

IFC Advisory Service in the Middle East and North Africa

Education



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The project was conceived and implemented by IFC's Bank Advisory Services team, in partnership with State Bank of Pakistan (SBP) and in consultation with several major banks in Pakistan. Bank Advisory Services program, builds the capacities of commercial banks to provide banking services to small and medium enterprises (SMEs) in a responsible, profitable and sustainable manner. Particularly, IFC works to increase the volume of SME lending, the number of banks with SME banking operations, and the number of businesses that have access to banking services.

SBP's SME Finance Department provided critical facilitation and oversight for this initiative. State Bank of Pakistan is the Central Bank of the country. Like a Central Bank in any developing country, State Bank of Pakistan performs both the traditional and developmental functions to achieve macro-economic goals. This role covers not only the development of important components of monetary and capital markets but also to assist the process of economic growth and promote the fuller utilization of a country's resources.



Contents	Page No.
1. Guidelines	1
2. Introduction & Objectives	2
3. Economic Overview	4
4. Industry Overview	4
5. Market Assessment	7
5.1 Market & Demographic Profile	7
5.2 Owner Profile	9
5.3 Business Linkages	9
5.4 Business Cycle	11
5.5 Financial Assessment & Profile	11
5.6 Financial Information	11
5.7 Indicative Business Requirements	13
5.8 Financial Needs Analysis	13
5.9 Usage of Banking Products	14
5.10 Segment Risk Considerations	15
6. Proposed Banking Product Suite	15
6.1 Product Features	15
6.2 Eligibility Criteria for Asset Products	17
7. Distribution and Communication Considerations	17

1. Guidelines

This segment booklet provides indicative business and financial characteristics based on the information evidenced from a sample of business owners via primary research survey. It can be used by banks as a starting point for development of program based lending products for tapping the underutilized potential for providing financing products to small business owners.

The Education Industry overview is developed using information obtained from secondary and tertiary sources including industry associations and data available in public domain.

Market Assessment

The section contains analysis based on primary findings of survey exercise conducted in major cities of Pakistan; the information can form the basis of identifying the characteristics of a typical business entity in the segment.

Product Suite

Proposed banking product suite provides a number of potential core banking products templates that can be used by banks to design appropriate banking products for gaining access to the particular segment. However, it is highly recommended that product development undergoes the usual general practice and protocols employed by the bank. It is also recommended that the product development and the business line team work together to conduct a quick market research of a small sample in order to validate the results of this study. The methodology, questionnaire, sampling plans and results tables from this study are available with IFC for further reference.

Marketing and Distribution

Market and Distribution considerations are indicative and have been based on the assumption that banks will employ their individual marketing and distribution strategy for product development. . However, information presented can be utilized by banks for developing certain hypothesis to be validated for developing their marketing and delivery strategy.

2. Introduction & Objectives

Small and Medium Enterprises (SMEs) account for approximately 70% of businesses in Pakistan and play a major role in spurring economic activity with a contribution amounting to approximately 78% of non-agriculture GDP of Pakistan. However, the segment remains largely unbanked owing to the following impediments:

- A different risk profile
- Lack of substantial collateral
- Conservative approach adopted by financial institutions
- Lack of awareness and willingness to bank

The SME sector presents immense business opportunities for financial institutions from the perspective of increasing book size while generating strong risk adjusted returns. . However, there is an imminent need to understand the dynamics of this segment in order to enable financial institutions to structure products that meet overall risk management guidelines and facilitate the growth of the SME segment.

In this context, International Finance Corporation (IFC) in partnership with State Bank of Pakistan (SBP) and in consultation with several major banks have conducted a secondary research and a primary survey of the SME businesses within the top ten SME segments / sub-segments of Pakistan to determine banking and financial needs of the sector.

This booklet contains the findings pertaining to the services segment of “*Education*” which include the Educational institutions operating in different cities of Pakistan.

At present, the Education segment in Pakistan is relatively organized with services primarily provided via Educational Institutions with good financial and banking history.

The Educational segment is largely dispersed and has limited exposure to products and services that can be availed from financial institutions. Demand for this segment continues to increase substantially.



Limitation of the Research

- The Sample may not be geographically exhaustive.
- The sampling plan may not suit the requirements of every bank.
- Some of the recommendations are not backed by qualitative primary research but are based on knowledge of the market and best practices.

Sampling Plan

In total, interviews with 37 SME owners were conducted for *Education* segment. The locations and classification of these SMEs are covered in Section 5.1 of this booklet under 'Segment Demographic'.

Number of employees under this segment is covered in section 5.2 'Owners Profile'.

The primary research exercise conducted for identifying the financial needs of the SME segment was based on the following sampling methodology.

Particular	Criteria	Rationale
Size	<ul style="list-style-type: none"> 250 detailed one on one interviews for 10 sub-segments 25 SMEs surveyed within each sub-segment 	<ul style="list-style-type: none"> Sample size is sufficient enough to gather relevant qualitative and quantitative information on each sub segment Increase in the sample size will only add marginal value to the overall information collected from the survey exercise Change of Definition of SME by SBP SBP is planning to revise their classification criteria for Small enterprises as compared with Medium enterprises within the new draft prudential regulations being proposed for regulating banking services to the SME segment Small enterprises would be defined as those businesses that have employees up to 20 and annual turnover up to PKR 75 MN Medium enterprises would be businesses with more than 20 employees and turnover in excess of PKR 75 MN for the purpose of classification and segmentation by banks For the purpose of this research the small portion of medium entities that we have reviewed include entities that have revenue up to PKR 150MN which would be approximately double in size with the small entities as per new definition
Particular	Criteria	Rationale
Status	<ul style="list-style-type: none"> At least 60% will be informal businesses At least 20% will be formal businesses 	<ul style="list-style-type: none"> Informal businesses would be entities that do not have formal accounting and book keeping system. They do not get their accounts properly audited and are normally not registered under an official trade/regulatory body A wide majority of businesses operating in Pakistan are informal businesses in terms of their quality of record keeping and accounting information in the absence of which banks do not offer them any credit based products A study of informal businesses enables us to gauge the reasons of these proprietors to remain within the informal segment and still compete in the market with formal businesses enterprises within the same industry segment Moreover Small businesses have been assumed to have a maximum financing need of up to PKR 15 MN, which may not compel banks to require audited financial statements and advanced cash flow models. A basic system of book keeping and accounting will suffice for them to be able to qualify for a structured lending product. Formal businesses are those entities that are relatively larger in size and have a proper book keeping system. These are also registered businesses that are operating either under an association of businesses or under a formal regulatory license, with a fair amount of transparency in their accounting and book keeping systems Including the above gives us a fair representation of businesses that are eligible for all financial services being offered by banks and their extent of using banks as their main financiers and other service providers or are using banks for only holding their business operating accounts Formal businesses have more structured requirements that those who use banks only for products such as fund transfers
Particular	Criteria	Rationale
Turnover	<ul style="list-style-type: none"> At least 60% with turnover less than average PKR 75 MN At least 20% with turnover more than average PKR 75 MN 	<ul style="list-style-type: none"> The corresponding sample mix has been adopted to ensure majority coverage of small businesses in the overall sample size since these would be the primary candidates for programme lending products However, for the purpose of understanding the financial needs of medium sized entities that are close to the threshold point of small and medium we have covered a minor portion to understand their requirement for structured loan products as well as other financial services generally required by businesses that are relatively mature and larger sized than small enterprises
Employees	<ul style="list-style-type: none"> At least 60% will have less than 20 employees At least 20% will have more than 20 employees 	<ul style="list-style-type: none"> SMEs that are not in the manufacturing segment are relatively understaffed owing to the small size of their business and ease of management Moreover businesses that have more than 20 employees will now be classified as medium sized hence we have covered a small portion of such entities as well

3. Economic Overview

Pakistan's economy has shown resilience against shocks of high intensity which include domestic factors such as political uncertainty, security situation and international financial crisis, in addition to an unprecedented rise in food and energy prices. As per the Economic Survey of Pakistan, macroeconomic stability has been attained over the past two years leading to moderate recovery in the economy, despite one of the most serious economic crises in the country's recent history. The economy grew by 4% in FY2010, after a modest growth of 1.2% in FY 2008-09.

Indicator	Economic Considerations
Positives	Heavily populated, (over 170MN people) translating into strong future potential for improvement in purchasing power, leading to growth in consumer related segments
	Structural reforms have accelerated economic growth with strong momentum of real GDP growth of 7.0% from FY03 to FY08, although this is unlikely to be attained over the next few years due to economic slowdown and political uncertainty
	Rising rates of urbanization – with the UN forecasting the proportion of city dwellers climbing from 34.9% of the population in 2005 to more than 50% by 2035 – should continue to serve as a key driver of economic growth.
Challenges	Low level of foreign reserves, thereby enhanced vulnerability to external shocks
	Heavily dependent on funding from multilateral institutions and bilateral partners
	Despite rapid economic growth in recent years, poor per capita income just USD 1046
	Balance of payments portrays a bleak picture in light of rising oil prices, with oil imports of more than 50 MN barrels per year for catering local demand for fuel products



4. Industry Overview

Sub Segment Overview

Factors	Comments
Demand	The demand for Education in the private sector has grown over the years due to increased population and lack of initiative on the part of the government. The public sector schools have been unable to meet the growing demand and quality education standards
Supply	The industry has high potential for increased service provision provided the segment focuses on low end high quality private schools our survey findings suggest that private schools providing quality education are expensive and are not affordable by the masses
Key Players	The Key players include Karachi Grammar School, Aitchison College, Lahore Grammar School, Beacon House School system, The City School, The Lyceum school and Haque's Academy. Colleges include Adamjee, DJ science college, AghaKhan, Commerc College and Government College Lahore
Trade Association	All Pakistan Private Schools Association
Regulatory Body	Provincial Secretariat - Ministry of Education
Recent Developments	The public expenditure has declined by 0.05% of GDP on Education over the last year which displays lack of intent on part of the Government of Pakistan to fund this sector. The Government of Punjab has recently introduced "Danish School System" all over the province, which is a program to target the poor. The Government of Sind is also working on Sindh Education Reform Program to operationalize schools.
Future Prospects	Exhibiting a long term potential subject to rise in population and rising trend towards education and learning, but growth is also susceptible to risks arising from economic and political instability

Demand

In a rapidly growing population as in Pakistan, the need for a reliable education system is strongly desired. Pakistan's education system, although not as contemporary and efficient as that of developed countries, has displayed significant improvement during the last decade.

In past Pakistan has managed to develop reputable schools and colleges in the public sector but lately the high achievers on national and international level have appeared from the private sector education system of Pakistan which continues to impress the general public perception. Hence the public confidence lies in the private sector education creating a demand for more schools.

The recent floods have added to worsen the cause, infrastructure across a significant part of semi-urban and rural Pakistan has been affected as a result of the floods, and government is trying to undertake reconstruction efforts. According to United Nations more than 10,000 schools have been hit and destroyed country wide.

Like many other developing countries, the situation in the education sector of Pakistan is not very encouraging. Low enrolment rates at the primary level, lack of trained teachers and extremely low level of public investment is the major cause of its poor performance. Public expenditure on education remained 2.05% of GDP which is amongst the lowest compared to other surrounding Asian countries.

On the other hand literacy and primary school enrolment rates in Pakistan have shown improvement during last five years but they are still low when compared to the other countries of the region, proving there is potential for demand for education in the private sector.

Despite the lack of interest on part of the Federal Government, the admirable initiatives by Government of Punjab over the past few years have been the introduction of "Parha Likha Punjab Program" which offered provision of free education and books to primary school level students and a recent launch of "Danish School Systems" by Chief Minister Punjab. The "Danish School System" provides quality

education with high standards and state of the art campus facilities for the poor.

Similarly the Sindh Education Reform Program is also under way by the Government of Sindh in Pakistan to operationalize the closed schools, provide scholarships to girls and distribute free books. Due to fewer initiatives taken by the government, many NGOs and trusts appeared in the education industry to address this core issue and opened many schools to cater to the poverty stricken masses who cannot afford even the basic necessity of life. They work towards providing not just the basic education but also new state of the art educational techniques and technologies to prepare children to encounter challenges of present time.

Zindagi trust gained its popularity not due to providing free education but paying poverty stricken children Rs. 20 each day for coming and attending classes. This not only proves to be a great incentive for these children but also discourages child labor which their parents are forced to impose on their children.

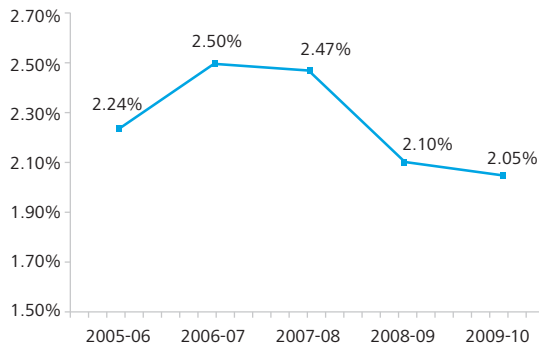
All the developments have been made at the primary level. The recent advancement and publicity of educational programs have raised awareness and will amongst the masses to gain education which in turn has raised the demand for private sector educational institutes as the public sector is not well positioned to cater the emerging demand.

Unstable economic and political situation, and worsening law and order situation have been major impediments to growth.

Supply

Total government spending on the education segment has been less than 3% of the total GDP over the last 5 years, of which approximately 95% comprises of salaries provided to teachers. The spending has decreased by 0.05% of GDP in comparison to last year as opposed to increase in population and literacy rate, thus leaving the responsibility of providing quality education with the private sector, and thus alienating a large segment of the population.

Public Expenditure on Education



Source: Survey Findings

Total Number of Institutions and Enrollment

	Total Number	Number of Enrolment
Primary Schools (1 st -5 th Grade)	158,023	17,366,169
Middle Schools (6 th -8 th Grade)	41,326	5,400,435
Secondary/High Schools (9 th -10 th Grade)	24,320	2,536,608
Higher Secondary/Inter Colleges (11 th -12 th Grade)	3,292	997,703
Degree Colleges	1,219	361,072
Universities	124	741,092

Source: Ministry of Education

There are nearly 225,000 schools providing primary, middle and secondary school education in Pakistan. Whereas the number of enrolment is approximately 2,600,000 at all levels. Degree colleges and Universities amount to 1350 only with 1,100,000 students' altogether.

Education in Pakistan is provided by Government schools, Private education providers, Missionaries and Madarsa system. Due to failing education standards and facilities of government based system, private schools and universities are more favored than the government institutions as the quality of education is closer to the international standards with regular revision of curriculum, thus ensuring globally updated research and trends are incorporated in the syllabus.

Superior quality private institutions are comparatively way more expensive and unaffordable for a common man. The absence of alternatives makes government schools and low end private schools a priority in small cities.



Key Players

The major players in schools include Karachi/Lahore Grammar, Aitchison College, The Lyceum School, St. Paul's High School, Beacon House School System and The City School.

Some of the major colleges include Adamjee College, DJ Science College, St Joseph's College, Commecs College, Commecs College, Agha Khan College and Government College Lahore.

One of the biggest trust set ups in Pakistan catering to the education needs of the poor population are Zindagi Trust, Public Education Trust for females and Sarijan Nagar Pubic Education.

Trade Body

All Pakistan Private Schools Association is operating with the objective '*to promote common interests, and improvements in service quality*'.

Future Prospects

Increasing growth and expansion is expected. However, there is a great dependency in stable economic and political environment to prevail in order to boost this segment to new growth levels.

According to educational institute sources, general perception of the segment is optimistic and they perceive that industry will experience increase growth in the next 5-10 years. Some are concerned about

the economic and political outlook of the country citing government support and friendly policies, which are imperative for the growth of this industry in the future.

5 Market Assessment

5.1 Market & Demographic Profile

There are three systems of schooling currently in Pakistan namely the Federal / Provincial board system, Cambridge system and Madarssa System; services segment of “Education” constitutes the following:

Federal / Provincial Board

- Primary school (grades one to five)
- Middle school (grades six to eight)
- High school (grades nine and ten, leading to the Secondary School Certificate or SSC)
- Intermediate (grades eleven and twelve, leading to a Higher Secondary (School) Certificate or HSC)

Cambridge System

- Primary school (grades one to five)
- Middle school (grades six to eight)
- High school (grades ten and eleven, leading to the GCE-Ordinary Level also known as O-Levels)
- Intermediate or equivalent (grades twelve and thirteen, leading to Advanced Level also known as A-levels)

Madarssa System

Madarssa System; Islamic Seminaries, teach mostly Islamic subjects leading to graduation as a cleric (maulvi or maulana).

Higher Education

University programs lead to under graduate, post graduate and advanced degrees. They recognize students coming in from all three educational backgrounds.

At present, the private “Education” segment in Pakistan is relatively organized with services provided via school premises. In some instances schools also serve from private homes and owned premises of the individuals. They usually possess good financial and banking history. Most businesses are partnerships or family owned businesses with members of one family serving different functions of business. Underlying issues inherent to the segment include:

- 1) Inability to assemble and deploy intellectual, human and financial resources effectively
- 2) Lack of vision for growth
- 3) Limited perception of business requirements
- 4) Restricted funding sources
- 5) Inability to invest in school infrastructure

The segment is largely dispersed across Pakistan, predominantly operating from detached locations in various cities of the country. There is a lack of vision for expansion and restricted access to finance.

Market Sizing and Lending Potential

Businesses in the segment are widespread throughout various locations in rural and urban regions in the country; in large cities the following tables presents an estimate of total establishments. The schools are widespread and do not form a cluster. The numbers mentioned below are an estimate and the list is not exhaustive.

Number of Schools	
Area	No. of establishments
Karachi	
Private Schools	2,500
Lahore	
Private Schools	1,800
Islamabad/Rawalpindi	
Private Schools	800
Faisalabad	
Private Schools	1,500
Multan	
Private Schools	800
Gujranwala	
Private Schools	300
Sialkot	
Private Schools	300

Source: Associations and Primary Survey

Number of Colleges	
Area	No. of establishments
Karachi	
Private Schools	250
Lahore	
Private Schools	200
Islamabad/Rawalpindi	
Private Schools	80
Faisalabad	
Private Schools	150
Multan	
Private Schools	80
Gujranwala	
Private Schools	25
Sialkot	
Private Schools	25

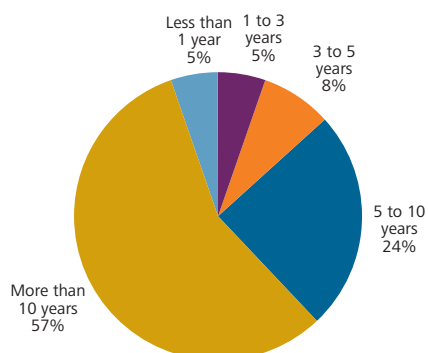
Source: Associations and Primary Survey

Segment Demographics

The segment is widely spread out across various regions in the country, demographic information is attained from educational institution and primary research conducted using a selected sample of businesses in major cities of Pakistan.

The figures below demonstrate approximately 60% of businesses in existence for more than 10 years, whereas almost 15% business owners operate all over Pakistan having educational setups in different cities.

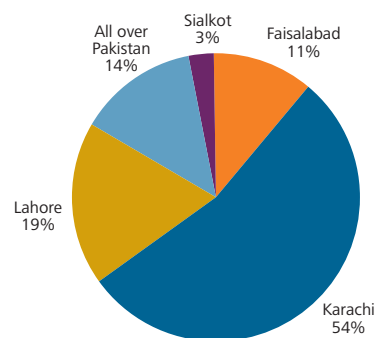
Number of years in Operation



Source: Survey Findings

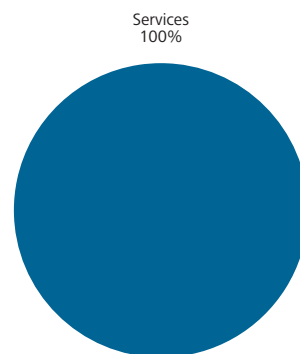


Location of Businesses



Source: Survey Findings

Classification of Businesses



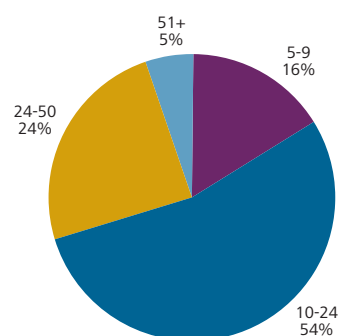
Source: Survey Findings

5.2 Owner Profile

Most business owners operating in the segment are sole proprietorships having a sound educational background possessing a college/bachelor degree or a post graduate degree. The business owners consist mainly of people in the age group of 41-50 years.

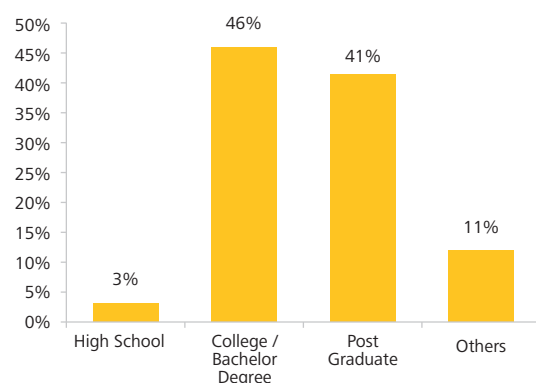
Due to the educated employment and nature of work, high qualification is considered as a major factor for business owners. Predominantly businesses are run by families, preferring family members to undertake organization functions. More than 50% educational setups employ between 10-24 employees.

Number of Employees under Business Owners

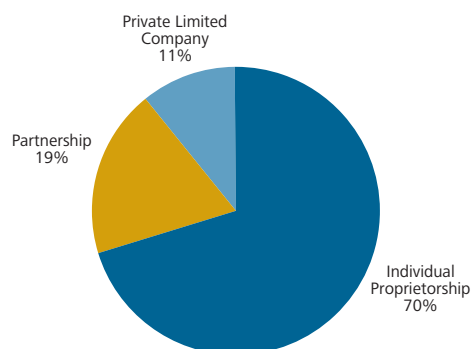


Source: Survey Findings

Education level of Business Owners

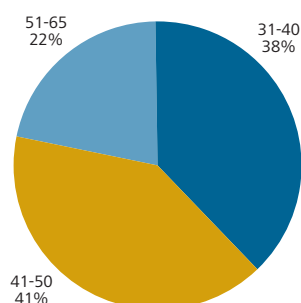


Ownership Type



Source: Survey Findings

Age group of Business Owners



Source: Survey Findings

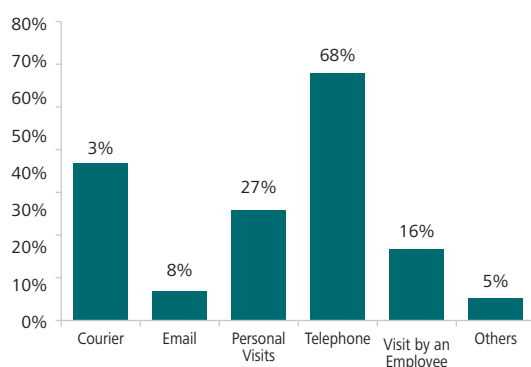
5.3 Business Linkages

Businesses in the segment are connected to various institutions that are directly or indirectly affected by the business operations, primary stake holders and their interests are enlisted in the following table:

Stakeholder	Education
Owners	Development, expansion, awareness, access to finance, provision training and technology
Suppliers	Provision of notebooks, school furniture, stationery, better payments and turnaround time
Students	Quality education, reasonable charges for provision of services, recognition and opportunities
Financial Institution	Debt servicing, Banking products, Increase in deposits
Government	Expansion of taxation bracket, economic growth, benefit to community at large

Businesses employ various mediums as means of communication with its customers. However, due to the personalized nature of service; personal visits by customers and telephone are widely utilized.

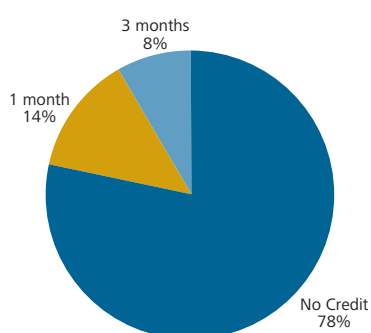
Communication with Customers



Source: Survey Findings

Businesses in the segment do not have a stringent requirement of supplies to carry out daily operations; raw materials are not an integral part of service provision. . However, any requirement for the operational efficiency of the service is fulfilled locally buying from the same locality.

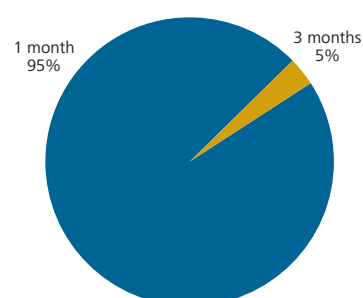
Credit Period offered to Customers (Students)



Source: Survey Findings



Time required to Collect Payments



Source: Survey Findings

Banks collect payments on behalf of the educational institutes from students or parents; the other common method of fee collection is via cash. The segment does not encourage fee payments to be delayed; approximately 80% educational institutes do not offer credit facility where as only 14% and 8% allow credit up to one and three months of credit (late payment of fees) respectively.

In most instances payments are not delayed by more than a month. However, only 5% take up to 3 month to submit fees.

5.4 Business Cycle

Education

Education industry is relatively stable as compared to some other businesses; it runs smoothly throughout the year, the provision of services is not subject to raw material prices or fluctuation in power, fuel or other cost. The operations run effectively right through the year unless some political or social issues disrupt the educational process altogether.

Increase in power, fuel and other costs are managed by shifting the pressure onto the customers (students/parents), which in turn pay a higher fee for studies.

The business cycle is fairly simple with students coming in or enrolling at the start of the academic year and taking education services for at least one year in most of the cases. Some students may exhaust their entire schooling from one educational institution.



5.5 Financial Assessment and Profile

A considerable number of businesses in the segment prepare financial statements; the percentage rests at 76%, almost one third of the owners who prepare financial statements have them audited.

Some businesses in the segment do not prepare formal financial statements. However, they do prepare single entry records and/or cash registers for bookkeeping purposes. Owners/managers keep track of accounts themselves, their lack of accounting knowledge and experience presents a constraint for preparation and keeping an organized track of cash movement.

From primary research and interviews conducted with trade associations, it has been identified that educational institutes charge according to the quality of education provided, location of school premises and quality of teaching services hired, the percentage of profits is not fixed as is the case with some manufacturing establishments. A great number of businesses bank the earnings to receive higher return.

As per research findings, a large majority of the business owners in the segment do not have an accurate idea of their financial positions with regards to capital invested, business assets employed, annual revenue, income and expenses. The information gathered was an estimate provided to us by the interviewees.

Business owner's reluctance on sharing of financial information and non availability of proper accounting records presents an issue for calculation of segment's benchmark financial ratios. Devising from the information attained in the course of primary research, the indicative ratios will be an estimate at best and cannot be utilized to assess an appropriate position of the businesses operating in the segment.

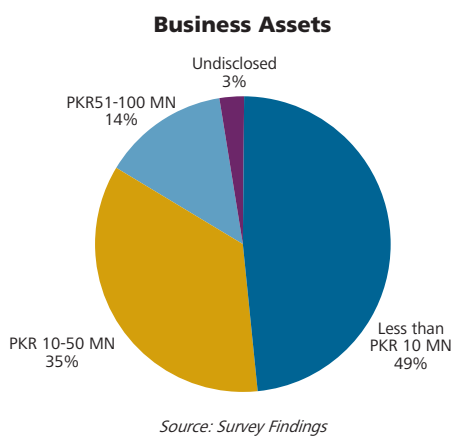
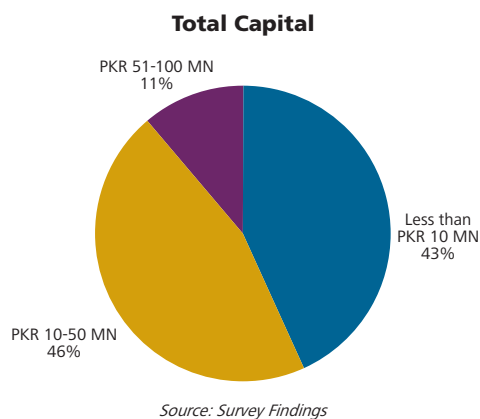
Conclusively it can be stated that there exists an ample demand for education services due to lack of interest on the part of the government and low quality education in public sector of Pakistan, the existing scenario provides a conducive opportunity for entry into this business segment.

5.6 Financial Information

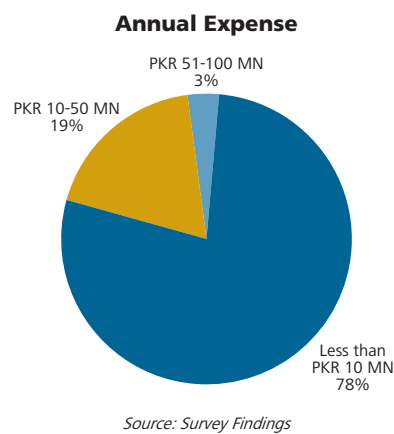
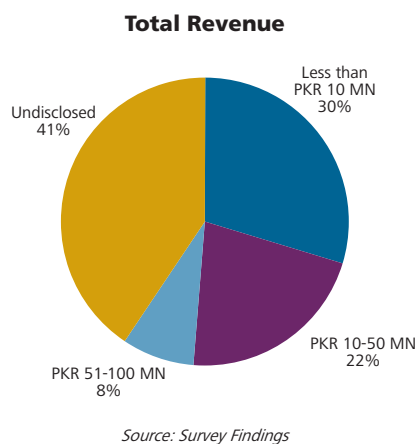
Primary survey findings portray the following results for segment under consideration. The results reflect Total Average Capital, Assets, Revenue, Expenses and Income under the selected sample.

Survey findings demonstrate approximately 50% businesses operating with Total Capital and Total Assets less than PKR10 MN exhibiting a relatively low initial investment for startup. Total assets comprise of Vehicles, and land/building, liabilities constitute payables and borrowing for vehicles.

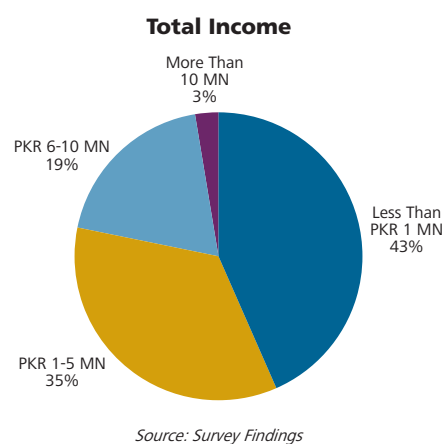
Business related assets constitute vehicles, vans, land/building and furniture/fittings.



Annual revenue is predominantly less than PKR 10 MN throughout the segment; expenses primarily represent material, repair/maintenance, employee cost and interest payments against borrowings.



All businesses display healthy earnings and none of the owners experienced decline over the last year. 43% respondents earn less than PKR 1 MN along with 35% owners earning between PKR 1-5 MN depicting a relatively higher percentage of return over initial investment.



Benchmark Financial Ratios

Financial Information	PKR
Total Capital	25,487,838
Business Assets	27,622,973
Total Revenue	36,920,270
Annual Expense	15,068,919
Total Income	5,432,432
Key Financial Ratios	
Profit Margin	15%
Operating Expenses/ Revenue	41%
Asset turnover	134%
ROA	20%

Source: Survey Findings

These are the benchmark financial ratios calculated on the basis of average value of financial information obtained from the sample of 37 entities in this sub segment. Such ratios will of course substantially vary for different sample sizes for each establishment individually.

5.7 Indicative Business Requirements

Business owners require equipment and civil works for start up or expansion. The values provided below are susceptible to volatility in market prices. In addition, individual business owners will have distinctive requirements as per their business needs. The table below is neither comprehensive nor specific and presented only to provide an indication as to the typical requirement for set up or the expansion needs of a small sized business within this segment.

S. No.	Indicative Equipment Requirement	Indicative Cost (PKR)
1	Furniture and fittings	1,000,000
2	IT equipment	500,000
3	Photo copy machine	80,000
4	School Van	600,000
5	Medical facility (first aid box)	20,000
6	Stationary items for office staff	10,000
7	Playing facility for students	100,000
8	Playing material for intellectual development	50,000
9	Air conditioners and fans	250,000
10	Power Generator	100,000

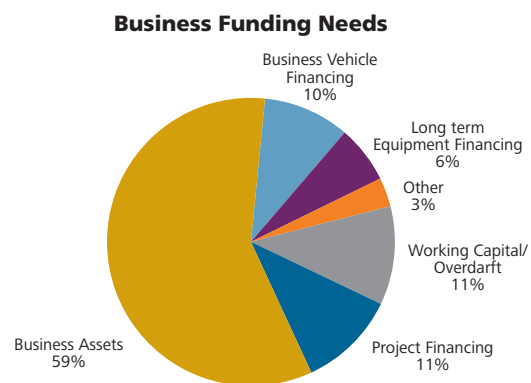
5.8 Financial Need Analysis

Funds are mostly managed by the owners themselves, mainly required for business assets and working capital which are mostly fulfilled by their own personal savings or cash flows from the existing business. Among the fixed assets, finance requirement is mainly centered on maintenance of school building, vehicles for schools and purchasing land/building for the school.

Major renovation or maintenance expenditure for the school building or premises comes around every year, routine maintenance and fixing of furniture and vehicles takes place on monthly or weekly basis. Business owners use cash flow from the business to manage such expenditures. Replacement of fixed assets such as furniture and fittings takes place after five or more years in most of the instances.

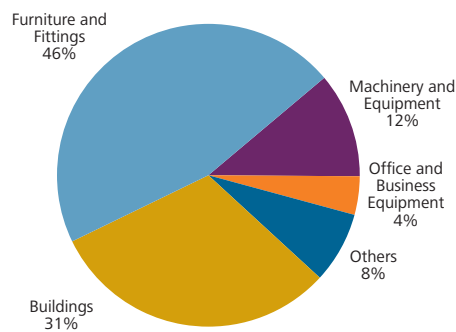
The segment is generally underserved with respect to financing and banking products. The businesses operating in the segment are hesitant towards banks and are not very keen to obtain financing or to have a more far reaching relationship with banks and financial institutions due to lack of awareness. They need to be informed regarding the use of banks to their best use.

SMEs in the Education segment have to maintain building and furniture in order to achieve consistent delivery of services, and most require investment funding for up gradation of infrastructure or move into purpose built campuses.



Source: Survey Findings

Fixed Assets Requirement



Source: Survey Findings



5.9 Usage of Banking Products

The owners are largely unaware of any SME segment specific efforts made by the government of Pakistan. However, some business owners are aware of loan products offered by banks and have availed the facility of loan products for business funding needs.

A large number of business owners use banks to meet banking and business needs availing the facility of business banking accounts but the owners are not keen to propose any feature or product to be offered by the bank.

The segment at large is reluctant to use any financing or loan product to meet funding needs neither do they propose any specific loan product for the segment financing needs at large. The owners cited high interest rates, bank charges and documentation reasons for not applying for a loan.

In addition to that it is also observed that other services such as payroll and cash management / collection gather a healthy response, significant 28% and 25% business owners have demonstrated intent to avail the facility whereas response for money transfer facility is relatively muted, only 6% demonstrate intent to avail the facility.

79% respondents do not pay for any of the proposed Insurance products and 73% of them are not interested in availing any insurance product in future. The number can be improved by educating and informing

the business owners.

A substantial portion of segment is not currently paying for any advisory service; the percentage of owners paying for advisory services rests at only 4% only. The segment has demonstrated a healthy interest in obtaining advisory services from banks; more than 35% owners are willing to pay for it, a majority is of the opinion that banks have experienced staff but will have high charges for such services.

Banking Product	Usage Percentage
Deposit (Checking) Account	86%
Term Deposits	13%

5.10 Segment Risk Considerations

Businesses in the segment are largely sole proprietorships having this business as the only source of income and operating from rented premises which increase the risk from the view point of the lender. Almost half of the businesses are not formally registered with any trade union or association.

Approximately 25% of the Businesses in the segment do not prepare financial statements and only one third of the remaining have an audit of financial statements. Our primary findings and analysis exhibit that the segment operates in a highly competitive environment with a maximum amount of businesses having more than ten competitors. Large cities like Karachi with population in excess of 15 MN, there are thousands of small and medium schools.

The majority of segment does not have a significant requirement for supplies and do not have fixed suppliers for any specific purposes, if there is a requirement it is fulfilled on need basis.

A large proportion of SMEs in the segment do not use Banks to meet business funding needs and most of them are not paying for any insurance products.

The segment does not face the risk of uneven cash flows, or business uncertainty, student registering at the start of the year tend to continue school throughout the year, once profitable the educational institutes are less likely to face losses. The risks that still pertain to the segment are as follows:

- Single entry accounts
- Unaudited financial statements
- Employee turnover
- Lack of succession planning

Possible Mitigates:

- Lending only to those businesses which have been operating for more than five years
- Proposing products to business with a verifiable banking history of more than three years
- Review of accounts and register of student fee records

- Review of ownership documents of school/business premises

6 Proposed Banking Product Suite

6.1 Products Features

Based on our primary and secondary research we propose the following for social and economic growth of “Education” segment:

Asset Products:

- Premises Expansion or Acquisition for Schools
- School Furniture, Fixtures and Fittings Leasing
- Vehicle Leasing for School Vans

Liability Products:

- Business Bank Account

Other Products

- Bancassurance
- Utility Bill Payment
- Advisory Services
- Cash Management Services

Premises Expansion or Acquisition for Schools	
Particulars	Details
Down Payment	▪ Minimum initial down payment of 20%
Salient Features	▪ Schools with owned premises funded for expansion of existing infrastructure ▪ Schools on rented premises offered capital for moving into owned purpose built campuses
Tenure	▪ 7-10 years
Documentation	▪ Business Financial Statements ▪ Proof of business operation for last five years
Loan Limit	▪ Minimum Limit - PKR 3,000,000 ▪ Maximum Limit - PKR 25,000,000 The total lending offered will not exceed the total annual fee revenue of the school determined as an average over the last three years
Repayments & Withdrawals	▪ Repayments will be based upon Preset Equal Monthly/ Quarterly Installments
Security	▪ Land ▪ Building Two Approved PBA valuers to be used and certified by RM/ branch Manager
Markup	▪ As per existing bank policies and cost of charges
Insurance	▪ Mandatory Insurance Requirement for the banks

School Furniture, Fixture and Fittings Leasing		
Particulars	Details	
Initial deposit	<ul style="list-style-type: none"> Minimum initial deposit of PKR 50,000 	
Salient Features	<ul style="list-style-type: none"> Furniture and fittings financing will be provided for expansion capital only to businesses with an operational history of 5 or more years A pre-approved list of Furniture and fittings manufacturers will be developed based on information received from trade association and market reputation Financing facility will be provided up to the limit of existing capacity Credit facility will be offered directly through pre-approved Furniture and fittings suppliers 	
Tenure	<ul style="list-style-type: none"> 3 years 	
Loan Limit	<ul style="list-style-type: none"> Minimum Limit - PKR 1,000,000 Maximum Limit - PKR 5,000,000 Total loan offered will not exceed fee revenue for three months determined on an average basis for the last one year. 	
Documentation	<ul style="list-style-type: none"> Business Financial Statements Proof of business operation for last three years 	
Repayments & Withdrawals	<ul style="list-style-type: none"> Repayments will be based upon preset Equal Monthly Installments 	
Markup	<ul style="list-style-type: none"> As per prevailing KIBOR and spread 	
Penalty	<ul style="list-style-type: none"> As per existing bank policies and cost of charges 	
Insurance	<ul style="list-style-type: none"> Mandatory Insurance Requirement of the banks 	

Vehicle Leasing for School Vans		
Particulars	Details	
Initial deposit	<ul style="list-style-type: none"> Minimum initial deposit of PKR 50,000 	
Salient Features	<ul style="list-style-type: none"> Business vehicle leasing will be provided for expansion capital only to businesses with an operational history of 5 or more years Leasing facility will be provided up to the limit of existing capacity Credit facility will be offered directly through pre approved vehicle suppliers 	
Tenure	<ul style="list-style-type: none"> 3 to 5 years 	
Loan Limit	<ul style="list-style-type: none"> Minimum Limit - PKR 600,000 Maximum Limit - PKR 2,000,000 Minimum and maximum loan limits are reviewed annually 	
Documentation	<ul style="list-style-type: none"> Business Financial Statements Proof of business operation for last three years 	
Repayments & Withdrawals	<ul style="list-style-type: none"> Repayments will be based upon preset Equal Monthly Installments 	
Markup	<ul style="list-style-type: none"> As per prevailing KIBOR and spread 	
Penalty	<ul style="list-style-type: none"> As per existing bank policies and cost of charges 	
Insurance	<ul style="list-style-type: none"> Mandatory Insurance Requirement for the bank 	



SME Business Bank Account		
Particular	Details	
Minimum Deposit	<ul style="list-style-type: none"> PKR 10,000 	
Account Type	<ul style="list-style-type: none"> Non - remunerative Current Account 	
Documentation	<ul style="list-style-type: none"> CNIC and business registration documents as per SBP guidelines 	
Facilities	<ul style="list-style-type: none"> Cheque Book Upgraded ATM facilities Business Visa Debit Card Phone Banking Mobile Banking Monthly account statement 	

Other Products		
Particular	Details	
Bancassurance	<ul style="list-style-type: none"> Bancassurance products such as Business Premises Insurance, Personal Injury Insurance, Equipment and Vehicle insurance can be proposed by banks through its channels offering reasonable rates and servicing through banking channels such as direct debit 	
Cash Management Services	<ul style="list-style-type: none"> Banks can offer school fee collection online through accounts and through their branch network with pre-printed school fee vouchers to be deposited at any bank branch 	
Utility Bill Payment	<ul style="list-style-type: none"> Service for easy payment of electricity, gas, telephone and cell phone bills 	
Advisory Services	<ul style="list-style-type: none"> Banks can assist business owners in various services to achieve better return on capital and funding as well as manage cash flow concerns 	

6.2 Eligibility Criteria for Asset Products

Indicator	Description
Borrower Eligibility Analysis	Assessment of type of customers to take into account the total indebtedness of the borrower and his disposable income and should ensure that the total financing to a borrower does not exceed the reasonable limits as laid down in approved policies of the bank. Borrower should be in business of Education for the past five years and hold a valid CNIC
Business Analysis	To assess the Borrower's position their invoices will be verified and checked against banking history
Credit worthiness	Credit worthiness of the borrower will be ascertained by collecting information from CIB and other banks operating in the region
Financial parameters	To assess average expenses, income generated and repayment capacity of the borrower
Adherence to Lending Standards	To assess that Customer/ Borrower requirements are in compliance with standards set for revolving finance scheme by the Bank and/ or Regulatory Authorities
Banking History	Verifiable banking history of more than three years with active accounts
Business Operations	Business should be in operation for more than five years

7. Distribution and Communication Considerations

SMEs in "Education" segment are spread out in various locations all over Pakistan, therefore, a single location for delivery of banking products cannot be proposed. The businesses operate in various numbers from dispersed locations within the city.

Entry strategy is explained below:

Marketing Objectives

Marketing objectives for building and promoting the brand image of SME Products for Education segment are as follows:

- Conduct seminars with All Pakistan Private Schools Association at different locations of education industry to create awareness of the banking products available for them
- Educate the school owners and create awareness for financial needs and banking products in the identified market regions
- Develop strategies to attract a large number of education providers interested in product schemes

- Design a comprehensive positioning strategy to create strong awareness of the Education segment lending products in the market
- Organize promotional events in different locations to build strong image of the bank amongst the target audiences

Promotional Activities

To create awareness of SME specific products in the target market, the management will aggressively advertise various promotional programs and sponsored events:

- Workshops will be conducted to create awareness amongst education segment business owners along with trade associations to provide maximum exposure to business owners

Banks can service these SMEs through the following proposed channels (*Please note that this list is not exhaustive*)

- Direct Sales Agents
- Branches / Brochure distribution

Distribution Strategy

To reach maximum percentage of target market, Banks needs to have a comprehensive distribution strategy. Banks should aim to cater banking needs of education segment through its products on national basis in major cities of the country. The bank will provide financing facility to both small and medium sized businesses in major cities; however, banks will penetrate into other smaller cities after establishing strong presence in major cities

Banks will adopt a multi-channel strategy utilizing both conventional and technology based alternate delivery channels.

Conventional Channels

- **Branches:** Establishment of lending branches in educational institution locality and regions with high growth potential to attract a large number of customers for SME lending Products
- **Direct Sales Agent:** This activity will be outsourced and trained marketing team will periodically visit identified areas within the cities to influence potential customers and create awareness of the product & features being offered under SME Products Suite

Technology Based Alternate Delivery Channels

- **Short Message Service (SMS):** Marketing team can send out mass messages in Urdu or English to the segment for advertising bank's products



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Habib Metropolitan Bank Limited
KASB Bank Limited

MCB Bank Limited
Meezan Bank Limited
National Bank of Pakistan
NIB Bank Limited
Soneri Bank Limited
Standard Chartered Bank (Pakistan) Ltd
United Bank Limited

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