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Developing the Business Case for Investing in Inclusive Business in Pakistan

A Market Scoping Study

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Asian Development Bank

Developing the Business Case for Investing in Inclusive Business in Pakistan:

A Market Scoping Study

Asian Development Bank

in partnership with **SNV - Netherlands Development Organization**

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For more information on the ADB´s inclusive business initiative, please visit:
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Contents

List of Figures

Abbreviations

ABC	American Business Council of Pakistan
ADB	Asian Development Bank
BoP	Base of the Pyramid
CPRGS	Comprehensive Poverty Reduction and Growth Strategy
CSS	Corporate Social Responsibility
DB	Doing Business Report
FBS	Federal Bureau of Statistics of Pakistan
FDI	Foreign Direct Investment
FMCG	Fast-moving consumer goods
GDP	Gross Domestic Product
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Rating System
GOP	Government of Pakistan
HDI	Human Development Index
IB	Inclusive Business
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ILO	International Labor Organization
IMF	International Monetary Fund
IRIS	Impact Reporting and Investment Standards
BOP	Low-Income Populations (interchangeable with BoP)
MFI	Multi-lateral Financial Institution

NGO	Non-Governmental Organization
ODA	Overseas Development Assistance
PKR	Pakistan Rupee
PPP	Purchasing Power Parity
PSM	Private Sector Mapping
PSMR	SNV Private Sector Mapping Report
SECP	Securities and Exchange Commission of Pakistan
SME	Small and Medium Size Enterprise
SMEDA	Small and Medium Size Development Authority of Pakistan
SNV	Netherlands Development Organization
UNDP	United Nations Development Program
WBCSD	World Business Council for Sustainable Development
WRI	World Resources Institute
WTO	World Trade Organization

NOTE

In this report, “$” refers to US dollars.

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Due to the evolving conditions of the socio-economic context in Pakistan and the timeframe during which this study was undertaken (2011), the authors acknowledge that the preliminary findings and recommendations are merely a snapshot in time. Current conditions may require further refinements and changes to what was proposed originally as part of this study.

Summary

Over the past decade, Pakistan has been one of the fastest-growing economies in Asia, averaging 6.2% growth in the first part of the new millennium. However, over the past five years, the country has been adversely affected by natural disasters, political instability and corruption, social unrest and extremism, and decreasing productivity exacerbated by frequent power outages. With more than 60% of the population (110 million people) characterized by the UNDP as living in or near multidimensional poverty and 72% considered poor, Pakistan faces numerous challenges on its road to inclusive growth and prosperity. Given this backdrop, and building on its own concept of inclusive growth, the Asian Development Bank (ADB) commissioned this market scoping study to assess the relevance, opportunity and strategy required to develop a business case for "inclusive business" development and investment in Pakistan -- in other words, business opportunities that deliver market or above market returns while making a meaningful and substantial contribution to improving the livelihoods of the poor.[1]

The main objective of this study was to answer four fundamental questions:

1. What are the important aspects of Pakistan´s **socio-economic and political context** that impact on inclusive business development and financing?

[1] Pakistan´s poverty line is around $1.25/day and about 25% of the population are estimated to be chronically poor.

2. Is there **private sector interest** and are there viable opportunities to support inclusive business development in Pakistan;
3. What are the **most pressing needs of the private sector** in terms of financing and financial instruments, capacity and technical assistance, and business environment for IB?
4. What would be the **most appropriate investment strategy** to catalyze and further unlock the potential for inclusive business in Pakistan?

The main parameters used for this assessment were based on known parameters of a successful inclusive business ecosystem.[2] The analysis used a four-tiered approach that assessed the following: i) the opportunity for the development inclusive business strategies in Pakistan; ii) the presence or absence of an enabling environment for inclusive business development; iii) the level of interest from the private sector in making their businesses more inclusive of the poor; and, iv) the current state of the private equity market in Pakistan and potential interest and expectations of institutional investors in financing inclusive business ventures.

The information gathered and analyzed for this study confirmed that while there are numerous opportunities for inclusive business development and related financing in Pakistan, any financing facility needs to account for significant political, natural, social and economic risks that have affected and will continue to affect Pakistan´s recovery and development. If these risks are properly acknowledged, priced and reasonably mitigated in light of this ever-changing and challenging context, **the ADB could deploy between USD 30 million and USD 40 million (deals ranging from USD 3.5 million to USD 7 million)**, preferably in combination with other similar geographies in South Asia, such as Bangladesh, and potentially India and Sri Lanka. In short, for the ADB, **financing a portfolio of inclusive businesses in Pakistan is conditionally plausible.**

In terms of Pakistan´s **socio-economic and political context**:

- **Pakistan´s economy grew at average rate of 4.59% between 2001 and 2011** (but slowing to just over 3% in 2012), with total exports near USD 30 billion, and foreign direct investment (**FDI) declining by 50% from the previous year** to amount to only USD 741 million for 2011-2012 in a USD 200 billion-a-year economy);
- In 2011, **Pakistan´s economy was driven primarily by its services industry (accounting for 55% of GDP)**, followed by manufacturing (25% of GDP) and agriculture (20% of GDP) - with financial services and insurance, manufacturing and construction far outpacing Pakistan´s rate of growth over the same period. Of its exports, 51% is attributed to the garment industry;
- In 2011, **the BoP represented 72% of the Pakistani population (129 million people)** of which 71% live in rural areas and according to the UNDP only 60% of the population has access to electricity, 45% to basic sanitation, 54% to education, 56% to a telephone, and 90% to clean water;
- The **annual purchasing power of the BoP in Pakistan is estimated to be USD 98 billion,** equivalent to 19% of the total national expenditure. Most of this annual expenditure is concentrated in food (50%), household goods (12%), housing (9%) and energy (8%);

[2] Gradl, Christina and Beth Jenkins (2011). "Tackling Barriers to Scale: From Inclusive Business Models to Inclusive Business Ecosystems." Cambridge, MA: the CSR Initiative at the Harvard Kennedy School.

- **Pakistan enjoys a demographic dividend** -- the country´s population is not only large and growing, but also very young (with a median age of 21 years of age). **Two thirds of Pakistanis are under 30 years of age** and the median age of the overall population is expected to remain in the low 30s through 2050.

Given this socio-economic context and its impact on the enabling environment for inclusive business, the key findings of this market scoping study are as follows:

In terms of **Private Sector Interest** (based on the 70 companies interviewed):

- Even though most companies were unaware of the concept of inclusive business, more than **90% of firms interviewed recognize the importance of the BoP** in their respective value chains, most notably as a target consumer base (96%) and a supply of skilled and unskilled labor (99%). Only 59% of respondents currently included or planned to include the BoP as suppliers within their value chain;
- Albeit a nascent concept in Pakistan, **there is an existing pipeline of inclusive business opportunities** and increasing interest of companies to serve the unmet needs of the country´s growing population and majority markets;
- **All companies interviewed implement CSR activities as they often see CSR as a form of Zakat** (the charitable percentage of wealth that Muslims of means are expected to give). While Zakat plays an important role in corporate philanthropy and CSR in Pakistan, it can also blur the motivation for developing inclusive business ventures between charity and business;
- Almost **70% of companies interviewed have partnered with NGOs** and related stakeholder groups to improve their understanding of and access to BoP markets.

In terms of **Private Sector Needs**:

- A significant **majority of companies interviewed (78%) expressed a strong interest in leveraging financing streams**, **particularly equity** given the lack of debt financing in country, to accelerate their growth into these low-income market opportunities. Notwithstanding this preference for BoP investments, debt could be attractive if properly structured during a company´s growth stage;
- Historically, **equity has been the preferred source of financing for 99% of the interview sample** -- only 13% have secured debt as the primary source of financing -- not surprising given the overall lack of liquidity in the Pakistani marketplace;
- The **average financial requirements** for the company sample **was USD 7 million** (ranging across all company sizes from 3.4 million to 9.3 million). **Select companies projected an average IRR of 20% across diverse sectors**, with greatest returns projected to be in **basic services (energy, health, sanitation) and household goods**;
- Companies confirmed that a **lack of distribution channels** (84%), the **need to develop logistical innovations** (79%), and **information and knowledge about the BoP** market segment (69%) were the **most important barriers to entry** into BoP markets in Pakistan.

In terms of **Capital Markets:**

- Fund managers interviewed felt that Pakistan´s economic diversity, size and needs imply numerous **opportunities for inclusive business development in a number of target sectors** -- particularly in **engineering** (motorcycle parts, agricultural farm implements. forgings/castings and textile machinery), **agribusiness** (key inputs such as seeds, animal feed, grain silos, cold storage and opportunities in fruit preservation and dairy), **energy** (in areas such as small hydropower, biomass, biogas, and solar), **health** (through diagnostic centers, micro-insurance, and tertiary hospitals) and **waste management** (and sanitation);

- Fund managers felt that **the high cost of finance** based on the perception of risk among financial institutions is a significant impediment to economic growth and is exacerbated by pervasive corruption, high levels of informality, weak and "balkanized" business associations, weak governance, and a significant lack of infrastructure and services.
- **The SME sector**, a good corollary for inclusive business, **is struggling to find capital** (debt or equity) to grow their businesses due to the fact that Pakistan´s banking sector prefers to lend to the state crowding out private sector borrowing (Pakistan has the lowest percentage of private sector lending as a percentage of GDP (21.5%) in the region);
- In 2011, **Pakistan was ranked amongst the world´s top 10 "extreme risk" countries** due to deteriorating conditions with regard to internal conflict, terrorism, the rule of law, regime stability, resource security, infrastructure readiness, education and poverty.[3]

In terms of **the most appropriate investment strategy considerations**:

- Any financing facility to be considered could **comfortably deploy USD 40 million** in Pakistan provided the overall investment portfolio and strategy is based on a wider geographic scope (i.e. Bangladesh) in order to mitigate inherent risks in the Pakistani economy.
- Investment opportunities ranged between **US$ 3 and US$ 10 million**[4] with average expected **IRR above 20%** for many opportunities, albeit there was a strong bias toward fast moving consumer goods and services provided to Pakistan´s low-income segment;
- Given the diversity of opportunities and risks within the Pakistani market, especially with regard to inclusive business, fund managers with whom we spoke recommended **a sector agnostic approach but recognized unique opportunities for returns and impact in agriculture/agro-processing, healthcare, housing, energy, education and financial services**;
- **Fund managers** agreed that in order to effectively pursue inclusive business investments, there would **need** to be **an anchor investor**, the investment strategy should offer a mix of **both equity and debt**, any financing vehicle should be accompanied by **pre- and post investment technical assistance (through a TA Facility) supporting the development of an inclusive business ecosystem**, and a **viable deal flow** of bankable opportunities would need to be identified.
- Given the ADB´s profile and reputation, a vast majority of fund managers (over 90%) suggested the **importance of having the ADB as an anchor investor** as it could "crowd-in" other investors, and signal to the wider industry that there is increasing viability for pursuing these types of investments in Pakistan.

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[3] Maplecroft. Political Risk Atlas 2011, January 2011. The Political Risk Atlas 2011 includes 41 risk indices evaluating 196 countries. It provides a comprehensive appraisal of traditional or 'dynamic' political risk areas including: conflict, terrorism, the rule of law, and the regulatory and business environment. The term 'dynamic' is used by Maplecroft to describe risks that can change rapidly as a result of actions by government, regional authorities or politically-motivated groups. It also focuses on emerging risk areas and structural political risk affecting longer term regime stability, such as resource security, human rights, climate change, infrastructure readiness, education and poverty.

[4] While this is the target deal size identified on average by companies and fund managers, Pakistan can absorb larger deals. For example, the ADB is considering a US$15 - 20 million investment in Engro Foods in enhance its supply chain for dairy production.

I. Background

For business, creating a space for the future means seeking advantage not in regulatory protections that stifle social development but in market innovations that accelerate it. It means developing new products for the global marketplace, in which branded Pakistani producers are underrepresented, and for the domestic marketplace, which underserves Pakistani consumers. It means looking beyond short-term interest and local advantage, and instead building foundations for organizations with the potential to compete over the long term anywhere in the world. Conditions that allow markets to function normally—that is, economic agents being enabled to operate, compete, and interact with each other on a level playing field1—create the environment essential for private initiative to thrive and business enterprises to realize optimum productive efficiency. This contributes substantively to economic growth and development. A functioning market without government intervention (albeit with competent regulation as needed) and protected from anti-competitive practices is fundamental to achieving productive efficiency, innovation, and entrepreneurship.

Creating a Place for the Future: Toward a New Development Approach for the Islamic Republic of Pakistan, 2010.

The ADB´s Inclusive Business Initiative

Since 1990 the number of people in Asia and the Pacific living in extreme poverty, defined as earning less that USD 1.25 a day, has been reduced in half, to under 20% of the population. Cheap land and labor, globalization, technological innovation, and forward-looking policy interventions related to trade and social investment, have lifted hundreds of millions out of poverty. However, despite the spectacular statistics, poverty and the vulnerabilities associated with it remain entrenched, exacerbated by rising inequity and growing social exclusion. And more importantly, when a wider definition of poverty is applied (less that USD 4/day), almost 3 billion people, roughly 82% of the Asian population is considered part of the Base of the Economic Pyramid (BoP) as defined by the World Resources Institute.[5] While the private sector has been a key contributor to the economic boom in Asia, it is increasingly clear that it has yet to fully realize its potential in creating shared value, which is to promote business models that integrate the low-income segment in unique and innovative ways that generate company growth while creating value for the low-income segment and directly contributing to poverty reduction.

As one of the key multi-lateral financial institutions operating in the Asia region, the Asian Development Bank (ADB), through its long-term "Strategy 2020" has defined inclusive growth as one of its three main strategic pillars, which aims to broaden economic and social opportunities for lower-income and excluded groups. Furthermore, ADB´s Corporate Strategy 2020 foresees that 50% of ADB investments by 2020 will be coming from either non-sovereign activities or supporting private sector development objectives. As such, inclusive business may represents one such inclusive growth strategy -- catalyzing private sector development opportunities that through their business models accelerate economic growth while integrating the low-income segment into their value chains. Companies improve their bottom line while the low-income segment can benefit through new income and employment opportunities and/or access to good and services that meaningfully contributes to their livelihoods.

Since 2011, the ADB has taken proactive steps to further explore and develop the BoP concept as an important element of its private sector development strategy – focusing on leveraging lessons learned from the World Bank, IFC, and Inter-American Development Bank. One such opportunity is the regional technical assistance project "Promoting Inclusive Growth through Business Development at the Base of the Pyramid" that aims to assess the feasibility of developing regional and/or country-based impact investment facilities/private equity funds for BoP ventures in ten Asian countries (Bangladesh, India/Sri Lanka, Indonesia, Pakistan, the Philippines, and Vietnam/(Mekong which includes Laos, Cambodia, Myanmar and Thailand) while increasing awareness about the market opportunity for the same. As a strategic partner of this ADB initiative, SNV agreed to complete four preliminary drafts of these feasibility studies (Vietnam, Pakistan, Indonesia and Bangladesh) with support from the ADB and under the guidance and direction of the lead consultants selected by the ADB to finalize the studies. The expected impact of the overall ADB initiative is to assess the feasibility of investing in inclusive business opportunities, determine the most appropriate investment strategies, partners and vehicles were the ADB to play a more active role, and contributing to the development of a technical assistance facility that can be used to incubate and accelerate inclusive business development across the region.[6]

The ADB´s Definition of Inclusive Business

The ADB actively supports both social enterprise and inclusive business development as important market-based and entrepreneurial solutions to create long-term and sustainable social impact across Asia. For the purposes of this study, social enterprises are non-profit or for-profit entities whose primary

[5] World Resources Institute and International Finance Corporation. (2007). The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid. Washington, DC.

[6] See Promoting Inclusive Growth through Business Development at the Base of the Pyramid (Project Note for the revised ADB TA No.6518-REG) and www2.adb.org/projects/Base-Pyramid/default.asp.

mission are to create, sustain and relentlessly pursue social value (not just private value). As Professor J. Greg Dees suggested in his paper "The Meaning of Social Entrepreneurship," social entrepreneurs and the social enterprises they often lead recognize that "making a profit, creating wealth, or serving the desires of customers may be part of the model, but these are a means to a social end, not the end in itself. Profit is not the gauge of value creation; nor is customer satisfaction; social impact is the gauge."[7] Social enterprises often start small, seeking to address root causes rather than symptoms of social and/or environmental problems through systemic change, and begin with modest investment -- a mix between patient (philanthropic) capital and financial capital (though the latter is often reserved for later stage growth and scalability if and when the social enterprise reaches this stage).

According to the results of the ADB´s Regional Technical Assistance Project: Developing a Regional Social Investment Exchange Initiative: "while there are many definitions of ¨social enterprise," this report used the term to refer to an entity that meets the following key criteria:

- exists primarily to create specific positive social and environmental impact (vs. ancillary or secondary development, such as a company´s corporate social responsibility program);
- adopts a market orientation;
- focuses on financial sustainability.

An SE meeting these criteria may be structured as a for-profit or a not-for-profit.

Given the present surge of global interest in SEs, one may think that SE and social entrepreneurship are emerging phenomena. However SEs, primarily in micro-finance, have existed for over three decades. Some SEs have overcome barriers to scale and successfully merged an explicit and intrinsic social mission with commercial viability. Faced with challenges such a sunk costs in establishing their organizations, razor sharp margins in serving marginalized communities and challenging the hegemony of multinational and mega-corporations, and operating with a permanent lack of available capital and credit, SEs such as BRAC and Grameen Bank in Bangladesh have successfully scaled to become multi-million-dollar enterprises.

SEs may employ market-based solutions to tackle a given social or environmental challenge, but SEs often operate in the intersection of private, public and charitable sectors – relying to a greater extent on the concerted efforts of parties in all sectors. Such SEs may take growth capital from commercial investors as well as impact investors, while also attracting donations from traditional philanthropic organizations, receiving support from governments and corporate social responsibility initiatives."[8]

Inclusive business on the other hand are often larger, well-established, viable businesses who are a) seeking to accelerate growth by pursuing new market segments and/or distribution channels and/or b) focused on mitigating supply chain, labour and reputational risks or they can be successful social enterprises with a proven business model that are seeking scale. Inclusive businesses maximize these opportunities and address these risks by integrating the low-income segment into their value chain in such a way that they contribute meaningfully to a company´s bottom line by increasing profits and reducing costs on the one hand, and on the other, they provide income and employment opportunities for the low-income segment and/or access to goods and services that improve their livelihoods in a sustainable manner.

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[7] Dees, J. Gregory. The Meaning of "Social Entrepreneurship"

[8] Asian Development Bank. Impact Investors in Asia: Characteristics and preferences for investing in social enterprises in Asia and the Pacific. Asian Development Bank, 2011.

For the purpose of this scoping study, inclusive business is defined by the ADB as follows: profit making companies that bring systemic impact at scale to the poor and vulnerable people under the $3 international poverty line (i.e. about 60% percent of developing Asia's population). These Inclusive Businesses are focused on making a reasonable profit (an IRR of 10-20%) while contributing to systemic impact on the lives of the poor. This can occur in a number of ways – specifically including the poor as:

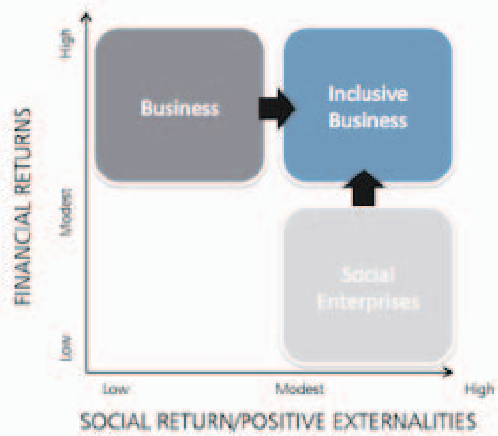
- consumers: new markets for affordable goods and services;
- distributors: new distribution networks;
- suppliers: new sources of supply/inputs; and
- employees: previously untapped sourced of skilled and unskilled labor, provided the employer makes significant improvements in labor conditions beyond local labor law compliance such as on-the-job training, financial and non-financial incentives, proactive labor retention strategies,

Inclusive Businesses differ from social enterprises and corporate social responsibility activities in their realized profit making motive/ability to offer market returns, as well as the scale of positive externalities generated. This results in their needing larger investments than social enterprises. Many IBs, particularly those that have attained scale in operations, deliver market returns or above market returns on par with commercial businesses enabling them to access a large spectrum of commercially-oriented funding sources including stock markets.

To the ADB, inclusive businesses tend to have the following characteristics that integrate both definitional and strategic/tactical considerations:

1. IBs are strictly for-profit and therefore must generate financial returns. The level of returns depends on either investment criteria set by an impact investor, company ambition, strategy and business model or a combination of both. Ideally, an inclusive business should generate market returns commensurate with their business model and risk profile;;
2. IBs must be strictly core business;
3. IBs must include the low-income segment within their business model through one or more of the following ways: as suppliers, as consumers, and as distributors;
4. IBs must generate social returns. The scale and scope of the anticipated social returns will also depend on the investment criteria set by an impact investor, company ambition, strategy and business model, or a combination of both.
5. IBs are designed from the start with scale in mind to a) maximize and optimize their route to impact and b) maximize the creation of company value;
6. IBs do not seek trade-offs between financial and social returns. Rather, they continuously seek solutions through which both can be optimized simultaneously;
7. IBs often require blended capital priced for their their level of risk and relevant stage of development. Therefore, different forms of capital (patient, debt, equity, and others) are often deployed at different stages of an IBs life cycle;
8. IBs actively assess and measure both social and economic performance in a standardized manner;
9. IBs normally evolve from social enterprises seeking to scale their proven (social purpose) business model or mid- to large-sized established companies seeking to create shared value through supply chain, labor-related and/or product innovation. See Figure 1 on the next page.

Figure 1: Pathways Toward Inclusive Business



Beyond these standard attributes, the ADB in particular requires IBs to:

10. Achieve at least a 15% gross financial return;
11. Measurably and meaningfully impact at least 5,000 people during the investment period;[9]
12. Optimize their businesses´ value proposition in such a way that it also addresses a systemic and relevant poverty and exclusion-related issue in a specific geographic context;
13. Demonstrate a clear route to impact;
14. Identify and manage pre- and post-investment risks.

In summary, the ADB aims to target its investment strategy on a specific type of inclusive business -- it is by no means a generic approach to inclusive business development. As such, the ADB has a qualified perspective on selection criteria and focus: one that assures market returns or above market returns and scalable, meaningful and measurable impacts on the livelihoods of the poor. This has important implications on selection criteria -- particularly in terms of the maturity of the investment opportunity and investee, the potential depth and breadth of the social impact, the financial return, and risk.

As such, based on this definition, the research framework for this market scoping study in Pakistan considered the following parameters of analysis that are known to be enabling conditions that enhance the breadth of inclusive business opportunities:

A Viable "Customer Base:" There needs to be a large, productive and underserved/underutilized target population at the base of the pyramid that could be considered as viable suppliers, consumers, and/or distributors;

Potential Demand for Additional Inputs and Market Segments: There needs to be a cluster of industries that require additional and stable inputs (i.e. agricultural inputs, labor) into their value chain to accelerate their growth and competitiveness and/or new distribution channels necessary for deeper market expansion and penetration;

Public Policy Incentives that Support Inclusive Growth: There need to be existing public policy in-

[9] Total impact by number of people is case dependent. The number of beneficiaries may vary based on the local context, business model and opportunity.

centives that promote and/or protect domestic production and/or local consumption;

An Aware and Willing Business Community: There needs to be a cluster of domestic and/or international medium-to-large companies currently implementing, familiar with, or willing to implement inclusive business ventures;

Underutilized Local Supply: There needs to be an excess or underutilized supply of goods and services currently being provided by the BoP that, when formalized, could increase income and production for the BoP while contributing to business profitability;

Availability of Investment and Patient Capital: There is patient ("smart subsidies" used to increase BoP competitiveness through technical assistance and capacity development) and investment capital available to seed, support, and/or accelerate inclusive business ventures and in its absence, a private equity marketplace that has a demonstrated interest in this segment. See the table below that illustrates the comparison of different financing instruments available for social entrepreneurs by the Schwab Foundation.

Comparing Financial Instruments

Financing Instrument	Term Sheet		Implications for Social Enterprise
Grants	Duration: Annual payments: Repayment:	Short term None None	- Usually restricted use for predefined projects - High fundraising costs - Low entrepreneurial flexibility
Debt Capital	Duration: Annual payments: Repayment:	Long term (3-7 years) Interest payments (variable) Yes	- Annual interest payments require low risk business model - No dilution of ownership - Far-reaching rights of capital providers in case of default - High entrepreneurial flexibility in the use of capital
Equity Capital	Duration: Annual payments: Repayment:	Unlimited Dividend payments (variable) No	- Dilution of ownership - Social investor receives control and voting rights - Profit participation for social investor - Potential impact on corporate culture
Mezzanine Capital	Duration: Annual payments: Repayment:	Long term (3-7 years) Interest payments (variable) Yes	- Annual interest payments require predictable cash flows - Dilution of ownership only if converted into equity - Mandatory repayment - Profit participation for social investor
Hybrid Capital	Duration: Annual payments: Repayment:	Long term (3-7 years) None Depends upon structure	- Inexpensive financing instrument - No dilution of ownership - Risk sharing with the social investor - Great structuring flexibility

Source: Social Investment Manual: An Introduction to Social Entrepreneurs. The Schwab Foudnation for Social Entrepreneurship and Technische Universitat Munchen, 2011.

Because the enabling conditions for inclusive businesses are heavily context-dependent based on the social, political, and economic landscape unique to a particular country, the aforementioned critical factors vary in their level of applicability and importance as the most significant contributors to overall feasibility and/or success. In this regard, not all of these factors, but rather a combination of the most appropriate factors need to be present for success to occur.

Purpose, Methodology and Approach

The purpose of the study was to contribute to the development of a business case for investing in inclusive business in Pakistan. The market scoping was designed to address four primary areas of concern and answer key questions for assessing the investment landscape for inclusive business in Pakistan (full methodology can be found in the Appendix on page 87 at the end of this report):

- **Enabling Environment:** Assess if the current economic, market, and political conditions favor the development and growth of inclusive business in Pakistan; especially the critical success factors and constraints for inclusive business development and its impact on the BoP in these markets and more importantly if these markets are strong and growing (in order to provide a sustainable "client" base);

- **Market Opportunity:** Gather initial information on the need for BoP Ventures in Pakistan; in particular, what are the characteristics of the BoP, their context, tendencies, and trends that demonstrate if there is a need for inclusive business in Pakistan that could eventually contribute to yielding a viable and competitive pipeline of potential inclusive business investment opportunities;

- **Private Sector Interest:** Establish the degree to which private companies (both domestic and multi-national) are currently involved or willing to be involved in inclusive business, what they consider to be the perceived benefits, their interest in accelerating inclusive businesses by leveraging additional capital, and for those unfamiliar or uninterested in inclusive business, what they perceive to be the critical barriers to entry into this "emerging market";

- **Private Equity Market Viability:** Assess the current state of the private equity market in Pakistan and determine the current potential interest of institutional investors in an inclusive business private equity, their willingness to capitalize and/or manage the fund, and their expectations for rates of return, risks, sector preferences, deal size, and term;

In addition to assessing the landscape of inclusive business financing in Pakistan, the market scoping study will also provide key recommendations related to potential investment strategies and vehicles should the ADB consider the development of an investment fund at a later stage.

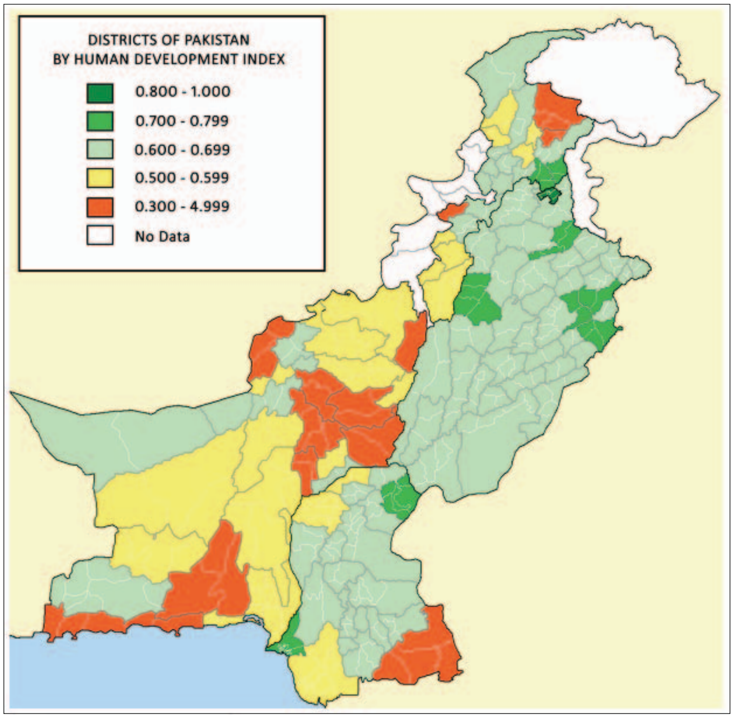
II. Poverty Analysis and Private Sector Interest

"If we want to make this great State of Pakistan happy and prosperous, we should wholly and solely concentrate on the well-being of the people, and especially of the masses and the poor"

Muhammad Ali Jinnah, Founder of Pakistan, Address to the Constituent Assembly, 11 August 1947

In many ways, Pakistan is a tale of two countries -- one ravaged by corruption, extremism, political istablity, social, political, and economic exclusion, vulnerability to natural disasters, and over 110 million people living under USD 2/day, and the other seeking to leverage its demographic dividend (60% of Pakistan´s population is under the age of 30), modest growth (above 4% over the past 12 years), entrepreneurship (63% of Pakistanis are self-employed) and its industrial and agricultural base. In the context of inclusive business, Pakistan is also a country of contrasts -- offering numerous impact investing opportunities with above market returns on the one hand, but recognizing that the risk profile of those opportunities is very high. This is especially true when there is recognition that Pakistan´s most important constraint to growth is the failure of governance and that of institutions coupled with "rent seeking" in the form of subsidies, tariff protection, and licenses that has not fostered an appropriate competitive environment in which growth and innovation can occur. This in turn is also true of the challenges in developing a potential inclusive business ecosystem in Pakistan. The brief summary of the key poverty statistics and private sector perspectives and perceptions of BoP markets described in the following section provide a useful backdrop to understanding the drivers for IB development in Pakistan.

Figure 2: Human Development Index by District



Source: UNDP, 2011.

Key Features of Poverty and Implications for Inclusive Growth

While Pakistan was making progress in reducing poverty in the first half of the last decade due largely to an an impressive rate of growth, natural disasters (earthquakes and floods), the cost and toll of war on terror and related political instability, and significant challenges in governance have not only stalled progress on poverty, but pushed the country into the bottom tier of countries on the UNDPs Human Development Index (HDI).[10] Poverty in Pakistan can be defined as follows: it is strongly rural and landless (75% of households in Pakistan do not own land), more female than male, geographically diverse (as seen in the map above), heavily correlated with household size, and exacerbated by the informality of employment, social unrest, and inequality. Given the scope and root causes of poverty in Pakistan, there are a number of important elements that present both and opportunity and a risk for inclusive business development in Pakistan as characterized below.

Figure 3: Pakistan´s HDI Progression 1980 - 2011

	Life expectancy at birth	Expected years of schooling	Means years of schooling	GNI per capita (2005 PPP$)	HDI value
1980	57.9	5.7	1.8	1,288	0.359
1985	59.4	5.7	2.1	1,581	0.384
1990	60.7	5.7	2.3	1,758	0.399
1995	62.0	5.7	2.8	1,888	0.420
2000	63.1	5.7	3.3	1,920	0.436
2005	64.1	6.4	4.5	2,230	0.480
2010	65.2	6.9	4.9	2,523	0.503
2011	65.4	6.9	4.9	2,550	0.504

Source: UNDP, 2011.

[10] According to the 2011 Human Development Index (HDI) Ranking, Pakistan occupies the 145th position, just ahead of countries like Bangladesh, Angola, Myanmar and Cameroon.

There is strong correlation between fluctuating growth and poverty in assuring its persistence over the past decade. As noted in figure 2b, Pakistan´s HDI progression over the past 20 years has been positive overall, however has not kept up with population growth and the needs of its people. This is due in part to government spending in excess of revenue (fiscal deficit); insufficient or inadequate social services to allow the low-income segment and the vulnerable to actively participate in times of economic stability and prosperity and mitigate the effects of natural or socio-economic shocks; and a growing trade deficit. More recently, the root causes of macroeconomic instability that has had a direct impact on poverty reduction efforts have been the rise in the prices of key commodities such as oil and food, political and social unrest, the indirect and direct costs of the political instability and insurgendy in the country, and the recent instability in international financial markets. This in turn has led to growing fiscal and current account deficits in Pakistan, accelerating inflation, stagnation, and depleting foreign exchange reserves.

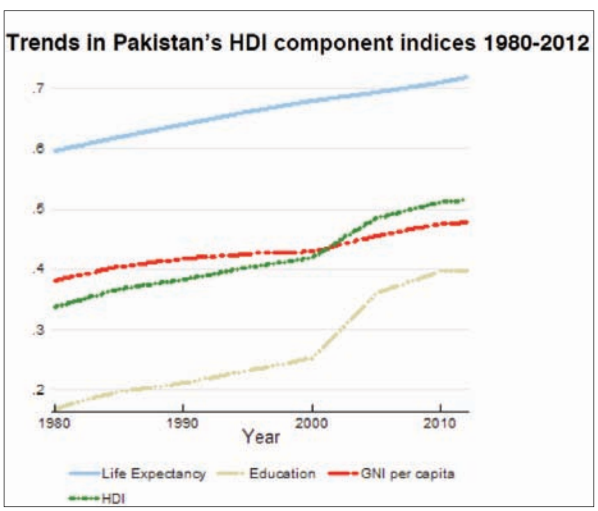
Figure 4: Pakistan´s HDI 2011 as compared to selected countries and region

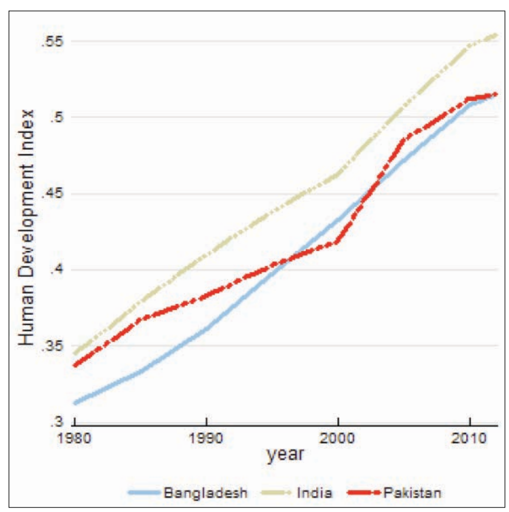
	HDI value	HDI rank	Life expectancy at birth	Expected years of schooling	Mean years of schooling	GNI per capita (PPP US$)
Pakistan	0.504	145	65.4	6.9	4.9	2,550
India	0.547	134	65.4	10.3	4.4	3,468
Bangladesh	0.500	146	68.9	8.1	4.8	1,529
South Asia	0.548	—	65.9	9.8	4.6	3,435
Low HDI	0.456	—	58.7	8.3	4.2	1,585

Source: UNDP, 2011.

Compared to other countries in South Asia, it is clear from Figure 4 and Figure 5 that growth instability has slowed the pace and pattern of poverty reduction and the key components that make up the human development index.

Figure 5: Pakistan´s HDI Progression and Comparison 1980 - 2011/12





Source: UNDP, 2011.

Moreover, during periods of sustained growth, Pakistan has been able to meaningfully decrease poverty, though long-term structural inequities remain. For example, between 2000 and 2005 Pakistan´s poverty level was an average of 35% of the HDI Value. From 2006 to 2009 this average dropped by nine percentage points to 26% (meaning that poverty in Pakistan decreased). According to the ADB's Poverty Assessment report, this drop in Pakistan´s poverty level is due to: higher GDP growth rates from 2001 to 2006 improved unemployment and benefitted the female workforce; increased consumption expenditure of the poor, up 15% in 2006 from 2001; inflow of USD 31 billion to Pakistan´s economy from 2001 to 2008 (equivalent to 19% of the GDP) from remittances which translates into an increase in consumption expenditure at the bottom of the pyramid; and public sector spending on health, education, rural electrification and roads.

The War on Terror in Pakistan costs almost USD 7 billion annually and has contributed significantly to the binding constraints to achieving high growth and low levels of poverty. As a result, there has been a major drain on resources and while donors have actively contributed to the welfare of the poor, the resources available are woefully insufficient to meet the rising demands of the poor. Moreover, foreign assistance is to used to service the increasing budget and current account deficits.

Figure 6: Costs of Pakistan´s "War on Terror" (R$ billion)

	FY 2004/05	FY 2005/06	FY 2006/07	FY 2007/08	FY 2008/09
Direct Cost	67.103	78.060	82.499	108.527	114.033
Indirect Cost*	192.000	222.720	278.400	375.840	563.760
Total	259.103	300.780	360.899	484.367	677.793

* On account of loss of exports, foreign investment, privatization, industrial output, tax collection, etc.
Source: Finance Division, Government of Pakistan, September, 2008.

While two-thirds of Pakistan´s population is rural, the majority of Pakistan´s rural poor are neither farm owners nor tenant farmers. Only one third (37%) of rural households owned land and of those who owned land, roughly two-thirds owned less than 5 acres. This trend is reflective of the significant inequality of land distribution in Pakistan where on average less than 2% of rural households owned 50 acres or more (or 30% of total land). In other words, the richest 20% of rural households were 3.5 times more likely to own agricultural land than the poorest 20 percent of households (on average) and the richest 40% of rural households owned agricultural land that was four times larger than the land owned by the poorest 60 percent. Moreover, 60% of the rural poor are non-farm households.

Despite the majority rural population, non-farm income is a major source of revenue, even for farming households with land. For farm households, income from agricultural production account for only 49% of total income -- the majority comes from non-farm related activities and remittances. This suggests that rural households continue to be entrepreneurial in that they engage in multiple income-earning activities to support their livelihoods -- understandable when agricultural productivity has been an unreliable income stream given Pakistan´s propensity for natural disasters -- particularly floods and earthquakes.

73% of total employment in Pakistan is in the informal sector and accounts for more than 1/3 of total GDP. Informal employment spans all sector of the Pakistani economy, from manufacturing, wholesale and retail trade to transport, communication and agriculture and includes a relatively equal percentage of men and women (though on average, due to income inequality in Pakistan, women earn less than half the salaries of men for the same work in the informal sector). Moreover, though the informal sector has been growing 2% faster year-on-year than the formal sector, many problems exist ranging from corruption, price distortions and lack of property rights, to high barriers to entry for entrepreneurs, monetary stability and privatization challenges -- and more importantly, while many recognize the informal sector as a vibrant contributor to employment generation and growth, that growth cannot be sustainable if the informal market players do not "formalize" and become tax-paying entities that can contribute to the common good.

While progress has been made in critical development areas such as literacy (through education) and access to water and sanitation, the gaps that still exist contribute to a vicious cycle of poverty that keeps many vulnerable populations trapped. 40% of the population is still considered illiterate and illiteracy is 50% higher in men (slightly under 70%) than what it is in women (slightly above 40%). Illiteracy, especially when it involves the head of household, often contributes to multi-generational poverty as children of heads of household that are illiterate tend to be illiterate as well. With regard to water and sanitation, only half (51%) of households in Pakistan have access to safe drinking water and just under 60% have functional flush toilets (27% do not have toilets at all). In both of these instances, the scope and depth of the need may provide fertile ground for innovative, market-based solutions that could accelerate literacy and sanitation in urban and rural areas across the country.

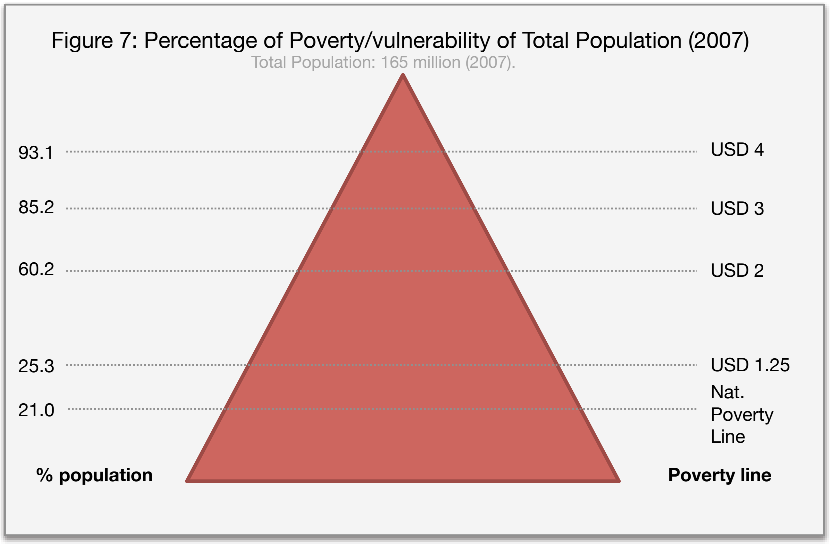
Beyond education and water and sanitation, Pakistan´s health infrastructure and services are considered poor, particularly in rural areas. 30% of children in Pakistan are malnourished (and 19% of the total population), water borne and viral diseases (such as malaria, typhoid, tuberculosis, and hepatitis) are common place, and health expenditures amounted to barely 4% of GDP (USD 49 per capita). In a country where there is on average one doctor for every 1,225 people (85 doctors for every 100,000 people), the government was only able to cover 24.4 percent of total health expenditures -- the rest had to be borne as out-of-pocket expenses.

The BoP as a Market in Pakistan

Inclusive business is a challenging and innovative approach to inclusive growth that has the potential to transform threats to the Pakistani economy into viable and sustainable market opportunities. To illustrate the types of opportunities possible when considering the BoP as a market, this scoping study borrowed the analytical framework included "The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid"[11] published by the World Resources Institute (WRI) and the International Finance Corporation (IFC) as it included Pakistan as a case study. While the information contained in the study was from 2007, many of the insights are still relevant to illustrate why the BoP in Pakistan offers so many unique opportunities for business development and innovation.

Estimated BoP Population: As shown in Figure 7, in 2007, the estimated population at the BoP in Pakistan was categorized in the following manner. As noted in the chart and based on World Bank indicators, a significant majority of Pakistan´s population is either poor or vulnerable -- 60.2% of the population lives on under USD 2/day and just over 93% live on less than USD 4/day. For the purposes of this study, the target BoP population includes 85% of the Pakistani population who earn less than USD 3/day.

[11] "The Next 4 Billion: Market Size and Business Strategy at the Base of the Pyramid", Resources Institute (WRI) and the International Finance Corporation (IFC), 2007, Washington DC.



Source: World Bank PovCalNet, Update February 2013.

Figure 8 presents information about the BoP purchasing power in Pakistan, organized by main expenditures:

Figure 8: Pakistan's BoP Purchasing Power by Expenditure

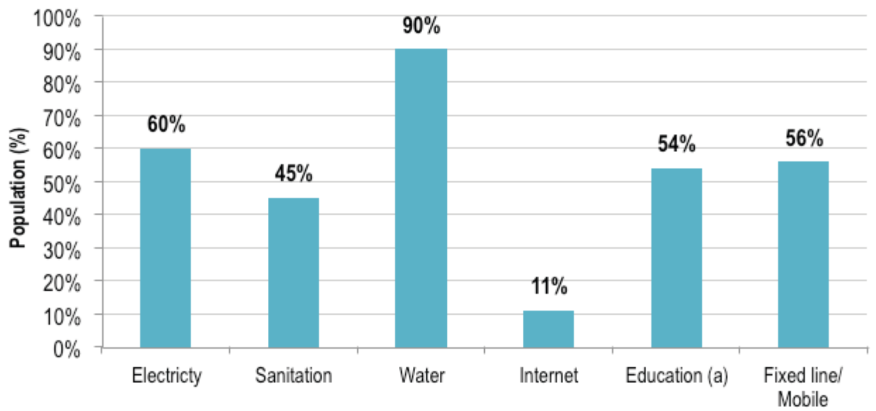
Expenditure	Total BoP (USD Million)	Total BoP (%)	Urban/Rural (% of BoP)
Food	48,987.50	50%	30/70
Housing	8,612.20	9%	64/36
Water	223.7	0%	84/16
Energy	7,954.60	8%	35/65
Household goods	11,792.70	12%	33/67
Health	3,655.20	4%	30/70
Transportation	4,039.30	4%	42/58
ICT	1,030.30	1%	69/31
Education	2,091.60	2%	61/39
Other	9,475.00	10%	36/64
Total	**97,862.10**	**100%**	**36/64**

Source: The Next 4 Billion, World Resources Institute & IFC - 2007

Food and household goods represent 62% of the total BoP purchasing power, equivalent to an approximate USD 61 billion. The food sector represents an incredible investment opportunity for companies and is mainly represented by the agriculture, livestock, fishing, processed foods subsectors followed by financial services, transport, and wholesale & retail trade. At the same time, basic services (energy, water, health, eduction represent 23%, approximately USD 22.5 billion) of the BoP purchasing power which also shows another area of opportunity to improve the living conditions of the poor in urban and rural areas using innovative market-based solutions. According to the last HDI Report)see Figure 9), while 90% of Pakistan´s population can access water, albeit through various mechanisms, only

45% of its population can access sanitation. Of those with access to water, only 63% are satisfied with its quality. The HDI Report also gives evidence that 40% of the population in Pakistan has no access to electricity, 44% has no access to fixed line or mobile phone, and 89% has no access to the Internet.

Figure 9: Pakistani´s Access to Selected Basic Services (% of total population)



(a) : Adult literacy rate
Source: 2010 HDI - UNDP

Conclusion

During the last five years, pro-poor growth and macroeconomic stability were basic conditions to reduce current levels of poverty in Pakistan. Despite recognizable achievements during the 2000-2008 economic cycles, Pakistan´s economic indicators have worsened in the last few years -- slowing if not reversing poverty reduction gains, and accelerating the prospects of unemployment as Pakistan´s rate of growth is not keeping pace with the new entrants into the labor force. Undoubtedly, unexpected natural disasters since 2010 and social unrest have worsened the level of poverty and vulnerability of 25% of the population, some 45 million people. As such, there is an unprecedented sense of urgency for efficient public policies oriented towards poverty-reduction and a demand for increased rates of inclusive growth. Together, these are driving incentives for the private sector to integrate the BoP into the companies' value chain as suppliers, productive workers, distributors and consumers. The private sector, financial institutions, multinational companies, bilateral development agencies, multilateral development banks, universities, other academic institutions, and the public sector perceive the BoP as a business opportunity, not a threat. This opens door for inclusive business models to gain traction in Pakistan.

III. Macro-Economic Analysis

> There are exciting opportunities here (in Pakistan) as well. A long-term approach to managing the challenges presented by Pakistan´s burgeoning population, if accompanied by effective policies and sustained implementation, could spark a monumental transformation: one that enables the country to harness the great promise of a large population that has usually been viewed as a hindrance to prosperity. Indeed, demographers contend that Pakistan´s young, growing, and rapidly urbanizing population can bring great benefits to the country. If birth rates fall substantially, and if young Pakistanis are properly educated and successfully absorbed into the labor force, then the nation could reap a "demographic dividend" that sparks economic growth, boosts social well-being, and promoted the rejuvenation of Pakistan.
>
> Michael Kugelman & R.M. Hathaway. Reaping the Dividend: Overcoming Pakistan´s Demographic Challenges[12]

Over the past decade, Pakistan has been one of the fastest-growing economies in Asia, averaging 6.2% growth in the first part of the new millennium. With a population nearing 187 million people (population statistics vary but are within a 10% spread depending on the source), a significant demographic dividend (60% of Pakistan´s population is under the age of 30),[13] modest growth (above 4% over the past

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[12] Kugelman, Michael and Robert M. Hathaway. Reaping the Dividend: Overcoming Pakistan´s Demographic Challenges. Woodrow Wilson International Center for Scholars, 2011.

[13] UN Population Division, "World Population Revisions: The 2008 Revisions," database available at www.esa.un.org/unpp/

12 years), a legacy of entrepreneurship (63% of Pakistanis are self-employed), and a significant industrial and agricultural base, one might imagine that Pakistan would be a story of promise and prosperity see Figure 24 for a summary of Pakistan´s main economic indicators). However, corruption, extremism, political instability, social exclusion, vulnerability to natural disasters, power outages, and decreasing productivity have only exacerbated the situation for the country´s 110 million people living under $2 per day. Growth has slowed considerably in the past few years and continues to be roughly half of what it was in the early part of the millennium (projected to be 3.7% in 2012[14]). And, according to the 2011 Human Development Report for Pakistan, 49.4% of the population is living in or near multidimensional poverty with 11% at risk of being pushed into that category (53.4% of the population is suffering from intense deprivation while 27.4% lives in "severe poverty)."[15] Even though growth is expected to improve modestly over the next few years, economic benefits will unlikely keep pace with Pakistan´s growing population.

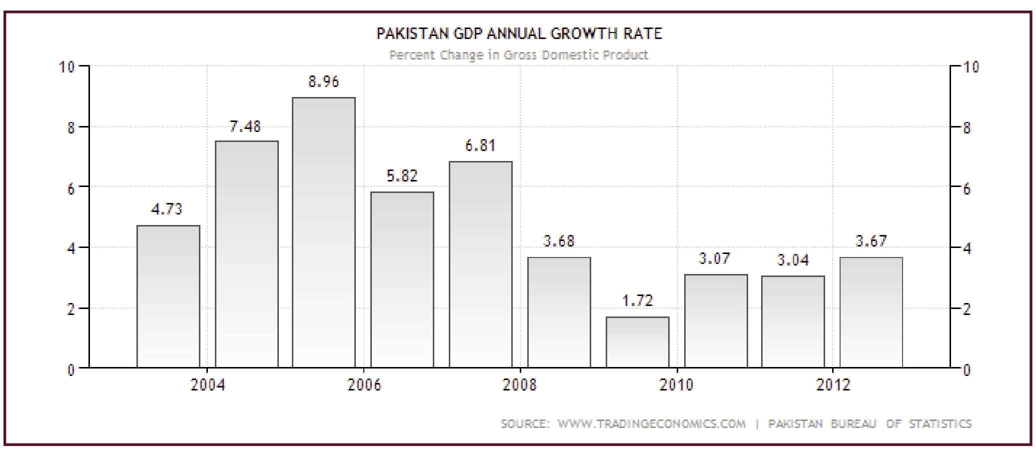
Figure 10: Pakistan´s Main Economic Indicators

Indicator	2011	2012 (estimated)
GDP growth rate	3.0%	3.7%
Exports	USD 20 Billion	USD 28 Billion
FDI	USD 2.2 billion	Not available
Inflation Rate	14%	12%
Population	177 Million	180 Million

Sources: State Bank of Pakistan, Ministry of Population

Pakistan´s economy is growing, but only at half the rate at which it was growing in the first half of this past decade -- it is not keeping pace with the new entrants into the labor force due to population growth. The Pakistani economy grew at an average rate of 4.59% between 2001 and 2011, as shown in Figure 11. Between 2002 and 2005 Pakistan had a relatively increased period of economic growth with 7%, average growth for these years which was aided by economic reforms, FDI attraction, privatization process, and foreign trade liberalization and promotion. However, growth has slowed as a result of the negative economic impact of natural disasters, the declining quality of the business environment, and the war on terror.

Figure 11: Pakistan´s GDP Annual Growth Rate

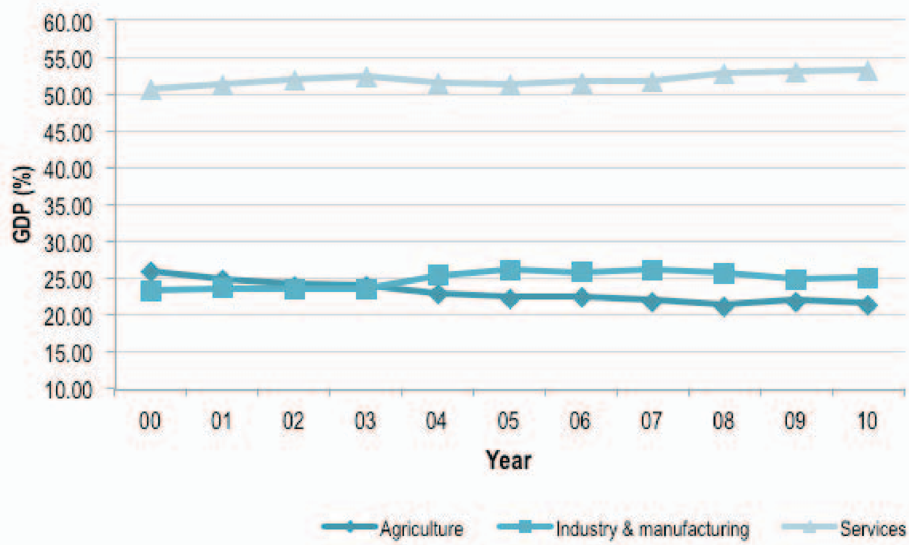


[14] Pakistan Bureau of Statistics, 2013 and www.tradingeconomics.com

[15] UNDP. Human Development Report 2011: Sustainability and Equity: A Better Future for All.

Services contribute more than 50% to GDP; agriculture and manufacturing represent that percentage combined: As per Figure 12, services led with 55% contribution to the GDP, followed by 25% from manufacturing, and finally 20% from agriculture. Though manufacturing began to contribute more to GDP than agriculture since 2004, both sectors have slowed due in part to energy shortages (which have had a negative impact on the efficiency and productivity of industry, while severe floods and earthquakes contributed to crop failure and at time hamper logistics (required to get agricultural production to market).

Figure 12: GDP by Industries (%)



Source: State Bank of Pakistan.

FDI in Pakistan has declined by USD 3.4 billion in the last three years (from USD 5 Billion in 2008 to USD .7 Billion in 2012), a strong indicator of the unfavorable business climate caused by a deteriorated rule of law, energy shortages, and the economic downturn. From 2004 to 2006 a leap in FDI growth was as result of an aggressive privatization program of the oil & gas, telecommunications, and financial services industries. The FDI jump from 2006 to 2008 was based largely on required investments for modernization in Pakistan, as a result of the privatization process. Furthermore, at least 77% of the 2008 FDI inflows were allocated in these three main industries[16].

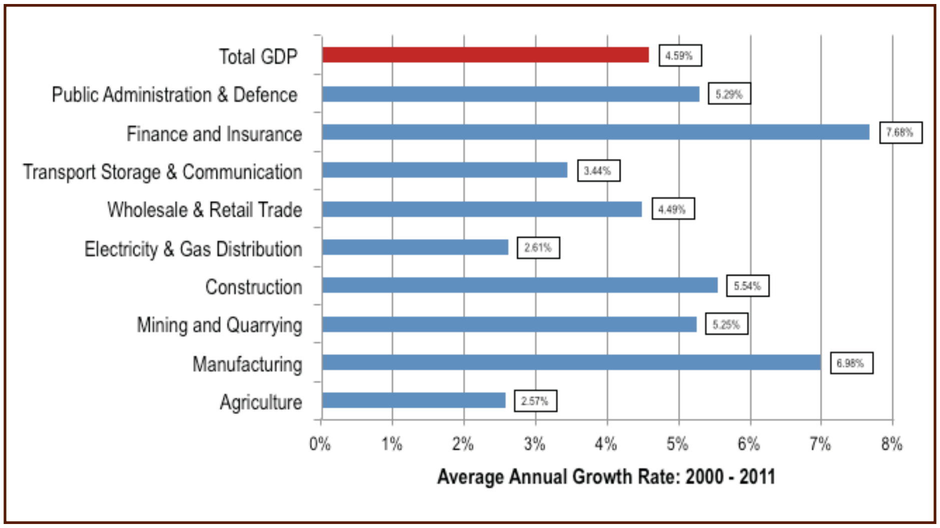
Financial Services and Manufacturing are Growing at Twice the Rate of Agriculture over the past Decade: Figure 13 shows the annual growth rate of Pakistan´s nine main industries from 2000 to 2011. As Pakistan´s average annual growth in GDP was 4.59% during this period, the growth of these five industries superseded the national average: Financial & Insurance: 7.68%; Manufacturing 6.99%; Construction 5.54%; Public Administration & Defense spending 5.29%; and, Mining & Quarrying 5.25%. However, despite slow growth and natural distasters, from 2004 to 2010, Agriculture added 20% to the overall GDP growth and according to the Ministry of Finance,[17] incorporates an approximate 45% of Pakistan´s labor force. The country´s major crops are rice (27.7% growth in production), cotton (18.6%

[16] http://investinpakistan.pk/portal/ - Pakistan's Board of Investment

[17] Ministry of Finance, Pakistan Economic Survey 2010-11.

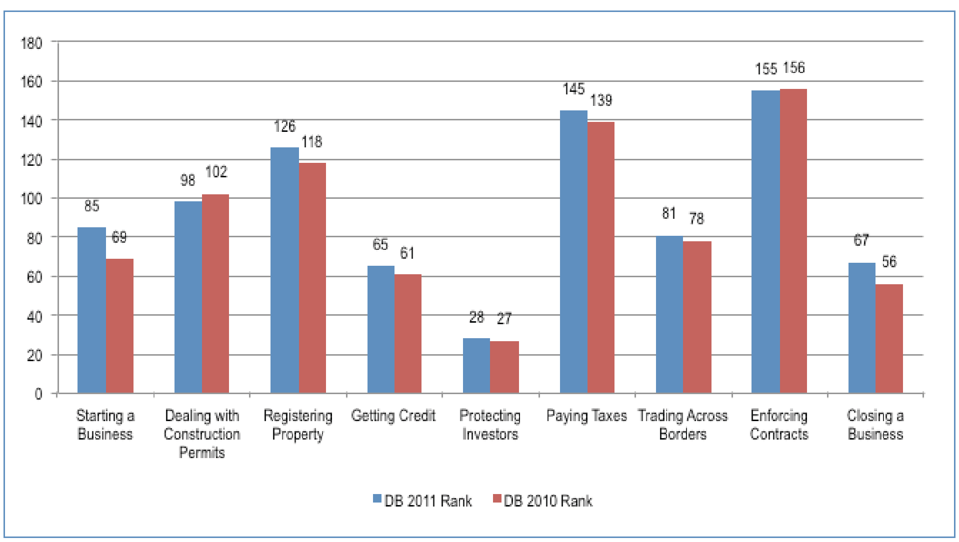
growth in production in 2012), and sugarcane (4.9% growth in production in 2012), which together represent 33% of the agriculture added value.

Figure 13: Average Annual Growth Rate from 2000 - 2011 by Industry



According to the 2011 Doing Business Report[18], Pakistan ranked #83 out of 183 economies, while in 2009 Report had been ranked #75 (See Figure 14). On seven out of nine indicators and procedures, Pakistan´s performance worsened from 2009 to 2010. Of these, three indicators are the most telling: (i) Starting a Business, dropping sixteen places (from #69 to # 85) -- these costs are significantly higher than most of its peers in South and Southeast Asia; (ii) Closing a Business, dropping eleven places (from #56 to #67); and, (iii) Registering a Property, dropping eight places (from #118 to #126). Accessing finance is also increasingly difficult in Pakistan according to the report which is due in part to Pakistan´s low rating in contract enforcement. As countries compete to attract FDI, Pakistan´s weakening performance allows for other countries in the region to move ahead, and these resources are allocated to the most efficient economies.

Figure 14: Doing Business Ranking for Pakistan (2010)

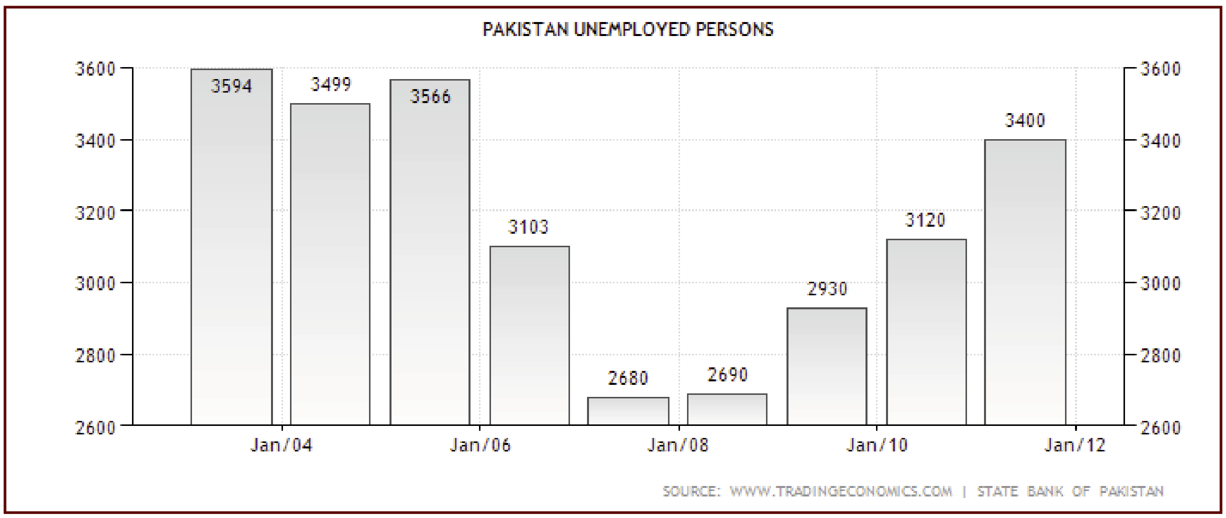


[18] 2010 Doing Business Report by the World bank & IFC - http://www.doingbusiness.org/data/exploreeconomies/pakistan

Population size triggers domestic trade and also service GDP -- impacting the growth of private consumption to reach 75% of GDP: Wholesale & retail trade account for the 16% of the GDP, followed by transport, storage & communication (9.6%), public administration and defense spending (5.9%) and finance & insurance (5%). Together these four activities represent 40% of the total GDP. During 2011, the growth in service output was led by public administration, defense spending and social services, the latter two developed in response to the war on terrorism and flood relief, respectively. Moreover, real private consumption increased by 11.6% in 2011-12 driven in part by the substantial increase in remittances (25.8% increase from 2012 to USD 10.9 billion).

Pakistan´s labor force in the world´s 10th largest and is growing at 3.7 percent a year, but under-employment remains stubbornly high. Pakistan´s labor force volume is approximately 54 million, with rural areas having more than double the share in total employment due to the absorption capacity in the agricultural sector. However, approximately six out of ten people were considered to be "susceptible" -- meaning "lacking decent work" and this rate is even higher among women (8 out of 10 deemed susceptible) and the youth (6 out of 10). Moreover, labor productivity has decreased over the part few years which suggests that because labor productivity has not kept pace with employment growth, it is likely that elements of the workforce are taking lower paying jobs as a result. in part Figure 15 shows the accelerated increase of unemployment in Pakistan since 2008.

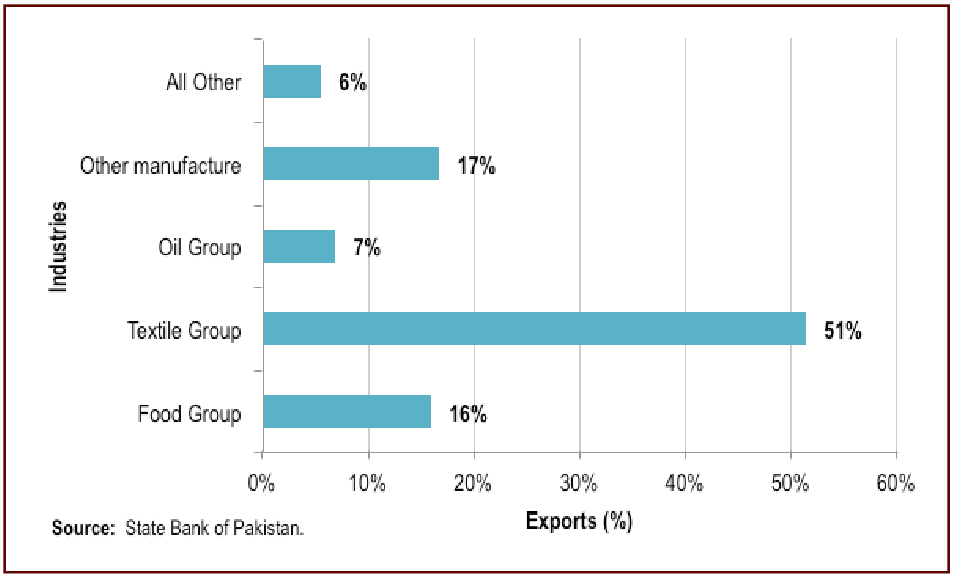
Figure 15: Pakistan Unemployed Persons



Fiscal policy remains a source of instability for the economy: The fiscal deficit is a main concern for Pakistan´s economic performance for 2011 and into the future, estimated at 6.2% of the GDP in 2011. According to the ADB's Asian Development Outlook Report, increasing costs for subsidies and security, flood-relief spending, and additional investments required to smooth the energy shortages are the root causes of continuing growth of Pakistan´s fiscal deficit. In the third quarter of 2011, additional instability was caused when the Government couldn't access the last IMF disbursement of USD 3.7 billion due to unmet agreements, including Valued Added Tax reforms, fiscal deficit stabilization, borrowing cuts from central bank and power sector reforms.

Pakistan exports rely on the textile industry: Exports were worth US $20 Billion in 2011, which represent a 2.7% growth rate from 2010. As shown in Figure 16, the main export industries are the textile group (51% of exports value), food group (16%) and other manufactures (17%). Compared to 2010, the textile industry grew by 27%, and food exports 21%, win which were rice, fish and fruits & vegetables were the main exports in 2011.

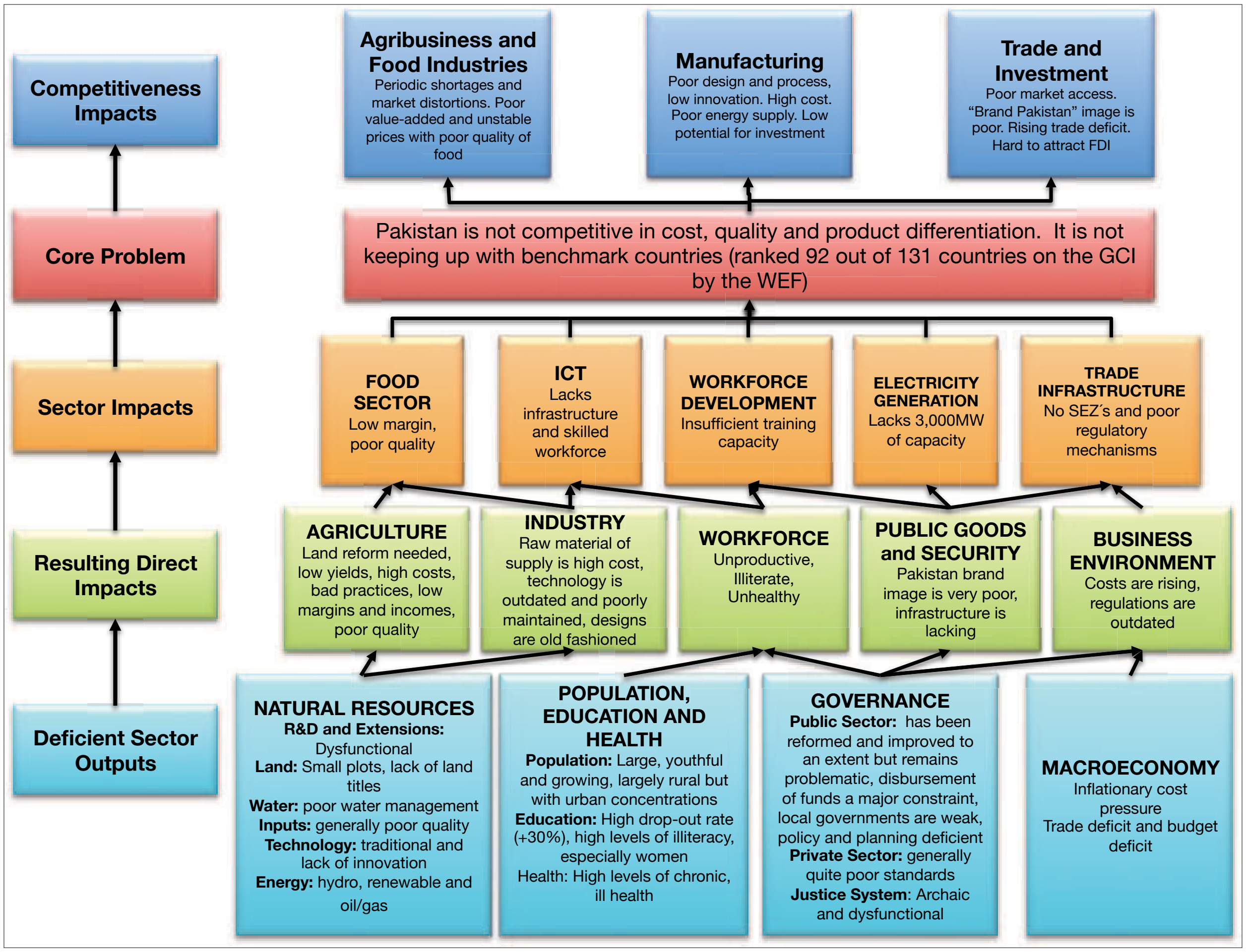
Figure 16: Exports by Industries - 2011 (%)



But, Pakistan´s energy deficit and institutional fragmentation of the sector is a major contributor to the reduction of productivity in Pakistan´s industrial base. Despite the USD 150 billion investment needed to meet the 150,000 MW of power needed in Pakistan until 2030, it is clear that Pakistan´s energy challenges stem from the sub-optimal management, development and exploitation of Pakistan´s diverse energy sources (oil, coal, nuclear, gas, and renewables). It is no surprise therefore that the instability of the energy regime is often listed as one of the top two barriers to growth in the country.

Another major constraint to sustainable growth in Pakistan is the inability of a large percentage of SMEs to access finance, technology, and benefit from a favorable business environment. In Pakistan, banks provide only 7 to 8 percent of the total funding required by SMEs (which employ an estimated 80 percent of Pakistan´s non-agricultural workforce) due in large part to the information asymmetry problems related to SME transparency and disclosure. In Pakistan, SMEs are not required to comply with the same financial and fiscal regulatory frameworks expected of larger firms -- as such, banks often have limited information from which to assess risk. Given the smaller deal sizes involved and the related transaction costs, banks are often unable to develop the right economics to make lending to SMEs a viable commercial endeavor. Other significant challenges facing the SME sector include excessive red tape, non-tariff barriers to trade, an unreliable energy sector (as mentioned above), physical security, diluted legal system and enforcement.

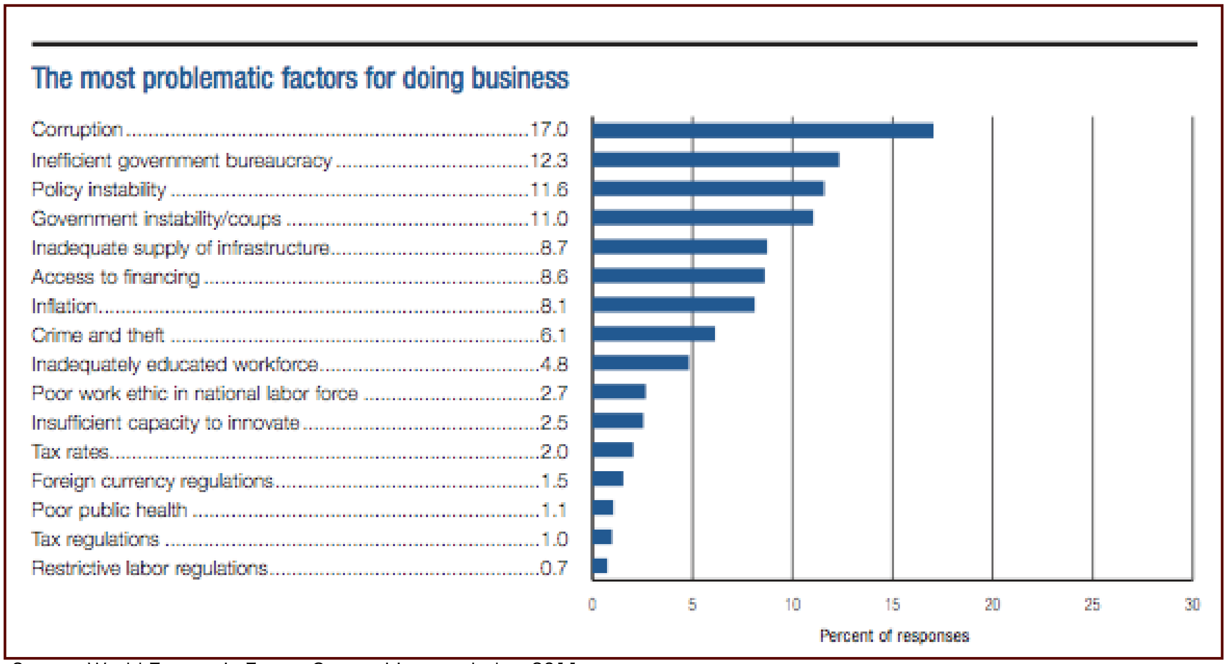
Figure 17: Competitiveness Challenges Facing Pakistan



Source: Competitiveness Support Fund, "The State of Pakistan´s Competitiveness Report 2008", Government of Pakistan, 2008.

Lastly, Pakistan´s economy faces a number of threats to its competitiveness that pose fundamental risks to any inclusive business development portfolio. As described in Figure 17 above, the 2008 Competitiveness Report 2008 concluded that Pakistan was "not competitive in cost, quality and product differentiation and not keeping up with benchmark countries…" due to significant obstacles across its food, ICT, energy, infrastructure sectors and workforce development. These barriers to competitiveness are also listed in Figure 18 (World Economic Forum Competitiveness Index 2011). Conversely, the most urgent needs to improve competitiveness would likely center around investing in its people (education and literacy improvements), improving the business environment (eliminate red tape to accelerate investment and business development opportunities) and improving the security situation.

Figure 18: The Most Problematic Factors for Doing Business in Pakistan



Source: World Economic Forum Competitiveness Index, 2011.

Preliminary Sector Opportunities with Potential Poverty Impact

Beyond the brief assessment of key macroeconomic parameters. the market scoping effort integrates sector by sector recommendations for preliminary consideration. The key sectors through which the BoP may be most effectively engaged are agribusiness, energy, health, environmental services, transportation/logistics and housing for the following reasons:

Agribusiness: Due to stagnating output and variable productivity (as noted in Figure 19), decreasing quality and low-grade technological innovation in the sector and conversely the importance of the agri-business sector to rural development, BoP engagement, growing the local food system, and contributing to the country´s overall growth, the following sub-sectors may provide inclusive business opportunities consistent with the investment parameters described in this study -- these are: **animal feed** due to the fact that most feed is incompatible with the beef market standards and introducing more compatible feed would significantly improve quality, productivity and income for the low-income farmers from animal husbandry while promising to open a new and emerging beef export market; **seeds** to assure crop resistance to pests and disease, increase productivity, and contribute to improved revenue streams for farmers and a stable supply to wholesalers and retailers; **agricultural infrastructure** (particularly silos, cold storage, and processing facilities) to protect the crops from weather and/or disease, improve storage, provide opportunities for value addition, and increase their shelf-life; agriculture farm implements (i.e. mechanized tools) to improve farmer efficiency, production, and increase farmer income while contributing to a company´s value chain; **innovative financial and micro and crop insurance products and services** to capitalize agricultural production and mitigate the inherent risks of developing agri-businesses in high risk areas (social, political and environmental) -- this could include financial strategies such as factor financing and insurance products such as ABIs -- Area-Based Index Insurance.

Figure 19: Agriculture Growth Percentages from 2005 - 2012

Year	Agriculture	Major Crops	Minor Crops	Livestock	Fishery	Forestry
2005-06	6.3	-3.9	0.4	15.8	20.8	-1.1
2006-07	4.1	7.7	-1.0	2.8	15.4	-5.1
2007-08	1.0	-6.4	10.9	4.2	9.2	-13.0
2008-09	4.0	7.8	-1.2	3.1	2.3	-3.0
2009-10	0.6	-2.3	-7.7	4.3	1.5	2.2
2010-11	2.4	-0.2	2.7	4.0	1.9	-0.4
2011-12(P)	3.1	3.2	-1.3	4.0	1.8	1.0

Source: Pakistan Bureau of Statistics
P:Provisional

Energy: Given the local energy production is not keeping pace with energy demand, the private sector and low-income stakeholders could benefit from a modest portfolio of investments that should include: small, **river-based hydroelectric energy** initiatives that could provide off-grid energy solutions to low-income communities while being able to sell directly into the grid (and lowering the cost of energy over-all while increasing access); **biomass, biogas and solar** through which low-income farmers could allocate part of their non-productive or degraded land to biomass and related feedstock production for renewable energy solutions that could increase farmer income, increase employment opportunities, improving household health (by eliminating kerosene lamps and the associated risks with kerosene in the home) while providing systemic solutions (off grid and on grid) to mitigating aspects of Pakistan´s energy crisis; energy efficient services focused on reducing energy consumption through technological innovations, infrastructure replacement and/or retrofitting which would substantially increase profitability and develop cottage industries for the low-income segment while potentially reducing their direct and indirect energy costs;

Health Infrastructure and **Health Insurance**: Given the fact that needs for affordable and available healthcare are unmet in most parts of Pakistan, there are a few specific niches that could offer market-based solutions and significant impacts on BoP livelihoods -- especially given the polarized architecture of Pakistan´s healthcare system offering high-end medical treatment through expensive and private-sector medical institutions to a select few while offering the masses low-grade medical services through low-cost government-funded hospitals and clinics. As such, these niches may include but are not limited to **diagnostic centers** which are in high demand to provide early diagnostics in smaller towns, cities and rural areas until larger and more effective diagnostic centers can come on line. Health insurance products are also pivotal given that, as per the Wall Street Journal, “poor patients often end up taking out loans and falling into debt to pay for private-sector services.”[19] As such, innovative and affordable **health-centered micro-insurance products** would fill an urgent need to provide affordable health care to millions of Pakistanis.

Financial Services. Considering the high number of “unabanked” in Pakistan and the lack of financing available to growth-stage SMEs, there are a number niches within the financial services sector in Pakistan that could provide unique opportunities for investment ranging from **second generation micro-finance**, especially in rural areas, to more sophisticated financial products such as **factor financing** and **warehouse receipt financing**. In all cases, the strategy is focused on aligning the appropriate financial instrument with the core need and risk profile inherent in the target Pakistani sectors in order to

[19] The Wall Street Journal. Bringing Health Care to More Pakistanis, November 6, 2012.

unlock their potential for accelerated growth, employment generation, and effective engagement with the BoP.

Education and Vocational Education. As mentioned earlier in this report, Pakistan´s illiteracy rate, especially among women, is a critical impediment to long-term growth and sustainable development. Moreover, Pakistan´s underemployment problem and reliance, in part, on unskilled rather than skilled labor, creates a poverty trap for many of Pakistan´s low-income families. There are viable market opportunities in **early childhood education**, targeting young girls in particular, on one end of the spectrum and **vocational education** initiatives than can help provide relevant skills to Pakistan´s youth/ young adult population. For example. in India, Sudiksha Knowledge Solutions is one of a growing number of innovative and ambitious for-profit ventures which provides preschool education for children living in poverty. A woman from each local community is responsible for the daily management of each school, and in return, they receive profit sharing, thereby providing school managers with an incentive to continuously improve the services which they offer. And with regard to **vocational education**, these types of initiatives make university education accessible to all through a combination of innovations that increase affordability and value. An example is Anhanguera in Brazil which educates 650,000 students a year on its campuses and 100,000 students online. Another example is the ‘Private Vocational Training at the Seam’ model that enables private vocational colleges to provide low cost, no-frills, quality further education courses. In South Africa more than 700 private colleges currently provide learning opportunities for over 700,000 students.

There are additional opportunities in **low-cost housing** given significant and growing demand from existing rural households and the growing number if migrants moving to urban slums where housing conditions are at best sub-standard. Models such as Patromonio Hoy and Mejora tu Calle in Mexico (developed by CEMEX) and Solusi Ruma (developed by Holcim in Indonesia) can serve illustrate the market opportunity and business models required to achieve meaningful and systemic social returns while creating value and profitability for the company and related investors. Moreover, the intersection between financing and housing (i.e. **low-cost housing finance**) is another niche within the wider housing sector and currently underserved by banks and related financial institutions due largely to the perception that the low-income segment have higher default rates than other segments of the population.

Conclusion

In summary, the internal issues in Pakistan (fiscal deficit, a weak rule of law) and other external factors (natural disasters, the war on terrorism) have affected the incentives and expectations of domestic and foreign economic agents. Most of the downturn of the economy growth rate can be explained by the following factors: the fall in Pakistan´s ability to attract FDI, the diminishing returns on the export side, and the weakness of the business environment. Despite these challenges, the sheer size of Pakistan´s domestic market represents a strength and comparative advantage with other countries in the region, as this market supports internal consumption, a key factor that leverages basic levels of economic growth. However, the fact that agriculture still comprises 45% of the total labor force - equivalent to 25 million people living in rural areas - represents a remarkable opportunity to give roots to the structural shift towards a manufacturing and added value economy.

IV. The Inclusive Business Market

> Pakistan is an intriguing paradox. It has a well-educated and entrepreneurial Diaspora who thrive as small business owners in industrial economies, skilled workers in Gulf States, and as high officials in international organizations. The professional elite within Pakistan is at a similar level to those in the industrialized world. Pakistan benefited from $58 billion of foreign development assistance...a lucrative Cold War alliance with the United States, and multiple government development programs. Pakistan was the third largest recipient of official development assistance in the world over 1960-98. If it had invested all the official development assistance from 1960 to 1998 at a real rate of 6%, it would have a stock of assets equal to $239 billion in 1998, many times the current external debt... Pakistan is blessed with fertile cropland watered by rivers that flow down from the Himalayas; it inherited the world's largest irrigation system from the British at independence. It has even had per capita growth – on average 2.2 percent per year from 1950 to 1999. Yet after all this, social indicators like infant mortality and female primary and secondary enrollment are among the worst in the world in Pakistan...Pakistan systematically underperforms on most social and political indicators -- education, health, sanitation, fertility, gender equality, corruption, political instability and violence, and democracy -- for its level of income. It systematically under-performs on improvements in these indicators for its rate of GDP per capita growth over time. I call this pattern "growth without development."
>
> William Easterly, The Political Economy of Growth Without Development: A Case Study of Pakistan, 2001.

Incorporating the poor into a company's business with new and sometimes untraditional business models presents challenges, which, when overcome, can open opportunities for the businesses and the communities in and with which they work. The following section discusses how companies perceive and engage with the BoP in Pakistan and the obstacles and risks of working with the BoP, as identified by the companies which were interviewed. All of the companies confirmed that they had encountered obstacles when implementing, or considering the implementation of, an inclusive business model.

How Companies Perceive and Engage with the BoP in Pakistan

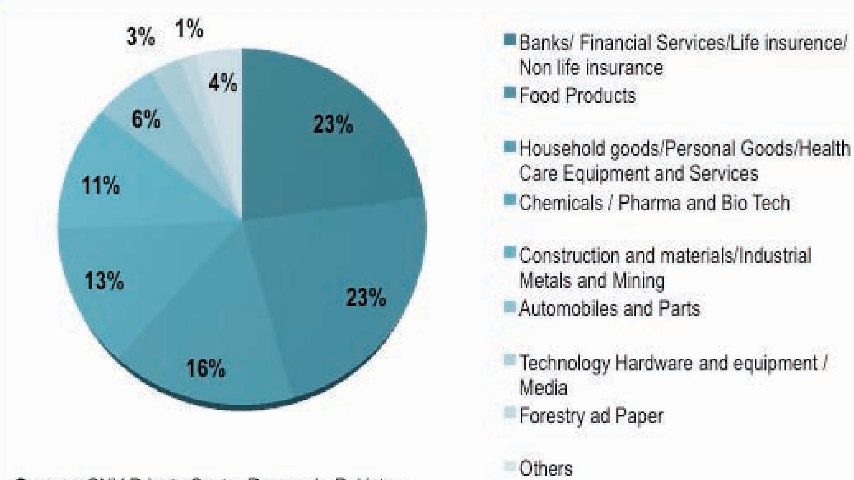
Given this BoP market opportunity and context, the market scoping effort focused on assessing and validating if and how the private sector was taking advantage of this BoP market opportunity in Pakistan. The market scoping effort included 70 cross-sectoral interviews with a diverse sample of medium to large companies operating in Pakistan in order to assess the critical drivers, success factors, barriers, challenges, and opportunities of working with the BoP. The project focused on personal interviews with 70 companies in a variety of industries and sectors that include low-income populations within their value chains. These interviews were focused on determining the compatibility of the companies with this new kind of investment opportunity.

The interviews were carried out in three months -- primarily in the cities of Lahore, Karachi, Hattar, Islamabad and Muttan. The company mapping effort was focused on: (i) providing insights into the market opportunity and needs; (ii) presenting a perspective on the inclusive business market, providing actionable and meaningful data about the companies which were interviewed, (iii) presenting examples of current and relevant inclusive business initiatives in Pakistan; and, (iv) providing key recommendations for market development and further exploration with these companies. All of the data presented within this section is primary information gathered through the interview process and additional research, unless otherwise indicated. Additionally, the Appendix of this report includes 13 case studies of companies interviewed as part of the scoping study. These provide examples that explain briefly how and why companies in Pakistan have decided to relate to the poor from an inclusive business framework.

Analysis of Company Sample

The company sample included a diverse range of industries, company sizes, and types of relationships with the BoP. As shown in Figure 20, the 70 companies intervieweed for Pakistan's PSMR are distributed in as such: 23% in financial services (16 companies); 23% in food & staples (16 companies); 16% in consumer goods (11 companies); 13% in chemicals & pharmaceuticals (9 companies); 11% in construction and building materials (8 companies); 6% in automobiles and parts (4 companies); 3% in technology (2 companies); 1% in forestry & paper (1 company); and, finally, other industries represent the remaining 5% of companies in the sample. The company sample included small, medium and large companies, from which 13 are multinationals (19%) and 57 are local companies (81%). With regard to size, the companies were distributed as follows:

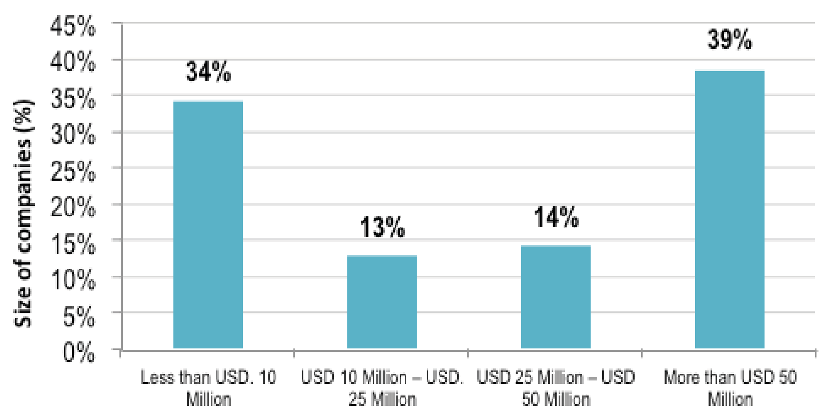
Figure 20. Industry Sectors of the Market Scoping Company Sample



Source: SNV Private Sector Research: Pakistan

By Annual Revenues (see Figure 21): 34% represent small companies (revenues less than USD 10 Million), 13% are small to medium companies (revenues between USD 10 and 25 Million), 14% are medium companies (revenues between USD 25 and 50 Million) and 39% of the sample is large companies (revenues more than USD 50 Million). Therefore, 53% of companies have revenues of more than USD 25 million and 47% of less than USD 25 Million;

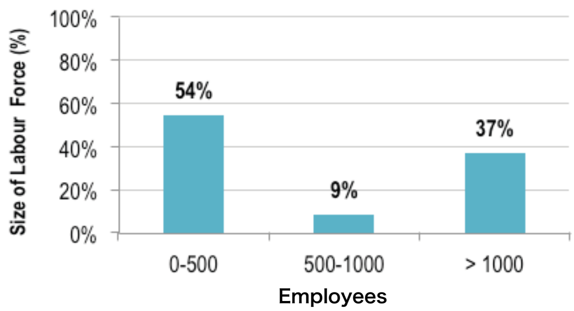
Figure 21: Size of Companies in Terms of Sales/Revenue



Source: SNV Private Sector Research: Pakistan

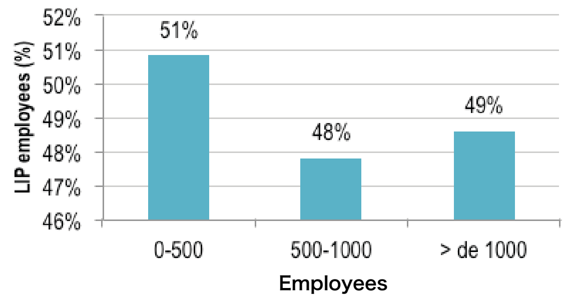
By Size of Labor Force: As represented in Figures 22 and 23 below, 54% of the companies employ less than 500 employees, 9% between 500 and 1,000 employees and 37% more than 1,000 employees. On average, the number of employees per company is 1,450 employees. And, According to the perception of those interviewed, the BoP represent an average of 51% of the total employees.For the companies with more than 1,000 employees, some 55% are from BoP populations.

Figure 22: Sample by Companies and Size of Labor Force



Source: SNV Private Sector Research: Pakistan

Figure 23: Sample by Companies and BoP employees

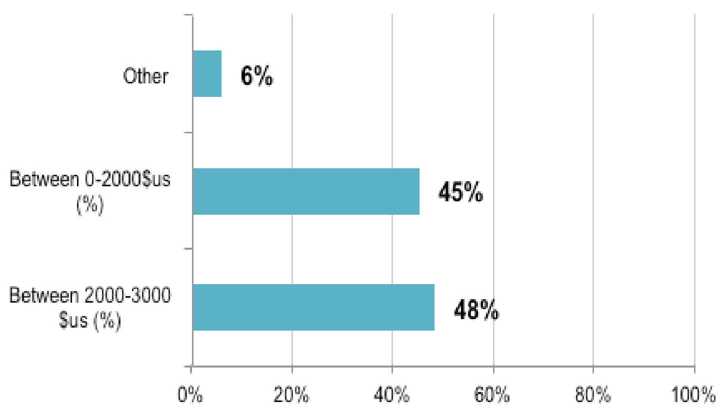


Source: SNV Private Sector Research: Pakistan

Key Findings and Trends

The companies interviewed have different perceptions about poverty thresholds - making it challenging to assess their true BoP impact and strategy. According to the research, 48% of the companies defined the segment of low-income people as those with an annual income of less than USD 2,000 (USD 5.50 dollars per day) as an upper limit, or USD 1,000 (USD 2.70 per day) as an average. Moreover, a slightly larger majority of companies (52%) perceived that those who are part of the low-income population earn an annual income between USD 2,000 (USD 5.50 dollars per day) and USD 3,000 (USD 8.70 per day).

Figure 24: Companies and Perceptions about BoP



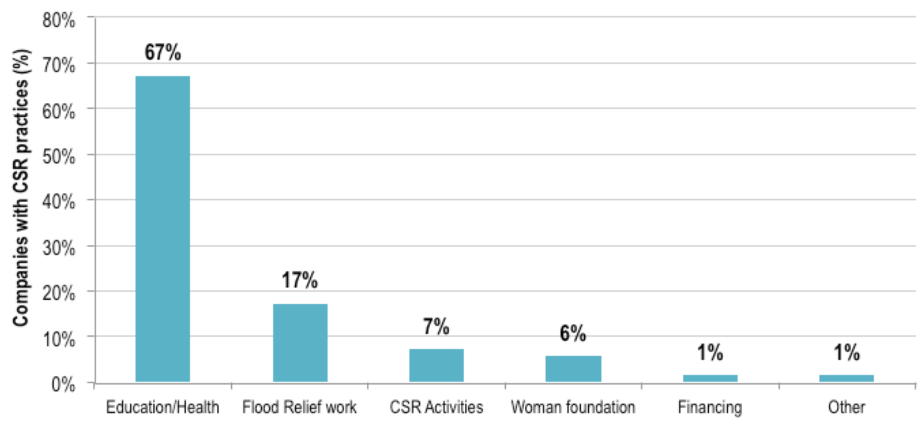
Source: SNV Private Sector Research: Pakistan

All the companies implement CSR initiatives. As shown in Figure 25, most CSR iniatiatives are related to health and education programs (67%), and flood relief (17%) in 2010. According to S.K. Hayeed[20], the most common CSR practice in Pakistan is related to short term activities which, to some extent, may be influenced by the zakat -- a term in Islamic finance used to refer to the obligation that an

[20] S.K Hameed, Corporate Social Responsibility (CSR), "Theory and Practice in Pakistan", 2010

individual or organization has to donate a certain proporation of wealth each year to charitable causes. Zakat is a mandatory process for Muslims in order to physically and spiritually purify their yearly earnings that are over and above what is required to provide the essential needs of a person, family or organization (estimated at 2.5% of net income).

Figure 25: Assessment of Focus of Company CSR Programs

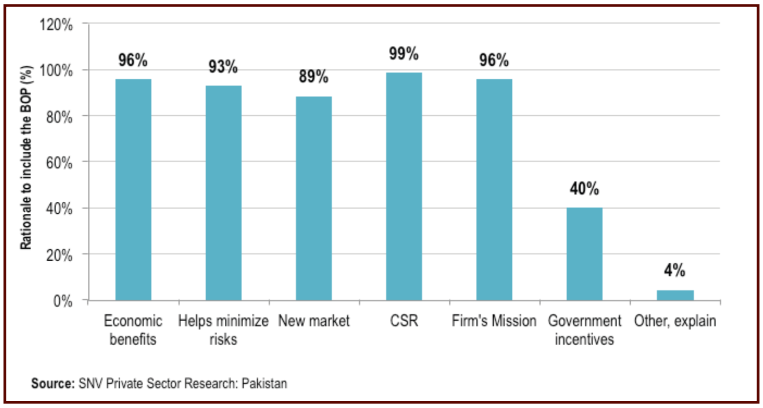


Source: SNV Private Sector Research: Pakistan

The companies interviewed often consider the BoP as essential actors within their value proposition. The level of response received from the companies which were interviewed demonstrates that many firms in Pakistan are still unaware of the inclusive business framework. Although the concept itself may be new to them, many of them have already been working with the poor within their value chain for some time. As can be seen in Figure 26, when asked about the rationale to incorporate the poor as part of their value chain: 99% of the companies indicated that it is part of their Corporate Social Responsibility (CSR) program; 96% recognized economic benefits; 96% say inclusion of the BoP is part of the firm's mission; 93% indicated that it helps to minimize risks; and, 89% recognize new market opportunities.

The companies which were interviewed expressed a stronger preference for the BoP as employees and consumers rather than suppliers or distributors. From the sample and as noted in Figure 16, almost all the companies expressed their interest to include the BoP in their business. Furthermore, when asked about projects currently including the BoP in the value chain, the companies explained the following: 59% have BoP projects including producers/suppliers; 80% including distributors/sellers; 96% including final consumers; and, 99% including employees. Finally, when asked about future plans and projects, the answers and results were similar. Furthermore, companies were asked about the influencing factors for investing in the inclusion of BoP in its´ value chains. Their answers revealed that companies do perceive different economic and market opportunities and benefits in working with the BoP, but not necessarily related to government incentives.

Figure 26: Rationale for Including the BoP in Company Value Chain



81% of the companies had leveraged partnerships to enhance their social impact. The Next Billions: Unleashing Business Potential in Untapped Markets[21] indicated that in order to successfully undertake business opportunities with poor segments of the market, collaboration with other companies or stakeholders is often required. With this in mind, companies were asked about their current alliances for implementing projects with the BoP, whether with the public sector, cooperatives or producer associations, NGOs, other companies, universities, or financial institutions. In summary, the company´s answers were: 69% have alliances with grassroots associations; 67% have alliances with academic institutions; 11% (7) have alliances with investment funds, and; lastly, some companies have alliances with the private sector and other private firms. See Figure 27 below.

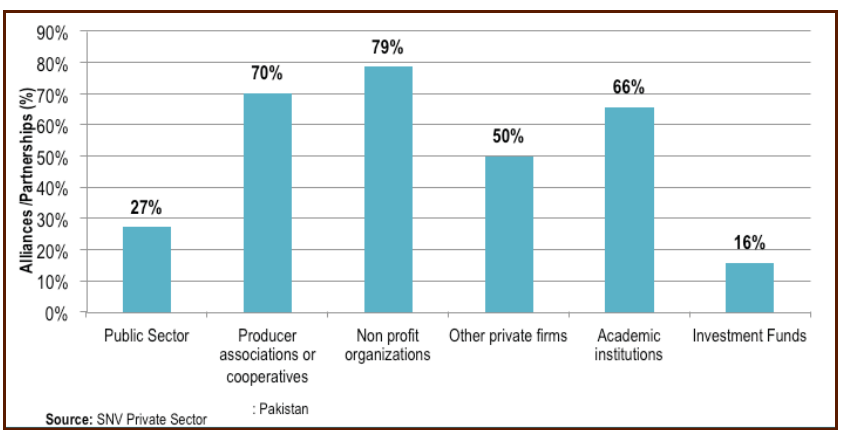


Figure 27: Alliances for Social Impact

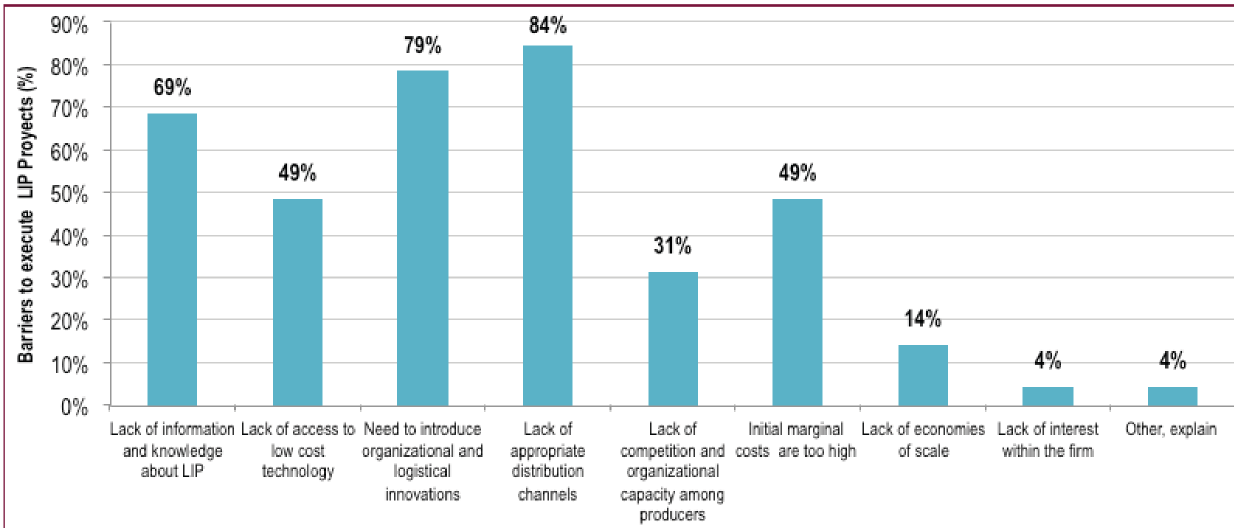
Key Challenges and Risks in Pakistan

The companies held mixed and varied views about the obstacles in working with the BoP -- distribution and logistics were the most notable obstacles to engaging with the BoP. Once the potential benefits

[21] World Economic Forum. (2009). The Next Billions: Unleashing Business Potential in Untapped Markets.

and opportunities of working with the BoP were identified, the companies were asked about the barriers and obstacles to implementing inclusive business initiatives. The main obstacle identified are: (i) the lack of distribution channel to serve this market (84%); (ii) the need to introduce innovations (79%); and, (iii) the lack of information about BoP markets and lack of access to low cost technology (51%). All these obstacles were identified by the majority of the companies interviewed as illustrated in Figure 28.

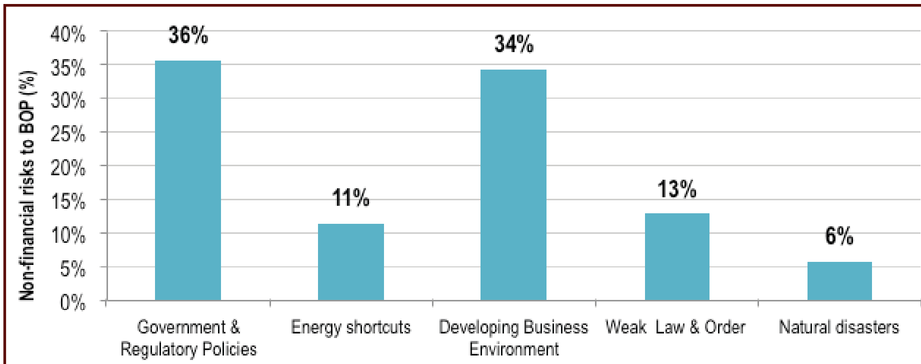
Figure 28: Barriers to BoP Projects within the Company



Source: SNV Private Sector Research: Pakistan

Besides the obstacles associated with the BoP itself, companies foresaw other non-financial risks when designing and implementing BoP projects. These risks were identified as: (i) 36% of the companies identified the government public policies & regulations as the main non-financial risk; (ii) 34% developing business environment: informal economy, lack of skilled labor & lack of market mechanisms; (iii) 13% a weak law & order system; (iv) 11% power outages; and, 6% natural disasters including earthquake and floods as illustrated in Figure 29.

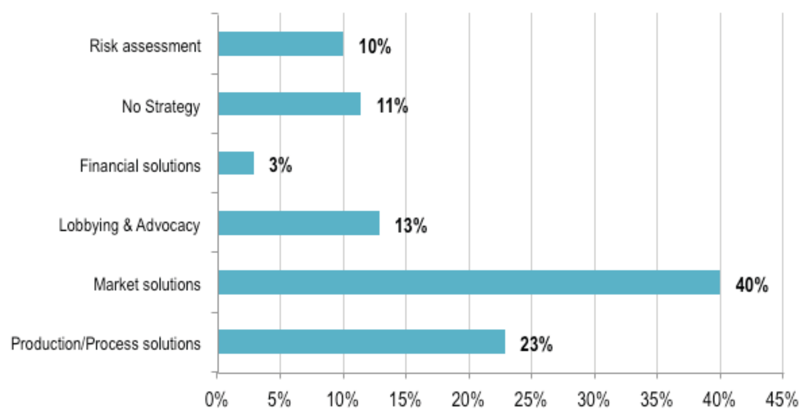
Figure 29: Non-financial Risks to BOP Projects



Source: SNV Private Sector Research: Pakistan

Regarding the main sources of non-financial risks for BoP projects, 89% of the companies identified strategies to hedge and confront them. The main strategies to mitigate these risks are: (i) to prepare the company and look for market solutions (40%); (ii) production/process solutions (23%); and, (iii) lobbying & advocacy (13%). In general, the private sector seeks market-driven mechanisms (market-based, financial, process/production solutions) to mitigate non-financial risks. When combined, these strategies represent 76% of the answers in the survey.

Figure 30: Mitigation Strategies for Non-Financial Risks

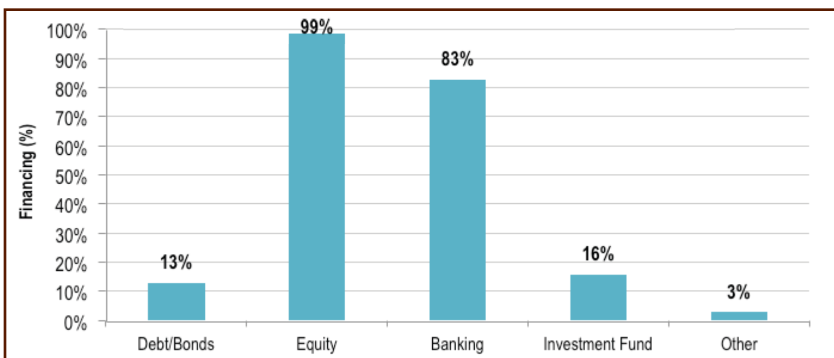


Source: SNV Private Sector Research: Pakistan

Inclusive Business Proposals and Potential in Pakistan

One of the principle goals of the survey was to gauge companies' interest in receiving financing to implement BoP inclusive business models. This section describes companies' past and current relationships with financing institutions, their level of interest in participating in an ADB sponsored financing facility fund for inclusive business, and any specific plans they might have in BoP venture financing. To fully understand the companies' financing interests and restrictions, the firms were first asked about previous and present financing.

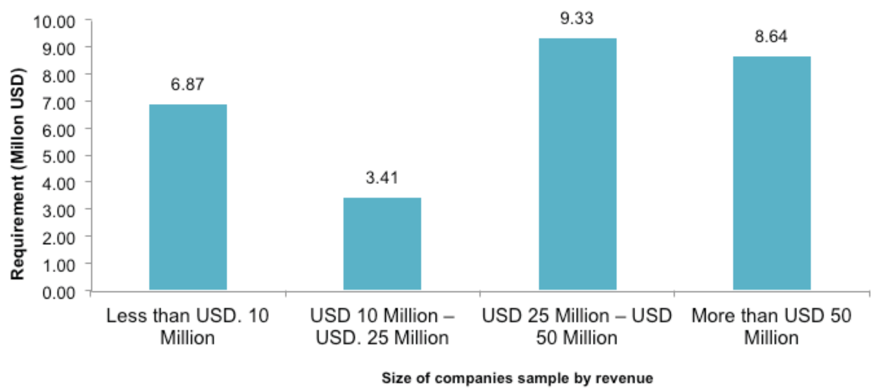
As shown in Figure 31, all the companies used equity as main source of financing and 83% have used banking services. Fewer companies (16%) have used debt and investment funds.



Source: SNV Private Sector Research: Pakistan

More than 90% of the companies (65 of 70) expressed a positive interest in accessing financial services aimed to design and implement B0P business models. The average financial requirement for the companies, accounting for revenue size, is USD 3.41 Million (14% of the sample - 10 small to medium companies); USD 6.8 Million (34% of the sample - 24 smaller companies); USD 8.64 Million (39% of the sample - 27 large companies); and, USD 9.33 Million (13% of the sample, 9 medium companies). In conclusion, the weighted average of financial requirement for the whole sample of 65 companies is USD 6.87 Million as shown in Figure 32.

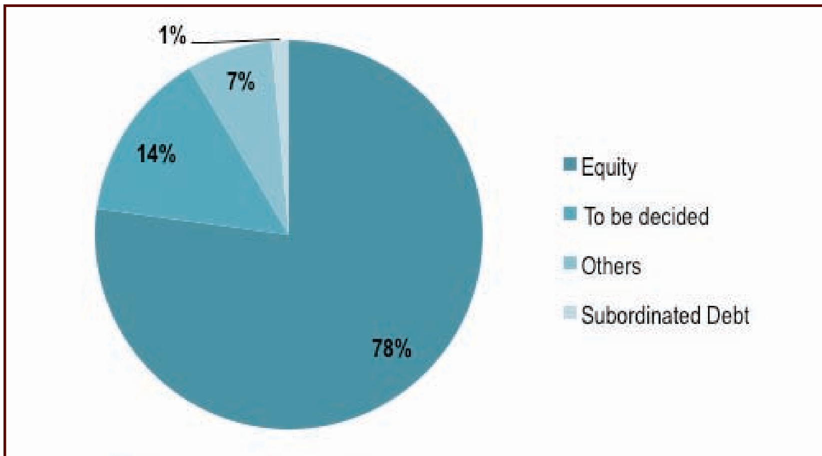
Figure 32: Potential Interest in Financing BoP Models



Source: SNV Private Sector Research: Pakistan

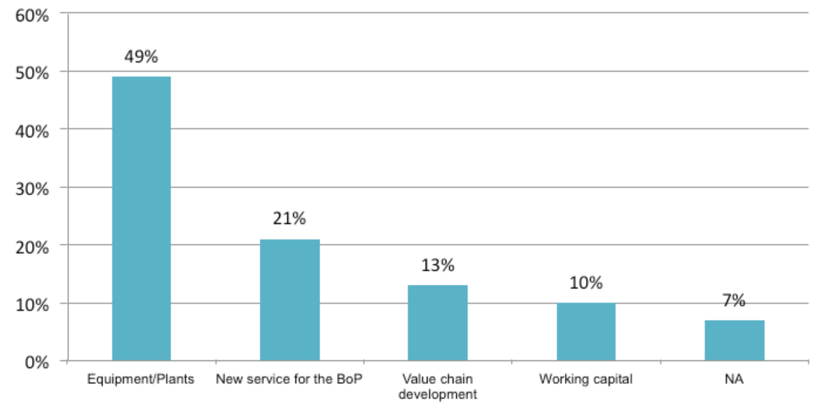
Of the companies interested in the BoP investment fund, there is a clear preference for equity investment, and a primary focus on capital investments and new services and products for BoP. The preferences were as follows as described in Figures 33 and 34 below: 78% of the companies were interested in Private Equity instead of other financing mechanisms; and, companies were generally most interested in investing in: (i) capital investments (49%); (ii) new services and products for BoP (21%); value chain development (13%); and, working capital (10%).

Figure 33: Type of Financing Companies Prefer



Source: SNV Private Sector Research: Pakistan

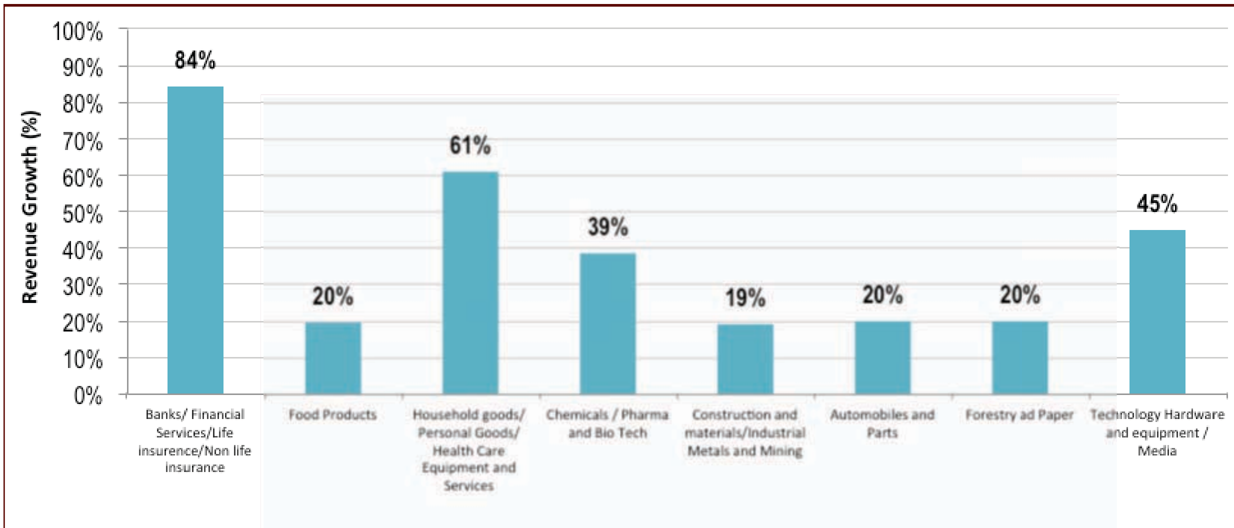
Figure 34: Intended Purpose of Financing



Source: SNV Private Sector Research: Pakistan

Select companies projected an average 20% revenue growth due to the BoP business model investment. More than 90% of the companies which were interviewed could determine the expected financial return from the BoP business model, and most were able to discuss their general expectations for the company's annual revenue, which on average[22] was an expected 20% growth. Additionally, Figure 35 highlights the expected revenue growth per industry.

Figure 35: Expected Revenue Growth by Industry

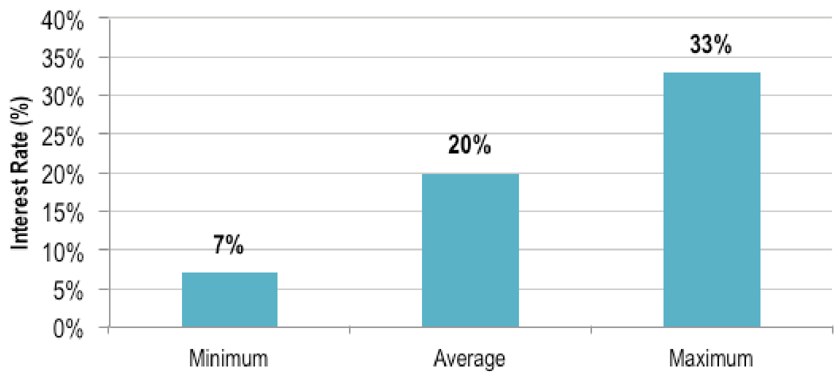


Source: SNV Private Sector Market Research: Pakistan

The companies interested in the fund expected an average interest rate of 16% for debt. The expected interest rate varies from a minimum of 7% to a maximum of 33% depending on the level of risk and business model/sector being proposed.

[22] This calculation is based on 59 companies that were willing to give percent estimations for annual revenue expectations.

Figure 36: Expected Interest Rate to Pay for Debt or Banking Loan



Source: SNV Private Sector Research: Pakistan

Conclusion

There is an increased sensitivity and knowledge within the Pakistani private sector that innovative market mechanisms and compelling incentives to work with the BoP exist, evidenced in the quantitative and qualitative data shown in the company interviews. Most of the companies´ managers expressed growing interest in integrating the BoP through inclusive business strategies and also, given the constraints around access to finance, were also intrigued by the possibility of leveraging finance to achieve their aims. Notwithstanding the nascent interest, the concept of economic inclusion of the BoP through market mechanisms must be further developed with the private sector in order for them to understand its potential to create value in business and simultaneously contribute significantly to poverty reduction in Pakistan; however, because Pakistani companies already work with the BoP either through their value chains or in CSR activities, some enabling conditions may already be in place. Most of the interviewed Pakistani managers are aware that structural poverty needs to be solved. In terms of the potential for IB models, the Pakistani private sector managers are attracted to opportunities working with BoP workers, consumers and distributors more than BoP small farmers as suppliers. This conclusion is consistent with the GDP structure, which relies mostly on the manufacturing and the service industries. Finally, the main risks identified by the Pakistani private sector are related to the quality of the rule of law and the deteriorating business environment, which bring uncertainty to the execution of long term business projects. However, the interesting conclusion supported through this study is that the companies prefer mitigate these risks through market mechanisms, which is a sustainable long-term solution.

V. Financing Inclusive Business

> Investors are increasingly rejecting the notion that they face a binary choice between investing for maximum risk-adjusted financial return or donating money to social and environmental causes. These impact investors are proactively using their investments to generate a tangible social or environmental impact, while also having the potential for some financial return.
>
> Robert Ruttmann, Credit Suisse[23]

While inclusive business investment in Pakistan is extremely nascent, Pakistan does have a robust private equity market that can provide a useful guide to the potential opportunities and risks of establishing such a fund in Pakistan. That being said, while debt instruments are also available, they have been insufficiently applied in a BoP context, where risks are perceived to be very high and where a majority of the population remains unbanked. At the same time, there is an emerging industry around impact investing in other parts of the world that can provide useful information with regard to the establishment of an impact investment fund in Pakistan. As such, this section (i) provides brief insights into the evolution of impact investing in emerging markets based on the latest research by JP Morgan and the Global Impact Investment Network; (ii) presents a consolidated summary of perspectives from select fund

[23] Credit Suisse and the Schwab Foundation for Social Entrepreneurship. Investing for Impact: How Social Entrepreneurship is Redefining the Meaning of Return, 2012.

managers about the viability of the inclusive business financing strategy; (iiii) describes preliminary investment strategy consideration and illustrative pipeline of potential deals; (v) provides preliminary recommendations for possible fund investors, as well as initial fund design parameters; and finally, (vi) discusses possible operational risks that may be present during execution.

The Market Opportunity for Impact Investing

Preliminary analysis of 530 BoP investments in emerging markets by J.P. Morgan reveals that impact investments are generating competitive returns in both equity and debt contexts. While impact investing has been characterized by the Monitor Institute as an "emerging industry" and by J.P Morgan as an "emerging asset class, " recent studies have revealed preliminary (but not representative) data about the potential expected returns of BoP investments from a limited sample of 119 emerging market equity investments and 411 emerging market debt investments from around the world.[24] While the sample should not be considered representative of all BoP investments around the world, it does suggest that roughly 73% of debt investments have returns between 8 and 12%, and that 30% of equity investments have returns over 20%. In the case of Vietnam, where impact investing in the BoP is still emerging, these preliminary findings from the global context may be important in defining expected returns in the design of the inclusive business fund.

According to a 2013 study commissioned by JP Morgan and the Global Impact Investing Network, Impact Investing is largely sector agnostic and opportunities range from food and agriculture to information and communication technologies. Responses from the 99 funds surveyed continue to validate that impact investing is very much context dependent and sector agnostic, even though there is a slight bias toward sectors which address systemic needs critical to sustainable livelihoods such as food, healthcare, education, housing, energy and water and access to finance either through micro-finance or through other forms of financial services that target the BoP (see Figure 37). Depending on the business model or archetype considered for inclusive business (i.e. BoP as consumer, employee, distributor or supplier), different sectoral preferences might emerge. For example, a region with a heavy concentration of rural poverty may consider agricultural investments that integrate the BoP into their value chain as suppliers as these models may increase the supply, quality and stability of agribusiness supply chains focused on specialty commodities while providing market access to the rural poor.[25] Another context where a region's competitiveness is heavily dependent on a low-cost labor supply may consider inclusive business ventures in vocational skills training (to enhance the skills level and quality of output of the local labor supply), low-cost housing (to ensure the low-income labor force has affordable housing that is at a short distance from the industrial park to reduce travel time and costs and improve labor satisfaction), or simply employ low-income workers directly (while ensuring adequate labor conditions). Furthermore, when trying to establish the market opportunity for BoP ventures in a particular sector, recent analysis reveals for example in low-cost housing that the potential invested capital required worldwide could be anywhere between USD 214 and USD 786 billion US dollars, while the potential profit opportunity could be between USD 177 and USD 648 billion worldwide.[26]

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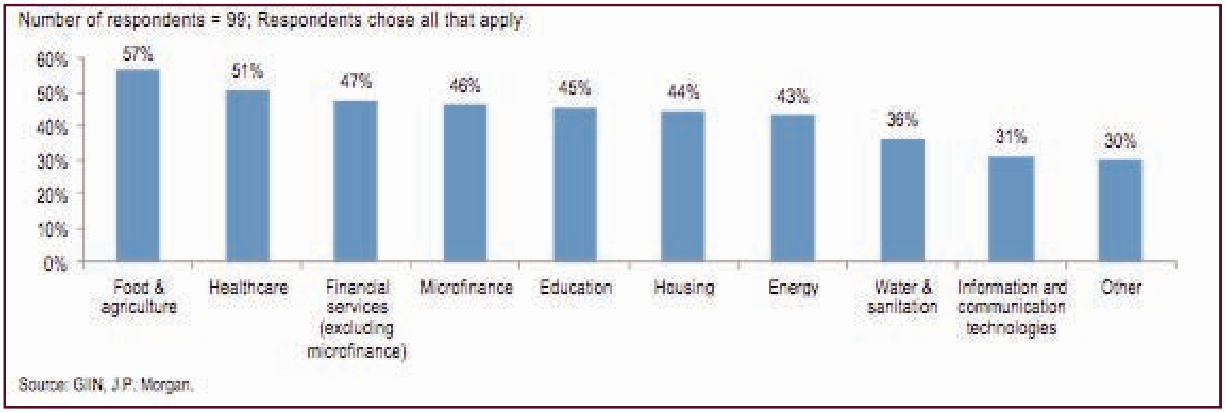
[24] Impact Investments: An Emerging Asset Class, J.P. Morgan, November 2010

[25] Inclusive Business: Creating Value in Latin America. SNV and the World Business Council for Sustainable Development, May 2011.

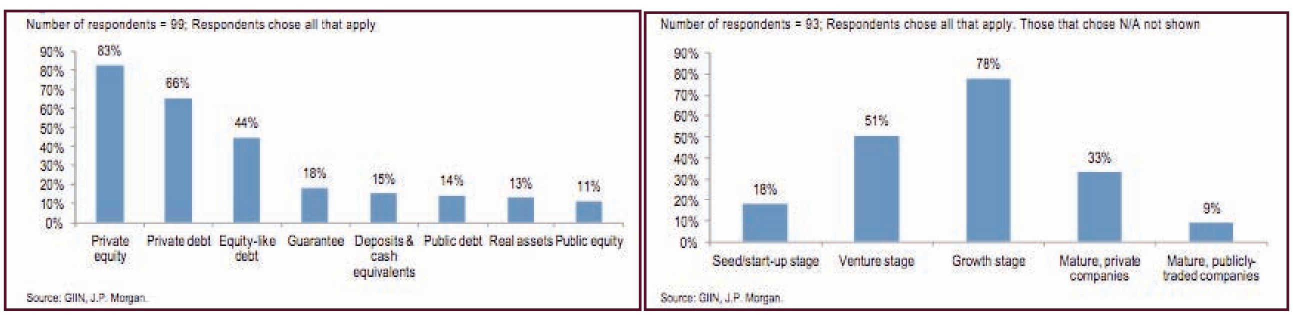
[26] Impact Investments: An Emerging Asset Class, J.P. Morgan, November 2010

Figure 37: Sector Investment Focus among 99 Impact Investors Globally[27]



In the same recent study, fund managers expressed a slight preference for private equity over private debt (83% to 66%) and a significant preference for investing in growth stage companies (78%). This evidence suggests two important aspects about impact investing that are often misunderstood -- inclusive business opportunities need not only be early stage to receive equity investments and more importantly, inclusive business opportunities are able to sufficiently mitigate perceived and real risks to warrant a significant majority favoring private equity over other instruments like debt and guarantees.

Figure 38: Instruments used to Invest and State of Investee Development[28]



Impact Investments need not sacrifice financial returns for gains in social impact. Within the same JP Morgan study, fund managers provided evidence that within a portfolio, their impact investments performed in line with any investment portfolio in the wider private equity industry -- 10% significantly outperformed expectations; and a little over half were in line with performance expectations or above. When looking at portfolio performance overall, respondents validated that about 10% are underperforming financially, and only 2% underperforming with regard to social impact. Moreover, more than 20% said that their portfolio was outperforming expectations as detailed in Figure 39.

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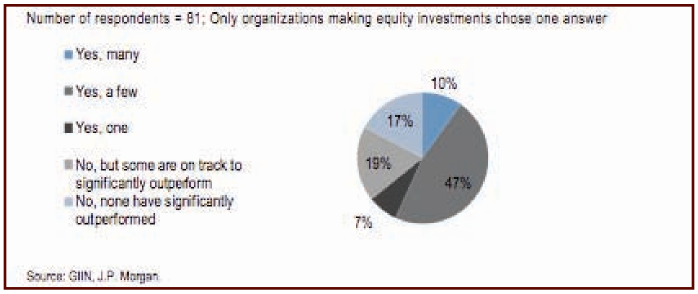
[27] J.P. Morgan and the Global Impact Investment Network (GIIN). Perspectives on Progres: The Impact Investor Survey, 2013. http://www.thegiin.org/cgi-bin/iowa/download?row=489&field=gated_download_1;

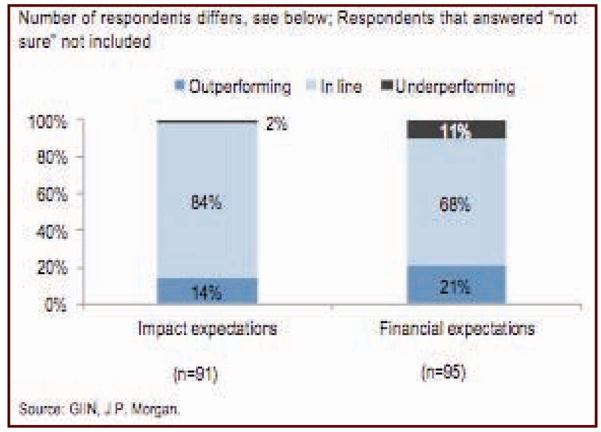
[28] Ibid.

Figure 39: Overall Portfolio Performance vis-a-vis expectations [29]

Respondents Assessment of Outperforming Investments



Respondents Portfolio relative to Expectations



Experience of Fund Managers with IB Finance

As part of the market scoping effort, fund managers, donors and related stakeholder were interviewed in order to ascertain the challenges and opportunities of inclusive business financing in Pakistan and some of the wider constraints of the private equity industry and capital markets in the country overall. The top 12 fund managers in Pakistan were interviewed as part of this effort as were 6 donors who were active in the space. The critical findings from these discussions were as follows:

A Slight Preference for Equity over Debt and other related financial instruments. Given the existing track record of deploying equity successfully in Pakistan and the significant demand for risk capital, fund managers preferred that equity be used in the inclusive business financing marketplace during the growth stage. Notwithstanding, all parties recognize that different stages of inclusive business might require different forms of capital and varying applications of financial instruments ranging from patient capital and grant monies to private equity, factor financing, and risk sharing facilities and credit guarantees.

A strong bias toward high-volume, consumer-driven business models in growth stage companies. Given the size and structure of the Pakistani economy and the large percentage of the population that is considered BoP, fund managers naturally gravitated toward BoP as consumer models, particularly in the services sector in areas such as the provision of energy, education, water, sanitation, financial services, etc. Moreover, fund managers also expressed a preference for investing in proven business models that were ready for growth and scale. Given the perceived risks associated with BoP business models, one risk management modality that emerged minimized early stage investments in the BoP market segment.

A sector agnostic approach to investing in general, and in particular when considering an inclusive business investment strategy. Beyond business models, fund managers did not have a particu-

[29] Ibid.

lar sector preference when considering an inclusive business investment portfolio. Beyond an initial bias toward basic services and many of the opportunities related to providing access to the BoP to products and services previously unavailable to them, fund managers also expressed a need to balance, higher risk investments with BoP anchor investments that were more certain to yield scalable social impacts while delivering market or above market financial returns. In that vein, the vast majority of fund managers interviewed were "finance-first" investors who placed greater importance on financial performance and secondary importance on social returns.

Governance, business strategy weakness and lack of credibility of management were the three most important constraints to the growth of private equity in Pakistan. Fund managers listed a number of challenges and constraints when considering private equity placements in the Pakistani context -- these included 1) governance especially in the context of both company and country performance where informality can limit the transparency through which business should be carried out; 2) management capacity and business strategy ineffectiveness which contends that a large number of companies do not yet qualify for this kind of investment and would, under normal circumstances, need to become investment ready by leveraging other resources.

Overwhelming support and interest for the creation of an inclusive business financing facility in Pakistan, provided certain conditions are met. Without exception, all fund managers welcomed the opportunity to engage with the BoP in meaniinful ways provided that these opportunities were commercially viable, market driven and well managed. The facility would fill a particular market niche currently not well served by other fund managers and impact investors based in Pakistan.

A Strong preference for an Anchor Investor like the ADB to crowd in investors for inclusive business financing. Considering the dramatic drop in foreign direct investment in Pakistan in 2011 - 2012, fund managers were very keen to secure an anchor investor like the ADB for a BoP fund. Moreover, without exception, all fund managers expressed a willingness to raise additional capital to close the fund and felt, given current interest in Pakistan by private investors (connected to Silicon Valley), that this would not be a difficult task. Moreover, fund managers were confident that additional capital could be raised for any financing strategy but a much stronger challenge exists in finding investment ready inclusive business opportunities -- some form of pre-investment incubation will be critical. All fund managers expressed strong support for a Technical Assistance (TA) facility that could be leveraged in part by the respective organizations involved, bilateral agencies as an emerging strategy to increase supplier and customer loyalty

Preliminary Suggestions for Financing Inclusive Business in Pakistan[30]

Economic Structure and Opportunities for Inclusive Business

With a population of over 180 million inhabitants of which more than half the population is below the age of 23, the Pakistani economy is largely agricultural, although there is a sophisticated services sector and business community predominantly concentrated in the three main cities of Lahore, Islamabad and

[30] This analysis was provided by Noah Beckwith, Capital Markets ADB consultant, in his assessment of the financial viability and preliminary investment strategies for an inclusive business financing facilities across 10 countries in South and Southeast Asia.

Karachi. Naturally, therefore, an inclusive business strategy would do well to focus on agribusiness and agro-processing opportunities and additional basic services such as education and water and sanitation that focus on BOP-as-supplier and consumer models of engagement and provide scalable systemtic solutions to poverty reduction. As in Bangladesh, the challenge in Pakistan is to help farmers and rural aggregators to capture greater value at the rural level, not only by increasing yields and growing a greater variety crops, but also by mechanising and producing value-added, intermediate goods before on-selling. Sub-sectors related to agricultural production therefore also become relevant to the Facility, such as output of seeds, tools, light machinery, insecticides, pesticides, herbicides and so on. On the infrastructure side, secondary and tertiary irrigation, waste water management, clean and renewable energy and rural electrification are also areas that a Facility could consider.

Unsurprisingly, as in the case of Bangladesh, the small and medium-sized enterprise sector accounts for over 80 per cent of economic activity in Pakistan but struggles to access finance from formal institutions. Although there are many aspects of access to finance that a Facility could focus on, an especially meaningful contribution could be in the intersection between finance and agriculture. Given that adverse weather events exacerbate considerably the vulnerability and insecurity of Pakistani farmers, with concomitant impacts along supply and production chains, the Facility could deploy capital in financial institutions with a focus on the following:

- **Micro-insurance:** Few individuals in low-income groups in Pakistan are able to obtain insurance against illness and injury, and for property and productive assets. This is especially relevant in rural communities, where direct or indirect dependence on agriculture is high. Individual households, the local entrepreneurs serving them and others in the supply chain face covariant risk stemming from war, illnesses such as HIV/AIDS and malaria, catastrophic natural events (tsunamis, earthquakes), adverse weather conditions (drought, floods), insect infestations, and fluctuations in the quality of inputs and market prices for produce.

  The usual response of Pakistan's low-income groups to risk events is to use available savings, borrow from informal sources or informal group resources, sell assets and/or default on loans. This risk has seen the emergence of a new financial service, **micro-insurance for low-income groups,** and has taken advantage of advances in communications, IT and the development of appropriate insurance carrier/agent business models. Moreover, the growth prospects for micro-insurance in Pakistan are vast, as only 10-15 million people are estimated to be covered at present.

  Risk management is key to effective micro-insurance, and policies must be designed to deal with limited and variable cash flows and unstable economic conditions in Pakistan. Coverage for the poor must therefore incorporate appropriate delivery channels, low premiums, low administrative costs and simplified administrative procedures. Premium rates must cover the provision of reasonable benefits as well as administrative, product servicing and delivery costs. Many MFIs chose to 'offer' micro-insurance on a mandatory group basis by linking coverage to a loan product. This approach may be cost effective, but does not minimise downside risks. In addition, many MFIs lack technical expertise, institutional capacity, and systems support, as well as protections provided to licensed insurers through legal and regulatory frameworks. Under partnership arrangements between licensed insurers and MFIs, important benefits can accrue to both institutions. By actively working in low-income areas, MFIs are known to and trusted by local communities and are well-positioned to develop volume and outreach. In addition, they can educate and advise individual clients who may be unfamiliar with insurance plans, and have developed efficient mechanisms to obtain information and handle financial transactions. The insurance provider is able to minimise overheads, gain access to reinsurance and take advantage applications using advanced IT mechanisms. Among the more innovative and successful micro-insurance products relevant to Pakistan are:

- **Area-based Index (ABI) Insurance:** Designed to address correlated risk for loss from a single, widespread event, ABI insurance is written against specific hazards—drought, floods, yield loss, animal mortality rates—defined and recorded at regional levels. Individual policies are based on the value or level of protection sought, with purchasers paying the same rate of premium throughout a region. In the event of a risk event, each policy holder is awarded the same indemnity per unit of insurance as the amount of units initially purchased. By abolishing individual contracts, inspections and assessments requirements, administration costs are minimised. ABI insurance can be bundled with other financial services and the premium can incorporated into the loan total. In such cases, the policy insures both borrower and intermediary against default due to the occurrence of specified risk events. In some cases, the policy itself can be used as collateral. Policies can be sold to individuals, groups and organisations through formal and semi-formal financial institutions. ABI insurance has a variety of applications for all types of organisations. For example, to pre-finance some emergency operations in certain African countries, the World Food Programme and the World Bank have developed and purchased a rainfall index insurance scheme from AXA Re, the global reinsurer.

- **Health Micro-insurance:** In order to minimise adverse selection, administrative and delivery costs and to maximise outreach and efficient premium collection, micro-insurance schemes have generally aimed at groups rather than individuals, with preference given to pre-existing groups formed for purposes other than obtaining health insurance. The households of primary members of the group are covered. Various service delivery models have been tested successfully in other parts of South Asia and in Africa which could be relevant to Pakistan, including:

    - **Community-based models:** local communities form groups that capitalise and manage a risk pool for their members;
    - **Provider models:** hospitals and clinics create pre-paid, risk pooling coverage for using their facilities;
    - **Full-service models:** downsized insurance services tailored to the low income market are offered by regulated mainstream insurers; and
    - **Social protection models:** health care—as well as crop, livestock and covariant catastrophic risk—is underwritten by national governments.

  Coverage under health micro-insurance schemes varies to meet the needs and payment capacity of policy-holders as well as the management capacity of providers. For example, "hospitalisation only" coverage plans may range from only limited emergency services to coverage for surgical, medical and maternity services. Hospitalisation and outpatient coverage schemes range from basic to fully comprehensive cover, including chronic illnesses. Premiums vary according to coverage levels. Limited outpatient and community health service plans may be less expensive but are usually limited to locally-available services only.

- **Collateralised commodity lending:** This form of lending would expand opportunities for post-harvest financing for Pakistani producers, traders and processors in agri-business. With traditional lending schemes, underlying collateral such as commodities, represents a second payment source to be mobilised in case of loan default. Under collateralised commodity lending mechanisms, the commodities become the first source of repayment. By retaining the right to sell off the asset in case of loan default, the lender shifts the risk from the willingness of the borrower to repay the loan, to the ability of the borrower to produce and conclude the underlying commodity transaction. In effect, collateralised commodity lending changes the lender's risk structure. Within collateralised commodity lending, there are two important types of financing:

    - **Warehouse receipt financing:** This is a lending mechanism that uses commodities as loan security. A receipt, issued by the licensed warehouse storing the commodity, serves as the basis for the loan transaction. Risk is thereby transferred from the borrower to a liquid asset which may be immediately sold off in case of loan default. Physical production is thus leveraged to access finance, there is no lien on the borrower's fixed assets and the lender's administration costs are reduced.

    - **Export receivables financing:** Under this scheme, the lender pays funds to an exporter on the basis of assigned import contracts from an importer. The lender thereby finances the working capital needs of the exporter, with the importer paying the lender first and the lender paying down the loan and passing any remaining funds to the exporter.

- **Factoring:** Factoring has become an increasingly important funding mechanism for un-banked SMEs in some parts of South Asia seeking to finance production cycles when buyers are given 30-to-90-day payment terms. Factoring is a form of supplier financing and not a loan per se, as it does not involve debt repayment or increase the seller's liabilities. Factoring provides sellers with immediate access to working capital finance. In addition, many factors offer credit and collection services in addition to funding the receivables. This is particularly important in environments where commercial laws, enforcement and bankruptcy systems are not well established. In developing countries, some intermediaries engage in **reverse factoring** to reduce the risk of fraud due to non-existent receivables and/or buyers and poor credit information. In this scenario, the factor purchases the accounts payable from large, transparent accredited firms only. In this way the factor's credit risk is equal to the default risk of a high quality buyer rather than an SME.

In addition to a strong focus on access to finance, a Facility for Pakistan could play a meaningful role in BOP-as-consumer IB engagement models. Services that are accessible and affordable to the poor in areas such as education and healthcare are desperately required, especially in more remote parts of the country. Similarly, availability of key medical consumables, medicines and diagnostic equipment is lacking.

Facility Implementation in Pakistan

Unlike several other countries examined as part of the ADB IB Facility, Pakistan has a relatively vibrant private equity industry, which means that there are a number of players that could be considered to implement the Facility. Technical skills in evaluating transactions, whether debt or equity, are well developed, so there would significantly less 'implementation risk' than in some other countries, and the need for technical assistance focused on deal-doing would be lower than in Bangladesh, for example. Where TA would be required is at the investee company level, concentrated in areas such as corporate governance, building management capacity, financial controls, management information systems and so on. Although respect for shareholders' or lenders' rights is somewhat greater in Pakistan than in Bangladesh, the Facility would have to emphasise the importance of long-term partnership with sponsors in order to get into the 'undergrowth' of companies and strengthen internal processes and systems. Self-liquidating instruments would, of course, be critical, because the Facility would not want to incur high exit risk in the form of having to identify external buyers of stakes in businesses.

Figure 40 provides an overview of potential investee companies that meet many if not all of the ADBs selection criteria. However, this list should not replace the need to conduct in-depth diligence before considering any investment opportunity,

Figure 40: Prospective Pipeline of BoP Projects in Pakistan

No	Company Name	Industry	Revenue (Million USD)	2010 Revenue Growth	Funding Needs (Million USD)	Expected IRR	BoP related
1	Agrow (Pvt.) Limited	Agriculture	10	30%	10,0	24%/18 mos	Agrow provides low-cost agricultural inputs and services for BoP
2	Packages Limited	Forestry ad Paper	50+	20%	10,0	40%/10 yrs	BoP sells waste paper, straw and river grass to Packages collection centers
3	Vita Pakistan	Food Products	10 - 25	30%	6,8	30%/5 yrs	Vita will provide low-cost fortified milk for BoP
4	Shakarganj Foods Products Limited	Food Products	25 - 50	20%	5,5	18%/18 mos	Shakarganj integrates BoP suppliers in its dairy value chain
5	Dalda Foods (Pvt.) Limited	Food Products	50+	17%	5,0	18%	Dalda Foodswill integrate BoP suppliers in its cooking oil value chain. The company will allow BoP consumers access to healthy cooking oils
6	Unilever Pakistan Limited	Food Products	50+	18%	5,0		Unilever will integrate BoP into its supply and sales chain, primarily through the initiation of the Shakti Amma Program, and a complementary BoP farmer education program to improve quality of raw vegetables
7	Ferozesons Laboratories Limited	Pharma and Bio Tech	10 – 50	20%	5,0		Ferozesons provides low-cost quality medicines for BoP
8	Plum Qingqi Motors Limited	Automobiles and Parts	10-	44%	5,0		Qingqi is very keen to develop, manufacture and market low-cost combine harvesters for BoP farmers

9	Nestlé Pakistan Limited	Food Products	50+	30%	3,0		Nestlé integrates BoP suppliers in its dairy value chain
10	Al Hamd Foods Limited	Food Products	10-	NA	2,6		Al Hamd Foods will include rural women who will be engaged in frozen product value chain
11	Tameer Microfinance Bank Limited	Banks	10-	25%	2,0		Tameer Microfinance will market health insurance product for BoP through its mobile telephone banking distribution network
12	Capital Marketing Services	Financial Services	10-	25%	1,5		Capital Marketing Services will include BoP drivers in its cold supply chain
13	RL Enterprises	Chemicals	10-	40%	1,0		RL Enterprises will locally manufacture Zinc Sulphate to provide BoP farmers. It will generate employment and health benefits for BoP
	TOTAL				**USD 62.4**		

Recommendations for Technical Assistance

As noted from a significant majority of company responses, pre- and post-investment risk mitigation through strategy consulting and technical assistance is often cited as a prerequisite to the effective development of a sustainable inclusive business. As such, beyond the demonstrated viability of an inclusive business private equity fund discussed in this market scoping exercise, a USD 5-6 million technical assistance facility should be developed to complement the investment fund to a) reduce investment risks in inclusive business; b) broker inclusive business investments and partnerships; c) facilitate government actions to support inclusive business, d) promote poverty reduction and inclusive growth impact reporting and networking on BoP-related issues and e) catalyze and inclusive business ecosystem through policy incentives, knowledge sharing, convening, and common standards (in for example, impact metrics). This facility should be made available during the life of the inclusive business financing facility.

TA facilities in support of financing facilities in emerging markets specifically in the context of market-based solutions have increased in relevance in recent years. A few notable and recent examples include:

African Agriculture Fund (AAF) Technical Assistance Facility (TAF): TAF was was created to support the African Agriculture Fund (AAF), a USD 300 million private equity fund, managed by Phatisa, to address food security challenges across the African continent. The purpose of this facility is to provide technical assistance to agri and food related businesses that receive investment through the AAF, allowing them to create new opportunities for smallholder farmers, farmer business groups and rural communities. The TAF is funded primarily by the European Commission and overseen by the International Fund for Agricultural Development (IFAD) and co-sponsored by the Italian Development Cooperation, United Nations Industrial Development Organisation (UNIDO) and the Alliance for a Green Revolution in Africa (AGRA). TechnoServe was appointed in October 2011 by IFAD to manage this facility. TechnoServe is a US headquartered not-for-profit organisation with over 40 years of experience catalysing private-sector led inclusive economic growth in Africa.

Green for Growth Fund and Technical Assistance Facility for Southeastern Europe: The mission of the Green for Growth Fund, Southeast Europe is to contribute, in the form of a public private partnership with a layered risk/return structure, to enhancing energy efficiency and fostering renewable energies in the Southeast Europe region including Turkey. This mission is reached predominantly through the provision of dedicated financing to businesses and households via partnering with financial institutions and direct financing. The Technical Assistance Facility of the Green for Growth Fund, Southeast Europe supports the Fund in achieving its goal of enhancing energy efficiency and reducing CO2 emissions through support of the renewable energy sector. It operates hand in hand with the GGF. By combining investments with targeted technical assistance, the GGF strives to build up capacities within its partner institutions that ensure the long-term effectiveness of its investments. Projects financed by the Technical Assistance Facility include:

- Capacity building and training to GGF's partner institutions (both financial institutions and non-financial institutions).
- Awareness raising and market enabling activities.
- Validation and monitoring of energy savings and CO2 emission reductions.

CP3: the Climate Public Private Partnership Fund and TA Facility: The CP3 Fund is a proposed public-private fund to catalyse low carbon investments in developing countries. The UK Department for International Development (DFID) is leading the development of CP3, together with the Asian Development Bank (ADB) and the IFC. CP3 aims to unlock several market failures that currently prevent private sector investment in low carbon infra- structure in developing countries. It aims to address the lack of capital by providing early stage equity and the lack of viable low carbon projects through management support, technical assistance and capacity building. It aims to address the high risk perception of the sector through a strong partnership with MDBs to provide risk-mitigation instruments and to capitalise on their local knowledge. The above package would also help bring in debt providers and, therefore, result in a high leverage of public- private Funds. CP3 would also include a Technical Assistance (TA) and project development facility, to help build the capacity on the ground and to create a pipeline of investable projects.

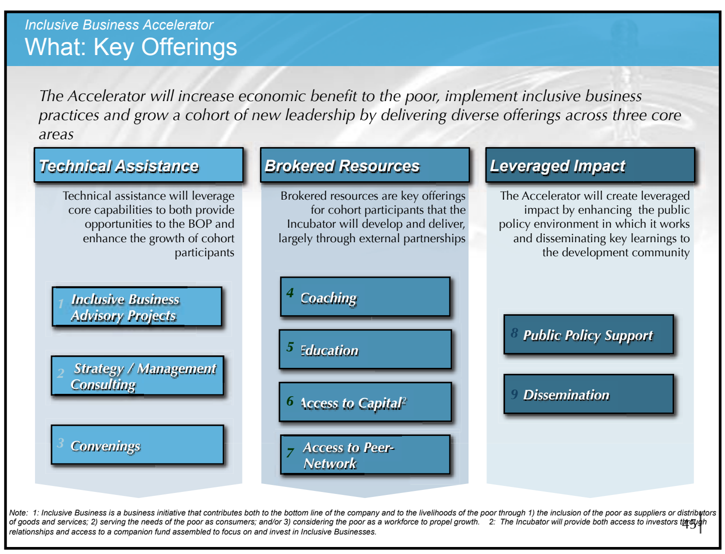
Taking into consideration some of these experiences, and following a similar logic, the IB Technical Assistance Facility could be structured in the following manner:

Objectives, Outcomes and Outputs of the IB TA Facility (IB Accelerator): The purpose of the accelerator is to assure that inclusive business ventures are sustainable and impactful by reducing pre- and post-investment risk and ensuring systemic and coordinated poverty reduction impact of private sector investments at the base of the pyramid. This will in turn contribute to the proof of concept in specific and diverse Asian markets and contexts in order to drive inclusive growth and commensurate poverty reduction. The core objectives of the IB TA Facility are to:

- Reduce investment risks in inclusive business: Companies will be provided with tailor-made pre- and post-investment strategy consulting and technical assistance focused on core business solutions that can address supply chain issues, labor productivity and retention challenges, innovative marketing approaches for new customer segments, maximizing a company´s hidden assets to generate additional value, and/or developing new distribution channels to accelerate growth. These solutions are always engineered to maximize systemic impact on the low-income segment in target areas of the company´s value chain in such a way to assure sustainable and viable shared value creation.

- Broker BoP investments and partnerships: The accelerator will broker opportunities for strategic partnerships and patient capital investments to overcome identified business and context-related challenges or take advantage of unique opportunities during the inclusive business design and/or development process. Developing local alliances with third-party organizations who have localized expertise, especially as it pertains to working with the BoP, is particularly important in order to provide unique insights into what is most appropriate in these environments.
- Facilitate government actions, policy incentives and advocacy to support inclusive business development: Where appropriate, the accelerator may be used to advocate for public policy incentives that can contribute to an enabling environment for inclusive business, mitigate specific infrastructure, technology transfer, and/or local financing challenges and/or take advantage of cross-sectoral opportunities. It may also leverage impact by disseminating key learnings to public institutions, academic/research centers, other businesses, and the development community.
- Build an Inclusive Business Ecosystem: Promote a combination of strategic activities that together can contribute to accelerating the development and effectiveness of inclusive business in the region, including developing common standards for impact metrics, promoting learning convenings and exchanges, educating donors, investors and companies in the region and beyond about the potential and opportunities of inclusive business, identifying gaps, and developing common approaches in policy development that has been proven to effectively incentivize and scale inclusive business,

Figure 41. Inclusive Business TA Facility Key Features



- Promote inclusive growth impact reporting and networking with other BoP relevant initiatives in Asia and worldwide for further advocacy and mutual learning. This will include a) measuring, monitoring and reporting on poverty and inclusive growth impacts and preparing ex-ante impact assessments; b) connecting to peer networks in order to exchange knowledge, lessons learned, best practices, contacts, ideas; c) facilitating the replication of IB models and IB investment funds to other countries in close cooperation with other agencies and partners; and, d) disseminating knowledge, results, lessons learned, and critical success factors to key stakeholders, especially the company investees and BoP communities.

While the proposed TA Facility will cooperate with the Fund Manager of any future Inclusive Business Financing Facility (were it to be developed), it will provide independent due diligence advice and poverty impact guidance and be managed by a third party (other than the fund manager or fund manager affiliate) selected competitively in accordance with ADB consulting requirements. The TA Facility will be designed to serve the interests of the different funds as they are created by the ADB -- as such, given the potential planned phased implementation (pending ADB consideration) of the financing facilities in the region by the ADB, the TA Facility will serve the interests of the entire target region. Depending on sequencing, the TA facility may be developed as a first step to help foster an enabling environment within which inclusive business financing facilities are more likely to get a running start.

Conclusion

ADB is probably best advised to take a pragmatic and opportunistic approach to establishing an IB Funding Facility in Pakistan. For logistical and political reasons, it would not be feasible to have a window for Pakistan added to an India-focused Facility, so realistically, it is probably best combined with Bangladesh (note that investor appetite for exposure to that particular combination of countries would need to be explored). If it were possible to aggregate domestic capital alongside DFI commitments, a Facility of $30-$40 million is not unrealistic for Pakistan, and the indications are that deal flow would be vibrant in the $500,000-$7 million range - though as mentioned previously, given the scope and scale of the opportunities, particularly in the basic services realm (i.e. water, energy, health, education), larger deals are also quite possible.

VI. Conclusions and Recommendations

The data and information gathered and analyzed for this report demonstrates that the Pakistani market can offer conditional, but viable and scalable inclusive business investment opportunities in both equity and debt. These opportunities need to be put into the context of a wider South Asian investment strategy to determine how to effectively price the higher level of risk involved, particularly because some of the risks are not easily mitigated. Notwithstanding these aspects, there is a case to be made for making some select and targeted investments in Pakistan based on the following considerations:

- **SIZE OF THE MARKET OPPORTUNITY**: Pakistan is the world´s sixth most populous country (more than 180 million people) with a USD 500 billion and growing economy (albeit inconsistently and just over an average of 3% in the last few years);

- **POPULATION DIVIDEND**: Two thirds of Pakistan´s population is under 30 years of age and will remain that way thru 2050 affording the country a dynamic workforce that if and when skilled can forge an accelerated and broadened pathway toward growth and prosperity;

- **BOP OPPORTUNITY AND MARKET OPPORTUNITY AROUND THE BOP:** 72% of the population in Pakistan is considered low income and represents what is estimated to be at least a USD 100 billion market opportunity that put simply cannot be ignored;

- **THE DIVERSITY OF PAKISTAN´S ECONOMY:** The structure of Pakistan´s economy provides opportunities in services, manufacturing and agriculture given the 50 - 25- 25 split (in terms of contribution to GDP) across the three sectors -- all three segments are also growing and opportunities exist for that growth to accelerate;

- **COMPANIES ARE READY, WILLING, AND ABLE TO BECOME MORE INCLUSIVE:** Companies are motivated to enhance their BoP engagement strategies and leverage their infrastructure and talent pool to address some of the key systemic challenges in Pakistan, particularly because many of these challenges are affecting their bottom line and opportunities for growth -- i.e. an unstable energy grid, an unskilled labor force, populations vulnerable to health risks, lack of market liquidity and limited financial inclusion, etc;

- **EXISTING TRACK RECORD OF AND INVESTOR INTEREST IN EQUITY AND DEBT IN BOP-RELATED DEALS:** While there is nascent interest in Pakistan in BoP investment, there is rapidly developing private equity industry keen to expand into new market segments to strengthen their portfolios. A BoP-focused investment strategy and financing facility is relevant to both companies and fund managers alike and an anchor investor like the ADB would strengthen the business case and crowd-in other investors, including from the Gulf States;

- **A SIGNIFICANT MAJORITY OF FIRMS RECOGNIZE THE IMPORTANCE AND RELEVANCE OF THE BoP:** Even though most companies were unaware of the concept of inclusive business, more than **90% of firms interviewed recognize the importance of the BoP** in their respective value chains, most notably as a target consumer base (96%) and a supply of skilled and unskilled labor (99%). Only 59% of respondents currently included or planned to include the BoP as suppliers within their value chain;
- **THERE IS A VIABLE PIPELINE OF OPPORTUNITIES:** Albeit a nascent concept in Pakistan, **there is an existing pipeline of inclusive business opportunities** and increasing interest of companies to serve the unmet needs of the country´s growing population and majority markets;

However,

- **WEAK GOVERNANCE, CORRUPTION, UNSTABLE ENERGY AND THE HIGH COST OF FINANCE** pose significant risks to the viability of any investment portfolio in Pakistan. Moreover, these are often exacerbated by high levels of informality, the marginalization of small domestic firms, skewed economic structures and neglected infrastructure. As a result, foreign direct investment has fallen sharply, perpetuating a vicious cycle of depleting resources and worsening conditions that deplete resources even more.

Although, at this time, inclusive business is viewed by businesses more as a byproduct of fulfilling their own needs for workers, suppliers, new markets and distributors, the openness to the concept of engaging with the BoP more purposefully to also address some of the poor’s critical needs in addition to their own, indicates positive potential for inclusive business development in Pakistan. Making IB-centered financing available could help ease the transition from traditional bottom-line business to socially inclusive business and provide an important head start into a new paradigm for a sustainable future.

More specific conclusions regarding the context for inclusive business in Pakistan are presented below:

Recommendations

- Any financing facility to be considered could **comfortably deploy USD 40 million** in Pakistan provided the overall investment portfolio and strategy is based on a wider geographic scope (i.e. Bangladesh) in order to mitigate inherent risks in the Pakistani economy.
- Investment opportunities ranged between **US$ 3 and US$ 10 million** with average expected **IRR above 20%** for many opportunities, albeit there was a strong bias toward fast moving consumer goods and services provided to Pakistan´s low-income segment;
- Given the diversity of opportunities and risks within the Pakistani market, especially with regard to inclusive business, fund managers with whom we spoke recommended **a sector agnostic approach but recognized unique opportunities for returns and impact in agriculture/ agro-processing, healthcare, housing, energy, education and financial services**;
- **Fund managers** agreed that in order to effectively pursue inclusive business investments, there would **need** to be **an anchor investor**, the investment strategy should offer a mix of **both equity and debt**, any financing vehicle should be accompanied by **pre- and post investment technical assistance (developed though a TA facility)**, and a **viable deal flow** of bankable opportunities would need to be identified.
- Given the ADB´s profile and reputation, a vast majority of fund managers (over 90%) suggested the **importance of having the ADB as an anchor investor** as it could “crowd-in” other investors, and signal to the wider industry that there is increasing viability for pursuing these types of investments in Pakistan.

VIII. Appendices

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Inclusive Business Cases

Plum Qinggi Motors Limited - BoP as Consumer

Plum Qingqi Motors Limited was incorporated in 1993 as a public limited company under the name of Saigols Qingqi Motors Limited and started commercial production in 1995. The company´s main objective is the assembly, manufacture, distribution and sales of all types of motorbikes (two wheelers), auto rickshaws (three wheelers), four wheelers, and their respective components. The Qingqi Motorcycles factory is situated on the outskirts of Lahore with a production capacity of 60,000 units per year. Modern machines are used to assemble all of the models at the same time, thus allowing the demand for the whole range of models to be met without delays. Qingqi is the largest manufacturers of three-wheelers in Pakistan. The company is an unlisted public limited company with US$7.0 million sales in 2010, with its property and plant valued at US$21.0 million. The company sales on advance payment and the yearly advances from dealers is generally around US$1 million. China Qingqi Motorcycle Group General Company holds 51% shares in Plum Qingqi motors, and Plum (Pvt.) Limited holds the other 49% of shares. The company´s business model incorporates more than 1,300 dealers and 250 vendors, and as a policy, educates dealers and builds a strong after-sale maintenance network. This is essential to ensure consumer access to reliable and low-cost repairs and routine maintenance. The vendors are included in the transfer of technology to improve their skills and are consistently evaluated and graded into four categories allows Plum Qingqi to control the quality of their service. The company directly employs 300 people, and indirectly generates employment for more than 3,000 persons.

BACKGROUND: Over the past few years the name Qingqi has become widely used by the local population to describe any low cost three-wheeled motorized small pickup. These pickups are a common form of transportation of goods in the rural areas, most significantly where roads are unpaved. The Qingqi pickups are also important for business and rural employment, for example Unilever Pakistan has set up a system whereby the Qingqi pickups are used as self owned delivery vehicles outside the formal distribution force of Unilever. These entrepreneurial drivers pick up vegetables and farm products and transport them to the larger ¨mandis¨ (markets) for sale. These same vehicles are then used to transport FMCG products back to small rural shops. A weekly average of 300 outlets are covered by each of these fifty Qingqi drivers. Based on this and other promising rural experiences, Plum Qingqi is keen to exploit the potential of their pickups in mechanized farming. Qingqi products are mostly sold to BOP living in small towns and villages. Through a special financing scheme, the Pakistani Government provides loans to BOP to buy Qingqi rickshaws. Every year approximately 8,000 rickshaws come into the market. These are compressed natural gas (CNG) powered, environmentally friendly, and provide a stable base of income generation. Transportation of goods and people are more convenient and cost efficient since Qingqi products have consistently replaced animal driven carriages. The improvement in mobility is allowing new trading and residential centers to open up as people can commute larger distances at more affordable costs. Expansion of mechanized transportation significantly powered by natural gas would have a significant positive impact on small farmers, trades people and BOP.

BUSINESS MODEL: Although Plum Qingqi´s flagship products have been related to low-cost transportation, the company is very keen to develop, manufacture and market small low-cost combine harvesters primarily for the BOP market. Typically during harvesting, incremental weather leads to wastage of the crop which particularly affects BOP farmers. Combine harvesters will allow BOP farmers a speedier harvest and storage of their crop, resulting in less loss and ultimately greater productivity. As the cost of renting large harvesters is prohibitive for most BOP framers, and harvest areas are too small for the large combines to operate efficiently, Plum Qingqi´s low-cost combine harvesters will meet a demand in the market with BOP farmers who already trust in Plum Qingqi´s brand.

ESTIMATED IMPACT: According to the National Agricultural Research Centre (NARC), Islamabad demonstrations of a small combine harvester in a farmer's field in Sheikhupura showed keen interest from farmers. According to an earlier study the manual and reaper harvesting methods cost about the same - approximately $28/acre - while combine harvester costs only $10/acre. Furthermore, the combine harvester does not leave bhoosa (hay), a byproduct of manual and reaping harvest methods. After factoring this in, the minimum benefit of using a combine harvester is still more attractive than other methods, at $8.70/acre, and a reduced harvest time of 2 to 3 weeks.

FUNDING INTERESTS: The company is looking forward to an investment from the ADB PE Fund to develop the low-cost combine harvesters. The required investment is $5.0 million and this funding can be structured as a PE deal. The financial return is expected to be Return on Equity of 18%, indexed to foreign currency appreciation.

RL Enterprises - BoP as Consumer

The sponsors of RL Enterprises are a group of young engineers, chemists, and business graduates, who during their education pursuits have realized the importance and potential of indigenous resources, which otherwise remain untapped due to lack of awareness, and have taken upon themselves to exploit the available resources to largely benefit the BOP population in Pakistan.

RL Enterprises is a Private Limited Company established in 2005 and has four divisions: (i) Agrichemicals: Agrichemicals form the backbone of the company with 80% of the company's revenue coming from this division. The second product manufactured from locally available phosphate is DCP (Di-Calcium Phosphate) which the company markets to the Poultry and Livestock Feed manufacturers; (ii) Poultry: RL Enterprises has a state of the art environment controlled shed with a capacity of 35,000 chicks per flock; (iii) Chemical Trading: The company is a leading supplier of petrochemicals including Isopropyl Alcohol and Ethyl Acetate. The company also sells PU based adhesives as well as pigments; and (iv) Disinfectant and Rodent Repellents: The company produces disinfectants and supplementary products like cleaners and detergents. RL Enterprises employs 80 direct employees; however, just its Humic Acid product sale is responsible for indirectly providing employment to over 2,500 employees. RL Enterprises is a privately held company, with annual revenues of around $2.0 million. The company´s target to achieve $11.0 million in revenue in the next three years. With an annual historic growth rate of 40% this aspiration of $11.0 million is plausible.

BACKGROUND: RL Enterprises´ focus is to develop specialty chemicals primarily from indigenous raw materials. Utilizing indigenously available minerals, RL is producing Humic Acid and Di-Calcium Phosphate. Humic Acid is used as a micronutrient to increase crop yields, and Di-Calcium Phosphate is used by Poultry and Livestock Feed manufactures. RL´s research activities are fostered by collaboration with educational institutions including the Government College University Lahore. Research conducted at the International Fertilizer Development Centre[31] shows that Pakistan has one of the highest incidences of Zinc deficiency in its soil. Based on its continued research and study of nutrient deficiency in crops, RL is planning to add zinc to the soil of agriculture produce to enhance agricultural productivity. Applying a spray that contains five per cent Zinc Sulphate sixty days after sowing activates certain enzymes, promotes plant growth, boosts flowering, and seed setting. In humans, Zinc deficiency leads to various diseases such as chronic renal disease, diabetes, sickle cell disease, among others. RL Enterprises estimates that addition of zinc as micronutrients to crops can increase the yield from 1,400 kilograms to 2,800 kilograms per acre.

BUSINESS MODEL: To meet the challenge of Zinc deficiency in agriculture and human consumption, RL Enterprises wants to locally manufacture Zinc Sulphate, which can be used, in part, for enriched wheat - a staple food of 180 million Pakistanis. RL Enterprises plans to buy Zinc from local mining companies in the form of Zinc Concentrate to locally manufacture 'Zinc Sulphate (granular)' which is not otherwise produced locally. By substituting imports, RL Enterprises will be able to reduce the cost of Zinc Sulphate' and offer a low-cost option to BOP farmers. The Company is licensed to manufacture Zinc Sulphate (EDTA Chelated) and is already manufacturing and selling the product at a limited scale. The current market size of Zinc Sulphate is 150,000 tons equivalent of US$ 200 million (according to the Ministry of Agriculture, Government of Pakistan). The Company intends to market Zinc Sulphate through the established network of agriculture wholesale and retail dealers currently selling its product, Humic Acid. RL Enterprises gained its market presence with Humic Acid through a similar substitution strategy that will be used for Zinc Sulphate. Its products are sold at retail outlets in rural areas.

ESTIMATED IMPACT: RL Enterprises employs over 80 direct employees, mostly from the BOP, in the plant in rural Punjab. Another 300 low income persons make a living through employment generated in RL´s value chain, in mining and supplying local minerals for producing Humic Acid, Di-Calcium Phosphate, among others.

FUNDING INTERESTS: RL Enterprises has previous experience of working with multilateral financial institutions such as ADB and is eager to associate with the proposed ADB PE Fund. This funding, through an equity stake in the company's capital structure, would be mainly utilized to develop the zinc micronutrient project. At this time the company would welcome an equity stake of $1.0 million. The IRR is expected to b 25% in 3 years.

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[31] Dr Upendra Singh www.ifdc.org/getattachment/2db6c79d.../ifdc_report_v36no1.zip.aspx

Unilever Pakistan - BoP as Distributor

Unilever is one of the world's leading suppliers of fast-moving consumer goods (FMCG). It aims to provide people the world over with "products that are good for them and good for others". Unilever Pakistan (70.4% Unilever equity) is the largest FMCG company in Pakistan, as well as one of the largest multinationals operating in the country. In Pakistan, the company had a turnover of Euro 309 Million in 2007, and enjoys a leading position in most of its core Home and Personal Care and Foods categories, e.g. Personal Wash, Personal Care, Laundry, Beverages (Tea) and Ice Cream. The company operates through 5 regional offices, 4 wholly owned and 6 third party manufacturing sites.

BACKGROUND: Inflationary pressure on raw materials, smuggling of tea, counterfeiting of Unilever brands by the informal sector, law and order, and energy shortages represent the most important non-financial risks within P&G's value chain in Pakistan. Because of these factors, the company is especially willing to invest in the development of its national value chain to provide more sustainability. The company values its work force and has a 99% retention rate. Unilever brands actively promote hygiene and healthy consumption patterns. The Lifebuoy Soap brand, predominately product of the low income segment, through its public service message program in parts "Healthy Hoga Pakistan" (Make Pakistan Healthy) program to target contagious diseases. The program has been successful in getting pledges from 5.2 million people to wash their hands 5 times a day with soap (as every day 146 children in Pakistan die due to typhoid and diarrhea).

BUSINESS MODEL: While Unilver practices inclsive business effectively in many other parts of the world as part of its core business model, in Pakistan many of the company´s "inclusive business" initiatives are still part of the company´s CSR and philanthropic activities. As such, company executives were eager to explain how their newly formed corporate foundation was involved in a number of efforts ranging from irrigation tank renovation for landless farmers to replicating India´s "Shakti Amma Program" which will develop business opportunities with BOP in this value chain. This Program was started in India in 2001 with the aim of increasing the company's rural distribution reach as well as providing rural women with income-generating opportunities, where they make 10% on every sale. After training the women sell products door-to-door or through petty shops at home. The company is successfully marketing quality products to the BoP by innovating in packaging and messaging.

ESTIMATED IMPACT: Unilever Pakistan focuses on enhancing the quality of nutrition and improving health and hygiene. Unilever intends to increase its consumer base in rural areas by adopting non-traditional modes of distribution. One of the programs is called "Rahber (Leader)". Under this program owner-drivers deliver Unilever products on small three wheel pick-ups commonly called Qingqi. These three wheelers are mostly manufactured by Plum Qingqi Motors, Pakistan. About 50 Qingqi loaders cover more than 15,000 outlets in rural areas and provide 5% incremental sales. This method of delivery does away with traditional middlemen as these delivery persons take items from distributors and deliver to retail outlets cutting out wholesalers. Unilever expects to double the Qingqi loaders to more than 100 the coming year. This would add another 30,000 retail outlets. The demand for FMCG according to Unilever is growing due to rising commodity prices resulting in greater rural disposable income and access to media. Rural consumers are more quality conscious and also adopting more economical purchasing leading to larger stock keeping units. Unilever is adopting indirect and novel approaches to expand sales too. One such program is "Guddi Baji (Lovely Sister)" training campaign. Under this program Unilever through an NGO funds training of rural women in hairdressing and make-up skills. These women run their own rural beauty salons and inform and educate consumers to quality products reducing the demand for low quality and spurious products. About 45 women were trained through the pilot Guddi Baji program managed by the Technical Education and Vocational Training Program (TEVTA) of the Government of Pakistan and funded by Unilever, Pakistan. TEVTA provides training at various locations spread throughout the country. At present more than 50 percent of Unilever sales are generated by 300,000 rural retail outlets. Some 3000 indirect sales people service these retail outlets. The Base of the Pyramid and its inclusion in the supply chain as well as sales chain is to be expanded through the Shakti Amma Program and a farmer education program to improve quality of raw vegetable such as tomatoes, fruits etc bought by Unilever, Pakistan. The Unilever brand of internationally available Ben and Jerry Ice cream division sources 100 percent of its walnuts from the valley of Hunza in Pakistan.

FUNDING INTERESTS: When presented with possible financing, Unilever expressed an initial interest in an investment of USD 5 million in order to strengthen the company's value chain. The company is currently considering long term loans to finance this project. The project has an expected return of 18%.

Nestlé Pakistan - BoP as Supplier

Nestlé is one of the largest consumer packaged goods companies in the world. With an employee base of approximately 280,000 people, the company operates in over 100 countries. Worldwide, Nestlé operates by a solid corporate principle that in order to be successful in the long-term it must create value both for its shareholders and the society at large. This pledge operates under the banner of "Creating Shared Value", and directly affects the company's core business activities. In Pakistan, Nestlé Pakistan Limited (Nestlé) operates under the same principles, with a specific focus on the company's relationship with Pakistani dairy farmers, from whom they directly purchase milk for the production of many of Nestlé's products. In 2010, 1.2 million tons of fresh milk and finished products were delivered to 70 cities across Pakistan. Nestlé is fully committed to its work with BOP populations involved in the company's value chain and recognizes that increased income for rural farmers means a more consistent supply of quality milk for the company.

BACKGROUND: Nestlé is the leading Food & Beverage Company in Pakistan with presence in even the remotest parts of the country. The company began formally operating in Pakistan in 1988, producing a range of food and beverage products. Of these, milk and nutritional products is the leading income generator for the company providing 86% of their revenues in 2010. Nestlé also has a substantial presence with these products in the Pakistani market, having achieved a 60% market share in that same year. Additionally, the company reinitiated the exportation of its products to Afghanistan in 2004, and continues to build its presence there. Two factories in Kabirwala and Sheikhupura are dedicated to the production milk and nutritional products, and two other factories in Karachi and Islamabad to bottled water. The company directly employees approximately 2,500 people, of which 60% are part of the low income population (BOP). Nestlé Pakistan projects a 30% revenue growth for 2012.

BUSINESS MODEL: To put into practice the company´s Creating Shared Value Approach, Nestlé Pakistan works in partnership with the dairy and livestock industry, universities and NGO´s to facilitate the incorporation of BOP in their value chain. Since 1998, through a robust milk collection system, Nestlé has directly purchased milk from rural dairy farmers. Because the company knows that the quality of the dairy industry in Pakistan is fundamental to assuring the quality of its key products, the provision of veterinary and technical support with the dairy farmers in their supply chain is a permanent part of its business strategy and part of a more holistic program based in the communities that includes other Corporate Social Responsibility (CSR) initiatives. For several years this support has been carried out through trainings in partnership with the Swiss Development Corporation (SDC) and the United Nations Development Program (UNDP). A team of more than 70 dairy development professionals work with the dairy farmers to provide community based veterinary and technical support, as well as demonstrations and training through two Nestlé farms in Okara & Sukheki. The company´s staff as well as farmers and female livestock workers are trained here to learn best farm practices. This has provided conditions which allow farmers to improve their farming methods, increase yield and profitability of their dairy farms, providing more and better milk for Nestlé, and creating a win-win scenario for the community and the company. Nestlé Pakistan is interested in expanding the number of village collection centers and milk chilling stations, and further development of those that currently exist, to increase production and incorporate more rural dairy farmers into the Nestlé value chain.

ESTIMATED IMPACT: In 2010, Nestlé collected milk from 190,000 farmers throughout the Punjab and Sindh Provinces, whom are additionally supported with veterinary and technical support. Over 500 million liters of raw milk was collected in 2010. The expansion and development of village collection centers and milk chilling stations will incorporate more Pakistani dairy farmers into the Nestlé value chain, guaranteeing them improved livelihoods as direct suppliers for the company. The project under development mentioned by Nestlé during interviews with SNV team intends to assist farmers owning on average 12-20 heads of cattle. These farmers would be provided buy back agreements to access financing. Technical assistance will be provided through field staff, training facilities at two model farms housing most modern milking equipment and over 300 imported cattle. Milk collection centers will be built near the farms. About 100 new milk collection centers are expected which will service more than 6,000 dairy farmers and could result in additional milk collection of about 15 million liters per annum.

FUNDING INTERESTS: When presented with possible financing, Nestlé expressed an initial interest in an investment of USD 3 million in order to strengthen the company's milk supply chain. The company is currently considering long term loans to finance this project. The project has an expected return of 20%.

VITA Pakistan - BoP as Consumer

VITA Pakistan is a family owned business that owns and operates 18 food and beverage production facilities across Pakistan. It produces bread, biscuits, extruded and fried snacks, recipe premixes, food beverages, bottled water, pasta and spaghettis, long life milk, liquid dairy products, baby cereals, multigrain flour and special fortified therapeutic food blend and dried milk powders. Vita is also producing therapeutic beverages under the brand name 'EM5 Nutraceuticals'. It has international memberships in various dairy and food technical associations such as the International Dairy Food Association (IDFA), AIB International, Wheat Foods Council, American Dairy Products Institute (ADPI), International Society Pharamacoepidemiology (ISPE), School Nutrition Association and Natural Products Association. It has, in the past, provided products to Land O' Lakes Pakistan School nutrition program and the World Food Program. VITA's trademarks are "VITA", "EM5", "SABEEN", "BONITA", "AALA" & "NAMAT". It has liaison offices in Dubai UAE, and Corpus Cristi USA. It is headquartered in Lahore.

BACKGROUND: VITA is a family business and the fifth generation is now leading the firm. The family follows the guidance of the Aga Khan who is the founder of the Aga Khan Development Network, a pioneering effort of sustainable livelihood improvement in Pakistan. With this background of assisting and developing low income population capabilities, VITA is committed to contributing to social welfare projects, as a policy. The company supports financially projects undertaken by the National Institute of Food Science and Technology (NIFSAT), University of Agriculture Faisalabad, one of Asia's oldest and largest agriculture universities. VITA has pledged US$3.5 to build a Foods and Dairy Technology Center in Faisalabad in order to advance food and dairy technology education and research. VITA has funded two not for profit organizations, namely Children Health Environment and Nutrition Foundation (CHEN Foundation) and Rural Development Initiative (RDI). CHEN Foundation offers school nutrition programs focused particularly on girls´ nutrition needs. The social norm of Pakistan traditionally perceives women and girls as recipients of low quality diet in comparison with men and boys. This lack of nutrition in later stages leads to higher child mortality and places a social burden on families. Poor families with malnourished women and children reduce the able workforce. CHEN Foundation is also helping with training for government school teachers to improve children´s nutrition and school environments. In these activities CHEN Foundation partners with USDA and WFP. The Rural Development Initiative (RDI) is working on the concept of community based processing of medicinal berries in Northern Areas of Pakistan. It also plans to start a pilot project plant for processing medicinal berries and extraction of fruit pulp. The success of this project has the potential to benefit a large number of low income rural population, which otherwise due to remote geographical areas, would not have access to opportunities available as would be available to BOP communities living near large cities or towns. Cultivation of indigenous plants can have two fold benefits, 1) conservation of the environment, and 2) by allowing indigenous people to continue their traditional way of life.

BUSINESS MODEL: VITA is developing fortified milk production and sales. The group can leverage their existing delivery channels to deliver milk at a reduced cost, compared to processed and packaged milk presently available in the market. Since the plans are in initial stages, details are still being worked out. Conceptually VITA intends to import fortified milk substitute and blend it with local milk to enhance nutritional value. Despite being classified as the 5th largest milk producer in the world, Pakistan suffers from sale of contaminated and low nutrition milk. VITA intends to take this challenge of providing aseptically packed fortified milk to low income population at a lower cost. The group intends to use its CHEN foundation to market to sell the milk to schools.

ESTIMATED IMPACT: The milk will be fortified to provide a substantial part of the daily requirement of fats and vitamins. The group director, based on his extensive research, pointed out the nutritional requirements in developing and less developed countries like Pakistan are different; therefore, the recommended Daily Amounts (RDA) of various vitamins and fats required by children in Pakistan can be quite different than those required in children in other countries such as France.

FUNDING INTERESTS: The company is very keen on acquiring funding for the fortified milk project and indicated willingness to share further information once the funding requirements are firmed up by the provider. Presently the company's capital structure is comprised of 60% owners' equity and 40% long term bank borrowing. The fixed assets of the company are valued at $8.5 million. The new project is expected to generate an IRR of 33% in 4 years.

Al Hamd Foods Limited Ltd - BoP as Supplier

Al Hamd Foods is a venture of the established and leading bakery brand in Pakistan, Bunny's. Bunny's has been operating in Pakistan for the last 20 years and markets snacks, bakery products, and frozen local bakery products.

BACKGROUND: Al Hamd Foods Limited is in the process of establishing a frozen cut-fruit, vegetable, and french-fry processing, packaging, and manufacturing facility. The yearly production capacity is estimated at 27,000 tons of fruits and vegetables and 7,000 tons of cut potatoes for french fries. The company plans to market frozen and processed fruits and vegetables in local and international markets. It has contacted and is seeking buy back arrangements with international and national retailers in Pakistan´s major cities. Al Hamd Foods seeks to export 70 to 80% of the frozen fruit and vegetables, and will seek a domestic market for marketing french fries.

Pakistan is suffering from frequent energy shortages and power outages, which like the PACKAGES case study, is hampering Al Hamd Foods production, and negatively affecting their BOP suppliers by creating unstable supply flow and production possibilities at Al Hamd Foods.

BUSINESS MODEL: The company will add value to fresh fruits and vegetables grown in Pakistan by hygienically freezing and packaging them, thus extending their shelf life to one year. The company believes that the rising cost of food will make their product ideal for households in the countries to which the frozen produce will be exported. Wastage and handling can be reduced in these households as freezing allows them to buy in more economic quantities. The company's long term strategy is the following: Partnerships in long term arrangements with international importers, signing long term contracts will also be finalized with local wholesalers and large retailers procuring fresh fruits and vegetables directly from the growers, processing them and exporting in bulk to the international market, as well as marketing nationally under their own brand.

Al Hamd will buy directly from BOP farmers as part of a long term strategy and developing mechanisms for improving the quality and quantity of the produce. The company will develop the supply chain for grading, polishing and later freezing the produce, thereby decreasing waste. Eliminating the middle man, which have been Al Hamd´s traditional suppliers, will reduce inefficiencies, allow them more control over quality, improve the livelihoods of the produce farmers, and increase profit margins for the company.

ESTIMATED IMPACT: Al Hamd Foods´ new frozen produce initiative will require processing large quantities of fresh fruits, vegetables, and cut potatoes which will be labor intensive. The company estimates that the project, once operational, has the ability to generate livelihoods for possibly 10,000 rural women who will be engaged in prewashing, slicing, and shelling fruits, vegetables, and potatoes. The company will actively promote livelihoods and skill development, and offer higher than normal wages as part of its policy to improve communities' economic welfare. In order to undertake this new project, the company will directly employ 400 workers and provide them with housing and other facilities.

FUNDING INTERESTS: An equity investment of $13.6 million will assure an uninterrupted power supply to the production process of frozen product at Al Hamd. The company intends to offer 19% of its equity, valued at $2.6 million, through a private equity placement for the project, and is looking eagerly to the proposed ADB Fund as a possible equity partner. The IRR is expected to be 36% in three years. The capital structure of Al Hamd Foods would be comprised of Sponsor Equity 24.5%, Proposed ADB PE Fund 19.0%, and Long Term Financing & Working Capital 56.5%. The sponsors have already invested long term financing and equity of $ 10.34 million in the project. The project is expected to generate high returns and is forecast to be profitable from year one with sales estimated at $23.0 million at 50% capacity rising to $46.0 million at 75% capacity in year five. Year five ROE is expected to be 103%.

Ferozsons Laboratories Ltd - BoP as Consumer

Ferozsons Laboratories Limited´s core business is the manufacture and sale of Pharmaceutical Products, initiating activities in Pakistan in 1954. It is listed on the Karachi, Lahore & Islamabad Stock Exchanges. Ferozesons Laboratories has two main subsidiaries: i) BF Biosciences Limited unquoted public limited company, in which Ferozesons has an 80% holding, was set up in 2006 and produces Cancer and Hepatitis related medicines at production facilities in Lahore; and, ii) ´´Farmacia´´ pharmacy chain, with a 98% holding by Ferozeons, which is dedicated to retail trading and sales of pharmaceutical products.

BACKGROUND: Ferozsons Laboratories and its subsidiaries have provided pharmaceutical products to Pakistanis for over fifty years with a reputation for quality and safety. The company´s net sales have increased from $7.5 million in 2005 to $18.0 million in 2010, largely driven by product diversification and expansions in property, plants and equipment.

Ferozesons delivers low-cost life saving medicines through retail and rural outlets, which provide safe points of sale for consumers, as harmful counterfeit and substandard medicines are commonly sold across Pakistan. Important low-cost gastroenterological medicines are sold at these outlets as well as one of the lowest cost cancer and hepatitis related medicines in Pakistan, due to the company´s successful substitution of imports. The BOP also represents about 30% of the company´s direct employees, and others from the BOP are indirectly employed through the company´s distribution network of pharmacies and sales agents. As part of its health education initiatives, the company sponsors educational programs for medical professionals and distributes materials to consumers on how to prevent water borne diseases.

BUSINESS MODEL: Ferozsons products will increase the impact on the BOP through three avenues: (i) expansion of retail outlets and provision of low cost medicines to rural clinics which saves travel time for BoP families requiring medicine (time can be otherwise used productively) and improves accessibibilty in order to reduce illness (and related lack of productivity when BoP persons are ill) ; (ii) licensing and technology arrangements with Indian, German and Latin American pharmaceutical companies which allow them to provide lower-cost medicines; and (iii) increasing reach to low-income areas, in collaboration with village and town clinics, to deliver health awareness programs. The health awareness programs are focused on prevention in order to increase the health of BoP families and mitigate disease. Consolidating licensing and technology arrangements with international firms will allow the company to expand its low-cost life saving medicine portfolio and provide greater access to these medicines to people from the BOP. Investing in awareness in the communities brings in more clients with medical conditions requiring treatment.

ESTIMATED IMPACT: According to UNICEF, worldwide 3.5 million children are at risk of contracting water borne diseases each year. Ferozsons Laboratories´ sales models of expansion of retail outlets and arrangements with rural clinics to market its low cost gastroenterology and other medicines have the potential to significantly reduce fatalities and infections in Pakistani children. Through the company´s initiative to educate medical professionals and consumers, more referrals will reduce the incidence of water borne diseases.

FUNDING INTERESTS: The company is actively seeking funds for this expansion opportunity and would welcome an incremental equity investment of approximately $5.0 million within the next year. Its assets total $22.0 million with annual sales of $15.1 million with 70% equity and 30%LT debt (HBL/ABL). The Company expects IRR of 24% within 18 months of commencing operations, and has suggested BF Biosciences Limited, its private limited subsidiary, as an investee company for the proposed ADB Financing Facility.

Tameer Microfinance Bank Ltd - BoP as Consumer

Tameer distinguishes itself from other microfinance banks by being one of the first nation-wide, private sector, non-NGO, commercially sustainable micro-finance institutions in Pakistan. Tameer Bank serves low-income, salaried, self-employed and micro entrepreneurs with a range of financial products designed to allow them to grow their businesses and produce significant economic multiplier effects throughout local economies. The bank also provides home improvement products and fixed-term deposits.

BACKGROUND: Tameer Microfinance Bank Limited was established in September 2005, and is headquartered in Karachi with branches, sales centers, community centers and Mobile Banking outlets spread throughout Pakistan. The bank services impoverished urban and rural areas, providing full banking facilities aimed at the low income communities. In 2009, Tameer Bank partnered with Telenor, a cell phone company in the Bank-Lead model, under the State Bank of Pakistan's, Branchless Banking Regulations, to bring http://www.easypaisa.com.pk/ “Easy Paisa”, a mass market Mobile Banking Service, offering Mobile Accounts, Money Transfer and Utility Bill payment. Tameer Bank is majority owned by Telenor, 10% by the International Finance Corporation (IFC) the private sector arm of the World Bank Group and the rest is funded by the Founder, President and CEO Mr. Nadeem Hussain and the Group. Telenor has an equity stake of $11.80 million representing 51% of the equity acquired in December 2008.Tameer Bank’s net interest income in FY2010 was $6.6 million. The asset base of the bank doubled over last year and the total microfinance advances went up from $18.0 million (2009) to $36.0 million (2010). The liabilities (deposit base) went up from $15.0 million (2009) to $35.0 million (2010). The number of depositors rose by 88% in 2010 to reach over 228,000 and has more than 140,000 active borrowers. The increase in asset base resulted mainly due to increased deposits as well as a loan of $3.7 million from IFC provided to support the banks microfinance portfolio. The bank also borrows from commercial banks under the micro credit guarantee facility of the State Bank of Pakistan.Since it started operations Tameer Bank has disbursed almost $100.0 million mainly to low income small entrepreneurs. Its loan portfolio in March 2011 exceeded $42.0 million. In a funding constrained economy like Pakistan, coupled with high incidence of poverty, microfinance funding enables millions to borrow. The potential impact is manifold as borrowing from the informal sector imposes a very high poverty premium, sometimes as high as imposing an interest rate in the range of 90% to 226%. Institution of informal money lenders creates a vicious circle of poverty and servitude. As part of the Tameer Microfinance´s commitment to development and poverty alleviation in Pakistan, it also provides low cost health insurance and micro mortgages for crop and trade financing. It also lends to groups against social collateral, similar to the Grameen Bank model.

BUSINESS MODEL: Tameer Microfinance has developed a health insurance product which will be marketed through its mobile telephone banking distribution network. The bank believes that its existing network and technology will enable a successful launch of a nationwide health insurance program. Provision of health insurance and an integrated medical service is desperately required in the country. Tameer’s low cost and easily accessible model can significantly tap into this uninsured segment of the low income population.

ESTIMATED IMPACT: Tameer has a network of branches across the country, in areas and communities where microfinance needs are greatest. Tameer feels that its activities underpin the achievement of many Millennium Development Goals (MDG). Tameer’s average loan size is USD 2,000. Tameer, with its majority owner Telenor, has successfully launched the “Easy paisa” product, a mass market Mobile Banking Service, offering Mobile Accounts, Money Transfer and Utility Bill payment. The combination of the branchless banking with the introduction of a low cost “pay phone” using GSM technology by Telenor has increased market penetration. Tameer aims to partner with domestic appliance manufacturers such as Singer and micro insurance providers such as Leapfrog to introduce low cost leasing and insurance products. Going forward, Tameer has the ability to leverage existing network of outlets and branchless banking to access low-cost deposits and increase its fee-based business. Tameer operates at national level in accordance with the State Bank of Pakistan Prudential Regulations for Micro Finance Banks (January 2011).

FUNDING INTERESTS: Tameer Bank has been an active player in fund transactions. The bank communicated a requirement of USD 2.0 million for this initiative that would enable the bank to engage another 6,500 borrowers and provide them with bundles services including the option for health insurance. The Return on Equity is expected to 12% per annum.

Capital Marketing Services Ltd - BoP as Employee

Capital Group began its business in 1984 by the establishment of a steel industry in Pakistan. Over the years the group has diversified and ventured into successful construction, logistics, and confectionary businesses.

BACKGROUND: Capital Marketing Service started its operations in 1998 as a distributor for Nestlé & Pepsi products in Rawalpindi. Over the years the company has maintained its association with Nestlé and has become their warehousing agent for Northern Areas of Pakistan. The firm has approximately 200,000 square feet of warehouses and is also the distributor for Seasons Cooking Oil and Warid prepaid phone cards. A major portion of the firm's business is devoted to transportation and the company employs a fleet of 130 trucks. The major clients include Dalda Oil, Engro Fertilizer, La Farge Cement and Nestlé.

Capital Marketing Services is an AOP (Association of Persons) and does not have financial information available for public domain. However, due to its interest in the proposed PE Fund the firm did share some of its financial information. In 2010 Capital Marketing handled $35.0 million worth of edible food products in various packaged forms. The company's historic growth in volume of goods handled has been 25% and this trend is expected to increase as food prices rise, packaged foods will become more affordable thus contributing to the increase in sales of FMCG goods. Capital Marketing Services provides value chain solutions to product manufacturers and begins with Freight Services provided through large 14 and 22 wheeler heavy duty trucks. These freight services transport goods from manufacturing units to secondary warehouses in North of the country, from the secondary warehouses products are shipped to dealers and distributors. Capital Marketing also provides warehousing facilities of over 200,000 square feet in Islamabad, Lahore and two other towns, and from these distributes its clients´ products.

BUSINESS MODEL: With the increase in food prices, the margins for distribution allow more efficient and mechanized supply chain development. Presently, Capital Marketing directly and indirectly engages over 1,000 people as drivers, loaders and handlers. Low income people are able to access goods brought by Capital Marketing's logistics fleet through small retail outlets located in their towns. The benefits of increasing shelf life and introducing more efficient transportation will significantly add value to products stored and sold by these small retail outlets. For achieving this improved supply chain logistics Capital Marketing has prepared a feasibility study on cold supply chain. Capital Marketing is confident that a cold supply chain especially for perishable products could double shelf life, reduce post harvest losses and reduce inventory loss to the retail outlets. The Capital Marketing intends to implement the cold supply chain starting from the manufacturers by incorporating climate controlled trucks and warehouses.

ESTIMATED IMPACT: The project will increase employment avenues for another 1,000 low income persons in addition to improving cartage of farm products resulting in financial gains for a number of small farmers. Cash and Carry retail outlets such as Metro and Carrefour now operating in Pakistan buy in bulk and provide climate controlled display and storage. Storage, shipment and delivery of farm product to these stores significantly improve the margins of the farmers, eliminate middlemen and ensure quality produce. One refrigerated truck will delivers approximately 17 tons of vegetables. An addition of 30 refrigerated trucks has the potential to ship 510 tons. About 30,000 farmers would benefit from more efficient climate controlled storage and shipment.

FUNDING INTERESTS: Capital Marketing Services is very keen to associate with the proposed ADB Fund as an investee company. The company has developed a pre-feasibility study for expanding its distribution network. This distribution network expansion will primarily be for cold supply chain development. This would require cold storage and refrigerated trucks for transportation. Capital Marketing's proposed project in view of high level of wastage of perishable food items and rising prices makes the project an attractive bankable project. The Company has expressed interest in acquiring $1.5 million from the proposed ADB Fund. The return on investment is expected to be above 18 percent per annum.

Agrow Ltd - BoP as Consumer

Agrow (Pvt.) Limited is a venture of the Jehangir Siddiqui Group (JS), a well established, diversified, and progressive financial services conglomerate of Pakistan. The Group Portfolio includes asset management, investment banking, securities brokerage, commercial banking, insurance and trading companies. It has offices throughout Pakistan´s major cities and manages its international operations from its offices in London and Dubai. JS Group´s businesses employ over 18,000 people and in 2007, $500 million profit was earned after tax.

BACKGROUND: Agrow Pvt. Limited has six one-stop-shops across the agricultural belt of Punjab province. These provide farm inputs as well as expert advice on farming issues, similar to the Indian concept of Haryali Bazar. Each shop is spread over 2.5 acres of land and its principal clients are low-income farmers who till less than five acres. All shops are equipped with instruments to test soil, water hardness, among others, and stock tractors, fertilizers, tillers, loaders, motorcycles, pesticides, and micro-nutrients, additionally providing a fueling station, banking, and health insurance through an alliance with EFU Allianz Health Insurance company. Major fertilizer, pesticide, consumer goods producers, and distributors are among Agrow´s suppliers. In FY 2010-11 the company expects revenues to be around $15-20 million.

As part of their services to BOP farmers, Agrow Limited hires agriculture science graduates to assist customers with expert guidance in crop selection, best crop rotation, seed variety selection, fertilizer recommendations and application, farm design, best use of water resources, crop production technology, pest identification and scouting, input recommendations, pesticides calibration and application techniques, best crop harvesting and storage technologies, and other farming related areas. This is an important service that adds value to the BOP customers´ experience.

BUSINESS MODEL: Over the next four years Agrow plans to expand its operations from six shops in Punjab to 200 shops nation wide. An average shop targets an area of 30,000 acres which are, on average, cultivated by 1.5 million small farmers. Agrow also is seeking to add farm credit and crop insurance services into the already present banking services in the shops. Through this mass expansion, an unprecedented number of BOP farmers and their families will have access to farming techniques, products, and additional services they need to improve their productivity and quality of life.

ESTIMATED IMPACT: : The existing stores currently serve about nine million BOP farmers, and, if Agrow can reach the scale of growth they have proposed in this project, approximately forty million people in 10,000 villages across Pakistan will benefit. Through this expansion, many more agricultural graduates with specialized training will be hired to provide technical assistance, and employment opportunities will open up for administrative and store staff which will be filled by men and women residing in rural areas around the stores.

FUNDING INTERESTS: The company is keen to receive funding from the proposed ADB IB Fund. Agrow has conveyed a USD 10.0 million financing requirement and expects a 40% IRR in 10 years. This investment would be welcome as an equity stake in this private limited company or possibly debt. The company is already funded partly by JS Private Equity Fund and has experience of fulfilling PE due-diligence requirements.

Dalda Foods - BoP as Distributor

In July 2004, Unilever Pakistan divested from Dalda´s Cooking Oil business in a management buyout. Since then, Dalda Foods has become one of the largest FMCG companies in Pakistan leading the local category of cooking oil and fats. Later Dalda acquired Wazir Ali Industries, another leading manufacturer of vanaspati ghee and cooking oils. The two companies dominate the organized sector of the cooking medium business in Pakistan. The Competition Commission of Pakistan has estimated that the cooking oil and ghee sector in Pakistan is a $4.5 billion industry. Around 150 units are producing vegetable ghee and cooking oil in the country. The average annual growth of the sector is estimated at 15% due to population growth and higher consumption.

BACKGROUND: Dalda Foods is one of the largest FMCG company's in Pakistan and is well recognized brand in the Indian sub continent. Dalda Foods maintains eleven distribution centers and a network of over 400 distributors in the country. This network is spread throughout the country and covers more than 350 districts. The products mix is composed of: cooking oil which represents 50% of sales, banaspati, which represents 46% of sales, and industrial fats the final 4% of sales. The marketing strategy of Dalda Foods is to educate customers and create a healthy consumption patterns in households. The Company through television, regular publications and advertisements introduces recipes, health facts and suggestions on improving hygiene to society. It manufactures Dalda VTF Banaspati, Tullo Banaspati, Dalda Cooking Oil, Planta Cooking Oil and markets imported olive oil. The company informed that sales revenue for FY2010 was approximately $300 million.

BUSINESS MODEL: An estimated 50% of sales are generated by low to middle income consumers reached through a retail network of more than 100,000 small shops run by BoP and medium income shop keepers throughout Pakistan. This consumer base has expanded due to more innovative and affordable packaging of edible cooking oil and ghee (vegetable fats) coupled with a more effective BoP centered distribution channel. While the IB model is primarily focused on generating income through new distribution strategies, Dalda is also seeking to reduce the unhealthy contents of cooking fats in its product line. As such, an indrect impact on the BoP is providing access to trans free cooking fats which are beneficial in preventing coronary heart disease and liver disease.

ESTIMATED IMPACT: The major oilseed crops include cottonseed, rapeseed/mustard, sunflower and canola etc. The total availability of edible oil in 2008-09 was 2.821 million tons. Local production of edible oil stood at 684 thousand tons during 2008-09, which is 24 percent of the total availability in the country. While the remaining 76 percent was made available through imports. During 2009-10 (July-March) 1.246 million tons edible oil which amounted to Rs. 77.78 billion has been imported. The local production during 2009-10 (July-March) is estimated at 0.680 million tons. Total availability from all sources is provisionally estimated at 1.749 million tons during 2009-10 (July-March). In 2009-10 the total are under production was estimated at 9,091,000 acres. The oil seed production in same period was estimated at 4,030,000 tons. Therefore the potential of a farming plus integrated extraction plant can substitute imports and assist local famers to improves skills and provide an off take for the total availability mentioned above. On average an extraction plant of 150,000 TPA would benefit 22,000 farmers holding 25 acre or less if the yield is about 450 kg per acre.

FUNDING INTERESTS: The cooking oil and vegetable ghee industry is one of the largest manufactures in Pakistan. Despite being an agrarian country Pakistan imports 80% of its raw oil primarily from Malaysia. Over the last two decades import of cooking oil has registered an annual growth rate of around 15%. In 2009/10 Pakistan imported palm oil worth $1.5 billion. Inefficiency and increased wastage lead to a 3% lost in yield during processing. To improve the quality and ensure sustainable supplies Dalda Foods is interested in setting up a solvent extraction plant as a separate corporate entity with further backward integration. Dalda is keen to partner with the proposed ADB Fund in setting up this company. It has communicated an investment requirement of $5.0 million. The return on equity is expected to be above 18 percent per annum.

Shakarganj Food Products Ltd - BoP as Supplier

Shakarganj Food Products Limited is a venture of the Crescent Group, which has been in business for more than fifty years encompassing more than 36 independent companies in the textile, sugar, steel, dairy, jute, financial services, power generation, information technology and software development sectors. As a whole, the Group has more than 30,000 employees and annual sales in excess of US $750 million.

Over the years the Crescent Group (CG) has entered into numerous joint ventures and partnerships with Fortune 1000 firms and global financial institutions. Among them the most notable are Monsanto, the International Finance Corporation (IFC- the private sector lending arm of The World Bank), Asian Development Bank (ADB), ITOCHU (A major Japanese conglomerate) and the Commonwealth Development Corporation (CDC). Based on its vast resources and sound financial background, CG is poised for future expansion and joint ventures with like-minded conglomerates around the world.

BACKGROUND: Shakarganj Food Product Limited (SFPL) is an unquoted public limited company set up by the Crescent Group in order to diversify its business activities. Its head office is located at Lahore, Pakistan and production plants in central Punjab - the main fruit growing and milk supplying region of the country. The CEO of the company is also the serving Chairman of the Pakistan Dairy Association.

SFPL presently has $29.0 million in sales generated primarily by the Dairy Division, which produces UHT pascked milk, flavored milk, loose cream, UHT packed cream, pure desi ghee, and milk powder. Nearly 80% of the total raw milk used by SFPL is supplied from the area around the dairy plant which processes around 200,000 liters per day. On premise at the plant, there is a well-equipped laboratory with testing facilities, extensive storage, material handling facilities, and a research facility for product development. The Juice Division operates at a different location and processes orange and kino juice concentrate and mango pulp.

At SFPL, raw milk is procured through a milk collection agency which is supplied by 10,000 dairy farmers that, on average, have three dairy cows each which provide a daily total of over 240,000 liters of raw milk to Shakarganj milk collection centers. According to a study by FAO, Pakistan´s dairy cows are only about a third as productive as New Zealand´s and a fifth as productive as Germany´s. The collection agency takes the milk to the processing plant, where it is processed and packed aseptically (Tetra Pak) in a range of various stock keeping units. Through a network of distributors the milk is delivered to retailers, more than 70% of whom are small shop keepers.

BUSINESS MODEL: The current model of milk procurement is routed through large milk contractors by means of Shakarganj's own collection centers. The new model proposed by Shakarganj Foods eliminates contractors and procures directly from dairy milk farmers. This new model will provide incremental income to 10,000 dairy farmers already in the company´s value chain by allowing them to directly supply raw milk to Shakarganj Foods. This will add value to the company and enable it to more directly influence the quality of milk provided by its suppliers. Shakarganj Foods also plans to expand production to include a powdered milk processing unit, which will result in an increased number of farmers providing milk to the company. Similarly, the company also plans to buy fruit directly from growers and set up its own food grading and polishing unit through the Juice Division.

ESTIMATED IMPACT: Approximately 10,000 dairy farmers will have increased income through becoming integrated as direct suppliers in Shakarganj Foods dairy value chain.

FUNDING INTERESTS: The company is actively seeking funds to finance its supply chain value addition model. It is a public limited unquoted company and is presently an investee company of a private equity fund managed by KASB Securities. Shakarganj Foods is fully aware of PE Fund reporting requirements and is a potentially attractive investee company for the proposed ADB Fund. The funding requirement is between US$4.0 to $5.0 million. The 5-year IRR is expected to be 30%. At this time, the company's capital structure includes sponsors equity (50% investment provided by Shakarganj Mills Limited, a sugar manufacturing firm) plus a private equity fund, invested for the last three years, (42% of the capital structure, valued at approximately $10.0 million) managed and represented by the Board of Directors through a local investment bank, Khadim Ali Shah Bokhari.

Engro Foods Ltd[32] - BoP as Suppliers

Engro Foods Limited is a foods company in Pakistan that manufactures, processes, and sells dairy products, juices, ice cream, and frozen desserts. Since the company's core business is dairy, procuring milk is one of its most important activities. Pakistan's dairy sector is large, with more than 67 million dairy animals. But the spread of dairy in Pakistan is different from that of other milk-producing countries, where most milk is produced at very large farms. In Pakistan, the millions of dairy animals are dispersed across hundreds of thousands of square kilometers with very small individual farm size.

Most of Pakistan's 8 million farming households live at the base of the pyramid, and the average household owns between two and five animals. Their dairy yields are low, due to primitive farming methods, lack of technical skills, weak feeding patterns, and lack of health services for the animals. More than 97 percent of smallholder farmers live in rural areas where they have no access to markets where they can sell their milk. When they sell their milk, they are often subject to exploitation by middlemen, unjust pricing, and payment delays. As a result, smallholder farmers often raise cattle only for their own consumption in "back yard farming" rather than considering it a viable commercial business.

BACKGROUND: Engro Foods Limited was launched in 2004 as a fully-owned subsidiary of Engro Corporation Limited, one of Pakistan's largest conglomerates, with seven businesses that include chemical fertilizers, PVC resin, a bulk liquid chemical terminal, industrial automation, power generation, commodity trade, and of course, foods. Engro Foods began in dairy, then expanded to other areas of the food business. The company has processing plants in Sukkur and Sahiwal, and an ice cream factory in Sahiwal. The company also owns and operates a dairy farm. More recently, the company has also entered into the international market. Its first venture has been to acquire a halal foods business, Al Safa Halal, Inc. (Al- Safa) in North America.

BUSINESS MODEL: Engro has tried to change the game by buying milk from these small suppliers. Engro has done this by establishing milk procurement infrastructure in deep rural Pakistan and using a management information system to manage its procurement through GPRS-powered mobile devices. The company has more than 1,000 locations to which farmers can walk in and bring their milk to sell to Engro. The milk is then collected by a fleet of more than 250 vehicles and moved to milk processing plants. Dairy farmers are paid for their supply on a weekly basis and supported by a field force of over 1,500 people. The management information system enables prompt and accurate payments and allows Engro to vary the frequency of those payments to match suppliers' needs, all while monitoring procurement in real time.

ESTIMATED IMPACT: Through Engro's milk collection network being present right at their doorstep, coupled with on-farm training and technical guidance on farming and milk production, Engro is encouraging smallholder farmers to farm on a commercial basis. This is helping improve the livelihoods of hundreds of thousands of people. Engro Foods has 125,000 direct and indirect end suppliers. Almost all of these end suppliers are BOP suppliers.

FUNDING INTERESTS: Engro started to make net profits in 2010 and attributes its losses in 2008 and 2009 to the rapid growth of its business. In 2010, its revenue exceeded 20 PKR Billion, and net profit was just under .18 PKR Billion in 2010. Their funding interests are undisclosed.

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[32] The Engro Foods Case Study is included courtesy of the International Finance Corporation (IFC) from their publication: G20 Challenge on Inclusive Business Innovation, 2012.

Companies and Private Equity Funds Interviewed

Companies included in the Private Sector Mapping sample included:

1. Abudawood Pakistan
2. Adamjee Life Assurance Co Ltd
3. Agriauto Industries Ltd
4. Agrow Ltd
5. Agrow Mills Ltd
6. Al Abbas Cement Ltd
7. Al Hamd Food Ltd
8. Allianz EFU Health Insurance Ltd
9. Avanceon Ltd
10. Ayesha Steel Mills Ltd
11. Bank Alfalah Ltd
12. BASF The Chemical Company
13. Capital Food Industries
14. Capital Marketing Services
15. Capital Steel Industries
16. Continental Biscuits Ltd
17. Crescent Steel & Allied Products Ltd
18. Dalda Foods Ltd
19. Dawood Hercules Chemicals Ltd
20. Eli Lily Pakistan Ltd
21. English Biscuit Manufacturers Ltd
22. Engro Foods
23. Fatima Fertilizer Company Ltd
24. Fatima Sugar Mills Ltd
25. Fauji Foundation (Fauji Cereals Ltd)
26. Ferozsons Laboratories Ltd
27. General Tyre & Rubber Company of Pakistan Ltd
28. Gilette Pakistan Ltd
29. Gourmet Foods Ltd
30. Habib Bank Ltd
31. Habib Oil Mills Ltd
32. IGI Insurance Company
33. Indus Motor Company Ltd
34. International Industries Ltd
35. Makro Habib Pakistan
36. Medipak Ltd
37. Mitchells Fruit Farms Ltd
38. Mitsubishi Corporation
39. Muller & Phipps Pakistan Ltd
40. Naya Nazimabad
41. Nestlé Pakistan Ltd
42. Network Microfinance Bank Ltd
43. Orix Leasing Pakistan Ltd
44. Oxford University Press
45. Packages Ltd
46. Pak Arab Fertilizers Ltd

47. Pak Gulf Leasing Company Ltd
48. Philips Electrical Industries of Pakistan Ltd
49. Plum Qingqi Motors Ltd
50. Proctor & Gamble Pakistan
51. Qarshi Industries Ltd
52. Rehmat Steet
53. Reliance Weaving Mills Ltd
54. R L Enterprises Ltd
55. Rozgar Microfinance Bank
56. Saudi Pak Insurance Co. Ltd
57. SC Johnson and Sons of Pakistan Ltd
58. Seasons Foods Ltd
59. Shabbir Tiles and Ceramics Ltd
60. Shakarganj Food Products Ltd
61. Silkbank Ltd
62. Singer Pakistan Ltd
63. Sweet Water Dairies Pakistan Ltd
64. Tameer Micro Finance Bank Ltd
65. Thai Ltd
66. Unibro Industries Ltd
67. Unilever Pakistan Ltd
68. United Bank Ltd
69. The United Insurance Company of Pakistan Ltd
70. Vector Capital Management
71. Vita Foods Pakistan

Fund's and Related Investors (DFIs) included in the sample interviewed for this study included:

1. ABL Asset Management
2. Acumen Fund
3. Allied Asset Management Limited
4. Al Meezan Investments Management Limited
5. BMA Asset Management Company Limited
6. Crosby Asset Management Pakistan Limited
7. IGI Investment Bank Ltd.
8. Invest Capital Investment Bank
9. JSPE Management LLC
10. KASB Funds Limited
11. NBP Fullerton Asset Management
12. Pakistan Private Equity Fund 1
13. International Finance Corporation (IFC)
14. Agence Française de Développement (AFD)
15. United States Agency for International Development (USAID)
16. The Department for International Development (DFID), UK-Aid
17. Pakistan Kuwait Investment Company (Private) Limited

Confidential Assessment of Top 3 Fund Managers

BMA Asset Management Company Ltd

Introduction: BMA Asset Management Company Limited (BMA Funds) is a Non-Banking Finance Company licensed to perform Asset Management and Investment Advisory Services as per the NBFC Rules, 2003. Incorporated in April 2005, BMA Funds is fully licensed to carry out asset management and investment advisory services

Fund Management: BMA Assets under Management are US$100.00 million. It has team of experienced professionals and a research department. It manages open and closed end funds, as well as institutional portfolios. The CEO, Mr. Muddassar Malik has over 24 years of experience of international and domestic investment banking. He has an engineering degree in electronics from University of Sussex, UK and a Master in Management from the Sloan School of Management, MIT.

Interest in SNV Proposed Fund: The company expressed strong interest in the fund. Initial interview in Karachi was followed by a visit of the CEO to the SNV team in Islamabad. The CEO discussed in detail the fund survey and later after a conference call completed and mailed the survey. The CEO exhibited a deep understanding of the complexity of managing the proposed PE Inclusive Business Fund. BMA is willing to field a team of fund managers with understanding of social impact projects and asset management. BMA regards the possibility of raising balance $80 million as high and is also convinced that the social impact investing environment in Pakistan is highly attractive.

Social Impact Investing: BMA manages the US $37 million Pakistan Human Development Fund (PHDF) on behalf of the Trustees. This endowment fund generates funding to build the capacity, train and enhance the competency of the government functionaries, elected representatives and non-governmental organizations working in the social sector at the district level -- however, this is not considered inclusive business.

Private Equity Fund Management: BMA does not manage a Private Equity Fund but since it manages portfolios of high net worth clients, pension funds and institutional funds, it is confident that it would be able manage a PE fund.

Conclusion: BMA has a proprietary research process based on cash flow and asset valuations. It has been an active player in corporate finance and has been an advisor on mergers and acquisitions significantly as a Financial Advisor on Privatization to the Government of Pakistan. Overall given BMA's high level of interest, presence in the investment banking sector of Pakistan, robust international connections and a strong leadership, BMA is the top ranked candidate for launching and managing the proposed ADB Inclusive Business PE Fund in Pakistan.

JS Private Equity Fund LLC

Introduction: JS Group is one the largest financial service group and a diversified investor in Pakistan. The JS Group comprises of Commercial, Islamic Bank, Microfinance Bank, Health and Life Insurance, Corporate Finance and Asset Management Companies. In addition it has diversified into Energy, Agriculture Retailing, Textiles, Metals, Media and Real Estate Development.

Asset Management: JS Investments Limited founded in 1995 is the oldest and one of the largest asset management companies in Pakistan with assets under management spread across various mutual funds, pension funds and separately managed accounts. The founding partners include INVESCO PLC (formerly known as AMVESCAP PLC) - one of the world's largest fund managers with global reach and International Finance Corporation (IFC) - the private sector arm of the World Bank Group. It is listed on the Karachi Stock Exchange and has a product portfolio of 16 funds which includes 12 open–end, 2 close-end funds and 2 pension funds. Total Assets under Management of the JS Group are $380 million.

Interest in SNV Proposed Fund: The JS Group has indicated a strong interest in the proposed ADB Private Equity Fund. The group discussed the fund in detail and submitted a completed questionnaire provided by the SNV Pakistan team. This completed questionnaire is attached and mainly covers the JS Private Equity Fund. The JS Group regards Pakistan as a "very attractive" candidate for social investing and based on their experience of the Private Equity Fund Management, they feel confident to achieve the desired social and financial returns. The Group has indicated that despite a poor security perception of Pakistan they will be able to raise $80.0 million in addition to the seed capital of $20 million proposed by ADB as the anchor investor. They are of the view that multilateral development banks, forums such as Friends of Pakistan (a group of European, and other countries created to fund economic development in Pakistan), sovereign wealth funds significantly those of the Gulf States and high net worth clients would be willing to be limited partners in a PE Fund with a Social Impact focus.

Social Impact Investing: The JS Group has strong tradition of contributing to social uplift programs and through the Mahvash and Jahangir Siddiqui Foundation is funding assistance to community development by providing quality education and health care facilities to poor and needy people through its own institution, the JS academy. The Foundation also funds health care facilities, by establishing institutions for women and physically and socially handicapped people. The Foundation is also a "Leadership Partner" of the Acumen Fund, Pakistan. The JS Private Equity Fund is estimated to have created over 3,200 jobs for the low income segment people since its start of operations in 2007. Two of the PE Fund investments i.e. Agrow and Optimus are example of investing socially with comparable financial returns.

Private Equity Fund Management: JS group closed the first dedicated private equity fund, the JS Private Equity Fund I LLC (JSPE) on Dec 31, 2007 with a committed capital of $158 million. Limited partners include International Finance Corporation (IFC), Asian Development Bank (ADB), CDC Group PLC, Proparco and the Swiss Investment Fund for Emerging Markets as well as JS Group as the seed investor. The Limited Partners have co-investment rights enabling JSPE to undertake larger deals. The Fund is registered in Mauritius. According to the Fund Managers the Fund was registered in Mauritius due to lack of Venture Capital and PE Fund registration track record and regulations in Pakistan. They also expressed reservation about the PE/VC Fund regulations such as the requirement to have Information Memorandum cleared by Security and Exchange Commission of Pakistan and other regulation which can impede the ability of PE Fund to take advantage of investing opportunities. The JSPE has invested 40 percent of the committed capital. The Fund Manager attributed the limitation on investment size as one of the primary reasons for the slow disbursement of the PE Fund. The PE Fund Manager is Muhammad Sajid a certified public accountant and Chartered Financial Analyst. In 2010, JSPE successfully secured an initial commitment of US$ 50 million from OPIC, USA, with OPIC being the anchor investor for its proposed second private equity fund.

Conclusion: Based on the interest shown by the management of JSPE, its experience of managing a PE Fund and the Group's strong social commitment, JSPE is the one of the top three candidates for managing the proposed ADB Inclusive Business PE Fund. JS has good understanding of the corporate sector since its anchor Financial Services and the related Industrial, Infocom, Transportation and Resources operations provide the Group with the ability to structure social impact investments offering comparable financial returns. The Group has a large presence and it can leverage this presence to create a sustainable and faster deal flow. Further the Fund based on its previous PE fund management experience could offer the Limited Partners co-investment rights enabling the ADB PE Fund to undertake larger deals.

National Bank of Pakistan Fullerton Asset (NAFA) Management Limited

Introduction: NAFA is a Non-Banking Finance Company with a license to perform Asset Management Services as per the NBFC Rules, 2003. The main sponsors of NAFA are National Bank of Pakistan and Alexandra Fund Management Pte. Ltd., (a member of Fullerton Fund Management Group, Singapore, which in-turn is a wholly owned subsidiary of Temasek Holdings, Singapore). NAFA's main area of business is Investment Management; more specifically floating and managing mutual funds, providing investment advisory and discretionary portfolio management services. National Bank of Pakistan is the largest commercial bank in Pakistan with total assets of over US$13 billion and 1300 overseas and domestic branches. Fullerton Fund Management Company is a wholly owned subsidiary of Temasek Holdings, Singapore that has portfolio of over $193 billion focused primarily in Asia.

Fund Management: NAFA Assets under Management are $210 billion. It has a team of experienced professionals and a separate research department. The CEO of the NAFA, Mr. Amjad Waheed, has international and domestic experience of fund managements. Mr. Waheed holds a Doctorate in Business Administration from Southern Illinois University, USA and is also a Chartered Financial Analyst (CFA).

Interest in an IB Fund: NAFA has expressed strong interest in being appointed as a Fund Manager for the proposed ADB Inclusive Business Private Equity Fund. They followed the initial interview in Karachi with telephonic discussions and promptly submitted the completed fund questionnaire and their corporate presentation. They feel that the Social Impact Investing is a challenging but rewarding initiative in Pakistan. They are willing to structure a dedicated team to manage the fund with the focus on developing strong sustainable investment with high social and financial returns. They are inclined to view their relationship with Temasek, Singapore, as an indicator of their ability to raise the additional $80 million PE funds.

Social Impact Investing: NAFA does not have a product which can be classified as Social Impact Investing. However it does offer Islamic Pension Funds through wide distribution chain of designated National bank branches and its own retail outlets.

Private Equity Fund Management: No specific PE Funds however NAFA does manage portfolios of institutions, high net worth clients and pension funds.

Conclusion: Based on the interest show by the management of NAFA, its large retail base and experience of social funding by NAFA's sponsor National Bank and the relationship with Asset Fullerton Singapore, NAFA is one the top three candidates for the proposed ADB Inclusive Business (IB) PE Fund. Its experience of Shariah based funding can also be helpful in raising equity for the PE Fund from local high net worth client interested in investing in social uplift project and companies with a high social return rather than those focused solely on financial returns.

Detailed Methodology

Introduction

In April 2010, SNV and the ADB signed a collaborative agreement to promote inclusive economic growth through inclusive business in six Asian countries. The objective of the project is to help develop viable inclusive businesses in selected Asian countries (now listed as India and Sri Lanka, Indonesia, Bangladesh, the Philippines, Vietnam and the Mekong, and Pakistan. The expected impact of the project is three-fold a) to catalyze a whole new class of financing mechanisms that would focus on investing in inclusive businesses in the region; b) to accelerate the role the private sector can play in developing business models that impact on the lives of the poor while creating value for the company; and, c) to further strengthen the ADB´s portfolio of activities that support inclusive growth in line with its Strategy 2020 which expects 50% of ADB´s investments to come directly from non-sovereign activities or through supporting private sector development objectives.

To this end, the project "Promoting Inclusive Growth through Business Development at the Base of the Pyramid (Regional TA 6518)" is focused on assessing the feasibility of developing inclusive business financing facilities in each of the selected countries/regions. Specifically, this regional technical assistance project will a) map business opportunities at the BoP in the relevant countries; b) screens the capital market and fund managers on their potential collaboration with the BoP investment fund and prepares further due diligence work for setting up the Inclusive Business Funds, c) facilitates an investors forum, and d) develops a poverty impact assessment methodology (scorecard) for the possible IB fund(s).

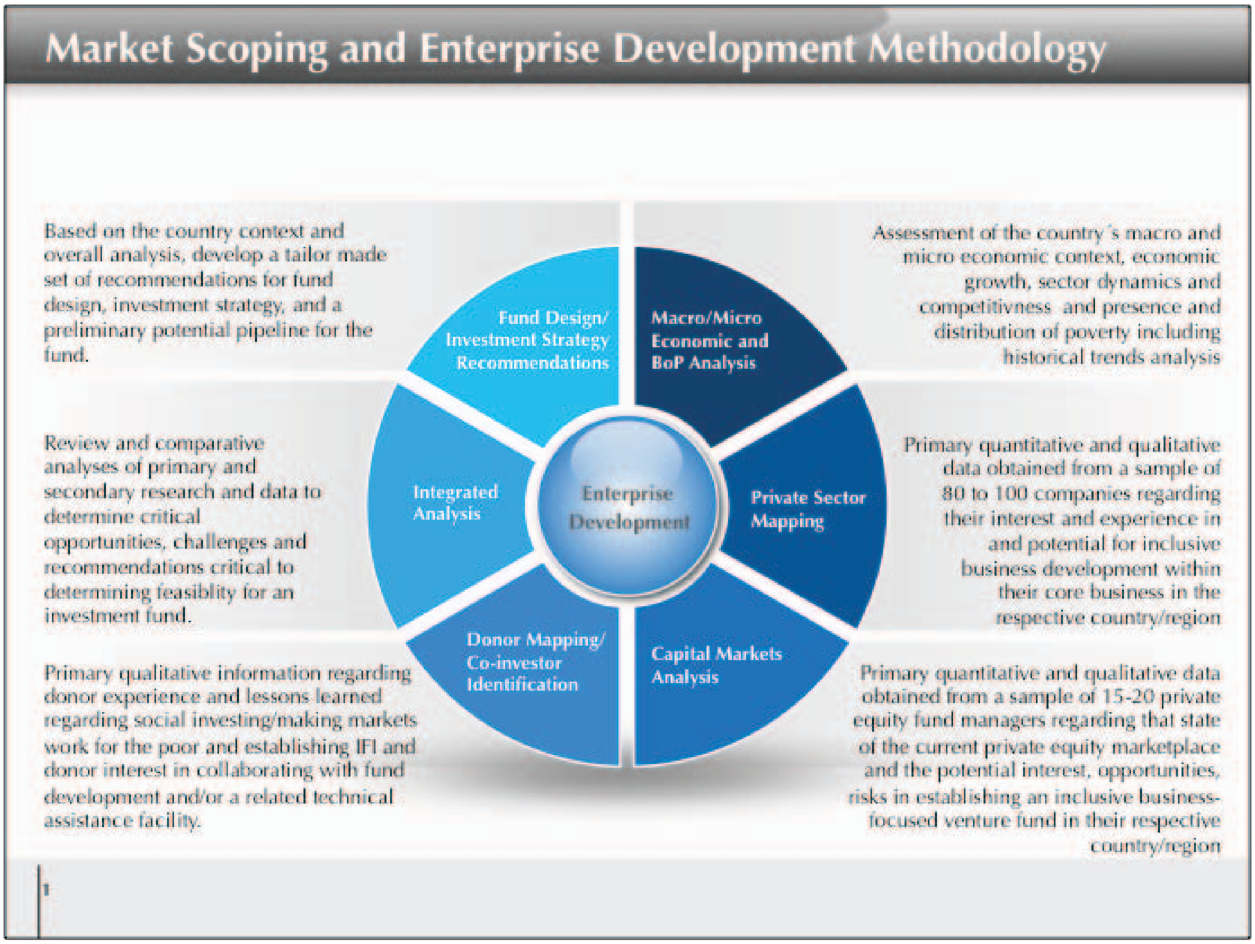
The market scoping and enterprise development component of the TA will focus on answering the following key questions:

1. Is it **feasible** to develop an Inclusive Business Financing Facility in Country X?
2. What is the nature, size and composition of the inclusive business (BoP) **market** in these two countries and their **potential for growth**?
3. What are the **critical success factors and constraints** for inclusive business development and the impact on poverty and inclusive growth in these markets?
4. What is the **market opportunity for** blended **investment** (private equity, debt, other and competitive landscape in the funding environment?
5. What could be a preliminary **viable pipeline** of inclusive business investments and investee profiles (cases) in these two markets?

The methodology proposed is based on and has been refined from the experience of completing the feasibility studies for Vietnam and Pakistan. Because market information for inclusive business is not generally available, these studies integrated the use of primary information collected from extensive face-to-face interviews using survey instruments with secondary research studies from established sources, statistics from government and/or international organizations, and established benchmarks and indices.

Market Scoping and Enterprise Development Methodology

The feasibility study methodology for an inclusive business private equity fund is driven in part by the generally accepted conditions required for accelerated inclusive business development: a) a favorable business climate and a pattern of economic growth, most importantly in the target sectors being considered; b) a definable set of market opportunities with the BoP and/or a clear pattern of needs within the BoP; c) private sector awareness about inclusive business and a basic understanding of its proof of concept (preferably with an inclusive business track in country already established); d) an operational private equity marketplace with a basic understanding of BoP business models and their potential returns. As such, there are six integrated elements to the market scoping and enterprise development methodology as can be seen in the figure below:



The methodology is designed to also include the cross-referencing of perspectives given the different points of view that might be expressed by companies, fund managers and donors with research and data collected from published sources.

Macro/Micro Economic Assessment, Competitiveness and BoP Opportunity Analysis

Because the relationship between income growth and poverty reduction has been shown to be particularly stronger in developing Asia (in some instances 3% poverty reduction for 1% growth in GDP), the brief assessment included in the feasibility study relates in part to some of the key drivers of inclusive growth. This section will summarize the following historical (5 years) dimensions of economic growth, poverty and competitiveness and the current and potential inter-relationships between them. Where appropriate, data sets will be collected from official national statistics offices and if necessary, cross-referenced with established international sources of development data:

Macro/Micro-Economic Development Trends

- Gross Domestic Product (GDP) trends
- Foreign Direct Investment and potential relationships to sector growth trends
- Sector development and growth and relative contribution to GDP
- Exports and Imports relative to sector development and growth
- World Bank´s Doing Business Report Rankings and analysis of progression or lack thereof and related issues
- Governance and Fiscal Policy (based in part on Kauffman World Bank Governance Indicators)
- Employment by sector

Competitiveness

- World Economic Forum´s Global Competitiveness Report and analysis of progression or lack thereof and related issues
- Cluster Competitiveness Reports available either by country or by sectors within countries from national sources, bi-lateral and multi-lateral agencies, and/or private institutions like the World Economic Forum or the Harvard Institute for Strategy and Competitiveness

Poverty and the BoP as a Market Opportunity

- UNDP Human Development Index rankings and trends including GINI data
- Poverty rates as defined by international and local standards including assessment of the near poor based on national statistics and World Bank indicators
- Assessment of the low-income segment as a market taking into consideration market segmentation of the low-income segment, purchasing power parity, consumer spending by the low-income segment by main product categories
- Geographic distribution of poverty in country and relationship to sectoral development (where relevant)
- Assessment of degrees of access of the poor to basic services (i.e. energy, water, sanitation, health, education, etc)
- Employment and underemployment assessments, particularly of the BoP

Inclusive Business Mapping

The Inclusive Business Mapping component aims to: (i) present crucial topics within the inclusive business arena in Country X, providing insights into the market opportunity and needs; (ii) present a view of the inclusive business market, providing actionable and meaningful data about the companies which were interviewed, (iii) present examples of current and relevant inclusive business initiatives in Country X; and, (iv) provide key recommendations for market development and further exploration with these companies. All of the data presented within this section is primary information gathered through the mapping exercise using the survey instrument and direct face-to-face interviews with company senior management. Additionally, the methodology includes the development of 15 case studies of companies interviewed. These provide examples and testimonies that explain how and why companies in Country X have decided to relate to the poor from an inclusive business framework and form the basis for the development of a preliminary investment pipeline. These case studies include the market opportunity, the business solution, the financial and social return to date, financing needs, and opportunities to scale.

Company Sample and Selection: The company sample is limited to between 80 to 100 companies with distribution of the sample based on annual turnover (less than $10 million, $10 to $25 million, over $25 million to $50 million, and over $50 million), number of employees (less than 500, more than 500 but less that 1,000, and 1,000 or more), geographic location, sector distribution, and type of company (private, public, etc). Company selection and participation in the mapping is based on two parameters:

1. Bottom-Up: Companies who have proactively requested to be included in the survey based on direct solicitation from an advertisement placed in national print media and related social media. Companies who have requested participation are screened and selected based on their responses to a short on-line survey (using survey monkey);
2. Top-Down: Based on secondary research, case studies, industry analysis, and established selection criteria, a secondary sample of companies will be selected for inclusion in the interview process. This selection of this sample is also influenced in part by the ability of the local consultants to assure access and the time of senior management for the subsequent extensive interview.

Once a final list has been compiled, a final calibration of the sample is completed to insure appropriate balance and distribution of types of companies. Secondary information on companies developing inclusive business from others sources may be included here as well to complement this effort.

Survey Design: An extensive private sector mapping survey instrument has been developed (attached) to collect both quantitative and qualitative data from company executives. Part of the quantitative information available from the company website or from company reports is to be collected by the local consultants prior to the interview (to save time) while the face-to-face interview will be reserved for the rest of the survey. Company interviews will be held at company premises and preferably with the Chief Executive <u>and</u> the CFO/COO. Engagement of the senior management team of the company also affords an opportunity to raise awareness of the inclusive business model and the potential for subsequent investment through the Inclusive Business Private Equity Fund.

Face-to-face Interviews: The local consultants will lead the interviews with company senior management based on the attached survey instrument. The interviews will:

- obtain quantitative and qualitative information about the company´s core business, current and future market opportunities, perceptions of risk, interest in and/or experience with working with the BoP, assessment of inclusive business models, if and how these models create shared value, performance management, and degree of interest and needs in financing opportunities to support further development of their current/potential inclusive business efforts;
- provide company management (especially those who have not been previously exposed to inclusive business) with and overview of inclusive business models and proof of concept;

- introduce company management to a new, potential asset class through which the company might benefit from additional financing to support inclusive business efforts under development and/or in implementation
- review and identify companies from which more in depth case studies will be developed including information required for a preliminary investment pipeline (based on preliminary investment criteria);
- assess the need for a technical assistance facility.

Case Study and Pipeline Development: During the company interview process, and based on preliminary investment criteria, 15 companies will be selected for case studies and inclusion into a preliminary investment pipeline. The case studies will include a company brief, market opportunity, inclusive business strategy, funding needs and terms, and anticipated financial and social returns.

Secondary Complementary Research: In addition to interview, the private sector mapping exercise will also include relevant secondary research obtained from news articles and relevant country, sector and market studies focused on private sector development with the BoP (i.e. Emerging Markets, Emerging Models from the Monitor Group that mapped over 250 market- based enterprises focused on the BoP in India).

Capital Market Assessment

The Capital Market Assessment aims to gain a better understanding of: (i) the capital markets environment, outlook, risks, opportunities, industry attractiveness and trends in Country X both generally and in the context of the BoP market opportunity; (ii) the viability and potential, including existing and future opportunities, of created a blended private equity fund specifically focused on inclusive business ventures; (iii) the potential investment strategies and fund design that may be considered if and when the inclusive business private equity fund for Country X is developed by the ADB, and; (iv) the metrics used to assess and qualify financial and social returns of the funds and their investees. Because the private equity fund to be developed will be capitalized by the ADB but outsourced to a local or regional fund manager, a secondary objective will also be to evaluate the capacity and interest of the fund managers in managing such a fund in the future.

Fund Manager Sample and Selection: The sample of fund managers to interview is limited to between 15 and 20 funds with distribution of the funds based on a) track record and/or familiarity with social investment; b) current assets under management (small, medium and large based on context-dependent parameters); c) investment strategy and focus (sector/geography specific vs. well diversified geographically and sectorally); use of debt and/or equity; d) domestic or international/regional; and, e) fund performance. Given the diversity and volume of fund managers in the respective countries to be surveyed, it is assumed that the capital markets consultant recruited to conduct this assessment will have established relationships with fund managers and/or the national venture capital association of each country can be called to assist in fund manager selection based in part on the aforementioned criteria/distribution.

An open call for and/or direct contracting of fund managers may be used through print and social media and through which a wider sample of general information might be obtained regarding the countries outlook, industry attractiveness and perceived risks. Using this additional instrument will be country dependent and case specific.

Survey Design: The private equity fund mapping survey instrument has been developed to collect both quantitative and qualitative data from fund managers. Part of the information will be obtained from the fund manager´s website prior to the interview (to save time) or from published marketing collateral while the face-to-face interview with the fund manager.

Face-to-Face Interviews: Interviews will be led by the local capital markets consultant using the attached survey instrument which focuses on obtaining information regarding:

- the investment climate and economic outlook for Country X generally
- Industry/Sector Investment Opportunities and Company Attractiveness
- the impact investment opportunity
- investment strategy generally and applied to the low-income segment
- obstacles, risks and barriers to entry
- metrics
- interest in participating in the potential inclusive business private equity fund
- the need for a technical assistance facility to complement the private equity fund
-

Case Study Development: Based on fund manager interviews, no more than 5 case studies of fund managers will be developed if a proven, social investment track record exists within their investment portfolio and/or if the fund manager´s investment strategy and/or performance would be useful to include in the feasibility study.

Secondary, Complementary Research: Additional information regarding capital markets in country will be obtained from the local venture capital association (if applicable) and related institutions, the Emerging Markets Private Equity Association (EMPEA), the Global Venture Capital Attractiveness Index, and published news reports and other publications from donors and investors regarding the opportunities and risks in Country X´s capital markets generally, and specifically when relevant to BoP investments.

Donor Mapping

Given that the preliminary strategy for the inclusive business private equity funds proposed by the ADB will require significant co-investment from other parties following ADB´s anchor investment, a donor mapping effort will be conducted. A brief survey instrument has been attached that solicits information regarding:

- donor interest in participating in the private equity fund and/or technical assistance facility;
- core donor activities especially those related to private sector development;
- current track record in inclusive business development and/or related activities;
- perspectives on the possibility of related agencies of the same foreign government and/or IFI to provide support to either the investment fund or TA facility;
- general perspectives on development efforts in-country, economic outlook, related program case studies, and potential risks of developing such an initiative in Country X

Any donor interest identified will be followed-up by the ADB and/or SNV (specifically in Indonesia, Bangladesh and Pakistan).

Integrated Analysis

Once all the data has been collected by the local consultants and/or lead consultants, an integrated analysis will be conducted that aggregates and systematizes all key findings per survey exercise and then cross-references key findings across all surveys to identify consistent conclusions, contradictory information, and or gaps of information. Any gaps identified may require additional follow-up with fund manager, companies, donors and/or additional analysis of external sources. The conclusions of the integrated analysis provide the basis for the main recommendations and conclusions of the feasibility study. The local consultants generally provide the following deliverables:

- 100% completed surveys of 80 to 100 companies currently implementing or interesting in implementing inclusive business (based on an agreed company sample and using the agreed survey instrument)
- 100% completed surveys of 15 Private Equity Funds operating in Country X
- 20 case studies based on the established format – 15 company case studies (with required pipeline information) on inclusive business and 5 private equity case studies;
- The completed data collection instrument (in excel) per company and per private equity fund (facilitates data consolidation and analysis)
- If required to do the donor mapping, completed survey reports and a brief overview of main conclusions from donor mapping;
- A table (excel) of all company names in alphabetical order, including the names of the interviewees, their position, their contact information, key sectors of each company from a drop-down list to be provided, and website;
- A short overview summarizing the highlights of interviews held, key findings, recommendations and additional information relevant to the final report preparation by the team leader.

Fund Design and Investment Strategy Recommendations

In collaboration with the capital markets expert, preliminary fund design and investment strategy recommendations will be summarized in the feasibility study. These recommendations are based in part on the capital markets expert assessment and on the results of the private sector mapping and capital market assessment.

Additional Pre-Study Considerations

Given that the studies for the countries combine both local and international consulting teams and is managed centrally by the ADB in collaboration with SNV, the approach also includes standard training modules for the local consultants. These training modules include:

- a briefing on the state of the art of inclusive business and impact investing including relevant case studies and an f.a.q. of questions and issues that are likely to come up during interview stage

- an introduction to the feasibility study goals, objectives and proposed deliverables;
- an overview of the feasibility study methodology, survey instruments, company selection criteria, data collection tools, and expected outcome formats (slight adaptation given the local context and local consultant experience may occur at this stage);
- mock company, fund manager and donor interviews;
- 10 pilot interviews where the local consultant team are accompanied by the international consultant(s) (team leader/enterprise development specialist) for quality assurance
- Ongoing virtual support of the local consulting teams to address issues as they arise.