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DFID-funded Karandaaz launches second round of Women Entrepreneurship Challenge 2018

In this issue

CEO'S Message

Greetings on behalf of Karandaaz Pakistan!

Supporting innovation and segments such as youth and women who traditionally face greater barriers while looking for finance to expand their businesses is at the core of Karandaaz's mission. I would like to start off in this edition of the Karandaaz newsletter with an update on the FinTech Disrupt Challenge. The annual Karandaaz Fintech Disrupt Challenge, now in its third consecutive year, provides support and seed money to the most promising technology-based responses to bottlenecks in Pakistan's financial services sector. In the same quarter, pitches for the annual Karandaaz Women Entrepreneurship Challenge were also held, with results to be announced soon! The winners have been selected from an applicant pool of around 250 women entrepreneurs, who applied from all across Pakistan.

Karandaaz also launched two reports; one on the Bankability of the Road Transport Sector, and another on the Options for Enhancing Builder Finance in Pakistan. The publications demonstrate the impact on national GDP and employment of growth in both these high-potential sectors. The studies highlight the crucial need for improvements in the regulatory environments of both industries and the need to incentivize banks to introduce more sector-specific financial products and services. You can read more about the significant findings of these studies in this newsletter and visit Karandaaz website to access complete reports.

On the capital side, two new banking relationships have been established with JS Bank Limited and MCB Islamic Bank Limited to jointly make available funding for Small and Medium Enterprises. Karandaaz also participated in the Additional Tier One capital of Soneri bank to provide liquidity to the bank and help it in building its SME portfolio. Additionally, KRN funded FAW motors, to provide financing to SME truck owners who don't have the resources to get financing from the commercial banks due to their stringent financing requirements and collateral based lending models. All these developments will be covered in detail in our next quarter's newsletter.

Finally, as we embark on a new calendar year, I would like to appreciate the efforts of everyone here at Karandaaz Pakistan for their continued hard work and wish you all a happy and prosperous 2019. Let us continue striving together for a more financially inclusive Pakistan.

Ali Sarfraz
CEO, Karandaaz Pakistan

Newsflash

Matilda Solutions, Love for Data, and Agri Mart shine as the brightest ideas in Karandaaz FinTech Disrupt Challenge 2018

Karandaaz Pakistan announced 'Matilda Solutions', 'Love for Data', and 'AgriMart, were announced as the winners of FinTech Disrupt Challenge 2018 after a close competition between 16 extraordinary technology startups with ideas for financial inclusion. The three outstanding FinTechs will each receive a funding up to $100,000 to implement their ideas. The pitch round for the Karandaaz FinTech Disrupt Challenge 2018 was held at the Hive in Karachi and the judges' panel comprised of Mr. Khurram Zafar, Director 47 ventures; Rabeel Warraich, Founder and CEO, Sarmayacar; Sameer Chishty, Venture Partner, SparksLab Global; Shahid Mustafa, President and CEO, Telenor Microfinance Bank; and Dr. Ayseha K. Khan, Country Director, Acumen.

The annual Karandaaz Fintech Disrupt Challenge, supported by the Bill & Melinda Gates Foundation, now in its third consecutive year running, supports FinTech sector in Pakistan and provides seed money to the most promising innovative responses for removing bottlenecks in Pakistan's financial services sector. This year, Karandaaz had invited FinTechs to design and present solutions in nine thematic areas including payments, interoperability, consumer/retail banking, regtech, insurtech, mobile wallets, loyalty programs, lending and savings.

Rehan Akhtar, Chief Digital Officer Karandaaz said,

> "Two years ago when we started the FinTech Disrupt Challenge, we aimed to nurture enough challengers and disruptors in the market and introduce more innovative products and services for the banks and formal financial industry to take benefit from and drive greater financial inclusion in the country. This year we pivoted our model a bit and instead of just giving seed money to the most promising ideas, we also got involved in helping a larger pool improve their products and services through a focused 5 month long acceleration program prior to the pitch round."

Speaking at the occasion, Michael Weigand, Director of the Financial Services for the Poor program of the Bill & Melinda Gates Foundation said,

> "About 1.7 billion people worldwide are still excluded from formal financial services. Without formal financial histories, people are also cut off from potentially stabilizing and uplifting opportunities like building credit or getting a loan to start a business. The foundation's Financial Services for the Poor program works to broaden the reach of low-cost digital financial services for the poor. Our strategy is aimed at supporting what we believe are the most catalytic approaches to financial inclusion: helping to drive the development of digital payment systems, advancing gender equality, and supporting the development of national and regional strategies to provide exemplar models. I was highly impressed by the innovative ideas presented today and wish them all the best."

New study highlights massive economic benefits of low-income housing

Investment in low-income housing would bring "massive" economic benefits to Pakistan, according to a new study published by Karandaaz Pakistan and funded by the UK Government's Department for International Development (DFID). The study, 'Enhancing Builder Finance in Pakistan', was launched at an event in Islamabad. The study aims to show the wide benefits to Pakistan of building more affordable housing, and help boost the businesses of Small and Medium Enterprises (SMEs) that work on house building.

The study estimates that the construction of 100,000 more houses each year will lead to economic growth as well as increased employment opportunities. According to the study, Pakistan's economy will benefit massively if affordable housing were to be increased. To achieve this, improvements should be made to the regulatory environment for builders and banks must be given sufficient incentives for mortgage and builder financing. The study can be accessed at:
https://karandaaz.com.pk/karandaaz-publication/

Joanna Reid, the head of the UK's Department for International Development (DFID) Pakistan, said at the event,

"Only the richest of companies can afford to build homes for the richest of people. Pakistan needs financing mechanisms to ensure everyone can have a roof over their head."

The event was well-attended by representatives of the banking and building sectors, along with representatives from the government. Mr Zaigham Mahmood Rizvi, Chairman Prime Minister's Task Force on Housing also participated in the event and said,

"According to the UN-Habitat, more than half of the humanity now lives in cities, and by 2050 three out of four people will be living in urban areas. This massive urbanization in most of the cities of Asia Pacific is creating challenges in major metropolitans like Mumbai, Calcutta, Karachi, Manila, Dhaka etc. The urban areas, more so major metropolitan cities are facing housing shortages and generating urban slums, illegal habitats and indecent housing. This is adding further to the already existing urban housing shortages in cities, nearly all of which is economically weaker segments of society. The stakeholders of housing, namely developer, planners, the Governments, fiscal and regulatory agencies all are needed to be engaged to address affordable housing challenges, both from its supply-side and finance-side parameters. The supply-side players, mainly the developers/builders need to be engaged for meeting this challenge of affordable housing. In turn, this will boost the economy, and create jobs. Housing and real estate sector is directly linked to about 42 construction materials industries and creates jobs at much higher rate. I reckon that with the Government's focus and assistance from partners such as Karandaaz, the growth of SMEs in building and construction sector will bolster the positive impact at the macro level. The state and the private sector should come forward to compliment and support efforts of platforms like Karandaaz."

Following a presentation by the author, Mr Ali Khizar, a discussion on the topic was held with a panel made up of: Mr Hassan Bukshi, Chairman Association of Builders and Developers (ABAD), Mr Muhammad Raza Sayeed, Head Housing Finance (Islamic) at HBL; Mr Navid Goraya, CIO Karandaaz Pakistan; Mr Jawed Aslam, CEO and Founder Ansaar Management Company; and Mr Faisal Murad, Group Head from Housing Building Finance Company (HBFC). The discussion highlighted the need for improvement in the current regulatory environment, and factors such as the increases in property prices, rising costs of construction materials, a lack of documentation within the SME builder community and absence of collateral as deterrents to accessing formal financing.

Study by Karandaaz Explores the Bankability of Pakistan's Road Transport Sector

Karandaaz Pakistan also launched a study on the bankability of the road transport sector in this quarter. The transport and logistics sector is one of the most important elements of an economy. While transportation focuses on the movement of goods from one place to another, logistics refers to the management of this flow and in addition to transport, includes storage, handling, inventory, and packaging among other things. Existing research on Pakistan's road transport sector remains largely fragmented and outdated. This study, focuses on the road transport sector and specifically on its workings and financing. The study presents the overall size of the transport sector, a roundup of the primary segments of road transport sector (freight and passenger), the underlying economics of these segments and the bankability and growth prospects of the sector.

According to the study, the transport, logistics and communications sector is estimated to have contributed 13.3 percent of GDP in 2016-17. Of this, more than 62 percent was contributed by the road transport sector. In 2014-15 the sector employed 3.1 million people. The stark landscapes of Balochistan are a backdrop for the colourful embroidery of the region. Exceedingly fine work, all done by hand, it is recognized the world over for its fine quality. The primary aim of this study, including extensive primary and secondary research, is to provide financial institutions analysis and insights that can help design suitable financial products to cater to needs closely aligned with the current demand of the sector. The study can we downloaded from Karandaaz website:
https://karandaaz.com.pk/karandaaz-publication/

Both the passenger transport and the freight transport sectors are highly profitable and costs are recovered by the owners in eight months for rickshaws and 50 months for both, small trucks and super deluxe buses on average. The transport sector's share in GDP is likely to grow as CPEC developments materialize over the next decade.

With 13 percent of CPEC's investment expected in road and highway construction, the impact on the transport sector will be highly positive.

Mehr Shah, Director Knowledge Management and Communications, Karandaaz Pakistan while speaking about the study said,

> "The primary research consisted of a nationally representative survey of freight as well as passenger segments. The survey was complemented with key informant interviews with financial institutions, informal money lenders, transport associations, logistics companies, and adda (a junction point for transport) operators, among others."

Findings from the survey indicate that the freight transport sector is highly lucrative with profit margins ranging from 21 percent (large trucks) to 43 percent (three-wheeler rickshaws). 95 percent of the freight vehicles are purchased from the local market, while 75 percent of the vehicles purchased are used vehicles. In terms of loan size in the freight segment, the average loan ranges from over PKR 890,000 from banks and leasing companies; PKR 567,000 from informal money lenders; and PKR 3.2 million from informal vehicle providers. 50 percent of the respondents have bank accounts, 42 percent are ATM card holders, and 26 percent are smartphone users, with the number going as high as 45 percent for freight vehicle owners in Sindh.

If we consider the passenger sector, the profit margin by type of vehicle is also healthy, ranging from about 30 percent for wagons, to almost 50 percent for super-deluxe buses. The average loan size in the passenger segment from banks and leasing companies is PKR 746,000, PKR 1.3 million from informal money lenders and PKR 1.1 million from informal vehicle providers. Among passenger transport owners, 34 percent use a smartphone. The remainder (66%) use feature phones. 50 percent have a bank account and 37 percent have an ATM card.

So is the road transport sector bankable? In short, the answer provided in the report is yes, but with some qualifications. There is a huge potential market available for increased formal financial intervention. With only 5 percent of current vehicle owners using formal banking channels for the purchase of vehicles, the opportunity to entice the remaining 95 percent with tailored products and services undoubtedly exists.

DFID-funded Karandaaz launches second round of Women Entrepreneurship Challenge 2018

Karandaaz Pakistan has launched the second round of its coveted Women Entrepreneurship Challenge with 19 women-led businesses from across the country. The annual challenge, funded by the UK's Department for International Development (DFID), is a leading business support and investment programme that promotes a culture of entrepreneurship amongst women. Karandaaz will provide customized business development support to the businesses that have qualified for the programme and may also invest up to PKR 20 million (per business) in enterprises that demonstrate growth prospects after a competitive pitching round to a panel of judges. Women-led business from sectors as diverse as clothing and manufacturing, education, beauty and care, food and food processing, IT and Digital media, and gems and jewelry make up this year's cohort, as announced by Karandaaz at a kick-off ceremony held in Islamabad, today.

Last year, through Karandaaz Women Entrepreneurship Challenge, 36 women-led small and medium businesses from across Pakistan received incubation services and 15 were selected to receive a mix of grants and quasi-equity investments from Karandaaz. This year the programme targeted high-potential, established women-led businesses that have an operational history of at least three years and are looking to achieve growth. Karandaaz will undertake an assessment for each of the 19 businesses and work with the women entrepreneurs to develop a growth plan.

Speaking about the programme, Waqas-ul-Hassan from DFID said,

> "There are many more women out there with great entrepreneurial ideas who need the support to help their businesses succeed. These businesses participating in the women entrepreneurship challenge will serve as role models to inspire other women entrepreneurs. Creating jobs and supporting economic growth in general is a top priority for the UK's Department for International Development in Pakistan and we know through our experience that investing in women-led businesses makes perfect sense across regions and communities for social as well as financial dividends."

Blog

Employment Generation through Housing Industry in Pakistan
How the housing industry can foster employment generation

Pakistan's rising housing shortage is alarming. The gap has been widening due to population growth and an emerging trend in rural to urban migration. Together these factors have made the existing housing supply insufficient. But not only that, the current housing supply is also unaffordable. Little to no options for low-income housing exist. The country has a room density of 3.5 persons per room which is significantly higher than the developed world standard of 1.1 person per room. The persistent backlog of housing supply together with the increase in gap each year puts the total shortage at 10-12 million units, though this seems to be an outdated figure. Nearly half of Pakistani urban dwellers live in informal settlements, or kacchi abaadis(8 million in Karachi; 1.7 million in Lahore); against India's 24 percent of the urban population. Couple that with nearly three-fifths of the population still in the rural and underdeveloped areas, the need for low-cost housing is dire.

The problem is recognized by successive governments as Pakistan People's Party (PPP)during its tenure in 2008-13 promised to construct a million houses per year while the Pakistan Muslim League-Nawaz (PML-N) government during 2013-18 charted down plans of building 0.5 million units per year. Virtually none of these plans panned out. In recent history, there is no example of a successful housing scheme launched by the governments, while the regulatory and financing frameworks remain weak and inadequate. Promises however, still prevail. The new government formed by Pakistan Tehreek Insaaf (PTI) has now come with a housing target to make 5 million houses in five years as part of its economic reform agenda.

Weak regulatory environment poses a big challenge

The government's job should not be to construct houses, but to create an enabling regulatory environment that would encourage and incentivize the private sector to meet the growing demand in all income-segments, not just the affluent one. Pakistan could look toward Modi's "Housing for All" initiative in India which targets building 20 million housing units each year to cater to the low-income segment that forms over 60 percent of the demand. That market has been developed over the last decade and the latest housing sector regulations introduced by the Indian government are harnessing efforts from private developers to introduce schemes that are catered toward the low-income segment.

Pakistan is faced with a number of challenges. The incidence of bank financing is low for both mortgage and builder finance, in part due to the weak regulatory structure and banks' low confidence in the real estate that is a magnet to illicit wealth. The unclarity of titles exacerbated by property exchanging hands many times over leads to speculative price hikes causing commercial lenders to distance themselves from this sector. The government owns huge parcels of land in Pakistan and auctions these off to builders and developers. This land is bought and sold in secondary market but construction often never begins, projects are delayed and land prices keep on increasing.

This speculative interest in the real estate sector must be curbed to restrain prices from skyrocketing. To do so, builders should be required to develop the land in a stipulated time frame and not be allowed to sell un-developed land. In case of housing in new localities, it is recommended that part of the development should consist of low cost units which should be developed earlier and sold at low prices to accommodate the low-income segment. Streamlining land registration databases to bring clarity to titles, updating building codes and density laws in favor of vertical development, strengthening foreclosure laws, and ensuring that only registered and authentic builders are allowed to undertake construction.

The sector needs to build credibility from the ground up which will persuade banks to be more open to lending in this sector and in turn solving the key issue of financing for home buyers and builders. To that end, the SBP has recently launched a policy document to promote low-income housing finance in Pakistan, which proposes public-private models that could work if executed well.

Importance of housing beyond addressing the shortage

Bridging the housing gap is not only important for providing formal living means for the growing population but also because adding to the housing stock creates opportunities for a plethora of SME segments which are directly and indirectly associated with the housing industry.

Construction is one of the most labour intensive industries in Pakistan—its contribution to labor force (7.3%) is more than double its contribution to GDP (2.7%).[1] Within the industry, housing is deemed to be more labour intensive, especially in urban areas. Thus, a boost in the housing industry will go a long way in generating urban employment.

The real estate industry has more than 250 associated industries with 40–50 construction allied industries, including, aside from larger cement and steel industries, a host of SMEs.[2]

[1] *The State Bank of Pakistan (SBP). Annual Report 2016–17*

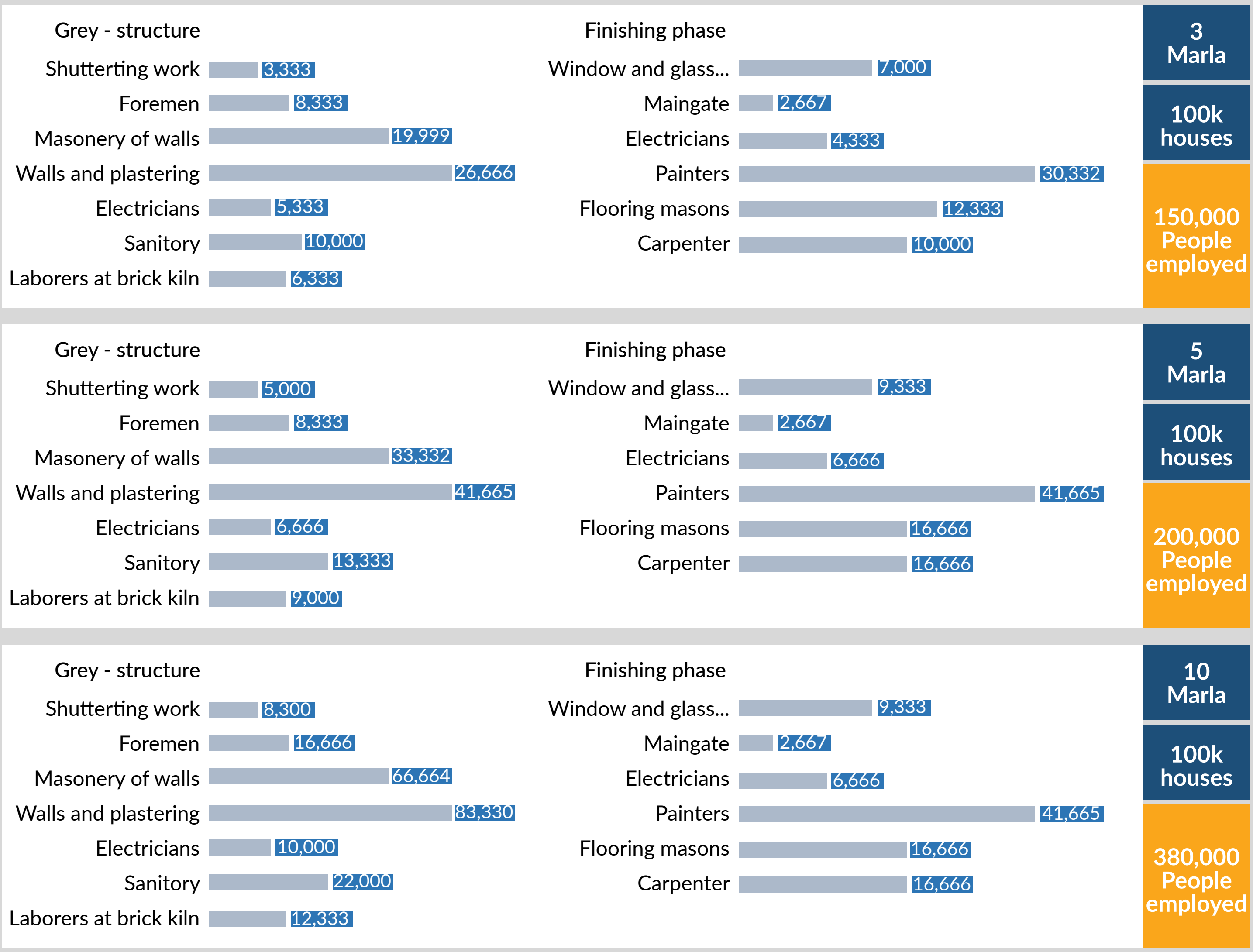
[2] *Bricks, timber and wood, marbles, tiles and marbles, electrical and sanitary works, glass, paints and varnishes, electrical lightning, power and gas, horticulture, interior decoration, transport, light-heavy construction machinery, plastics, fibers, furniture, electrical appliances, etc*

The industry has a significant impact on the economy and on employment. According to a 2008 World Bank study, "a unit increase in expenditure in construction sector has a multiplier effect and the capacity to generate income as great as five times the cost of the unit".[3]

The former Chairman of Association of Builders and Developers (ABAD), Akber Sheikh in an interview claimed that constructing 100,000 more houses every year would generate one million jobs. While this number may be overstated, a study on enhancing builder finance in Pakistan conducted by Karandaaz Pakistan finds that the construction of the same number of 3-marla houses per year in Lahore would create nearly 150,000 rolling jobs. These employment numbers will be 200,000 and 380,000 for 5 and 10 marla houses, respectively. A mix of 100,000 houses of these different sizes can create up to 250,000 jobs a year in Lahore only. In Karachi, about 360,000 laborers are put to work when 100,000 apartments are constructed in a year. These estimate come from existing construction activity in the two cities.

These calculations suggest the housing gap will generate additional employment for thousands of laborers, contractors, architects, builders and agents etc. But it is also clear that this cannot be done without a robust regulatory environment, market-based solutions with public sector involvement and housing finance in place.

Assuming in one year, 100,000 houses are constructed in lahore



Notes:
Covered area for 5-marla, 1,600 sq ft
Covered area for 10-marla, 2,600 sq ft
Covered area for 3-marla, 1,100 sq ft

[3]*The World Bank. Ninova, Tatiana. Pg 1, Expanding Housing Finance to the Underserved in South Asia. (2010). Washington DC*

Financial Inclusion in Numbers

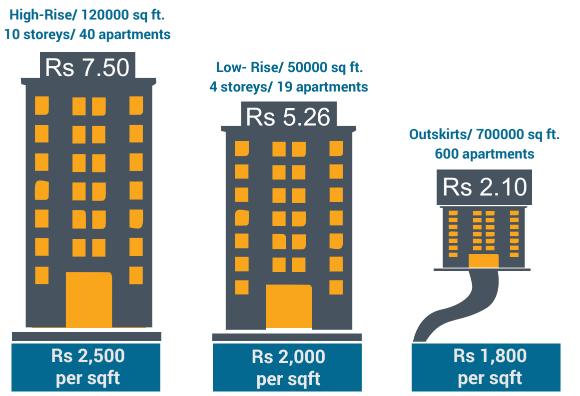
Trend of housing gaps in Pakistan and some peer countries

	Shortage 2008–9 (million)	Shortage 2017 (million)
Afghanistan	1.5	-
Bangladesh	05	08
India	18	10
Pakistan	7.5	12

Note: *Figures are for 2008–09 from The World Bank. Ninova, Tatiana. Expanding Housing Finance to the Underserved in South Asia. (2010). Washington DC. Slum figures are from World Bank Database for 2014. Revised shortage: India (Housing and Urban A airs); Pakistan (World Bank); Bangladesh (based on the projection that in 2021, the gap will widen to 8.5 million as 0.12 million houses are in demand each year).

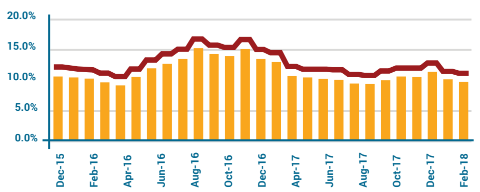
Source: Enhancing Builder Financing in Pakistan

Estimated cost of construction of an apartment in Karachi (PKR/per sq foot)



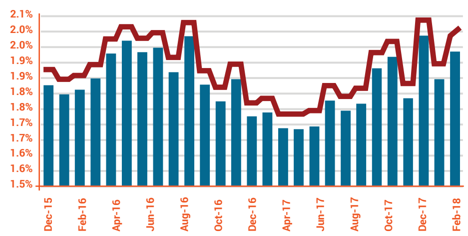
Source: Zameen.com

Trend of smes building construction finance As a % of total building construction finance



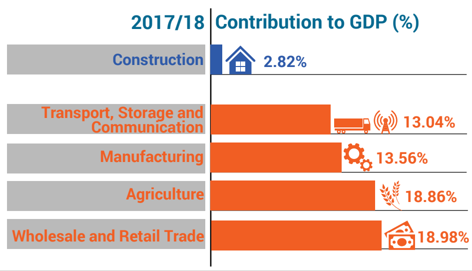
Source: Pakistan Economic Survey, 2017-18

Trend of SME Building Construction Finance as a % of all Loans to SME



Source: Pakistan Economic Survey, 2017-18

Top four sectors and construction industry



Source: Pakistan Economic Survey, 2017-18

Summary of employment generation and gdp Contribution from housing construction in lahore

	Number of Houses	Total Labour Days	Contribution to GDP (%)
3 Marla	100,000	421000	0.8
5 Marla	100,000	606000	1.2
10 Marla	100,000	1096000	1.9

Source: Enhancing Builder Financing in Pakistan

Summary of gdp contribution from Housing construction in karachi

Notes:
High rise: 120000 sqft.; 10 storeys/ 40 apartments
Low rise: 50000 sqft.; 4 storeys/ 19 apartments
Outkirts: 700000 sqft.; 600 apartments
Assuming in one year, 100,000 apartments are constructed in Karachi

Source: Enhancing Builder Financing in Pakistan

Research Showcase

Bankability of the Transport Sector

The primary aim of this study is to provide formal financial institutions insights into the road transport sector, enabling them to design suitable products and services. The ultimate objective is to enable growth in the transport sector by increasing the availability of formal financial services. The study was conducted from February 2017 to April 2018, followed by documentation and data compilation.

The methodology was based on review of secondary literature and a combination of qualitative and quantitative tools. Quantitative surveys were conducted with vehicle owners of both, passenger and freight transport. The study focused on three primary cities with large industrial, trade and transport hubs: Karachi, Lahore and Peshawar, and three secondary cities: Mirpur Khas, Kasur and Charsadda.

The overall "takeaway" indicates potential for investing in the sector based on information presented here. However, it is advised that any decision made based on this report must also take into account the evolving and informal nature of this sector, with fragmented oversight and weak enforcement of existing regulations.

Key questions addressed in this report are as follows:

What is the size of the transport sector?

The transport, Logistics and Communications (TLC) sector is estimated to have contributed 13.3 percent of gross domestic product (GDP) in 2016-17. Of this more than 62 percent was contributed by the road transport sector. In 2014-15 the sector employed 3.1million people.[1]

Who are the stakeholders (public and private) in the sector?

There are four government bodies at the federal level[2] and two[3] at the provincial level with a role in policy and planning. At the implementation stage, there is a lesser role for the federal agencies. The large number of stakeholders involved makes the sector difficult to navigate. Since the provinces are autonomous, there are also variations in the execution strategies. Other stakeholders include a number of financial organizations such as, commercial banks, insurance companies, leasing companies, modarbas and Islamic banks. In addition, other stakeholders include vehicle manufacturers, associations, vendors, logistics companies and individual owners of commercial vehicles.

What are the major routes?

Most traffic intensive routes are a) Karachi to Peshawar via Hyderabad-Multan-Faisalabad-Rawalpindi; b) Sukkur to Quetta c) Karachi to Quetta via the Regional Cooperation for Development (RCD) highway and d) N-5 National Highway segment of Multan-Lahore-Gujranwala-Rawalpindi.

What are the primary segments in the road transport sector?

The primary segments are freight and passenger. The fastest growing sub-segment in the freight segment is the delivery vans at 7.5 percent annually, while for the passenger segment it is motor cabs at 5.9 percent annually.

Is the road transport sector poised for growth?

Yes, road transport grew at an average rate of 6.2 percent per annum between 1991 and 2016 compared to an average GDP growth of 4.4 percent during the same period. The impact of the China- Pakistan Economic Corridor (CPEC) is also expected to fuel growth. It is expected CPEC will create approximately 700,000 direct jobs during the period 2015-2030 and add up to 2.5 percent points to the country's growth rate.[4] The total CPEC investment for road development amounts to PKR 712 billion (USD 6100 million) i.e., 13 percent of the total investment by China worth PKR 5.3 trillion (USD 46 billion).[5]

What are the economics of the sector by segments?

Findings from the survey indicate that the freight transport sector is highly lucrative with profit margins ranging from 21 percent (large trucks) to 43 percent (three-wheeler rikshaws).95 percent of the freight vehicles are purchased from the local market. While 75 percent of the vehicles purchased are used vehicles.

[1]*http://pc.gov.pk/uploads//plans//Ch27-Transport-logistics2.pdf*
[2]*Planning Commission, Ministry of Commerce, Ministry of Industries, Special Initiative and Investment, and Ministry of Law and Justice*
[3]*Planning and Development Department Board and Law Department.*
[4]*Conversion rate USD 1= 116.79.*
[5]*Muhammad Aqeel. Impact of China Pakistan Economic Corridor. 2016*

In terms of loan size in the freight segment the average loan ranges from PKR 890,000 from banks and leasing companies; PKR 567,000 from informal money lenders and PKR 3.2 million from informal vehicle providers. 50 percent of the respondents have bank accounts, 42 percent are ATM card holders and 26 percent are smartphone users, with the number going as high as 45 percent for freight vehicle owners in Sindh.If we consider the passenger sector, the profit margin by type of vehicle is also healthy, ranging from about 30 percent for wagons, to almost 50 percent for super-deluxe buses. The average loan size in the passenger segment from banks and leasing companies is PKR 746,000, PKR 1.3 million from informal money lenders and PKR 1.1 million from informal vehicle providers.

Among passenger transport owners, 34 percent use a smartphone. The remainder (66%) use a feature phone. 50 percent have a bank account and 37 percent have an ATM card.

What are the current financing arrangements and product available?

Currently around 99 percent of the owners, partially or fully, finance vehicles through personal sources. The sources include personal savings, selling of assets, selling of livestock, borrowing from friends or family (interest free). Borrowing from the informal market and formal institutions makes up 3 percent and 9 percent, respectively.

Currently the informal sector provides financing on an average interest rate of 35 percent while formal financial institutions charge 18 percent on average. ORIX Leasing Pakistan (OLP) and bank Alfalah (BAFL) are major players in the transport segment.

Survey respondents cited a number of reasons for not using formal sourcing of financing, major ones among them being stringent conditions to meet borrowing requirements and formal processing (like documentation) which increases processing time, and payment of interest rates (not the case with personal savings)

Is the road transport sector bankable?

In short, the answer is yes, but with some qualifications. There is a huge potential market available for increased formal financial intervention. With only 5 percent of current vehicle owners using formal banking channels for the purchase of vehicles, the opportunity to entice the remaining 95 percent with tailored products and services undoubtedly exists.

KEY CONCLUSIONS AND OUTCOMES

The report provides extensive conclusions and outcomes, some salient ones being as follows:

- Both the passenger transport and freight transport sectors are highly profitable, and costs are recovered by the owners in eight months for rikshaws and 50 months for both, small trucks and super deluxe buses on average.

- The transport sector generates a GDP multiplier of 1.24 which is likely to grow as CPEC developments materialize over the next decade.

- While CPEC is seen as major growth enhancer for economy overall, limited public information about its scale and nature makes projections difficult Nevertheless, given the fact that 13 percent of CPEC's investment is in road and highway construction, the impact on the transport sector will be highly positive, helping the sector grow by a factor greater than what historical trends suggest.

- A very large portion of owners and operators are able to purchase vehicles through their personal sources (savings or through sale of their own assets) and only a small portion of owners purchase vehicles through loans from formal institutions, informal money lenders, or informal vehicle providers. This can translate into a significant opportunity for financial institutions.

- In addition to tailored products, banks can also innovate and change the collection and recovery model from relation-ship based to factory mode operations. A more flexible loan processing method and period also needs to be designed, given the fact that most vehicle owners shy away from formal financial institutions due to loan processing time.

- Given the low level of road safety and inefficient transport fleet, The State Bank of Pakistan (SBP) and donors can provide additional support through incentivizing feet modernization, digitization and risk-sharing financing arrangements.

About Karandaaz

KARANDAAZ PAKISTAN is a Section 42 company established in August 2014 and focuses on fostering economic growth and creating jobs through financial inclusion of unbanked individuals and unserved enterprises, with a special focus on women and youth.The company has four verticals:

Karandaaz Digital

Focuses on expanding the poor's access to digital financial services in Pakistan by working across the ecosystem with all stakeholders.

Karandaaz Capital

Provides wholesale structured credit and equity-linked direct capital investments to micro, small and mid-size enterprises (MSMEs) that demonstrate compelling prospects for sustainable business growth and employment generation in Pakistan.

Karandaaz Innovation

Manages the Innovation Challenge Fund and Women Entrepreneurship Challenge, providing risk capital and grants to partners with the aim to generate innovative solutions in areas of financial inclusion and entrepreneurship.

Knowledge Management and Communications

Supports the company's core financial inclusion goal by developing and disseminating evidence based insights and solutions.

Karandaaz Pakistan has received funding from the United Kingdom's Department for International Development (DFID) and the Bill & Melinda Gates Foundation (BMGF).

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