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Karandaaz Pakistan signed three Grant Agreements to Support Initiatives that address Low Uptake and Active Usage of Digital Account among the Female Population

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CEO's Message

Greetings!

The beginning of this quarter coincided with the ominous outbreak of COVID-19 in China. Within a few weeks, Covid-19 turned into a pandemic forcing countries across the globe to institute varying levels of lockdown. By the end of the quarter, most countries have severe restrictions on economic activity, mobility and social interaction to protect public health. Resultantly, these measures are expected to have debilitating effect on all economies such as layoffs and permanent closure of a large number of Small and Medium Enterprises (SMEs). With its focus on twin aspects of the economy—SMEs and digital finance—Karandaaz has been channelizing its resources and leveraging its partnerships to mitigate some of these effects.

In March, Karandaaz commenced discussions with SMEs in its equity portfolio and women-led businesses in Women Ventures (WV) programme to assess the level of subsidized financing that may be required during the lockdown. At the same time, we worked with partner financial institutions for rescheduling of SME loans in our portfolio. We also completed an investment proposal to start Covid-19 testing through our investee company Excel Labs (Pvt.) Ltd; it is expected that testing will start towards end of April 2020. We also shared technical notes based on international experience which can help in the design of SBP's financing schemes for SMEs. In this regard a note has been developed on the Easing of Monetary Policies to Curb the Economic Impact of COVID-19 which compares expansionary monetary policies by various central banks to provide stimulus to the financial system, restrict capital flight, and ensure price stability.

During this quarter, we incorporated InfraZamin Pakistan (IZP), an NBFI which will provide credit enhancement facility for infrastructure projects. It is expected that IZP will play a critical role in economic revival through its support of construction sector. We also closed one equity transaction by participating in Secure Logistics Group (SLG) and the major achievement was that we were able to crowd in foreign investment through Saudi Bugshan Group (SBG).

We also signed a grant agreement with U Microfinance Bank Ltd. whereby it will test new products for increasing financial inclusion of women. An MoU was signed between State Bank of Pakistan (SBP), Karandaaz and DFID for digitization of SECP, and work was commenced on the implementation of Secured Transactions Registry (STR). Timely completion of STR will enable Pakistan to improve its score on Ease of Doing Business Index. Karandaaz also released a report titled, Microfinance and Enterprise Growth – Evidence from Pakistan, which focuses on the impact of microfinance on job creation and enterprise growth. I would encourage you to visit our research and blogs section on the Karandaaz website and benefit from some of the latest data and analysis.

Stay safe, stay well.

Ali Sarfraz
CEO, Karandaaz Pakistan

Newsflash

Karandaaz providing Grants to Three Partners for Promotion of Financial Inclusion of Women

Karandaaz Pakistan has signed grant agreements with 2 FinTechs, Oraan Tech Pvt. Ltd. and Techlets Pvt. Ltd, with funding from Bill & Melinda Gates Foundation and a separate one with NRSP Microfinance Bank with funding from UK's Department for International Development (DFID). These grants will help in getting more women financially included and closing the gender gap in Pakistan's digital financial services industry. All three partners were selected through the Karandaaz Financial Inclusion of Women Challenge run during 2019-20.

Given the early stages of Pakistan's digital financial services market and the low number of active digital accounts, there is a wide gap in determining the pricing, products, and messaging strategies that can maximize the poor and hereto unbanked population's adoption and usage of digital financial services. Access to finance, financial literacy, account opening, usage, and activation are key issues hampering the wider adoption of digital financial services and ultimately leading to low financial inclusion in the country in general and for women in particular. Through these grants, Karandaaz aims to support initiatives of the three grantees that directly address the low uptake and active usage of digital accounts among the female population. The solution offered by the grantees will enable the female population to acquaint themselves with digital financial services and understand how to leverage digital accounts in their daily lives.

Ali Sarfraz, CEO Karandaaz said,

"Realizing the need to cater to the pervasive gap in Pakistan's digital financial services landscape, Karandaaz wanted to partner with innovators who had pilots for gender-smart, women-centric financial products and services. Our goal is to provide our partners Oraan, Techlets, and NRSP Microfinance Bank, an opportunity to pilot, test, and scale interventions for different female market segments. To make tangible progress towards targets set in the Sustainable Development Goals, Pakistan must take actions to facilitate women's participation in the process of development and fostering the financial inclusion of women is a core theme for Karandaaz. We hope that economic empowerment for more women will be a direct result of these grants and this support to our partners will enhance more unserved and underserved women's agency over money and create a more permissive environment for women to play their due economic role. Evidence shows that when women have the power to make, spend, save, and control money, they make gains not only for themselves but also for their communities."

Halima Iqbal, Chief Executive Officer, Oraan Tech Pvt. Ltd. said,

"Pakistan's low savings problem is well documented and seemingly intractable. Oraan's mission since its existence has been to expand financial access in the country, with a particular focus on boosting financial inclusion for women. Karandaaz's support will help us accelerate and widen our efforts to promote savings and financial literacy among women to make them financially inclusive and empowered."

Ahsan Tahir, Chief Executive Officer, Techlets Pvt. Ltd. said,

"Our proposition is to enable more than 100,000 socially active businesses to work with 500,000 influencers and affiliates, also called "Walees", to promote and sell their brands, messages, products, and services to Pakistan's over 72 million internet-enabled retail consumers. The support from Karandaaz will help us accelerate Walee's AI-driven trade capabilities and facilitate earning opportunities to target millions of previously unbanked female businesses and influencers to connect, collaborate and be compensated based on performance."

Zahoor Hussain Khan, President & CEO NRSP Microfinance Bank said,

"Our presence in remote rural locations has enabled us to identify a substantial women customer base willing to work as branchless banking agents. The initiative of Karandaaz will support NRSP bank to empower rural women and enable them to perform as branchless banking agents for facilitating financial transactions at the village level."

Rehan Akhtar, Chief Digital Officer of Karandaaz said,

> "The proposed solutions during this challenge were invited in areas that facilitate women's financial inclusion including credit, savings, payments, alternative credits, e-commerce, insurance, remittances, pensions, etc. These are all areas which directly impact women's financial health and offering them will help drawing women towards digital financial services and drawing them into the ambit of financial inclusion."

U Microfinance Bank Wins Grant from Karandaaz for Financial Inclusion of Women

U Microfinance Bank Ltd. signed a grant agreement with Karandaaz Pakistan, with funding from Bill & Melinda Gates Foundation. The grant will help U Bank further its mission of financially including more women. U Bank won the grant through a competitive application process via Karandaaz's Digital Experiments programme.

While uptake for digital financial services (DFS) remains low in Pakistan, the gap is especially wide when it comes to women. Only 7% of women in Pakistan are financially included, compared to 20% of men. Research shows that women are engaged in financial activity informally, especially when it comes to saving. While mobile money is becoming an increasingly popular mode of money storage internationally, in Pakistan adoption of mobile accounts continues to lag behind. Through this grant, U Bank seeks to test out interventions specially designed to encourage more women to become active users of digital accounts. The lessons learned through the experiment will be widely disseminated for the diffusion and uptake of best practices to push the entire ecosystem forward.

Kabeer Naqvi, U Bank's President, and CEO shared,

> "U Bank looks forward to working with Karandaaz Pakistan over the next few months to generate new insights on the interventions that accelerate women's usage of mobile wallet accounts. The digital future of the bank is already shaping up with the introduction of internet and mobile banking, deployment of ATMs and a fully digital loan application process. This research will help us further learn the most effective ways to extend our reach and reduce the gender gap within the digital financial services space."

Ali Sarfraz, CEO Karandaaz Pakistan said,

> "Karandaaz is delighted to engage in this partnership with U Microfinance Bank Ltd. The focus of this support is to encourage digital financial service providers to use innovative approaches for promotion of inclusivity in general and women's financial inclusion in particular using A/B testing. We hope that these experiments will help in identifying the drivers that can promote mobile account usage by women who otherwise find it hard to access traditional banking avenues. The expected outcome is the conversion of in-active users or non-users by trying variations in communication strategy, product features and digital transaction costs. We are excited about our partnerships with different DFS providers for generating insights about digital account usage and look forward to deepen our engagement with them to support such initiatives."

Karandaaz is onboarding partners on a rolling basis to conduct digital experiments in partnership with DFS providers to address the barriers related to uptake and active usage of digital accounts. Interested parties can apply to Karandaaz for support to conduct experiments for testing ideas, products, services, and incentive structures that can potentially accelerate the uptake of DFS by excluded and underserved segments, especially rural women. AB testing will be conducted through these experiments to extract results. The lessons learned through these experiments will be widely disseminated for the diffusion and uptake of best practices by the DFS practitioners.

Microfinance and Enterprise Growth – Karandaaz Report Takes Stock of Microfinance Sector

The impact of microfinance has been a subject of much debate over recent years. While numerous studies have been conducted over the last decade, these have mainly focused on impact in terms of household income, personal assets, and socioeconomic indicators including economic status, children's education, housing, women empowerment, and health expenditure and child immunization. A new study released by Karandaaz, titled "Microfinance and Enterprise Growth – Evidence from Pakistan" presents an alternative view, focusing on the impact of microfinance on job creation and enterprise growth. The employment profile of microbusinesses is especially important for a country like Pakistan where the challenge of job creation, particularly for women and youth, is immense.

Quantitative data for the report was collected through a survey of 125 microenterprises. The sample was selected to ensure diversity of geography, economic sector, gender, and the type of microfinance provider i.e., bank vs. non-bank. The average interest coverage of the microenterprises studies is 10.2 times and the average debt service ratio is 2.0 times. Debt equity ratio is 7.0 percent, indicating that the microenterprises are not highly leveraged. The average assets of the industry per microenterprise stand at PKR 1.5 million. The asset turnover for the industry, on average, is 1.1 times. Average monthly income of microenterprises is about PKR 13,000 (and average distributable monthly income is PKR 41,000).

The gross profit margin is 37 percent and the net profit margin is 11 percent. Financial cost is 4 percent of overall operating expenses, and 77 percent of the operating cost comprises salaries, wages and owners drawing. The report finds that on average, a microenterprise employs 2.6 persons on a full-time basis; 40% of these are women. Pakistan has a youth bulge, with more than 69 percent of the population under the age of 30 and more than 4 million young people entering the job market every year.

Estimates suggest that the economy needs to generate 1.5 - 2.5 million jobs annually to absorb these labour market entrants. The report finds that on average, the jobs that 45 percent of the jobs that the microenterprise sector directly supports are for youth i.e. in the 20-34 years' age group. It was found that women-led businesses employ more women: the 57 women-led microenterprises in the sample employed 101 women whereas total women employed by 68 men-led microenterprises was 15. It is evident that self-employment and entrepreneurship will be a critical contributor in meeting the job creation needs.

Mr. Ali Sarfraz, CEO Karnadaaz Pakistan, while speaking about the significance of the report said,

> "This research will help in building knowledge about the role of microfinance sector in supporting economic growth and supporting jobs. Although there is mixed evidence that microfinance can alleviate poverty, yet the additionality that it offers by increasing access to finance is at times overlooked. The findings of this report sponsored by Karandaaz Pakistan validate that our investments in microfinance are directionally correct in supporting jobs and increasing revenues for microenterprises. We hope that further research on microfinance will fill the information gaps that will help the industry to take a deeper look at the delivery costs and product offering for its customers."

In terms of revenue the report finds that on average, a microenterprise earns PKR 1.6 million in annual revenue. However, this varies considerably across economic sectors, being considerably higher in trading and manufacturing sectors. Average fixed assets for the sample were calculated to be PKR 1.5 million, with highest asset base in agriculture sector due to landholding. Women-led microenterprises tend to be smaller, earning 63 percent of what their male counterparts earned as revenue in a year. Given that the bulk of the enterprises in Pakistan are micro, small and medium, the microfinance industry can play a pivotal role in growing the size of the economy, and in turn, support employment of millions.

Blog

Determinants of and Detriments to Financial Inclusion in Pakistan

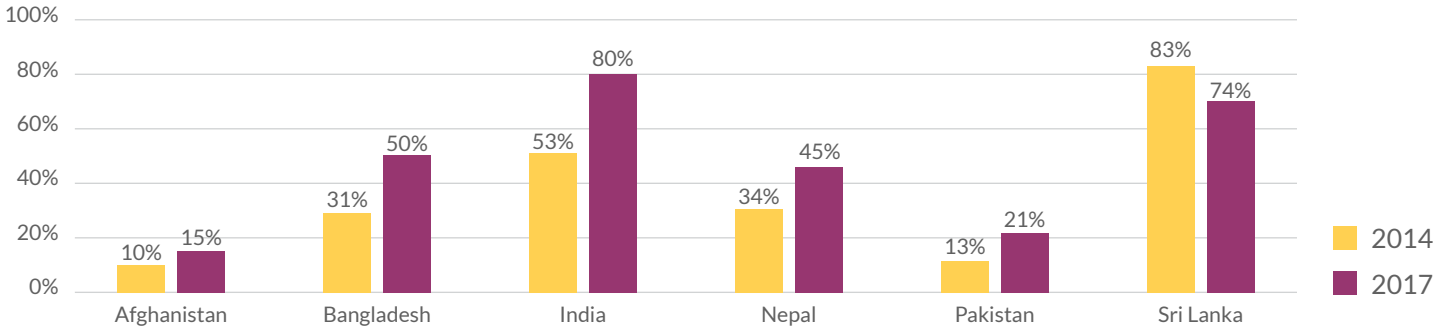
Access to financial services has been a subject of increasing policy debate in developing countries. Financial inclusion is important as it reduces poverty and inequality, allows poor people to smooth out their consumption and invest in their futures through education and health[1]. Numerous research studies show that income, employment status, ethnicity, race and marital status play an imperative role in determining the level of ownership of various financial products. Similarly, Hogarth and O' Donnell (1997) also showed that age, gender and household size have a significant impact on the ownership of banking products in developed countries[2]. This implies that understanding the determinants of financial inclusion is important to design focused interventions for financially excluded segment of the society.

State of Financial Inclusion in Pakistan

According to the World Bank's Global Findex Survey 2017[3], 21% of the population in Pakistan is financially included (percentage of adults with accounts). Figure 1 below provides a comparative picture of the state of financial inclusion in South Asia; progress in the numbers for Pakistan has been quite low compared to regional counterparts India and Bangladesh.

Figure 1

Percentage of Adults with Accounts



Source: The Global Findex 2017 (https://globalfindex.worldbank.org/

Fortunately, the government of Pakistan is increasingly focusing on digital transactions to drive financial inclusion in the country. The government is engaged to overcoming the formidable challenges and promoting financial inclusion in Pakistan, the enhanced National Financial Inclusion Strategy 2018 targets at 65 million digital accounts by 2023[4].

Determinants of Financial Inclusion in Pakistan

By using the Global Findex Database 2017 for Pakistan and employing a probit regression model (a methodology consistent with Alexandra Zins and Laurent Weill model, used to examine the determinants of financial inclusion in Africa[5]), this blog estimates the determinants of financial inclusion, with formal accounts ownership as a proxy. Furthermore, given the relevance of Digital Financial Services in Pakistan to promote financial inclusion, the model also extends to examine the determinants of digital financial inclusion using mobile money account ownership as a proxy.

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[1] *https://www.imf.org/en/News/Articles/2016/09/20/sp092016-Financial-Inclusion-Bridging-Economic-Opportunities-and-Outcomes*

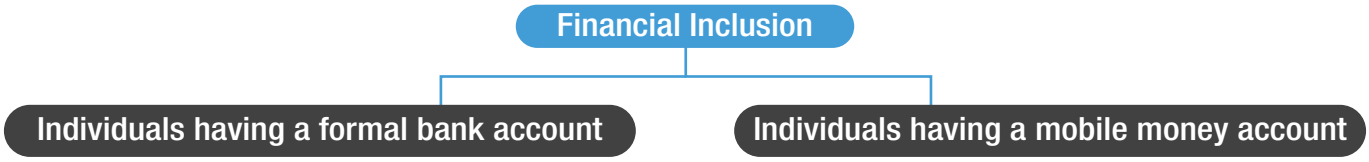
[2] *Hogarth, J. M., & O'Donnell, K. H. (1997). Being accountable: A descriptive study of unbanked households in the US. In: Proceedings of the Association for Financial Counselling and Planning Education, pp. 58–67, Available at: http://www.frbatlanta. org/invoke.cfm?objectid=DC6ADC02-8061-11D5-897D00609459DBE6 & method=display*

[3] *World Bank Global Findex 2017*

[4] *http://www.finance.gov.pk/NFIS.pdf*

[5] *https://www.sciencedirect.com/science/article/pii/S1879933716300549*

Thus, the main empirical specification focuses on two dimensions of financial inclusion:



Results

Gender: The regression results show a clear and negative relationship between gender and financial inclusion. In statistical terms the probability of having a bank account decreases by 85 percent if an individual is a female. Similarly, being a woman reduces the probability of having a mobile money account by 10%.

Age: With age, a non-linear relationship exists for both formal account and mobile money account. This implies that as age increases, the probability of having an account increases, however, this diminishes after a certain age.

Income level: Income has a positive association with financial inclusion meaning that individuals in the lowest income quintile are 28 percent less likely to be financially included than those in the top income quintile.

Education: Higher levels of education among the respondent increase the probability to have a formal bank account by 129 percent compared to those individuals with primary or lower level education; for secondary level education the probability increases by 56 percent. The results are very similar in case of mobile money account - for a person who has tertiary education, the probability of having a mobile money account increases by 6 percent.

Detriments to Financial Inclusion

Additionally, the Findex dataset also measures the barriers to financial inclusion: distance, cost, lack of documentation, lack of trust, lack of money, religious reasons, family member having an account and thus no need for financial services.

Using probit estimates, the analysis is further extended to understand the determinants of the barriers to financial inclusion. The regression findings reveal that for women; cost, religious reasons, lack of money are important barriers to financial inclusion while distance, lack of documentation, lack of trust, lack of need are comparatively less significant ones.

Results

Age: Distance, cost, lack of trust, religious reasons, lack of money become more problematic with age. Whereas, lack of documentation seems to be a decreasing problem with age. With increasing age, financial inclusion increases, however, after reaching a certain age it diminishes.

Income: For the poorest (bottom 20%), distance, cost, lack of money are important barriers to financial inclusion.

Gender: The probability of being financially included also decreases if respondent is a female, in the bottom two income quintiles and due to religious reasons.

Conclusion

To summarize, being a woman, poor and less educated are the main reasons for both traditional and digital financial exclusion in Pakistan. Women face several barriers - poor awareness, lack of financial education and inability to meet KYC requirements explains this gender gap[6]. Poor are incapable of providing guarantees and collaterals and hence are unable to borrow[7]. The comparative analysis for traditional and digital financial inclusion show similar results, however the magnitude is smaller for digital banking. From a policy and product design perspective, these findings are interesting and suggest that in order to achieve the financial inclusion targets that the National Financial Inclusion Strategy envisages, focused Policy and Regulatory interventions for the excluded and marginalized groups are imperative to overcome these barriers to financial inclusion in Pakistan.

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[6] *Demirüc-Kunt, A.; Klapper, L.; Singer, D.; Ansar, S.; Hess, J. Measuring financial inclusion and the fintech revolution. In The Global Findex Database 2017; The World Bank: Washington, DC, USA, 2018.*

[7] *Allen, F.; Demirgüç-Kunt, A.; Klapper, L.; Peria, M.S.M. The foundations of financial inclusion: Understanding ownership and use of formal accounts. J. Financ. Intermed. 2016*

Research Showcase

Pakistan Innovative Finance Forum

November 25-26, 2019
Islamabad

Gold Sponsors:

Day 1:
Innovative Financial Solutions for Infrastructure Finance: Synthesis of Takeaways

Karandaaz Pakistan, in partnership with the Asian Development Bank Institute (ADBI), Japan; and the Pakistan Resident Mission of Asian Development Bank (ADB) organized a two-day conference on November 25-26, 2019 in Islamabad. The conference shared views on innovative financing. Multiple panels deliberated on: (i) innovative structures of infrastructure financing, (ii) Public and Private Partnership (PPP) models for conventional and inclusive social infrastructure, (iii) challenges and opportunities in building a viable and sustainable infrastructure project pipeline, and (iv) key legal & regulatory challenges in attracting private sector financing and credit enhancement and de-risking solutions.

Annex A provides the programme for the day; the discussions and lessons of the infrastructure session are synthesized below.

Infrastructure Requirement and Spending in Pakistan

Pakistan's infrastructure spending is one of the lowest in the region and it is estimated that due to inefficiencies in overall infrastructure, the country loses approximately USD 6 billion of its GDP per annum. Presently, the country's annual infrastructure spending equates to 2.1% of GDP which is half of what is spent by Bangladesh, 1/3rd of India and 1/5th of China's annual infrastructure spending. And given that Pakistan's population is estimated to rise by another 75 million in the next 15 years, these infrastructure gaps are likely to widen. In the wake of the past and future demand scenario, Pakistan's investment requirements are estimated to be over $500-600 billion or equivalent to 8-10% of GDP, which is well above the present levels of 2- 3 % of GDP.

Given the stressful fiscal situation, government deficit rose to 8.9% of GDP in FY19 rendering reliance on public finance as a source of financing for infrastructure development a challenge. In this context, promoting private sector investments in infrastructure and nurturing effective partnerships with the private sector are essential. A prerequisite for attracting private sector investment is recognized to be stronger and predictable legal and regulatory as well as policy and institutional capacities across the federal, provincial and municipal levels.

Political structures need to align themselves and the federation should launch distinct efforts to align, harmonize and streamline policies and offer effective guidance to the provinces and local governments, and facilitate/fast track approvals and due diligence by reducing red tape in the system. Few efforts have been underway to facilitate approvals. For instance, the Central Development Working Party (CDWP) has now been authorized to approve developmental projects costing up to PKR 10 billion while bigger projects accede to the Executive Committee of the National Economic Council (ECNEC).

Among multilateral institutions, ADB has had a long standing involvement in infrastructure, supporting both sector reforms and specific investments in infrastructure development in Pakistan. Recently, ADB has supported Laraib Energy, a subsidiary of the Hub Power Company, which is the first hydropower IPP in Pakistan, and funded the debt portion of the project cost. In addition, ADB in collaboration with the UK's Department for International Development (DFID), has provided USD 100 million to the provinces of Sindh and Punjab each to strengthen their PPP frameworks and investments in the provinces.

Innovative Financing Solutions

Worldwide infrastructure development is being support with innovative structures, new approaches and modalities; new capital raising avenues are required to reduce overreliance on banks' capital. In Pakistan, financial intermediation has been uniquely constrained. More recently, on the liability side the country has seen a combination of increase in currency in circulation from 25% to 40% of the total deposit base and short term deposit base. On the asset side banks' tendencies to invest their liquidity in risk free government securities (Treasury Bills) have also constrained the advance. Deposit ratios and infrastructure investments are typically risk intensive and require long term funding. For instance, despite an uptake in energy projects only 15% of bank assets are outstanding in the energy sector.

There is need for the Government to reflect on new approaches and modalities to finance the growing infrastructure requirements. First, on the financing side, it is critical to deflect large proportion of bank assets in treasury bills. One proposal is to establish a Government Securities Fund for public's direct investment which would release the need for commercial banks to hold such securities and hence improve overall liquidity in long term papers. The funds released from commercial banks would divert banks' capital to the private sector. Government securities fund could also play a market maker role and offer liquidity for investors if debt management capacities of the government are strengthened.

An effective yield curve and fixed rate long term bonds will enhance liquidity and tradability in longer tenure instruments while also providing a hedge against interest rate risk. Project finance in its true sense of limited or no recourse arrangements can spur growth of infrastructure projects. Adequate availability of funding for private infrastructure has a higher multiplier effect due to increased economic activity and efficiency in goods and people's mobility. This will eventually generate revenues to settle the Government's debt liabilities. Second, there is need to recognize that institutional investments play a critical role in financing infrastructure but its stifled in Pakistan. Both pension and insurance industry reforms would be critical as both segments have been underexploited with the public sector pension system under stress.

Lack of breadth and depth and weak confidence in stock markets have held back growth of Assets under Management (AUM) of the mutual fund industry. Hence these have remained low, around PKR 300 billion, even though outstanding under government bonds (PIBs and T-Bills) is in the range of PKR 18 trillion. Third, floating Islamic finance instruments such as Modarabas in place for infrastructure related projects, under the PPP structure, would be an avenue. In India, specialised non-bank financial institutions (NBFIs) have become instrumental vehicles to cater to the underserved clientele. In Pakistan however, the NBFI sector is small and driven by one player, Orix Leasing, which accounts for 80% of the leasing market.

Fourth, deeper and vibrant domestic capital markets are a prerequisite for infrastructure finance and development. The SECP's initiative to promote a conducive regulatory environment for Private Equity Funds and Real Estate Investment Trusts (REITs) shall provide some stimulus and equity financing options for developmental projects. The need to regulate the real estate market through a Real Estate Regulatory Authority is however urgently required though one needs to deal with the complexities of the post 18th Amendment as the subject has been cascaded down to the provinces, which has increased legislative hurdles.

To enhance the bankability of projects and ease financial pressures, there is need to explore innovative financing methods, including Green bonds, ESG funds and crowd funding, securitization, etc. Development banks could serve as mezzanine creditors and take on a subordinate role among creditors to improve the credit profile of projects. The commercial banks and multilateral institutions can take the risk during construction phase, while in operational phase capital markets and other instruments can be tapped through securitization. Commercial banks such as Habib Bank Limited (HBL) are already exploring the development of a product on this structure. In addition, land value capture infrastructure financing modalities have been popular across both developed and developing countries whereby countries/municipalities have promoted innovative structures and floated bonds that spurred infrastructure development. These deals enhance bond market development and offer higher return options. In addition, area generated economic growth can than generate tax revenue spill overs and offer financing for attracting private investment in infrastructure that would not otherwise have been possible.

Further issuance of Islamic bonds is a tried and tested option. Jazz Telecom issued Sukuk bonds to finance capex related to procurement of licenses. The Sukuk was blended with the partial risk guarantees issued by GuarantCo. which enhanced the instrument's credit rating and was helpful in attracting investments from financial institutions. Karandaaz Pakistan is also working to establish InfraZamin, a Pakistan domiciled company for issuance of credit enhancement facilities in local currency, thereby providing a hedge against unforeseen devaluations. The costs for these enhancement facilities go as high as 300 basis points. With increased uptake however, the costs are expected to come down with time.

Acquisition of project land is a cumbersome process in any infrastructure related project and often accompanied by delays and escalating land appreciation which impacts project cost. For example, in Malaysia land value makes up 50% of the overall project costs. Developing land trusts, where the land can be leased out to the project company over an extended tenure, with original land owners retaining the title was recommended as a potential option to overcome this challenge.

This arrangement will not only reduce the project cost but will also unlock the value of the idle land through spill over effects as infrastructure investments have the potential to induce small and medium enterprise (SME) development and growth. Usually infrastructure investments offer return through user charges which are riddled with collection complexities, spread over time and also insufficient. In order to increase tax revenues, infrastructure investment can be structured to spur spill over effects generated from the entrepreneurial and business developments which can then be taxed, generating incremental revenues.

Mortgage financing is another area that needs to be developed. Housing loans comprise 0.25% of GDP in Pakistan, while India is at 9% and for more developed markets of the UK and USA the figure goes as high as 80%. Pakistan has one of the highest urbanization rates in the world and this has led to a severe shortfall in housing infrastructure as well. Housing demand increases by 700,000 units per year. Only half of this demand is met; the balance is added to the total shortfall which is now projected at 8-10 million houses. Through the Naya Pakistan Housing Authority (NPHA) there are plans to add 5 million housing units. 80% of these houses will be constructed in urban and rural centres, while 1 million units will be built in peri-urban areas. Dormant land parcels under the federal and provincial governments will also be used and developed under the PPP model.

The NPHA plans to roll out units with sizes ranging from 650-900 sq. ft. constructed at a cost of PKR 600,000 – 700,000 for the rural areas. Bigger units will be constructed in the peri-urban areas. These are estimated to cost PKR 2.6 million, and will be subsidized to cover half of the cost. Units in urban centres will target the middle-income segment with no subsidies. Since its inception in 2017 the Pakistan Mortgage Refinance Company (PMRC) has disbursed PKR 8 billion. The increase in the policy rate (currently at 13.25%) has impacted affordability at the borrower/owner level, yet housing finance has retained its share at 15-17% of consumer financing. Going forward PMRC expects demand to increase, as interest rates have peaked. The company plans to issue fixed rate bonds for financing as well. PMRC is also working with regulators and NPHA to develop targeted products for the lower and middle-income segments. It is also recommended that a rent replacement model be explored for the domestic housing market. Replacement cost is the amount of money required to replace an existing asset with an equally valued or similar asset at the current market price. Globally, real estate investors are increasingly looking at replacement cost as a method of establishing pricing parameters. Replacement rent is a function of replacement cost, the required return on costs (or risk premium), and an adjustment to acknowledge some level of expected vacancy and expenses.

Private Public Partnerships and Associated Challenges

PPPs, as a modality for infra financing, have been in existence for long. PPPs share in infrastructure development and finance constitute 20-30% in a few key Asian economies. Drawing lessons from models, it is clear the PPP requires strong leadership backed by strong PPP centres or units equipped with right expertise, best practice policy, legal, regulatory and institutional frameworks and risk mitigation and management approaches. Relative to public projects, PPPs typically require greater scrutiny, coordination, effective analysis of risks and an assessment of who bears what risk, how its priced and clarity of risk mitigation frameworks. So while cost of structuring and expertise required are high, if effectively managed and operated, in the longer run, these are offset by efficiency gains. For PPPs to thrive in the country, strengthening of institutional capacities both at the federal and provincial levels, with enhanced harmonization is required. Within the country there is scope to strengthen the Financial advisory services and deepen competition. To be able to effectively structure and negotiate PPP, it is important for public sector entities to have adequate capacity. After the Infrastructure Project Development Facility (IPDF) was merged into the Public Private Partnership Authority (PPPA) via the PPPA Act 2017, it is now chaired by the Minister of Planning. Other members on the board include representatives from the Ministry of Finance, the Board of Investment (BOI) and some experts from the private sector.

The Government has allocated PKR 250 billion for PPP projects but the weaknesses in legislation and laggard operationalization of the new body has held back the momentum of federal PPPs. Independently over the period, the Government entrusted the Power Infrastructure Board to promote IPP ventures and PPPs; the National Highway Authority (NHA) has also structured a few PPP road deals. While the provinces have established PPP cells, the achievements in some of the provinces have been more effective than in others. Ideally the policy boards of these provincial PPP cells should be headed by the respective chief ministers, which is now the case in both Sindh and Punjab. In addition to showing strong political buy in, such an arrangement would provide confidence to private investors. However, a sustainable and predictable policy environment and efficient incentive framework is imperative to attract interest from the private sector. A new PPP law has been passed in the Punjab province, whereby the Policy Board will be headed by the Chief Minister.

The Board has two provincial ministers and three private sector experts (Finance, Law and Engineering). Punjab has PPP projects worth of PKR 400 billion in the pipeline, while PKR 20 billion worth of projects have been approved by the Policy Board. In addition, a number of sectors (education, renewable energy, tourism, value added textile sectors) are being explored for PPPs as they can have meaningful impact on job creation and augment export receipts. There is also need to have a sustainable regulatory environment. Presently, the private sector is wary of increased scrutiny and this has hampered investors' trust and confidence.

According to the Asia Infrascope 2018 publication by the Economist, Sindh was ranked 6th in the world on its PPP-based performance by sub-national governments. The ranking is supported by the fact that the Government of Sindh has demonstrated significant improvements in: i) its regulatory environment (especially its PPP selection criteria and the fairness and openness of bids and contracts), and ii) its institutional environment, including the stability of its PPP agency, the resourcing of project selection and implementation, and institutional transparency and accountability. Sindh revised its PPP policy framework in 2010 to include the establishment of a PPP policy board to develop strategic goals and monitor PPP implementation, as well as a unit located within the finance department which, when approved by the policy board, works with contracting agencies to identify and prepare projects. Sindh's regulatory framework also provides clear procedures for dispute resolution and for dealing with unsolicited bids. In addition, the province has its own infrastructure plan. Example of local successful PPPs in the province include the Sindh Engro Coal Mining Company, Hyderabad-Mirpurkhas Dual Carriageway, and Performance Based Contracts for Education Management Outsourcing.

Punjab has historically undertaken projects under the PPP mode; including in the transport (orange train, BRTs) and education (PEF, PEMA) sectors. Notably these projects were outside the ambit of the PPP Act. As an endeavour to streamline the PPP ecosystem and enable better ownership, the PPP Authority has been formed. As stated above, the newly formed PPP Board is now headed by the Chief Minister. The Board has two provincial ministers and three private sector experts (Finance, Law and Engineering). Punjab has PPP projects worth of PKR 400 billion in the pipeline, while PKR 20 billion worth of projects have been approved by the Policy Board. In addition, a number of sectors—infrastructure, water conservation ,waste treatment, value added textile sectors–are being explored for PPPs as they can have meaningful impact on job creation and augment export receipts. There is also need to have a sustainable regulatory environment. Presently, the private sector is wary of increased scrutiny and this has hampered investors' trust and confidence. In Balochistan, there is need to strengthen the PPP cell; the department is in very early stage of development. Specialized risk management departments at the federal and provincial PPP cells are critical to assess the projects' risks and viability to better manage associated contingent liabilities. Specialized risk management function will also help in more informed budgetary allocations. Going too fast on the PPP agenda can result in accumulation of unsustainable public liabilities and with the significant implications for fiscal deficit. Hence, the pace and sequencing of large development projects need to be carefully weighed. While it is important that all risk is not passed on to the private sector, merely depending on public sector financing and guarantees will not be enough. Innovative solutions, including Viability Gap Funds are required to keep the government's contingent liabilities in check. To promote PPP systematically, a strong pipeline of bankable projects is required. Enhancing bankability of projects calls for exploration of innovative financing methods (covered above).

Regulatory Structures and Impediments

The regulatory framework governing the infrastructure activity in Pakistan is confusing. Multiple laws govern the same sectors, both at the federal and provincial levels, making compliance a costly and time-consuming affair. Foreclosure laws and contract enforcement are big issues. To mitigate the issue of information asymmetry, digitization of land titles and records is imperative. In comparison, in India digitization of land records has been achieved more successfully. The complexity of the legal and regulatory environment has not only affected domestic investors but it has also been a vital factor in the failure to attract consistent Foreign Direct Investment (FDI). Foreign investors prefer to invest in South East Asia or within South Asia in Bangladesh and India because of more consistent and structured policies. Fragmentation of data is currently a real issue as government agencies operate in silos. With enhanced usage of API based systems, interaction between different datasets can be developed and effective dissemination of information can facilitate decision making. Due to double taxation and difficult exits, Private Equity funds prefer to get registered offshore. SECP has tried to introduce improved legislation with less restrictive measures. The State Bank of Pakistan needs to introduce policy measures which will ensure less cumbersome exit for these funds.

Along with FDI, domestic savings are principal avenue to finance the country's long-term financing needs. Domestic savings in India are 3x more than Pakistan. Improved financial inclusion and literacy can play a role as more people keep their savings with formal entities. Fintechs also have a role to play; Pakistan needs to develop models that encourage retaining of cash in the system, rather than just offering cash-in and cash-out solutions. Another example is of Japan, where 200 years ago, for better and sustainable economic development, the concept of savings was embedded in the schooling system to encourage the younger generations to save. By allowing young people to experience the benefits of saving, the Japanese people learned and with time imbibed the habit of saving which nurtured an institutional investment industry. Commercial banks, insurance companies and pension funds operating in the Asian region do not have enough avenues to invest their assets for longer tenure and channel their funds to foreign markets. With more developed instruments in place and deepened capital markets, capital raised from Asia can be used to fund domestic projects.

Day 2:
Innovative Financial Solutions for SME Finance: Synthesis of Takeaways

Karandaaz Pakistan, in partnership with the Asian Development Bank Institute (ADBI), Japan; and the Pakistan Resident Mission of Asian Development Bank (ADB) organized a two-day conference—Pakistan Innovative Finance Forum ("Forum")—on 25 and 26 November 2019 in Islamabad. The second day of the Forum focused on innovative models and approaches for increasing access to finance for small and medium enterprises SMEs. Speakers and panel participants deliberated on various aspects for developing a market for SME financing.

The key topics included: i) data mining for credit decisions, ii) crowdfunding to release reliance on bank capital, iii) invoice discounting and social impact funding, and iv) effective techniques for meaningful impact assessments. In addition, SMEs participating in the Forum also shared first hand experiences and challenges in accessing finance from formal and informal sources. The complete programme for November 26, 2019 is given in Annex A. The discussions and lessons about SME finance are synthesized below.

SME Landscape in Pakistan

Pakistan's small and medium enterprises (SMEs) represent a huge untapped potential market for financial services providers. Despite unmet demand, SME lending as a proportion of total private sector lending has declined from 15% in 2008 to 7.5% in 2019—much lower than say 39% observed in Turkey, 25% in Bangladesh and 18% in India and Sri Lanka. Of the 3.2 million enterprises as reported by the 2005 Economic Census, barely 200,000 have access to formal finance. International Finance Corporation (IFC) evidence indicates that 9 out of 10 new jobs worldwide are created by small businesses. Pakistan is no different where micro, small and medium enterprises (MSMEs) are estimated to employ approximately 80% of the non-agricultural labour force. According to the IFC's SME Finance Forum report, 41% of formal MSMEs in developing countries have unmet financial needs, which translates into a financing gap of USD 5.2 trillion. When the requirements of informal SMEs are factored in, this amount increases to USD 8 trillion. Demand for SME financing in Pakistan, as estimated by a recent study commissioned by Karandaaz, ranges between PKR 3 - 4 trillion of which formal finance meets only 15 to 20% while the rest is either financed through informal channels or remains unmet.

There are both supply and demand side challenges which are contributing to this market failure. Traditionally, public sector deficit financing in Pakistan has resulted in the crowding out of private sector, in particular SMEs. Commercial banks have also found it convenient to deploy capital in virtually risk-free government assets or large corporates. The relationship-based banking model which is prevalent in the country, also puts pressure on Relationship Managers to focus on low risk clients, primarily large corporates, with larger ticket size needs as it helps to keep the bank's cost to income ratio low. In addition, Pakistan relies primarily on commercial banks and does not have a well-developed non-bank financial institution (NBFI) environment to service SMEs.

From the demand side, inadequate financial literacy and lack of documentation among SMEs pose a significant challenge to accessing formal finance. Out of total 3.1 million industrial consumers in Pakistan only 43,000 are under the tax system. Due to a lack of trust in the public sector and higher potential scrutiny, businesses prefer to keep themselves out of the formal system. It will not be incorrect to say that the taxation system of Pakistan has been overly restrictive for the manufacturing segment, while the trading segment has thrived. Another problem is the regulatory burden of the tax system, which is overbearing for SMEs. This has created a non-conducive environment for small businesses which constitute the bulk of SMEs. Similarly, accounting systems and practices have been devised keeping in mind the large corporates; this is discouraging to SMEs because of the high cost of compliance. These factors translate into a double disadvantage for the manufacturing sector, with multiple claims from economists on a shrinking manufacturing sector, relative to services and trading. It was also pointed out that SMEs are usually family-run businesses and when they achieve scale there is a significant disparity in their actual wealth and the ones disclosed in the wealth statement. This gap is then filled through the occasional amnesty schemes, incentivizing tax evasion.

Development of SME Ecosystem

Globally there are 40 SME focused stock exchanges with an average market capitalization from as low as USD 4 million to over USD 1.5 trillion catering from one to two thousand listed companies and offering SMEs, green field projects, and not-for-profits additional avenues to raise private capital. The SME Board which was set up by the Pakistan Stock Exchange (PSX) a few years ago, has been defunct with no listings recorded. However, recently, the Securities and Exchange Commission of Pakistan (SECP) introduced a regulatory framework for the Growth Enterprise Market (GEM). This is a very promising step towards development of domestic capital markets, while diversifying the sources of funding available to SMEs with the added incentive to formalize. Under the new regulations, listing requirements have been relaxed. Most promisingly, the requirement of market maker has been abolished and the concept of eligible investors has also been removed.

To ease the compliance burden, companies looking to list themselves on the GEM board shall no longer be required to follow the same code of corporate governance as entities looking to list on the PSX, and the companies will now have a choice of getting listed without having intermediaries onboard. This development provides a new platform to SMEs to raise finance and unlock value through enhanced tradability. In addition, Agriculture is one of the key sectors in the local economy. Acknowledging this, SECP has developed regulations for collateral management companies (CMCs) and introduced the provision for acceptability of electronic warehouse receipts. Two companies have so far applied for the CMC license.

Equity Crowdfunding is another area that SECP is exploring to enable start-ups to meet their financial needs. Stakeholder consultations have been completed on the draft regulations for equity crowdfunding in Pakistan, and changes in the Securities Act and Companies' Act are being considered in tandem. On another front, the SECP's initiative to relax regulations on Private Equity Funds and Real Estate Investment Trusts shall provide further stimulus to developmental projects. Policy measures are required at the State Bank of Pakistan (SBP) and Federal Board of Revenue (FBR) to make the flow of foreign exchange less cumbersome for foreign investments and address taxation ambiguities, respectively. In addition, the Board of Investment (BOI) is working with the Law Enforcement Agencies (LEAs) to develop a portal which shall streamline the approval processes and address the difficulties that Venture Capital/Private Equity Funds currently face to bring in money.

The Electronic Money Institutions (EMI) regulations and Micro Payment Gateway (MPG) are significant initiatives to promote digital payments, online as well as offline, and shall push the cash-based economy towards documentation. It was argued that Digital Financial Services (DFS) need to evolve and deliver services beyond cash in and cash out and to capture payment transactions in the system. The availability of digital payments data can lead to the use of new credit models such as the one deployed by Kopokopo Kenya that can be considered a reference case study. Kopokopo is a service operator that has embedded an overdraft line for merchants. Such models should be replicated in Pakistan, not only to facilitate merchants but also to reduce application processing time. Recently, Bank Alfalah has developed a product which uses Point of Sale (POS) data on similar lines, with embedded merchant financing. The programme however, is still in the early stages.

Another missing piece that was highlighted is the absence of a borrower database. There is a sizeable commercial opportunity for credit bureaus to provide information about borrowers through innovative services. Previously, banks were reliant on the e-CIB to assess the credit worthiness of their borrowers. This service only encompasses negative information about borrower, thereby providing data on a segment within the existing borrower base. SBP has now given licenses to two new credit bureaus, established and run as private entities. These credit bureaus are developing databases for both microfinance and SME borrowers and report both positive and negative information about the borrower. They envision developing innovative credit scoring modules and integrating comprehensive SME borrower data.

Cost of doing business on both the supply side and the demand side is heavy. The supply side has to run substantial due diligence procedures while the demand side ends up raising finance from more expensive sources. Fintechs, along with credit rating agencies, can venture into this space to address information asymmetries through Credit Risk Databases (CRD). CRD is a recent initiative in the Philippines that aims to facilitate SME financing. CRD makes it possible to mitigate the problem of information asymmetry between SMEs and financial institutions (FIs) by establishing a robust statistical model.

One of the main issues for SMEs in accessing funding emanates from the inability of SMEs to prepare adequate information for loan appraisals, making it difficult for FIs to capture their credit risk. CRD is a database which contains financial statement information and default information of borrowers, mainly collected from banks and credit guarantee associations. The CRD database is used by FIs to measure and analyse the credit risk of borrowers while financial regulators use it to monitor credit risk at the macro level.

The idea of Big Data and cluster analysis was also highlighted as a potential enabler for FIs to understand the target SME market. Credit Guarantees are an effective instrument for encouraging FIs to build SME portfolios because a guarantee de-risks the portfolio by covering losses up to a pre-specified proportion of the portfolio. However, the challenge is to ascertain an optimal percentage of the portfolio to be guaranteed to ensure that such instruments encourage banks to increase SME financing while keeping skin in the game. ADBI has developed a model for calculating an optimal credit guarantee ratio, which broadly depends on three variables: i) Macroeconomic Variable, ii) Government Policies, and iii) Banking Profile.


Specialised NBFIs is another aspect that needs to be evaluated carefully in Pakistan. In India, there are a number of specialised NBFIs offering housing finance, vehicles finance (specialised for tractors and motorbikes), etc. However, in Pakistan the NBFI sector has shrunk over the years. When the sector was regulated by the SBP, it benefited from the SBP's presence as a bank of last resort, boosting commercial banks' confidence in lending to the sector. However, subsequently when the sector no longer had access to this facility by the SBP, it struggled to raise and maintain long term finance. The 2008 scenario further deteriorated the situation. Currently, Orix Leasing Pakistan (OLP) is the only significant leasing company in Pakistan, with ~80% of the market share. Borrowers in the microfinance industry stand at 7 million. While an estimated 10% of them graduate annually, they remain untapped by commercial banks. FIs, specifically NBFIs, should step in to tap this growing market. One of the recommendations that came forward is to have deposit taking NBFIs under the ambit of the SBP, instead of the SECP, thereby increasing access to an alternative avenue to raise capital.

Pak Brunei Investment Company, a Development Finance Institution (DFI), shared their innovate model for SME financing. They took a cost centre approach and developed a specialised programme to cater to the 'Small' end of the SME spectrum. In addition to plain vanilla financing, Pak Brunei extended advisory services to clients in terms of accounting best practices and other related documentations. When the SBP issued SME financing targets, in order to comply, the company started to focus more on an 'upper Medium' segment. It was therefore opined that for target setting to be successful, specialised entities with sector focus are required. Equipment rental model is another area that can be explored. Again Pak Brunei, after conducting thorough due diligence, started a Rental Modaraba company to lease heavy machinery in the Sher Shah area of Karachi. It was argued that to be successful a strong engagement with the clients is necessary. Major competition comes from informal finance providers because they are well connected in the markets they cater to and the clients are familiar with them.

Digital banks which are popularly referred to as 'Challenger Banks' are disrupting traditional banking models in developed markets. The establishment of digital banks in Pakistan can be another ground breaking initiative. Karandaaz is working with the SBP to develop a regulatory framework for digital banks. The proposed structure is being viewed as a natural evolutionary step for EMIs. EMIs can issue e-Money, but cannot generate sufficient income only on transactions, while digital banks can take deposits and utilize them to build a loan portfolio and earn income. Digital channels also offer other opportunities such as a digital invoice discounting platform that can develop the vendor financing market. Specific credit products can be developed based on Big Data and Data Analytics of specific types of information e.g. in India, cellular data is used to predict behaviour of potential borrowers.

Experience of SMEs in Accessing Formal Finance

To understand the perspective of SMEs, a panel of SME owners was invited to share their experiences about their dealing with financial service providers (formal and informal). The SME owners quoted higher mark-ups, cumbersome documentation, complex processes and long processing times at commercial banks as major difficulties. It was also shared that the approved loan amount is usually lower than the requirement which makes it difficult to pursue the initial plan with which an SME approached the bank, necessitating revisions and alterations. Another issue highlighted by SMEs which affects their cash flow cycle and hence timely payment of loans was the delay in payment faced from undocumented clients. Such clients do not settle their invoices for up to a year while established brands run a settlement cycle of 45-60 days. This forces SMEs to give a discount of 5-10% for cash-based settlements, however, they cannot factor that discount into their invoices. Within the textile industry, informal business committees extensively operate to provide finance. The committee members pool their money just as small Rotating Savings and Credit Associations (ROSCAs), however, per participant contribution runs into a few million rupees. The process is very well formulated and is very common in the textile industry due to high working capital requirements. If an owner requires money prior to his turn, community members lend their share at a discount. The finance head from a high-end fashion chain, shared that initially they decided to pursue formal financing only, given that he himself came from a corporate banking background, but even with available collateral they faced significant challenges in raising formal financing in the early years of operations. With more than 20 years of business history and growing to a large corporate entity, formal institutions are now willing to lend and the group has recently signed a deal for a green field project in textile space.

The panel also included founder of a fruit processing plant in Gilgit Baltistan that procures local fruits thus leading to minimization of wastage for small farmers as they can sell to his facility rather than transporting it to nearest urban centre. He shared that despite being the 6th largest producer of apricot globally, 70% of the produce is wasted due to lack of storage capacities. To capitalise this gap, the company established its processing plant in Gilgit Baltistan. It works with a farmer base of 656 farmers. The first round of funding accessed by the business amounted to PKR 15 million for the processing plant in Skardu; the proceeds were primarily raised from friends and family. For the second round, the company has approached commercial banks but, due to lack of collateral the company is facing hinderances in getting the requisite funds sanctioned. If successful in raising financing form banks or other sources, he plans to use the funds for technical training of farmers and expansion of processing facilities across other cities.

Owner of a food retail chain from Karachi, narrated a similar account. Initial funding was raised through friends and family, while subsequent growth has been financed through retained earnings. At a later stage when the business was an established name in the local market, commercial banks were approached and the company was successful in raising finance.

However, since the raised proceeds had a higher cost, the business decided to pay back the loan sooner, for which they had to pay a penalty. With the current economic slowdown, supplier credit is also being extended on tighter terms such as lower payment cycle, and the efforts to enhance documentation of enterprises has hindered growth in the short term. On the franchising option, the owner mentioned that she isn't ready to dilute control over the brand she has been operating for the last 19 years. SMEs are usually closely held family run businesses, and this reluctance of owners to share control hampers business's ability to scale.

The situation is even more difficult for technology companies. Their books usually have intellectual properties as main asset, which is not acceptable as collateral by financial institutions. In addition, the absence of pure cash flow-based lending in Pakistan exacerbates the situation. A recently established tech-based logistics platform shared that being a start-up in an industry that has drawn significant local and international attention has made it relatively easier for it to source finance from venture capital funds instead. It was shared that many more international VCs invest in Bangladesh and India; but Pakistan is usually not their mandate because of limited exit opportunities and stringent requirements of the regulator. Furthermore, the international VC/PE funds are reluctant to take exposures as the Pakistan's economy is not very well integrated with peer countries.

The Supply Side Perspective

From the supply side, the panellists argued that value chain financing and cluster financing are two aspects that can lead to building quality SME portfolio. Agri value chains, more specifically potato and maize chains are very well developed and can be used as a reference point for a potential pilot. Bank Alfalah, for example, offers both on and off-balance sheet solutions under its supply chain financing module, and 40% of bank's SME portfolio is under supply chain finance model.

It was argued that the current SME portfolio of commercial banks, is skewed towards Medium segment clients, having an average loan size of PKR 8 million, while average loan size for microfinance is ~PKR 50,000, showing that requirement for lower ticket sizes are not being met by commercial banks. NBFIs, with a specialised focus for this segment, can venture in to fill this gap. Targeted approach however is necessary to effectively cater to different tiers within the SME clients and a relationship-based model is required for effective risk management. Resultantly, commercial banks don't see this as a profitable space; therefore, they focus on building corporate portfolio with relatively less operational costs.

One of the recommendations was to have separate risk management teams for SME, commercial and corporate clients, at the commercial banks. In Bank Alfalah, separate teams have been formalised within the Bank's risk department to address the usual overlap between corporate risk and SME risk teams. In addition, the bank has piloted clean lending for ticket sizes up to PKR 4-5 million. The programme is now 3.5 years old, with a billion rupees as outstanding portfolio. Documentation issues at the client's level continue to exist, however, innovative solutions are required that can be used as proxies for hard core financial information. Many SMEs are also bank's depositors, and financial institutions have a rich database of their transaction history. It was recommended that this data can be leveraged to assess the repayment capacity of the obligor and can promote cash flow-based lending.

Measuring Impact of SME Interventions

Effective impact assessment is an important area of interest for multilaterals, development institutions or impact funds. Standardized procedures to measure social impact are not present, due to which comparison and measurement of impact made by social impact funds becomes a challenge. Non-profit organizations usually have their own impact assessment modules and mechanisms which makes it difficult to have an aggregated analysis on the performance. Assessment of SMEs cannot be treated uniformly. Medium size firms usually have longer maturity and higher demand for formal lending as compared to the small firms, necessitating a bifurcated approach to impact assessments for "Small" and "Medium" entities.

CDC Group, a wholly owned subsidiary of UK's Department for International Development, conducted a survey of 113 borrowers of one of its investee companies in India, which showed that i) On aggregate, 5,600 – 7,200 jobs are estimated to have been created by MSMEs receiving a loan from formal institutions, from 2013-15, ii) 80% of all SMEs grew their sales, income and assets after availing the loan, at average annualised rates of 9, 10 and 7%, respectively, iii) 55% were first-time borrowers of formal finance, having previously relied on personal finances, family and friends, and informal money lenders iv) Firms with female management (22% of the sample) exhibited stronger financial performance on average, and were more likely to hire women.

Karandaaz Stories

Karandaaz Investee – New Age Flour Mill

Rooida Amjad is a pioneer in her field. In 1998, a year after the death of her husband, she took over his beloved flour and general mill located on Warsak Road in Peshawar. It was a dream of her husband to run this business successfully, and in his absence, Rooida pledged to fulfill the dream, regardless of the challenges.

"It was sudden, but I believe that women can do anything they set their mind to," Rooida says, talking about the initial days of her business. "My family supported me and Pashtun culture of respecting women played a major part in me assuming this leadership role with ease. I was also blessed with a good team working with me at the mill, so despite unending issues with our finances, quality control and supplier issues, we were able to weather the storm."

Rooida recounts that she was also blessed because her own father played the role of her mentor to her and used to accompany her to the mill in those initial years when she was still learning the ropes of the business. "I had to learn about everything, starting from the machinery to wheat inspection, to human resource management and finances," she adds. "We were blessed to also have the cooperation from government organizations."

In their more than twenty years of operations, Rooida remembers that her husband once took a loan worth 6 million rupees from Regional Development Finance Cooperation, which was slowly paid off, and another that Rooida took for the mill's operations in 2002-2003, which was also promptly paid off.

"We have come very far from our struggles of initial days," she says. "In a factory spanning 7 units over 8 kanals of land, we have a permanent staff of 30 individuals. We also employ many daily wage labourers who help with loading, unloading, weighing and packing of materials. All in all around 60 to 65 families rely on our factory to provide them with a livelihood."

Rooida's three elder daughters studied banking and finance and human resource management while the youngest is a dentist. They serve as directors of the mill and have helped streamline processes and organizational structure. However, there is much more that Rooida wanted to do in terms of modernizing the business. Some of the innovations she wanted to introduce are accounting and finance system digitization and streamlining, security camera installation on the mill premises, more mechanized production systems, address quality control issues and have more efficient packaging design.

"Over the last few years, I have also realized that there is a huge potential for expansion and additional production," she says. "There is Khyber Agency and Mohmand Agency close by. They do not have their own flour mills and we can double our earnings, perhaps even more, if we tap into supplying to those markets. Presently our mill operates six hours a day. If we take it up to twenty hours of work in shifts, we can expand our business remarkably."

Expansion demands funds, and having already dealt with banks, Rooida wasn't too keen on paying the high markups again.

"We had the collateral that banks demand as one of the terms of loans, but I wasn't entirely convinced this justified the markup when paying back the loan. It was around this time that I was visiting Islamabad and saw billboards advertising Karandaaz Women Entrepreneurship Challenge 2018 (WEC18)". She noted down the details and pursued the website to get more details.

Karandaaz Pakistan, established in August 2014, funded by UK's Department for International Development (DFID) and Bill & Melinda Gates Foundation promotes access to finance for micro, small and medium – sized businesses through a commercially directed investment platform, and financial inclusion for individuals by employing technology-enabled solutions. The Women's Entrepreneurship Challenge is a flagship initiative of the organization, funded by DFID, through which women-led businesses across Pakistan can apply for business advisory and financial support.

With input from her daughters and other trusted employees, Rooida corresponded with the Karandaaz team and applied to take part in the challenge. Her application was selected and to Rooida's delight, a journey of support began. Karandaaz started by providing business development support services to the selected businesses from across Pakistan and then after a competitive pitch round, eight businesses were selected to receive growth capital from Karandaaz. New Age Flour Mills was also able to convince the judges that they deserved financial support from Karandaaz to implement their growth plans.

"The initial business advisory support and trainings from Karandaaz were very eye opening and helpful. I have already implemented many of the lessons I learned in our mill. And now that our funding has been approved, we will further ensure that we extend working hours, hire more workers and streamline work processes for maximum output."

Out of all the mechanical, operational, financial and logistical changes that Rooida wants to introduce in her business to truly modernize it, one of her chief ambition is to encourage women to work for her. As perhaps the only woman running a flourmill in Pakistan, Rooida realizes the immense value of women in the workforce and how women's work outside of their homes is just as valuable as inside them.

"I want to hire local women to work on weighing and packaging, and in any other departments they want to work in," she says. "I want them to realize their own worth and to make men understand that women's hard work is a pillar of a thriving society"

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.

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