as of 30 September 1993 could be attributed to its default on its ADBP loan and an increase in its short-term borrowing.

2. Debt Service Record

21. As of 30 June 1993, the company was only able to fully pay the past-due portion of its ADBP loan, amounting to PRs 4.476 million, while its current due amount of PRs 24.146 fell in default, leaving an outstanding loan balance of PRs 141.284 million (see para. 17).

D. Environmental and Social Issues

22. The subproject employs 100 factory workers and staff. The subproject's operations do not cause any significant environmental hazards as the by-products are sold as animal feeds or disposed of through Indus' installed waste disposal system.

E. Conclusion

23. Indus staff have proven their technical competence by developing an acceptable export product. The company displayed prudence in its financial management by fully paying up its unissued capital and then converting to a public limited company to enhance its financial resources; and by shifting the focus of is production for the local market in face of stiff competition in the international market due to factors beyond its control. However, the company continues to suffer from the accumulated effects of the delay in commencement of marketable production. For a company confronted with financial problems arising from factors largely beyond its control, Indus has performed well in coping with its debt service and has made a concerted effort to contain its defaults.

24. Given the severe inadequacy of Government support in technology and product development, the company has made a substantial progress in developing a variety of internationally marketable products. A good portion of its costs during 1991 and 1992 was for research and development. The Financial Internal Rate of Return of the subproject, estimated at 27 per cent, is lower than the appraisal estimate of 31 per cent. The company deserves ADBP's financial support through restructuring the loan and access to adequate working capital.

SUBPROJECT PROFILE V

RAVI AGRICULTURAL AND DAIRY PRODUCTS

A. Organization and Background

1. Ravi Agricultural & Dairy Products (RADP) is a public limited company with its head office in Lahore and plant in Jaranwala, Faisalabad District. The company has an authorized capital of PRs 10.00 million, of which PRs 5.00 million has been issued and paid. The Bank approved a loan of $2.50 million on 18 April 1986 for this subproject to establish an ultra heat treated (UHT) milk plant.

2. The Chairman of the company is a prominent landlord in the locality and the Managing Director is a lawyer by profession. The Marketing Director is a former senior officer of a financial institution with some years of management experience while the Operations Manager is a veterinarian.

B. Technical and Commercial Aspects

1. Technical Aspects

3. At appraisal, the subproject was to set up a dairy plant to process buffalo milk into UHT milk with an installed capacity of 80,000 liters per day.

4. Implementation of the project suffered serious delays during the acquisition of the necessary machines. Although the letter of credit was opened in March 1987 the machinery arrived more than a year later on piece-meal basis, some in April 1988 and the remainder in July 1988. According to the Agricultural Development Bank of Pakistan (ADBP), procurement of the machines was done through international shopping in accordance with established procedures provided for in the Guidelines for Procurement under Asian Development Bank Loans.

5. After the delays in acquiring its machines, the company commenced commercial operations on 1 July 1989. The milk was initially packed in 1/2-liter tetra packs and 1-liter pouches. When the company started marketing its milk, it found the consumer preference largely in favor of 1/4-liter packs. Thus, the company acquired on 8 March 1993, two concentrator evaporators and other related machines by assuming an additional loan with ADBP amounting to PRs 40.00 million. This acquisition also enabled RADP to diversify into contract filling of fruit juice in 1/4-liter tetra packs and 250-ml bottles at the rate of 3,000 units each, per day. However, RADP encountered technical problems with the machines. Cases of spoiled packed milk were reported, creating a bad image for the company and dampening in sales. This problem remains unsolved, as about 20 per cent of the 1/4-liter packs are returned from the market. RADP is operating at about 38 per cent of its installed capacity.

(Reference in text: page 7, paras. 32)

2. Commercial Aspects

6. Initially, for its 1-liter UHT packages, RADP tapped institutional buyers such as hospitals and prisons. However, RADP eventually lost this market segment as the institutions shifted to fresh milk, which was PRs 6.0 per liter cheaper than UHT milk. Furthermore, the mode of delivery and payment for the product tilted the balance in favor of fresh milk (although it is usually adulterated) as the milkman delivers his product to his customers and defers payment for one to two weeks.

7. Appraisal of the project had been overly optimistic in projecting the demand for UHT milk, and the consumer preference had not been critically examined.

8. The rapid establishment of some 24 UHT plants, in Pakistan, during 1977 to 1990, with a total capacity of 1.5 million liters per day has brought about stiff competition for a very limited market and fiercer competition for raw materials. Although the total raw material requirements of the 24 UHT plants is estimated to be merely 3 per cent of the milk production of the country, availability of raw milk remains a major problem. Obviously, the problem lies not in insufficiency but in collection or procurement of fresh milk. RADP suffers from stiff competition for raw milk because it has no collection and chilling facilities in the production areas. Thus, the company cannot compete with the traditional middlemen who purchase raw milk directly from the milk producers. Due to the inconvenience of bringing their raw milk to the plant, the milk producers have to be offered by the company a much higher price than the milkman who buys raw milk at farmgate. However, RADP cannot offer a very competitive price, as its processing cost is already high.

C. Financial Performance

1. Profitability

9. During the four-year period since the commencement of its commercial operations, RADP has continuously posted losses: PRs 20.72 million in FY1990, mainly caused by accumulated financial charges of PRs 9.18 million arising from delayed commencement of commercial operation; PRs 21.11 million in FY1991, during which financial charges increased to PRs 12.65 million; and PRs 17.62 million in FY 1992, with financial charges amounting to PRs 11.59 million. Tentative figures for the 9-month period of FY1993 indicates that RADP incurred a loss of PRs 16.24 million exclusive of financial charges.

10. The operating expenses of RADP cannot be sustained by its scale of operations, which are limited by the market for its products and despite its attempt at diversification into fruit juice bottling.

2. Debt Service Record

11. As of 30 June 1993, RADP had PRs 33.22 million past due and PRs 6.004 million of current dues. Only PRs 0.657 million of its past due amount was paid, leaving PRs 38.57 million in default and an outstanding loan balance of PRs 160.51 million.

D. Environmental and Social Issues

12. An average of 35 skilled and 65 non-skilled persons are directly employed by the company. The subproject operations do not cause environmental hazards.

E. Conclusion

13. Serious problems confronting RADP include the debilitating effects of an overcrowded dairy industry, giving rise to lack of market for its product; consumer preference for fresh milk because it is cheaper than UHT milk; lack of adequate quality raw milk caused by the absence of milk collection centers with chilling facilities; and costly packing materials. Furthermore, the subproject has not been managed well. The inadequate appraisal did not predict the subproject's poor performance.

SUBPROJECT PROFILE VI

UNI MILK

A. Organization and Background

1. Uni Milk is a public limited company with corporate office and plant located in Okara District in Punjab Province. The company has an authorized capital of PRs 65.00 million, of which PRs 10.90 has been issued and paid up. The Bank approved a subloan of $3.046 million for the establishment of a dairy processing plant for ultra heat treated (UHT) milk on 18 March 1985. The Chief Executive of the company is a local entrepreneur with a business interest in a dairy farm.

B. Technical and Commercial Aspects

1. Technical Aspects

2. At appraisal, the subproject was to set up a dairy plant to process raw milk into UHT milk at an estimated capacity of 4,000 liters per hour, and to process 417 tons of butter annually. The subproject was estimated to be completed within 18 months and expected to operate at 70 per cent of its installed capacity during the first year, 80 per cent on the second year and 90 per cent on the third year and beyond. The company's UHT milk products were to be packed in 1/2-liter and 1-liter tetra packs.

3. The subproject suffered an initial six-month delay caused by the long time between the Agricultural Development Bank of Pakistan (ADBP) approving the loan on 30 August 1984 and the Bank's final approval on 18 March 1985. In the meantime, the price of machinery it planned to import increased due to currency depreciation. Further delays were encountered when the suppliers of the imported machinery were delayed in the preparation and submission of the needed plant layout. Thus, Uni could only start the civil works only on 26 November 1985. Moreover, the imported machinery were delivered on staggered basis between February 1986 and January 1987. During the installation of the machinery by the suppliers' technicians, some of the workers whom the subproject planned to hire upon start of commercial operations worked with the technicians in order to gain exposure in the operations and maintenance of the plant. ADBP confirmed that the procurement of the machines was done through international shopping in accordance with established procedures under the Guidelines for Procurement under Asian Development Bank Loans.

4. The company shifted from the use of tetra packs (as originally envisaged at appraisal) for its milk products to plastic pouches as tetra packs were more costly and difficult to procure because a competing company had the exclusive distributorship of the packing materials.

5. There was also a delay of about 18 months before the subproject conducted trial runs, which lasted for 10 months (1 January 1988 to 31 October 1988). This was caused by

(Reference in text: page 7, paras. 32)

ADBP'S prolonged processing of Uni's request for working capital, which was then disapproved, forcing the sponsors to seek the required working capital from other sources. Sponsors were able to obtain a working capital loan of PRs 3.0 million from Habib Bank Ltd. (HBL) to start its trial run and another PRs 3.00 at a later stage, provided that a no-objection-certificate (NOC) for a pari passu charge would be issued by ADBP. The additional PRs 3.00 million from HBL was availed of by the sponsors using their personal properties as security because ADBP refused to issue the required NOC. In order to conduct further trial runs to improve its packing process, the sponsors requested HBL for additional working capital of PRs 3.00 million, but, this was declined because of the adverse credit report given by ADBP. Heavy losses incurred during its trial runs and lack of working capital eventually led the company to close the plant on 1 November 1988.

2. Commercial Aspects

6. For the ten month period it conducted its trial runs from 1 January 1988 to 31 October 1988, Uni Milk produced a total of 4.36 million liters of UHT milk operating at capacities ranging from 5 per cent to 10 per cent. The company's trial run production of UHT milk was sold mostly to institutional buyers, some of which were hotels. Fictitious cases of rejected spoiled packed milk were reported by sales agents and shopkeepers, thereby creating a bad image for the company's milk products. The company had to spend a substantial amounts in advertisements to rectify the adverse image.

7. The appraisal of the subproject was less than satisfactory and was based on overoptimistic assumptions relating to the demand for UHT milk. Aspects of consumer preference for UHT milk and industry overcrowding were not critically examined. The cost of processing UHT milk and the supply of raw milk were not closely analyzed.

C. Financial Performance

1. Profitability

8. Uni Milk's revenue during its ten-month trial run in 1988 amounted to PRs 11.44 million, but it suffered a net loss of PRs 4.78 million as its cost of sales amounted to PRs 12.89 million and its operating expenses together with financial charges were PRs 3.33 million.

9. Uni Milk could not operate profitably as there is a very limited market for its products in an already overcrowded industry.

2. Debt Service Record

10. As of 30 June 1993, Uni Milk had PRs 3.12 million of past due arrears and PRs 1.33 million currently dues. Only PRs 0.067 million of its past due account was paid, leaving PRs 4.38 million in default. Uni Milk's continued heavy losses during its trial runs prevented it from meeting its debt service.

D. Environmental and Social Issues

11. The manufacturing processes involved in the company's production of UHT milk posed no environmental problems.

E. Conclusion

12. Uni Milk faced the same problems confronted by most of the other UHT milk processing subprojects financed under the Project, namely: (i) an overcrowded dairy industry, giving rise to lack of market for its product; (ii) inadequate consumer preference for UHT milk because it cost more than fresh milk; (iii) lack of supply of fresh milk caused by the absence of milk collection centers with chilling facilities; and (iv) costly packing material.

SUBPROJECT PROFILE VII

EHTISHAM ENTERPRISES

A. Organization and Background

1. Ehtisham Enterprises is a private limited company with its corporate office and rice mill plant at Gujranwala in Punjab Province. The company has an authorized capital of PRs 20.00 million of which PRs 9.2 million has been issued and fully paid. The Bank approved on 8 May 1984 a subloan of $0.708 million to the sub-borrower to establish a parboiled rice milling plant. The mill was expected to use Basmati paddy produced in the areas surrounding Gujranwala as its raw materials for producing parboiled Basmati rice mainly for export. The Chief Executive of the company is a local businesswoman with interests in a ultra heat treated (UHT) milk plant and an oil extraction plant.

B. Technical and Commercial Aspects

1. Technical Aspects

2. The mill consists of a 3 metric ton (mt) per hour rice parboiling plant along with a precleaning unit and a husk-fired boiler; and a 2.5 mt/h rice reprocessing unit for cleaning, grading and processing white (raw) Basmati rice. The units together could at 100 per cent capacity on three shifts basis, produce 9,828 tons of rice per year. The core units of the plant were imported from Italy. ADBP confirmed that importation of machinery financed by the Bank subloan was done in accordance with the Guidelines for Procurement Under Asian Development Bank Loans.

3. The construction of the subproject building started in December 1984. The subproject was granted on 2 November 1985 its first additional loan of PRs 6.795 million to cover the cost overrun on its building, local machinery and payment of customs duties as well as taxes. In February 1990, the Agricultural Development Bank of Pakistan (ADBP) sanctioned another additional loan of PRs 8.00 million to cover the costs of machinery overhaul, vehicles and operational expenses. However, the sponsors were not able to avail of this loan as they had an overdue loan of PRs 6.807 million with Habib Bank Ltd., for which a suit has been filed in Lahore High Court.

2. Commercial Aspects

4. The primary objective of the subproject is to produce and export high quality parboiled Basmati rice to the Middle East. However, the subproject never started operating, as some of the machinery (two paddy soaking tanks) was not installed. When the Project Completion Review (PCR) Mission visited the subproject, these machines were seen lying

(Reference in text: page 7, para. 32)

outside the plant building exposed to the elements and rusty. The plant building was found in disrepair.

5. Although the subproject had not started operations, ADBP disbursed the working capital of PRs 2.00 million on 31 March 1986. This gave the sponsors an opportunity to use the loan proceeds for their other business ventures.

C. Financial Performance

1. Profitability

6. The company has not made financial statements available to ADBP. However, as it to lie idle, it must be incurring large losses.

2. Debt Service Record

7. Although the company failed to commence commercial operations, it fully repaid its current due account of PRs 1.231 million as of 30 June 1993, leaving an outstanding balance of PRs 53.721 million, because its loans were rescheduled.

F. Conclusion

8. The subproject appraisal was unsatisfactory. The sponsors had a poor track record, with two failed subprojects, one in oil extraction and another in UHT milk production. They have diverted loan proceeds to other business activities and have shown little commitment to make this subproject work.

SUBPROJECT PROFILE VIII

REHMAN FEED

A. Organization and Background

1. Rehman Feed is a private limited company with its corporate office in Karachi and plant in the Hub Industrial Area, Lasbela, Balochistan. The company has an authorized capital of PRs 1.00 million, all of which has been issued and paid up. The Bank approved a subloan of $0.290 million on 18 May 1985 to the sub-borrower to establish a 25 metric ton (mt) per day fish meal and oil plant, and this was increased to $0.489 million on 17 December 1988.

2. The Chief Executive of the company is a local businessman with interests in the manufacture and export of carpets.

B. Technical and Commercial Aspects

1. Technical Aspects

3. The mill was envisaged to process 25 mt per day of fresh wet fish offal, gutted and unsalted semi-sun dried fish into fish meal and oil products, that are used in poultry feed formulation. The plant consists of a fish meal plant and a fish oil plant, both of which were to be imported. Most of the ancillary equipment were to be locally fabricated.

4. Immediately after the Agricultural Development Bank of Pakistan (ADBP) approved the subloan, construction of the plant building commenced while awaiting the loan's final approval by the Bank. In November 1985 and June 1987, ADBP enhanced the sponsors' original loan with PRs 0.370 million and PRs 1.911 million, respectively. In the meantime, there was a prolonged delay in the procurement of the imported machinery mainly because it took more than one year to open the needed letter of credit. This was further aggravated by the eight-month delay in the Bank's issuance of the qualified commitment letter. Because the cost of the imported machinery had increased during the delays, ADBP enhanced (and the Bank approved) the foreign currency loan of the subproject to $0.489 million in December 1988. The fish meal and oil mill machinery of the subproject was procured from Denmark. ADBP confirmed that importation of machinery financed by the Bank was done in accordance with the Guidelines for Procurement Under the Asian Development Bank Loans.

5. As the imported machinery of the subproject has been in storage in a bonded warehouse since its arrival, upon request of the sponsors, ADBP approved an additional PRs 2.638 million loan on 13 December 1990, partly to pay for importation cost and partly to cover the overrun arising from currency fluctuation.

(Reference in text: page 7, para. 32)

6. The last additional loan granted to the subproject was on 17 June 1991, in the amount of PRs 3.375 million. Despite the loan enhancements, the sponsors were not able to have the imported machinery released from the bonded warehouse because they lacked funds to pay for the demurrage and customs duties that had accumulated over the years. The customs authorities have auctioned the machinery, but the proceeds are not enough to cover the cost of accumulated demurrage and customs duties.

7. At the time the Project Completion Review (PCR) Mission visited the subproject, there was nothing but a partly completed plant building in the subproject site.

2. Debt Service Record

8. As o 30 June 1993, due to rescheduling of its loan by ADBP, the company had a past due account of PRs 0.200 million and a current due account of PRs 1.560 million. The company was only able to pay the past due account of PRs 0.200 million, was in default by PRs 1.560 million and had an outstanding balance of PRs 16.313 million. ADBP may not be able to fully recover the loan considering that as of 25 April 1991, the tangible assets of the company were appraised at PRs 20.043 million with a loan value of PRs 14.030 million. After deducting the loan value of the machinery auctioned (PRs 11.745 million), ADBP will be left with a loss of at least Rs 4.568 million. ADBP has filed a case in court against the sponsors; the decision of which is pending.

E. Conclusion

9. The abilities of the subproject's management were not correctly appraised.

(Reference in text: page, 8, para. 34)

SECTORAL DISTRIBUTION OF SUBLOANS BY PERFORMANCE OF SUBPROJECTS

Sector	Number of Subprojects				Amount of Subloan ($'000)				As a Percentage of Sectoral Total			
	Total	Successful	Partly Successful	Unsuccessful	Total	Successful	Partly Successful	Unsuccessful	Total	Successful	Partiy Successful	Unsuccessful
Crops	4	0	1	3	3,272.0	0.0	1,065.0	2,207.0	100.0	0.0	32.5	67.5
Fruits and Vegetables	4	0	1	3	9,626.0	0.0	2,676.0	6,950.0	100.0	0.0	27.8	72.2
Dairy	9	1	0	8	15,968.0	300.0	0.0	15,668.0	100.0	1.9	0.0	98.1
Livestock	3	1	0	2	2,300.0	175.0	0.0	2,125.0	100.0	7.6	0.0	92.4
Farm Implements/ Spare Parts	2	1	0	1	588.0	288.0	0.0	300.0	100.0	49.0	0.0	51.0
Others	2	1	0	1	1,324.0	835.0	0.0	489.0	100.0	63.1	0.0	36.9
Total	**24**	**4**	**2**	**18**	**33,078.0**	**1,598.0**	**3,741.0**	**27,739.0**	**100.0**	**4.8**	**11.3**	**83.9**

Appendix 12

SUBPROJECTS CLASSIFIED AS UNSUCCESSFUL

Sector and Subproject Name	Type of Product(s)	Remarks
A. **Crops**		
1. Agro Oil Extraction	Edible oil, fatty acid for laundry soap manufacturing	Closed
2. Ehtisham	Parboiled rice	Closed
3. Suraj Mukh Co.	Sunflower oil, rice oil, sunflower oil cake, rice bran	Never installed; closed
B. **Fruits and Vegetables**		
1. Malik Food Industries	Fruit juice	Closed
2. Standard Fruits	Mango kernel oil, mango kernel Meal	Closed
3. Fresh Juices	Orange, mango and guava concentrate and lime and lemon	Sick but operating
C. **Dairy**		
1. Sheer Pak	UHT Milk	Closed
2. Sialkot Dairy	UHT Milk	Closed
3. Pak Pattan Dairies	UHT Milk	Closed
4. Uni Milk	UHT Milk	Closed
5. Mubarik Dairies	UHT Milk	Sick but operating
6. Ravi Agri & Dairy	UHT Milk	Sick but operating
7. Dairy & Food Products	Dairy products	Sick but operating
8. Am Pak Dairies	Plain yoghurt, stirred yoghurt, and fruit yoghurt	Sick but operating
D. **Livestock**		
1. Uqab Breeding	Embryo transplant, fresh milk, livestock export	Closed
2. Pak Livestock & Dairy Farm	Meat (mutton, beef)	Closed
E. **Farm Implements/Spare Parts**		
1. Techno Agr'l Industries	Crank shafts of Massey Ferguson tractors	Sick but operating
F. **Others**		
1. Rehman	Fish Meal and Fish Oil	Never commenced production; closed

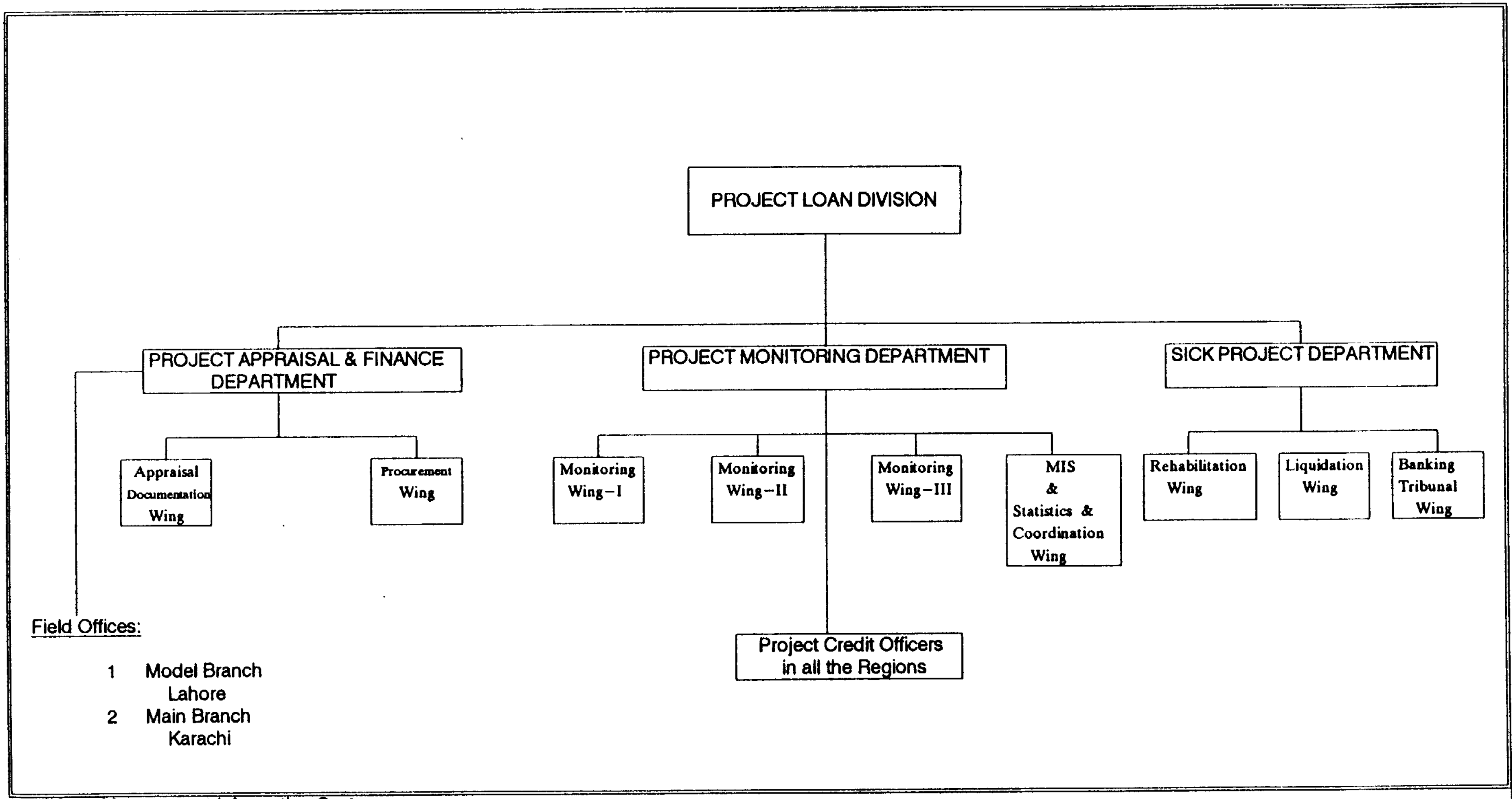
UHT – Ultra Heat Treated

(Reference in text: page, 9, para. 38)

Appendix 13

(Reference in text: page, 10, para. 42)

A D B P
ORGANIZATION OF PROJECT LOAN DIVISION – 1993



MIS – Management Information System

(Reference in text: page, 11, para. 50)

RECOVERY RATES OF LOANS TO SUBPROJECTS BY CATEGORY OF PERFORMANCE
(as of 30 June 1993)

(PRs '000)

Sr. No.	Name of Project	Amount Recoverable			Amount Recovered			Amount in Default			Balance Out-standing	Recovery Rate (%)		
		Past Due	Currently Due	Total	Past Due	Currently Due	Total	Past Due	Currently Due	Total		Past Due	Currently Due	Total
A.	SUCCESSFUL													
1	Big Bird Poultry Breeders	0.00	4,473.00	4,473.00	0.00	4,473.00	4,473.00	0	0	0	17,286	0.00	100.00	100.00
2	Rastgar Engg	14,558.00	0.00	14,558.00	14,558.00	0.00	14,558.00	0	0	0	0	100.00	0.00	100.00
3	Maaher Food Industries	0.00	2,000.00	2,000.00	0.00	2,000.00	2,000.00	0	0	0	14,691	0.00	100.00	100.00
4	Poly Paper & Board Mills	0.00	3,500.00	3,500.00	0.00	1,750.00	1,750.00	0	1,750	1,750	16,614	0.00	50.00	50.00
	Subtotal	14,558.00	9,973.00	24,531.00	14,558.00	8,223.00	22,781.00	0	1,750	1,750	48,591	100.00	82.45	92.87
B.	PARTLY SUCCESSFUL													
1	Indus Fruit Products	4,478.00	24,146.00	28,624.00	4,478.00	0.00	4,478.00	0	24,146	24,146	141,284	100.00	0.00	15.64
2	Safa Rice Mills Ltd.	1,290.00	12,901.00	14,191.00	1,290.00	913.00	2,203.00	0	11,988	11,988	43,878	100.00	7.08	15.52
	Subtotal	5,768.00	37,047.00	42,815.00	5,768.00	913.00	6,681.00	0	36,134	36,134	185,162	100.00	2.46	15.60
C.	UNSUCCESSFUL													
	(i) SICK BUT OPERATING													
1	Dairy & Food Products	3,400.00	922.00	4,322.00	0.00	0.00	0.00	3,400	922	4,322	12,393	0.00	0.00	0.00
2	Mubarik Dairies	35,008.00	6,520.00	41,528.00	0.00	0.00	0.00	35,008	6,520	41,528	149,419	0.00	0.00	0.00
3	Ravi Agri & Dairy	33,222.00	6,004.00	39,226.00	657.00	0.00	657.00	32,565	6,004	38,569	160,510	1.98	0.00	1.67
4	Techno Agr'l Industries	2,197.00	1,543.00	3,740.00	0.00	0.00	0.00	2,197	1,543	3,740	16,684	0.00	0.00	0.00
5	Fresh Juices	12,862.00	15,362.00	28,224.00	1,480.00	0.00	1,480.00	11,382	15,362	26,744	113,304	11.51	0.00	5.24
6	Am Pak Dairies	13,950.00	2,547.00	16,497.00	400.00	0.00	400.00	13,550	2,547	16,097	43,627	2.87	0.00	2.42
	Subtotal	100,639.00	32,898.00	133,537.00	2,537.00	0.00	2,537.00	98,102	32,898	131,000	495,937	2.52	0.00	1.90
	(ii) CLOSED													
1	Agro Oil Extraction	1,888.00	0.00	1,888.00	1,888.00	0.00	1,888.00	0	0	0	33,326	100.00	0.00	100.00
2	Ehtisham	1,231.00	0.00	1,231.00	1,231.00	0.00	1,231.00	0	0	0	53,721	100.00	0.00	100.00
3	Sheer Pak	2,887.00	0.00	2,887.00	2,887.00	0.00	2,887.00	0	0	0	127,568	100.00	0.00	100.00
4	Sialkot Dairy	4.00	0.00	4.00	4.00	0.00	4.00	0	0	0	95,059	100.00	0.00	100.00
5	Malik Food Industries	52,963.00	8,968.00	61,931.00	0.00	0.00	0.00	52,963	8,968	61,931	123,982	0.00	0.00	0.00
6	Pak Livestock & Dairy Farm	21,360.00	3,030.00	24,390.00	0.00	0.00	0.00	21,360	3,030	24,390	54,536	0.00	0.00	0.00
7	Pak Pattan Dairies	42,749.00	9,421.00	52,170.00	0.00	0.00	0.00	42,749	9,421	52,170	139,499	0.00	0.00	0.00
8	Rehman	200.00	1,560.00	1,760.00	200.00	0.00	200.00	0	1,560	1,560	16,313	100.00	0.00	11.36
9	Standard Fruits	0.00	47,597.00	47,597.00	0.00	6,149.00	6,149.00	0	41,448	41,448	41,448	0.00	12.92	12.92
10	Suraj Mukh Co.	2,723.00	5,447.00	8,170.00	0.00	0.00	0.00	2,723	5,447	8,170	35,756	0.00	0.00	0.00
11	Uni Milk	3,120.00	1,328.00	4,448.00	67.00	0.00	67.00	3,053	1,328	4,381	139,126	2.15	0.00	1.51
12	Uqab Breeding	49,686.00	21,979.00	71,665.00	4,994.00	0.00	4,994.00	44,692	21,979	66,671	135,214	10.05	0.00	6.97
	Subtotal	178,811.00	99,330.00	278,141.00	11,271.00	6,149.00	17,420.00	167,540	93,181	260,721	995,548	6.30	6.19	6.26
	Total (C(i)+C(ii))	279,450.00	132,228.00	411,678.00	13,808.00	6,149.00	19,957.00	265,642.00	126,079.00	391,721.00	1,491,485.00	4.94	4.65	4.85
	Grand total	299,776.00	179,248.00	479,024.00	34,134.00	15,285.00	49,419.00	265,642.00	163,963.00	429,605.00	1,725,238	11.39	8.53	10.32

Note: Rates refer to amount recoverable and recovered out of the total loan amount (which includes local currency loans) for each subproject.

(Reference in text: page, 12, paras. 51-52)

ADBP LOAN PORTFOLIO, PROVISIONS, WRITE-OFFS AND INCOME REVERSED
(1984-1993, PRs million)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Gross Loan Portfolio	7,963.8	10,956.5	14,598.6	18,756.3	24,210.8	29,902.0	35,642.9	41,985.5	43,918.5	47,967.4
Net Loan Portfolio	7,664.9	10,626.1	14,229.2	18,055.3	22,911.5	28,601.9	32,368.9	37,207.6	37,437.1	40,147.0
Loan Loss Provision Opening Balance	441.9	310.0	328.9	369.4	701.0	1,299.3	1,297.3	1,685.0	2,230.1	3,118.2
Provisions Made during the Year	60.0	40.0	140.0	406.6	616.4	0.0	415.1	566.8	914.0	1,721.4
Write-Off during the Year	192.1	21.1	99.5	75.0	18.1	2.0	27.3	21.7	25.9	382.3
Loan Loss Provision Closing Balance	310.0	328.9	369.4	701.0	1,299.3	1,297.3	1,685.0	2,230.1	3,118.2	4,457.2
Income Reversed as on 30 June	0.0	0.0	0.0	0.0	0.0	922.0	1,586.0	2,547.8	3,363.2	3,363.2

TABLE 2: ADBP RECOVERY RATES
(in percentages)

Type of Loans	FY1990		FY 1991		FY 1992		FY 1993	
	Before	After	Before	After	Before	After	Before	After
General Credit	59.0	63.4	56.4	61.3	56.8	58.1	47.0	66.0
Project Loans	15.7	25.1	19.7	31.7	14.5	16.2	10.0	22.0
Total Loans	**55.0**	**61.0**	**52.9**	**59.3**	**53.2**	**54.8**	**43.0**	**62.0**

Before: Before rescheduling.
After: After rescheduling.

(Reference in text: page, 12, paras. 54)

ADBP BALANCE SHEETS AND SELECTED FINANCIAL RATIOS
(1984–1993, PRs million)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
ASSETS	9,347.4	12,290.7	16,193.2	20,642.1	26,702.7	32,527.1	37,738.6	42,385.7	45,064.4	52,228.3
Cash on Hand and in Banks	518.0	359.8	509.5	555.0	762.1	1,130.1	1,084.1	1,493.4	3,676.0	6,247.9
Investments in Government Securities	266.3	293.0	285.7	383.1	1,093.0	926.8	2,219.4	1,373.4	1,836.0	3,202.9
Other Investments	5.0	5.0	5.0	18.3	22.4	23.6	485.2	631.4	82.6	477.2
Loans & Advances(net)	7,664.9	10,626.1	14,229.2	18,055.3	22,911.5	28,601.9	32,368.9	37,207.6	37,437.1	40,147.0
Fixed Assets(net)	147.2	178.6	290.0	311.9	319.2	363.8	345.6	353.1	333.5	360.0
Other Assets	766.0	828.2	873.8	1,318.5	1,594.5	1,480.9	1,235.4	1,326.8	1,699.2	1,793.3
LIABILITIES	8,311.2	10,774.4	14,407.6	18,370.2	23,917.5	29,076.2	35,531.8	38,474.6	39,784.9	46,114.9
Deposits and Other Accounts	437.3	157.3	154.2	331.5	1,459.7	2,945.4	6,854.5	3,466.6	1,818.8	1,064.4
Others	89.4	19.4	161.6	212.7	284.6	373.8	1,241.2	1,089.8	1,067.1	1,764.7
Foreign Borrowings	1,035.7	1,445.5	1,910.3	2,828.2	4,163.1	5,849.1	6,225.9	6,978.5	8,798.4	10,975.2
SBP Advances	5,913.8	8,269.6	11,138.5	13,291.0	15,689.8	18,062.7	19,476.0	25,398.0	27,153.9	31,334.6
Other Liabilities	835.0	882.6	1,043.0	1,706.8	2,320.2	1,845.2	1,734.2	1,541.7	946.7	976.0
EQUITY AND RESERVES	1,036.2	1,416.3	1,785.6	2,271.9	2,785.2	3,450.9	2,206.8	3,911.1	5,279.5	6,113.4
Paid-up Capital	651.0	703.9	703.9	799.9	988.3	1,353.3	1,353.3	1,353.3	2,569.3	3,214.3
Reserves	385.2	712.4	1,081.7	1,472.0	1,796.9	2,097.6	853.5	2,557.8	2,710.2	2,899.1
TOTAL LIABILITIES AND EQUITY	9,347.4	12,190.7	16,193.2	20,642.1	26,702.7	32,527.1	37,738.6	42,385.7	45,064.4	52,228.3
FINANCIAL RATIOS (%)										
Return on Average Assets	–	3.02	2.59	2.12	1.37	1.02	0.99	0.29	0.35	0.39
Return on Average Equity	–	26.68	23.07	19.23	12.85	9.67	12.35	3.77	3.32	3.32

SBP – State Bank of Pakistan.

ADBP INCOME STATEMENTS AND SELECTED FINANCIAL RATIOS
(1984–1993, PRs million)

	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
NET INCOME	712.3	1,061.2	1,308.6	1,556.8	1,792.1	2,141.4	2,645.0	2,909.6	2,822.3	3,557.0
Gross Interest Income	772.5	1,101.2	1,410.3	1,912.9	2,322.5	2,992.0	3,578.0	4,282.0	4,396.3	5,121.6
Other Income			38.3	50.5	86.0	71.4	149.0	153.2	155.4	156.8
Income Reversed	0.0	0.0	0.0	0.0	0.0	922.0	667.0	958.8	815.4	0.0
Provision for Bad Debt	60.2	40.0	140.0	406.6	616.4	0.0	415.0	566.8	914.0	1,721.4
EXPENSES	538.0	698.8	939.3	1,166.6	1,467.2	1,840.0	2,295.7	2,794.3	2,669.9	3,367.8
Interest Expense	287.6	357.8	491.2	626.2	787.3	1,117.2	1,495.0	1,721.5	1,539.5	2,223.9
Salaries and Allowances	146.2	200.1	248.1	281.0	414.1	425.2	493.1	726.6	767.6	782.6
Depreciation and Repairs	22.6	28.8	62.5	68.2	70.1	77.9	77.0	80.8	74.7	84.4
Other Operating Expense	81.6	112.1	137.5	191.2	195.7	219.7	230.6	265.4	288.1	276.9
GROSS PROFIT	174.3	362.4	369.3	390.2	324.9	301.4	349.3	115.3	152.4	189.2
NET PROFIT	174.3	327.2	369.3	390.2	324.9	301.4	349.3	115.3	152.4	189.2
SELECTED FINANCIAL RATIOS (%)										
Net Income on Average Total Assets (ATA)		6.58	7.45	7.11	6.58	6.05	6.10	6.60	6.65	5.80
Expenses on ATA		4.97	4.91	5.10	4.93	4.95	5.24	5.73	6.39	5.49
Net Margin on ATA		1.61	2.54	2.01	1.65	1.10	0.86	0.87	0.26	0.31

(Reference in text: page, 12, paras. 54)

Appendix 18
Page 1

COMPLIANCE WITH LOAN/PROJECT COVENANTS

Reference	Nature of Covenant	Present Status of Compliance
A. LOAN AGREEMENT		
Article III Section 3.01 (a) Page 3	Agricultural Development Bank of Pakistan will pay interest at the rate of 4 per cent per annum.	The agreed rate is being paid regularly.
Article III Section 3.03 Page 4	All goods and services to be financed out of the proceeds of the loan will be procured in accordance with the provisions of Schedule 4 and 5 of the Loan Agreement.	Complied with.
B. PROJECT AGREEMENT		
Article II Section 2.02(a) Page 2	ADBP will submit to the Bank an application for approval of any subloan that exceeds the equivalent of $300,000 (or any revised sum) before requesting the withdrawal.	Complied with.
Article II Section 2.02(b) Page 2	ADBP will furnish to the Bank a statement describing the terms and conditions of any subloan not exceeding the equivalent of the amount specified, before requesting a withdrawal.	Complied with.
Article II Section 2.04(a) Page 3	Each subloan will carry interest of 11 per cent per annum exclusive of any foreign exchange risk fee.	Complied with.
Article II Section 2.04(b) Page 3	The amortization Schedule applicable to each subloan will:	
	(i) not exceed 10 years including a grace period not exceeding 3 years from the date of loan approval; and	Complied with.
	(ii) provide for approximately equal semi-annual or annual aggregate payments of principal plus interest.	Complied with.
Article II Section 2.07 Page 5	All funds accruing to ADBP from the repayment of the principal of subloans, subject to loan service payment under the Subsidiary Loan Agreement, will be used by ADBP for making loans under its agricultural credit.	

(Reference in text: page 14, para. 61)

COMPLIANCE WITH LOAN/PROJECT COVENANTS

Reference	Nature of Covenant	Present Status of Compliance
Article III Section 3.04 Page 5	ADBP will maintain records adequate to identify the goods financed out of the proceeds of the subloans.	Complied with.
Article III Section 3.06(b) Page 6	ADBP will furnish quarterly reports on the execution of the project and on the operation and management of ADBP in a format acceptable to the Bank.	Complied with.
Article III Section 3.06(c) Page 6	ADBP will prepare and submit to the Bank, a report on the execution and initial operation of the project and subprojects, their costs and the benefits derived and to be derived from them the performance by ADBP of its obligations under the project agreement, and the accomplishment of the purposes of the loan, in a format acceptable to the Bank.	Partially complied. The reports submitted contain very little information on benefits.
Article III Section 3.07(a) Page 7	ADBP will have its accounts and financial statements audited annually, in accordance with sound and consistently applied additing principles by independent external auditors acceptable to the Bank.	
	ADBP will also furnish:	
	(a) certified copies of audited financial statements and accompanying reports, and	Complied with.
	(b) Long-term audit report of the auditors.	
Article III Section 3.10(a) Page 8	ADBP will, from time to time, take financial measures necessary to cover all financial and administrative costs of its entire operations to provide adequate reserves for bad and doubtful debts, to reduce its loan arrears, and to produce a reasonable surplus in order to strengthen its financial position.	Not complied with. ADBP loan loss provisions are inadequate. Interest rates are not sufficient to cover costs.
Article III Section 3.10(b) Page 8	ADBP will maintain its debt to equity ratio, not higher than 7:1.	Not complied with becau[se] of unacceptable practice[s] on income recognition a[nd] inadequate provisions fo[r] bad and doubtful debts.

COMPLIANCE WITH LOAN/PROJECT COVENANTS

Reference	Nature of Covenant	Present Status of Compliance
Schedule Para 4(a,b) Page 13	ADBP will establish, in consultation with the Bank, an agro-industries advisory and promotionunit and will properly staff and administer it.	Complied with.
Schedule Para 4(c) Page 13	ADBP will assist the consultants engaged under the project for the review of constraints to the agro-industries development, obtain the comments of the Bank and submit them to the Government of Pakistan.	Complied with.
Schedule Para 5 Page 13	ADBP will increase the staff of its Project Loans Department by at least 12 new officers with appropriate experience and qualifications in business management, economics, finance and engineering.	Complied with.
Schedule Para 6 Page 13	ADBP will prepare and adopt formal resolutions in the form of a Strategy Paper and a Policy Statement concerning its development objectives and corporate strategy in the agro-industrial sector. The policy statement will be reviewed annually.	Complied with.
Schedule Para 7 Page 13	In conjunction with the adoption of the strategy paper and policy statement ADBP will design and establish a five-year lending program for the agro-industries sector and furnish a copy of the same to the Bank.	Not complied with.
Schedule Para 8 Page 13	ADBP will design and establish an appropriate benefit monitoring and evaluation (BME) system for for the project, taking into account the relevant Bank guidelines on BME.	Partially complied with. BME reports of the following have been submitted to the Bank. – Sheer Pak Ltd. – Big Birds Poultry Breeders Ltd. (Pvt) – Malik Food Industries – Maaher Food Industries Ltd.
	ADBP will furnish to the Bank details of the annual PBME.	
Schedule Para 9 Page 14	ADBP will adopt appropriate measures to maintain the recovery of the amounts outstanding on both current and past loans at an appropriate level acceptable to the Bank.	Partially complied with. ADBP has referred several cases of defaulters to banking tribunals and special courts.