

# ADB CFC Programme



## Project Monitoring Unit

**Technology Upgradation and Skill Development Company**

Ministry of Industries & Production

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(A company setup under Section 42 of Companies Ordinance 1984 having capital share)

## **Introduction:**

This project aims to strengthen the capacities of SME clusters in the country and facilitate development of the SME sector through TUSDEC (Technology Upgradation and Skill Development Company). Through this project, it is estimated that a minimum of four and a maximum of six Common Facility Centers (CFCs) will be established or upgraded over the next four years to provide a common pool of targeted technologies, skill development through training on teaching factory concept, testing & inspection services and processes/technology related services for the collective upgradation of SME clusters.

TUSDEC will establish Common Facility Centers (CFCs) to provide a common pool of targeted technologies, training & skill development, testing & inspection services and process/technology related services for the collective upgradation of groups/clusters of Small and Medium Enterprises (SMEs). The SMEs will use these facilities to improve quality and value addition to their products or processes and to train their skilled labour on the targeted technologies for Pakistan in a particular sector.

## **TUSDEC's Role in Technology Upgradation and Skill Development:**

TUSDEC was created by the Ministry of Industries and Production, as an implementing institution to fulfill the aim of upgrading technology and developing skills in industrial sectors. It is a guarantee limited company having share capital under public-private partnership, wholly funded by the Pakistan Industrial Development Corporation but managed by the private sector. TUSDEC's mandate is to establish Technology Upgradation Centers, Design Centers, Skill Development Centres, Support Centers and Maintenance Centers. TUSDEC will promote technologies that would:

- (i) Increase competitiveness
- (ii) Enhance value addition and
- (iii) Leverage existing skills

TUSDEC identifies clusters with significant potential and benchmarks their applied technologies and existing skills with targeted technologies. Pursuant to its sector studies, through extensive in-house research, exchange of industry intelligence and meetings with industrial entrepreneurs, TUSDEC singles out the needs, technological and skill deficiencies in the cluster. These findings are converted into projects for the upgradation and skills development in that cluster through investment and cooperation.

## **Establishment of CFCs through the ADB Funded SDP:**

The CFC Project is part of the 5-year GoP SME Sector Development Program (SDP). This project was launched with the financial assistance of Asian Development Bank (ADB).

The Ministry of Finance is designated as the Executing Agency (EA) for the SME SDP where a dedicated Core Project Monitoring Unit (CPMU) has been established. The CPMU is headed by a full time Joint Secretary.

During the design of ADB's SDP, SMEDA was designated as the Implementing Agency (IA) for the CFC Project. However, as TUSDEC was established to undertake technology upgradation and skill development initiatives, the Ministry of Industries and Production decided to transfer the CFC Project to TUSDEC. TUSDEC may take advantage of SMEDA's presence in the field due to its linkages with SME clusters and trade bodies/associations, where required.

Through this project, it is estimated a minimum of four Common Facility Centers (CFCs) will be established or upgraded over the next four years for providing a common pool of targeted technologies, skill development training on a teaching factory concept, testing & inspection services and processes/technology related services for the collective upgradation of

groups/clusters of SMEs. This number may increase keeping in view the funding requirements for each proposed CFC.

Over the past few years, a number of organisations such as EPB, PCSIR, PSIC, etc had set-up a number of CFCs in order to support various SME clusters. Some of these are operational while others are not. In almost all cases, upgradation of machinery & technology and development of skill on new technologies is required to make them useful again for the SMEs. This project also has the option to work with existing organisations to upgrade existing CFCs.

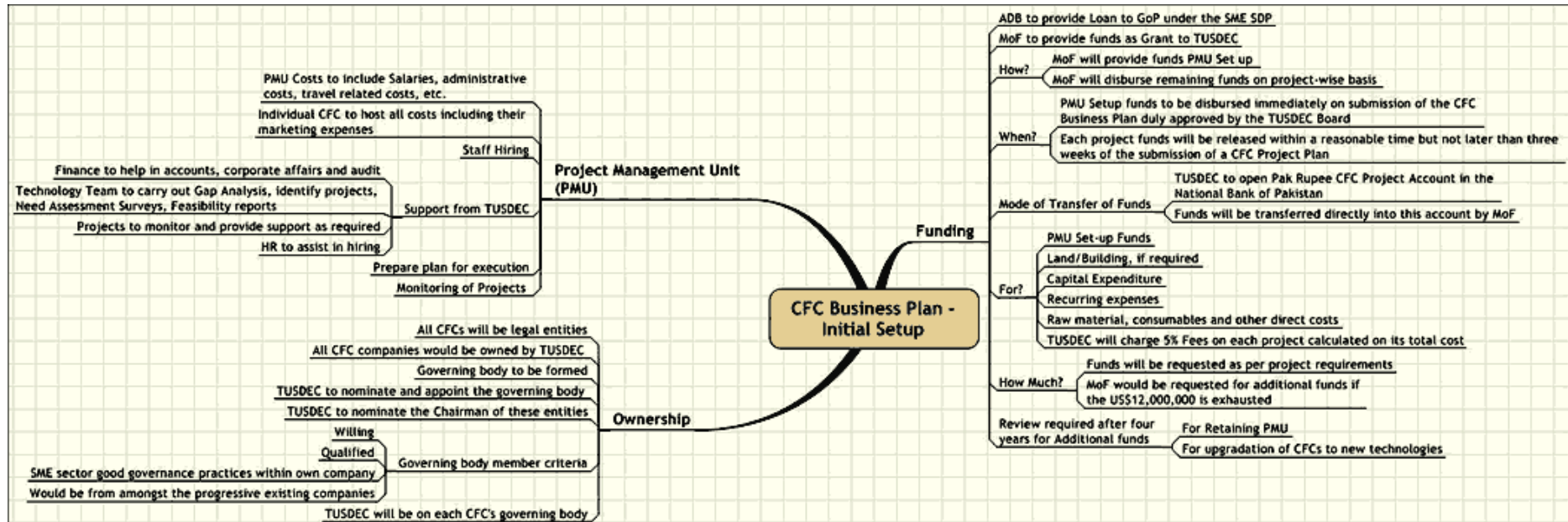
TUSDEC will achieve the following objectives for SMEs through its proposed CFCs:

- Identification of value added services
- Identification of collective competitive advantage for an SME cluster
- Exposure to latest equipment/machinery and international market standards
- Enhanced productivity capacity building for suppliers
- Information on new technologies
- Training opportunities on improved methods of production and usage of latest relevant technology
- Improved product quality
- Access to new markets
- New business formation within existing clusters

## Project Targets:

	<b>CFC Design</b>	<b>Actual Set-up</b>
Year – 1	1	-
Year – 2	3	1
Year – 3	-	2
Year – 4	-	1
	<b>4</b>	<b>4</b>

# Project Setup:



## **Institutional Setup:**

TUSDEC comprises of the following groups and departments with a significant skill mix:

- |                                 |                                     |
|---------------------------------|-------------------------------------|
| 1) Technology Upgradation Group | 5) Communication Group              |
| 1) Financial Services Group     | 6) Monitoring Group                 |
| 2) Projects Group               | 7) HR and Administration Department |
| 3) Skill Development Group      |                                     |

TUSDEC will hire a Project Director for the CFC project. He will be supported by the relevant departments of TUSDEC on an 'as needed' basis and a small secretariat for focused work.

TUSDEC will manage the project in accordance with the CFC Standard Operating Procedures (SOPs), which are part of this document but may be fine-tuned once the CFC Project becomes operational. In addition, a CFC Steering Group will be formed in consultation with the Board of Directors of TUSDEC.

Each CFC will be set up as a wholly owned subsidiary of TUSDEC, with directors nominated by TUSDEC. These companies will be managed by the private sector and shall manage and operate their respective CFCs.

The Project Management Unit will be responsible for preparation of the CFC proposals, attainment of their approvals, securing funds, preparation of execution plans and monitoring of each project.

## **CFC Steering Group:**

A CFC Steering Group will be constituted to:

- a. Develop liaison and linkage with other SME stakeholders
- b. Provide professional guidance and direction to the CFC Project team, and
- c. Evaluate and recommend projects to the TUSDEC Board for approval

The CFC Steering Group will comprise of the following:

- Chairman TUSDEC (Convener)
- 2 Private Sector members of the TUSDEC Board
- CEO (TUSDEC)
- CFC Project Director (who will also be the Group Secretary)

The CFC Steering Group will use the services of two co-opted private sector members. The Steering Group will play an active role in presenting the project to the Board for approval .

The presence of at least three (3) members would constitute quorum for the Steering Group Meeting. Each member of the Group would have one vote. A simple majority

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decision of those present would be required for approving a CFC. In case of a tie, the decision of the Group Convener will be final.

The Group will meet at least once every two months to ensure smooth progress of the CFC Project. The Steering Group will recommend the finally selected CFC Projects to TUSDEC Board for approval and will develop a mechanism for monitoring the progress of each CFC.

### **Administrative Setup:**

Under the new arrangements, MoIP and SMEDA have conveyed to ADB that TUSDEC will be the Implementing Agency for this project.

TUSDEC and ADB met on 18 March 2006 and discussed the way forward. TUSDEC, ADB and Ministry of Finance will sign a tripartite agreement to formalise TUSDEC's role and relationship after due clarifications have been carried out by ADB.

Funding for the project will be provided by the Government of Pakistan as part of the SDP. These funds will be used for establishing the CFCs and for meeting the project operating and overhead expenses.

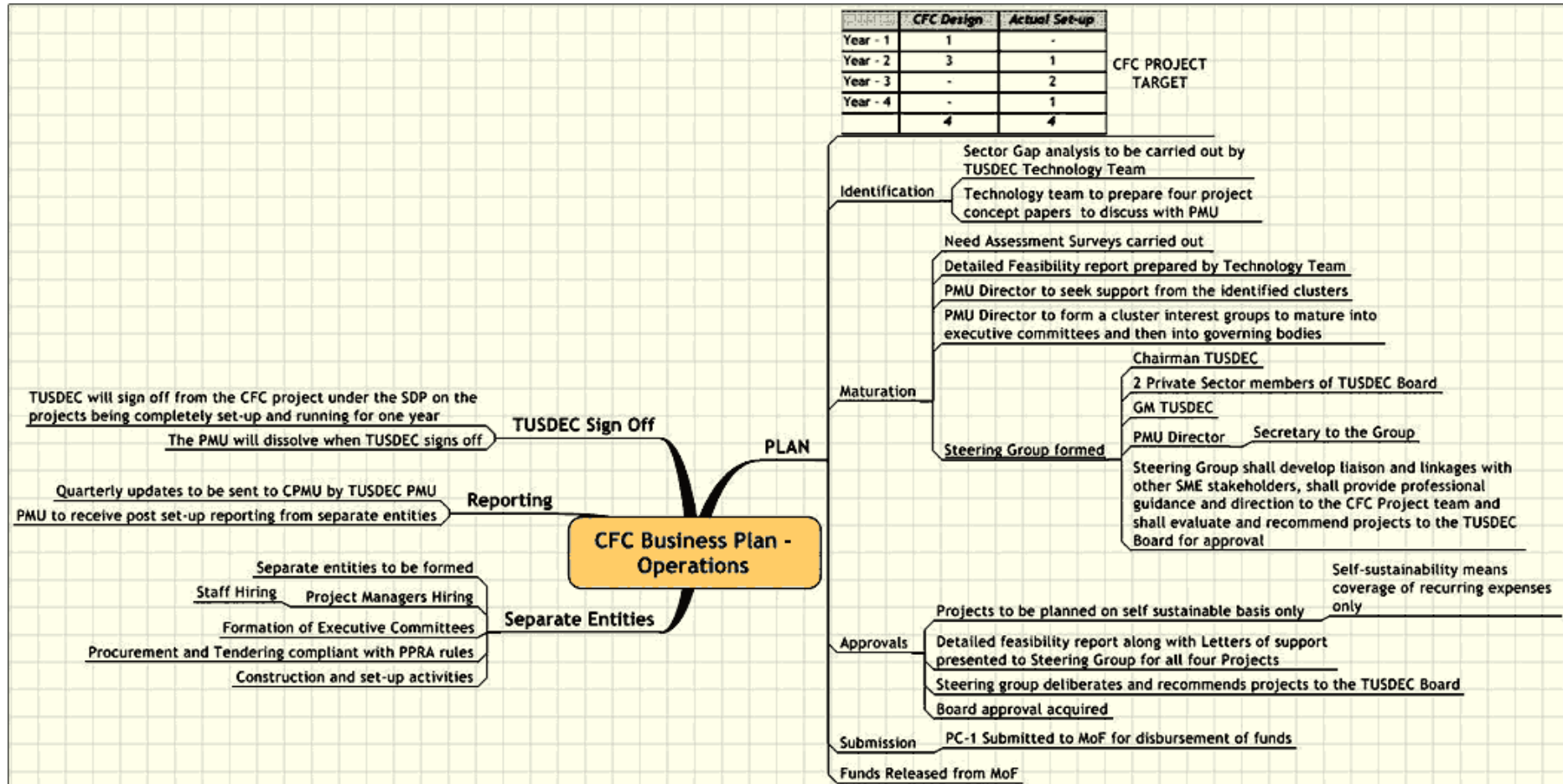
### **Project Marketing:**

The CFC Project Director will be expected to undertake specific initial activities aimed at promoting the scheme to the clusters with maximum potential users all over Pakistan. This may be done in collaboration with SMEDA Regional Offices.

Initial promotion might take the form of:

- Awareness workshops or seminars in centers of SME business/industrial activity
  - Advertisements in the Media
  - Meetings with key SME influencers
  - Direct mailings to Chambers, Associations and other SME Bodies
  - Attendance at exhibitions, conferences, trade events etc.
  - Dissemination of 'success stories' in local business press
  - Radio/TV interviews
-

# CFC Project Operations:



The CFC Project will be open to all SME sectors, whether manufacturing or services, where the establishment of a CFC can contribute in:

- a) Value addition into a product or process;
- b) New market development;
- c) Skilled manpower or
- d) Enable compliance with international standards or statutes

However, preference will be given to progressive SME clusters that are taking steps to modernize themselves to become internationally competitive.

A CFC will only be set-up to provide such specialized high-cost services, which do not justify investments by a single enterprise.

The establishment of purely training centers will be allowed under the CFC Project where it is necessary to leverage skills of the cluster. Upgradation and/or enhancement of an existing common facility may be allowed in certain areas provided all other requirements are being fulfilled.

### **TUSDEC Support:**

All departments of TUSDEC will provide the necessary support to the PMU as envisaged in Annexure-1. In consideration of its services, TUSDEC will charge a 5% fee on the total set-up cost of a CFC project.

### **Processing and Approval:**

The Project Director will be the contact point to interact with and facilitate the SMEs. Based on the Steering Group's guidance, the Project Director will form a CFC Support Group from a comprehensive representation of SMEs in a particular cluster or interact with an established group and acquire their support. SMEs will be approached through personal contact, advertisements, interviews, seminars, workshops, etc. The interested companies would be requested to send in support letter signed by their CEOs. Depending upon the size of a cluster, support of at least 7 to 10 companies of the SME cluster with a reasonable size mix would be acquired. Upon incorporation, the governing body of a CFC will be constituted from this CFC support group.

The Project Director will arrange visits to the SME cluster by TUSDEC's Technology Upgradation Group (TUG) to evaluate technical gaps, identify CFC projects and prepare a Technical Sectoral Gap Analysis report for submission to the Steering Group.

**Steering Group:** The Steering Group will evaluate the concept paper in light of the Technical Sectoral Gap Analysis. The Project Director would make a presentation to the Steering Group to justify the need of setting up of the CFC.

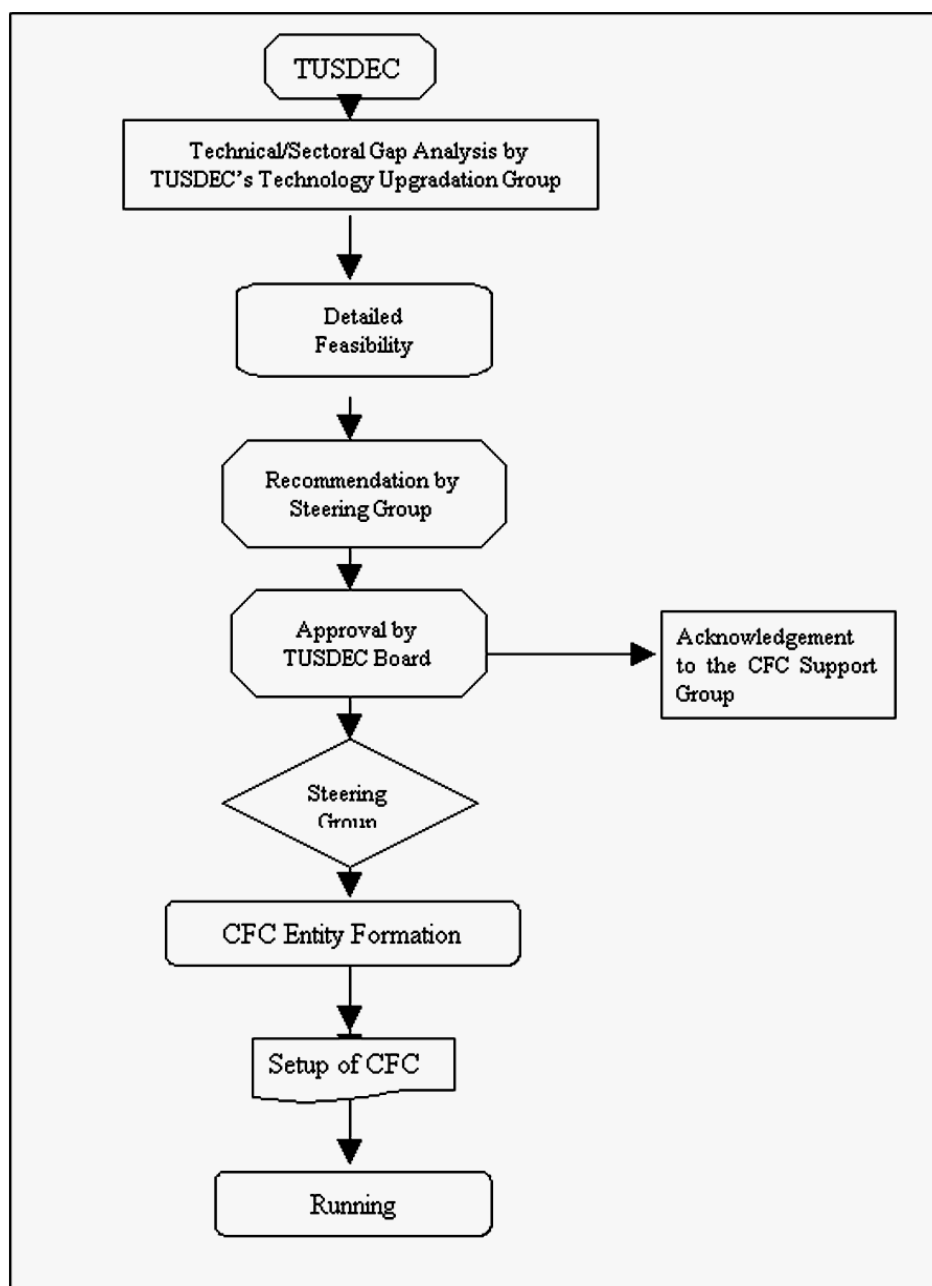
The Steering Group will:

- a. Verify whether the request for setting up a CFC merits further detailed study/investigation by a sector specialist, and
  - b. Verify that the CFC support group are representative of the SMEs cluster
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On acceptance of concept by the Steering Group, the Project Director will arrange to conduct a detailed feasibility of the proposed CFC. Details of the feasibility are outlined in the next section.

After completion, the detailed feasibility study will be forwarded to the Steering Group for recommendation to the TUSDEC Board. The CFC Project Director will make a presentation to justify the need to set up the CFC to the Board. The Board has the right to ask the CFC Support Group to be present and clarify any matters under discussion for the project.

If the Board approves the proposal, the Project Director will have the PC-1 prepared to secure funds for the project. Ministry of Finance would release the funds within a reasonable time but not later than three weeks. The flowchart of activities of the process is given below:



## **Development of Detailed Proposals:**

Depending on the technical expertise available within TUSDEC, services of external consultants may be hired. This feasibility would include the following:

- a. Market study of the cluster products
- b. Verification of the Support Group as representative of cluster SMEs
- c. Need assessment for setting-up a CFC. This will include visits and interviews of at least 50% SMEs in that cluster.
- d. Cluster interest including investment and take-up of produce
- e. Detailed machinery specifications and suppliers with costs
- f. Organizational structure and HR requirements
- g. Sustainability of CFC
- h. Costing and pricing of services to be provided by the CFC
- i. Marketing plan for CFC services
- j. Any secondary requirements such as training, certification, etc.

The feasibility study will be presented to the Steering Group to seek its permission to proceed with the project.

## **CFC Day-to-Day Working:**

All CFCs will be independent entities and shall be managed by their governing bodies. The memorandum and articles of association, byelaws, rules and regulations of the legal entity will drive the objectives and give direction for a CFC's operations.

**Organizational Setup:** The CFCs will be non-profit organizations governed by their mandates with day-to-day affairs being managed by the independent entity. These will be wholly owned subsidiaries of TUSDEC and their governing bodies will be nominated by TUSDEC.

**Operations:** The CFCs will be operated as non-profit entities. However, users will be charged for services provided in order to enable the CFCs to remain self-sustaining. Revenues generated from the services rendered will be used to cover operating costs. Any surpluses will be retained by the CFC for future upgradation and/or enhancements.

## **Project Monitoring:**

**Annual Work Plan:** The Project Director will develop and obtain approval of an annual work plan for each twelve-month period of operation of the CFC Project. This will specify in detail the activities to be carried out in order to launch and promote the scheme, the CFC development targets and how to manage the program under the SOPs.

**Performance Measurement of the Project Director:** Performance of the Project Director will be measured against the annual work plan. The following indicators may be applied to measure the performance:

- Project approvals by TUSDEC Board within timeline
  - Funds disbursed for approved projects
  - Project set-up milestone and timeline achievement
  - Targeted technologies established
  - Skilled manpower trained
-

TUSDEC will have the right to revise initial planning and take appropriate action to reach envisaged targets.

**Accounts & Record Keeping:** TUSDEC will operate a separate bank account for the CFC Project where it will receive funds from the GoP for the CFC Project. All related expenses incurred will be paid directly from this account. In addition, TUSDEC will maintain separate books and paper for the Project in an internationally accepted format.

**Auditing:** The Project will require an annual financial audit by a firm of independent auditors to be appointed by TUSDEC. In addition, the Board of Directors of each CFC will permit TUSDEC officials and the project auditors to discuss the financial statements and financial affairs of the CFCs from time to time with the officers and auditors of the respective CFC entity.

### **Completion of the CFC Project:**

The CFC Project will stand completed on carrying out the following actions:

- Minimum number of CFCs envisaged under the Business Plan have been setup;
- All CFCs have been handed over to their respective governing bodies
- All CFCs are running
- Audits envisaged under the SME SDP have been completed

It is envisaged that all actions given above would be completed by the end of Year-4 and TUSDEC's obligations under the SME SDP programme will stand completed. The PMU will be dissolved on completion of TUSDEC's obligations.

### **HR Requirements of CFC Secretariat:**

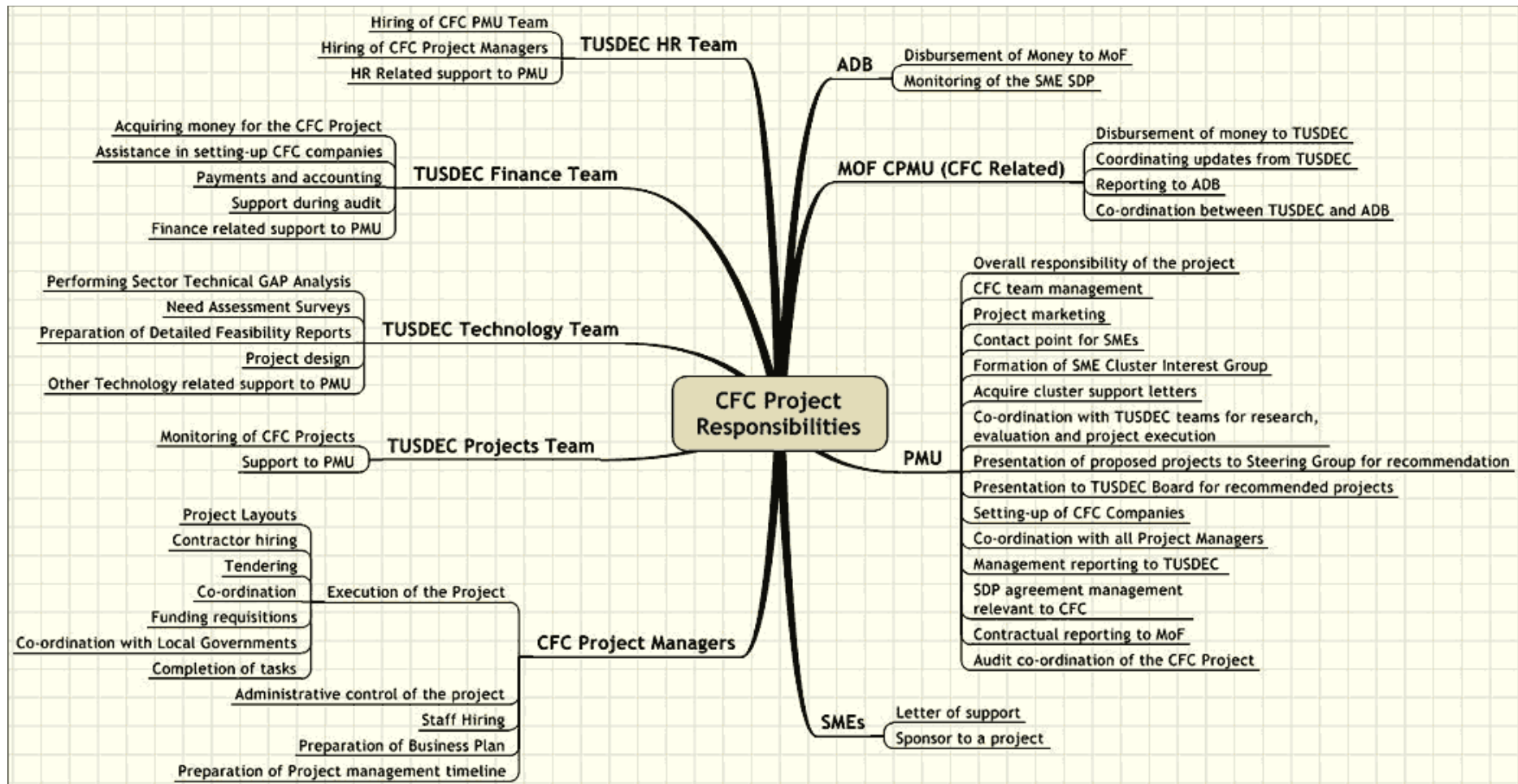
No.	Title	Nature of Work	Nos.
1	CFC Project Director	Professional	1
2	Assistant Project Manager	Professional	1
3	Assistant Manager Accounts	Professional	1
4	Technology Consultant	Technical	2
5	Procurement specialist	Technical	1
6	Support Staff	Clerical/support	1
			<b>7</b>

In the first year, only three full time staff members will be recruited. The remaining staff will be hired as the quantum of work increases.

### **Current Projects being monitored or prepared:**

1. Ceramics Development and Training Complex [ [Click for details](#) ]
  2. Peshawar Engineering Support Centre [ [Click for details](#) ]
  3. Hyderabad Engineering Support Centre - under preparation
  4. Quetta Engineering Support Centre – under preparation
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Annexure-1



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