


IFC Advisory Service in the Middle East and North Africa

Other Land Transport (Logistics)



In partnership with: Canada, Denmark, Netherlands, Islamic Development Bank, Switzerland, United Kingdom and the United States.



IFC, a member of the World Bank Group, creates opportunity for people to escape poverty and improve their lives. We foster sustainable economic growth in developing countries by supporting private segment development, mobilizing private capital, and providing advisory and risk mitigation services to businesses and governments. This report was commissioned by IFC through its Bank Advisory Services program which, helps build capacities of commercial banks to provide banking services to small and medium enterprises (SMEs) in a responsible, profitable and sustainable manner.

© International Finance Corporation 2011. All rights reserved.
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
Internet: www.ifc.org

The material in this work is copyrighted. Copying and/or transmitting portions or all of this work without permission may be a violation of applicable law. IFC encourages dissemination of its work and will normally grant permission to reproduce portions of the work promptly, and when the reproduction is for educational and non-commercial purposes, without a fee, subject to such attributions and notices as we may reasonably require.

IFC does not guarantee the accuracy, reliability or completeness of the content included in this work, or for the conclusions or judgments described herein, and accepts no responsibility or liability for any omissions or errors (including, without limitation, typographical errors and technical errors) in the content whatsoever or for reliance thereon. The boundaries, colors, denominations, and other information shown on any map in this work do not imply any judgment on the part of The World Bank concerning the legal status of any territory or the endorsement or acceptance of such boundaries. The findings, interpretations, and conclusions expressed in this volume do not necessarily reflect the views of the Executive Directors of The World Bank or the governments they represent.

The contents of this work are intended for general informational purposes only and are not intended to constitute legal, securities, or investment advice, an opinion regarding the appropriateness of any investment, or a solicitation of any type. IFC or its affiliates may have an investment in, provide other advice or services to, or otherwise have a financial interest in, certain of the companies and parties named herein.

All other queries on rights and licenses, including subsidiary rights, should be addressed to IFC's Corporate Relations Department, 2121 Pennsylvania Avenue, N.W., Washington, D.C. 20433.

International Finance Corporation is an international organization established by Articles of Agreement among its member countries, and a member of the World Bank Group. All names, logos and trademarks are the property of IFC and you may not use any of such materials for any purpose without the express written consent of IFC. Additionally, "International Finance Corporation" and "IFC" are registered trademarks of IFC and are protected under international law.

Acknowledgements

This segment booklet has been developed jointly by International Finance Corporation (IFC) and State Bank of Pakistan (SBP). We would particularly like to thank Kamran Hafeez (Partner, Head of Advisory Services) Anjum Asim Shahid Rahman (member firm of Grant Thornton International), who were commissioned by IFC to conduct this market research. Anjum Asim Shahid Rahman (AASR) is a leading firm of chartered accountants and management consultants committed to providing the highest quality of professional services in accounting, auditing, taxation and financial services consultancy.

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	5
4. Industry Overview	5
5. Market Assessment	6
5.1 Market & Demographic Profile	6
5.2 Owner Profile	8
5.3 Business Linkages	8
5.4 Business Cycle	9
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 Other Land Transport (Logistics) 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 sub-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 highly 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 78% of non-agriculture GDP of Pakistan, as per State Bank of Pakistan. However, the sub-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 sector in order to enable financial institutions to structure products that meet overall risk management guidelines and facilitate the growth of the SME sector.

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 of Pakistan to determine banking and financial needs of the SME sector.

This booklet contains the findings pertaining to the services the segment of “*Other Land Transport (Logistics)*” which include the following:

- Transportation of goods from one location to another via Trucks / Lorries.

At present, the Land Transport sub-segment in Pakistan is relatively organized with sales primarily generated under contracts as well as through truck stands, although as in case of most SME segments, has limited banking and financial history.

The Land Transport segment is largely dispersed and has limited exposure to financial institutions. However,



demand for this segment has been continually increasing.

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 30 SME owners were conducted for *Other Land Transport (Logistics)* segment. The locations and classification of these SME's are covered in Section 5.1 of this booklet under 'Sub-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 segments 25 SMEs surveyed within each segment. 	<ul style="list-style-type: none"> Sample size is sufficient enough to gather relevant qualitative and quantitative information on each segment Increase in the sample size will only add marginal value to the overall information collected from the survey exercise <p>Change of Definition of SME by SBP</p> <ul style="list-style-type: none"> 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 sub-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 than those who use banks only for products such as fund transfers



Particular	Crietaria	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 sector 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
Particular	Crietaria	Rationale
Banking history	<ul style="list-style-type: none"> At least 80% with banking history At least 5% with no banking history 	<ul style="list-style-type: none"> As per SBP prudential regulations any business operated by an individual, but meets the classification criteria of the regulations will be termed under SME On account of above a majority of sample in the market are operating their businesses through a bank account (either in the name of the proprietor or in the name of the business) Most of the financial needs and preferences that are objectives of this assignment, have been obtained from the above sample who are using a bank for their businesses operating needs However a very small portion of the market is totally un-banked which is also touched during our survey to understand their reasons for not banking and fulfilling their needs for financial services through other, more expensive, informal channels

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 sub-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

Segment Overview

Factors	Comments
Demand	The demand for Land transport segment has improved over the years due to increased trade over land across the borders, imports, exports and urbanization
Supply	The industry has significant potential for increased service provision using the existing capacity, but due to poor road linkages, increase in raw material prices and security issues; the industry is currently working below its capacity
Key Players	NLC, Agility logistics, TNT and UPS are the major transport and logistics support companies operating in the country
Trade Association	Pakistan Goods Transport Union Karachi Goods Carrier Association Faisalabad Goods Carrier Association
Regulatory Body	Ministry of Communication

Factors	Comments
Recent Developments	Over the past ten years, road traffic – both passenger and freight - has grown significantly faster than the national economy. New national highways have been built, with the addition of motorways which has accelerated trade and logistics within the country
Future prospects	Exhibiting a long term potential subject to rise in population and road density, however growth is susceptible to risks arising in economic and political climate as well as law and order conditions

Demand

In a growing economy like Pakistan, the need for a reliable integrated transport infrastructure is acutely felt. Pakistan's transportation network, although not as contemporary and efficient as that of developed countries, is considerably more improved than it was a decade ago.

According to data obtained from the Ministry of Communication, the infrastructure development budget has increased from PKR 17.2 BN in 2004-5 to PKR 36.5 BN in 2010, where as the Pakistan Railway development budget as compared to land transport has faced a change in priorities by the Government of Pakistan, the budget decreased from PKR 7.2 BN to PKR 5.5 BN.

Continuous improvement and rehabilitation of road networks reflects the government's enhanced focus on infrastructure with specific preference to road network. Road freight service has been steadily capturing market share from rail transport.

Unstable economic and political situation, law and order issues, higher interest rates for leasing and significant depreciation of Pak Rupee is adversely affecting the Other Land Transport segment.

Depreciation of Pak Rupee results in increase of fuel and raw material prices, whereas political unrest (strikes, rallies etc) affects daily operations as the transporters are unable to reach their destination.

Supply

The commercial Land Transport fleet of Vehicles in Pakistan is estimated up to 250,000 units. The transport system is primarily dependent on road transport, which makes up 90% of national passenger traffic and around 96% of freight movement. Over the past several years, road traffic, both passenger and freight has grown much faster than the country's

overall economic growth. The National Highway and Motorway network, which stretches an impressive 10,849 km, contributes 4.2% of the total road network and carries 90% of Pakistan's total traffic.

Road density (Total length of road / Total area), is a common indicator for the development of a country's road system and concurrently used as an index for prosperity, economic activity and development. It is unfortunately low in Pakistan, especially when compared to other developed and developing countries. Pakistan, with a population in excess of 170 million people, has a reasonably developed transport system, but still intends to double its current road density of 0.32-km/sq. km to 0.64-km/sq. km gradually over the next 10 years for economic and infrastructure development.

Key Players

The major Competitors of Other Land Transport in the organized sub-segment include National Logistic Cell (NLC), Agility Logistics, TNT, and UPS. There are ofcourse multiple operators.

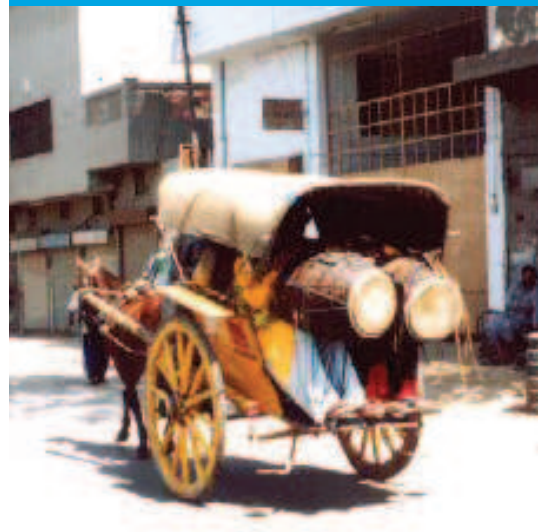
Trade Body

Our primary survey findings were generated by conducting an interview with Karachi Goods Carrier Association, a trade association of transporters located in Maripur, Karachi with the objective '*to promote common interests and improvements in service quality*'. The Association has more than 400 active members. Karachi being a port city is also the major hub for the transport business.

Some other trade unions and associations are also operating in Lahore and Faisalabad by the name of Pakistan Goods Transport Union and Faisalabad Goods Carrier Association respectively.

Future Prospects

Increasing growth and expansion is expected however, there is a great dependency on stable economic and political environment for increase in overall trade activity and import/ export expansion, which is critical for continued growth levels within this segment.



According to market sources, general perception of Other Land Transport (Logistics) is optimistic and they perceive that industry will experience continued growth in the next 5-10 years.

5 Market Assessment

5.1 Market & Demographic Profile

The sub-segment of "*Other Land Transport (Logistics)*" constitutes the following:

- Transportation of goods from one location to another via Trucks / Lorries.

At present, the Other Land Transport segment in Pakistan is relatively organized with services being provided by registered business owners. Most businesses are family owned with members of one family serving different functions of business. Underlying issues inherent to the segment include:

- 1) Inconsistent / Seasonal demand
- 2) Inability to assemble and deploy human and financial resources effectively
- 3) Dependency on continued investment in road infrastructure
- 4) Limited understanding of business requirements
- 5) Restricted funding sources
- 6) Inability to deploy technology based equipment
- 7) Law and order conditions

The sub-segment is largely dispersed across Pakistan, predominantly operating from clusters in various cities of the country. The clusters are largely situated in the suburbs of these cities, a large amount of land transporters operate on a manual and labor intensive model without the use of modern technology. The main reason for lack of automation and mechanization in this segment is due to lack of vision for growth and unavailability of funds to the small Other Land Transport business owners.

Market Sizing and Lending Potential

Businesses in the segment are widespread throughout various locations in urban regions of the country; the following tables present a cluster wise location of Land transport establishments near dry ports.

Cluster Locations for Sale of Motor Vehicles	
Area	No. of establishments
Karachi	
Maripur	400
West Wharf	100
SITE	100
Lahore	
Ravi Link Road	100
Faisalabad	
General Truck Stand	100
Sialkot	
Ugoki Road	50
Shahab Centre, Shahpura	100
Gujranwala	
Main GT Road	100

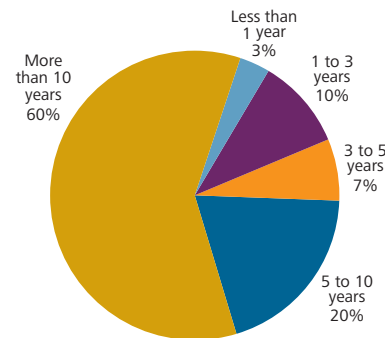
Source: Trade Associations and Primary Survey

Segment Demographics

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

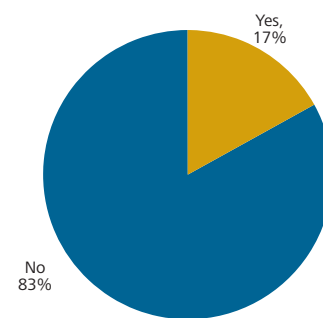
The results of the survey below demonstrate that more than 60% businesses have been operating for more than 10 years, whereas almost one third business owners operate all over Pakistan. A small proportion - 3% of land transporters also operate across the border.

Number of years in Operation



Source: Survey Findings

Location of Businesses

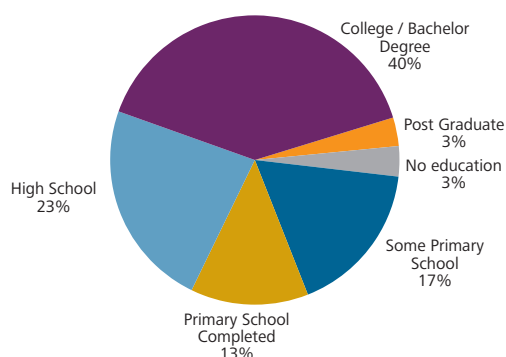


Source: Survey Findings

5.2 Owner Profile

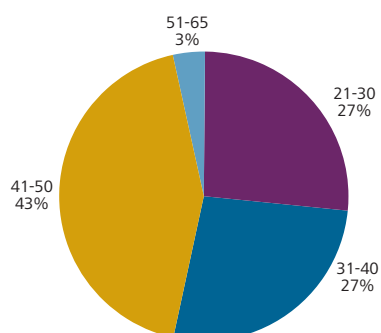
The business owners consist mainly of people in the age group of 41-50 years. Due to the labor intensive and manual nature of work, education is not considered as a major factor for business owners. Predominantly businesses are run by families, preferring family members to undertake organization functions.

Education level of Business Owners



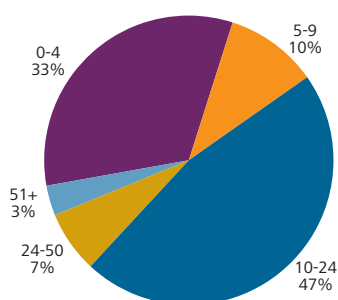
Source: Survey Findings

Age group of Business Owners



Source: Survey Findings

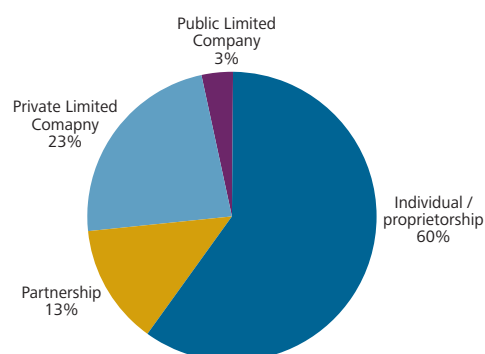
Number of Employees under Business Owners



Source: Survey Findings



Ownership Type



Source: Survey Findings

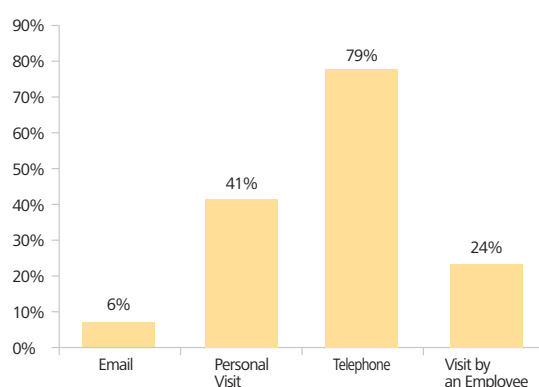
5.3 Business Linkages

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	Other Land Transport
Owners	Growth, awareness, access to finance, training and proper utilization of technology for the best interest of the business.
Suppliers (Fuel, Mobile oil, Spare parts suppliers)	Better terms, increased supply and lower risk
Customers	Service quality, reasonable pricing, freight insurance and turnaround time
Financial Institution	Debt servicing, Increase in deposits
Government	Expansion of taxation bracket, economic growth, benefit to community at large

Businesses employ various mediums as means of communication with 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 are predominantly serviced by formal suppliers and wholesalers though a small number of business owners utilize informal market and individuals as their primary resource for supplies.

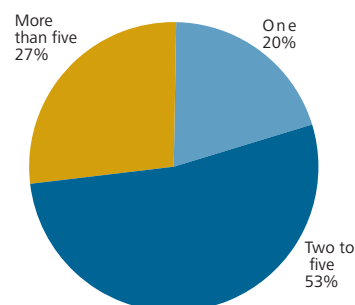
Major supplies for segment include:

Other Land Transport
Spare Parts
Tires
Engine/ Lubrication Oil
Fuel (mainly Diesel)

Most of the business owners rely on the same suppliers to meet their business needs, except for some, who place reliance on many suppliers or are not satisfied with their suppliers.

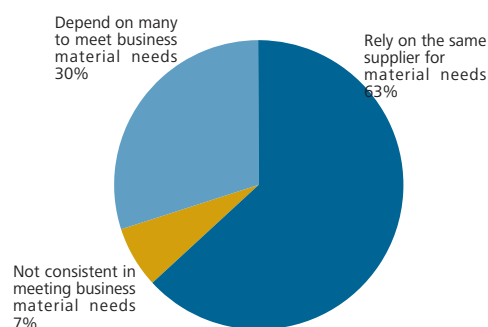
Material needs are met locally buying from the same location or same city from local dealers or wholesalers. In most cases large and medium establishments buy steel supplies from Pakistan Steel Mills, the numbers of suppliers used to fulfill business needs are more than 5, but predominantly the segment relies on same suppliers to meet their material needs.

Number of Suppliers



Source: Survey Findings

Supplier Relationship



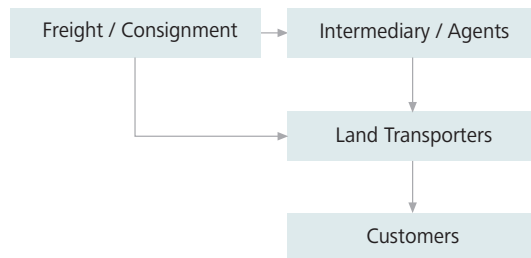
Source: Survey Findings

5.4 Business Cycle

Other Land Transport (Logistics)

The segment experiences business cycles due to fluctuation in prices of new trucks and raw materials for instance Oscillation in fuel prices, engine oil, tires, spare parts, variation in import policies and duties. The businesses suffer from general increase in prices which in turn causes reduction in sales, due to higher pricing.

The businesses also experience cyclical trends, harvesting seasons bring about more business. However sales are predominantly dependent upon recurring customers.



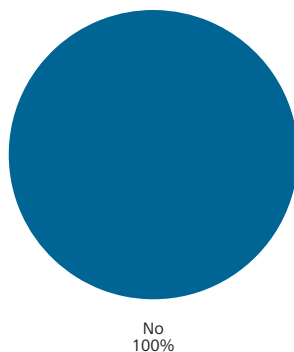
The segment also services formal customers in terms of different corporations, our survey findings reveal that transporters have long term contracts and strategic alliance with different companies in separate cities all over Pakistan to deliver freight/consignments, which ensures continuous stream of cash flow from these customers.

Working Capital

Working capital is dependent upon payment terms offered to customers and received from suppliers, businesses in Land transport segment operate on commission based income and consignment delivery.

The segment works mainly on cash basis with suppliers of auto parts and equipments providing them no credit time period for repayment. However these businesses allow up to 1 month credit to large/reputable customers due to recurring business opportunities.

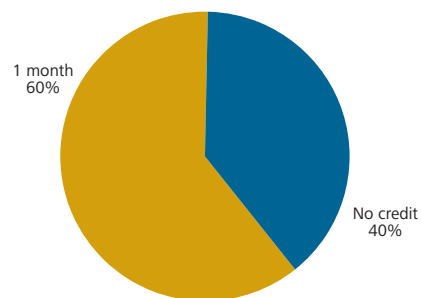
Repayment Terms offered by Suppliers



Source: Survey Findings



Repayment Terms for Customers



Source: Survey Findings

5.5 Financial Assessment and Profile

Businesses in the segment do not prepare formal financial statements. However, most 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 from trade associations, it has been identified that income margins are between 15-20%, with a great number of owners relying on higher sales volume for earning better profits.

As per research findings, none of the business owners in the segment had a clear 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 and non-availability of proper accounting records presents an issue for calculation of sub-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 accurate position of the businesses operating in the segment.

Conclusively it can be stated that there exists an ample demand for Land transport services in Pakistan and also that the existing scenario provides conducive opportunities for entry into this business segment.

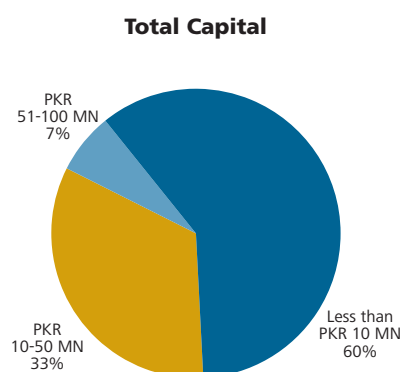
5.6 Financial Information

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

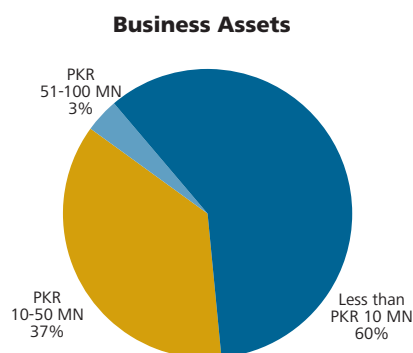
Survey findings demonstrate approximately 60% businesses operating with Total Capital and Total Assets less than PKR10 MN exhibiting a relatively low initial investment for startup. Total assets comprise of Vehicles, Trade receivables and land/building.

Liabilities constitute trade payables and borrowing for vehicles.

Business related assets constitute Vehicles, Lorries, Lifting Equipment and Furniture / Fittings.

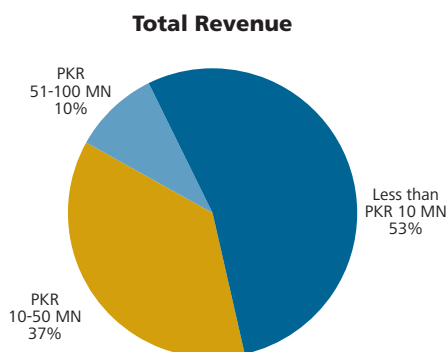


Source: Survey Findings

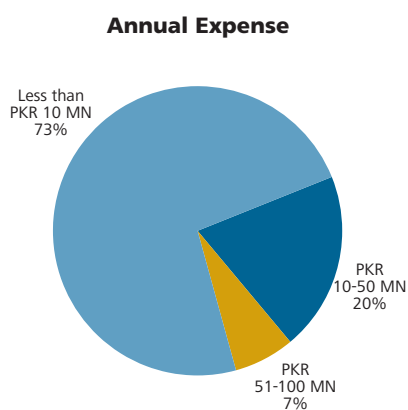


Source: Survey Findings

Annual revenue is predominantly less than PKR 10 MN within the entities interviewed for this segment; expenses primarily represent material, repair / maintenance, employee cost and interest payments against borrowings. According to representatives of Karachi Goods Carrier Association, transporters also pay a toll tax up to PKR 6000 for every trip.

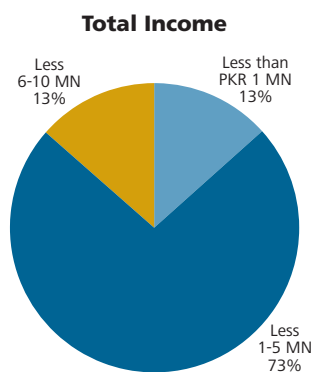


Source: Survey Findings



Source: Survey Findings

All businesses display healthy earnings. However only 7% owners experienced decline over the last year. 73% respondents earn between PKR 1-5 MN depicting a relatively higher percentage of return over initial investment.



Source: Survey Findings



Benchmark Financial Ratios

Financial Information	PKR
Total Capital	21,245,000
Business Assets	21,955,000
Total Revenue	25,276,667
Annual Expense	17,410,000
Total Income	4,619,333
Key Financial Ratios	
Profit Margin	18%
Operating Expenses/ Revenue	69%
Asset turnover	115%
ROA	21%

Source: Survey Findings

These are the benchmark financial ratios calculated on the basis of average value of financial information obtained from the sample of 30 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	Six Wheeler Truck	1,500,000
2	Ten Wheeler Truck	2,500,000
3	Fourteen Wheeler Truck	4,500,000
4	Eighteen Wheeler Truck	5,000,000
5	Twenty two Wheeler Truck	8,000,000
6	Lifting Equipment	500,000
7	Inventory and Spare Parts	500,000
8	Tools and Other Peripherals	100,000
9	High Pressure Cleaning Equipment	500,000
10	Industrial Weighing Scale	500,000



5.8 Financial Need Analysis

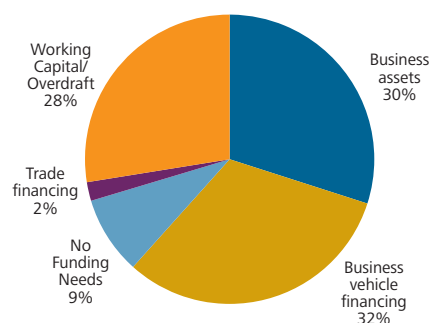
Funds are mostly managed by the owners themselves, mainly required for business assets and working capital which are mostly fulfilled by their own personal savings or cash flows from the existing business. Among the fixed assets, finance requirement is mainly centered on Delivery vehicles and Lifting equipment.

Quick availability of spare parts, fuel and replacement assets support the Land Transport sub-segment to a great extent. Only some Land Transporters have fully stocked spare parts owing to the problem of tied up capital.

The segment generally has limited exposure with respect to financing and banking products. The businesses operating in the sub-segment have limited awareness for banking products and therefore did not express significant interest for loan products from banks.

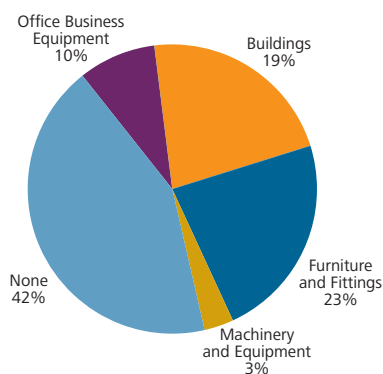
SMEs in the Land Transport sub-segment have to maintain trucks and lorries in order to achieve timely delivery of consignment, consistent repair works, fuel cost and employees working on daily wages result in blockage of funds until more capital is injected or payments are received from existing orders.

Business Funding Needs



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 bank accounts.

Only 15% of the segment is funded by Banks and Business owners cited high interest rates, bank charges, documentation and religious reasons for not applying for a loan.

In addition to that it is also observed that other services such as money transfer, payroll and cash management/collection gathered a healthy response, a significant 60% business owners have demonstrated intent to avail money transfer facility whereas the response for payroll and cash management/collection rests at 20% respectively.

63% 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 figures above are not encouraging as the segment is liable for transporting goods to places and business owners face a continuous threat of road accidents or losses to freight due to unfavorable conditions.



A substantial portion of segment is not currently paying for any advisory service; the percentage rests at 11% only. The sub-segment has demonstrated lack of interest in obtaining advisory services from banks; only 18% 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	90%
Term Deposits	7%

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 one third of the businesses are not formally registered with any trade union or association.

More than 25% of the Businesses in the segment do not prepare financial statements and half of the remaining do not have an audit of their financial statements audited from an independent party. Our analysis exhibit that the segment operates in a highly competitive environment with a maximum amount of businesses having more than ten competitors, the cluster in Karachi constitutes more than 500 businesses operating in the Land transport segment.

The majority of segment relies on the same supplier to meet material needs and do not have a regular stream of customers to fulfill orders.

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.

Risks inherent to the segment include:

- Uneven cash flows
- Business uncertainty
- Single entry accounts
- Law and order concerns
- Affect on road infrastructure due to natural disasters

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 two years
- Review of accounts and register of invoices
- Vehicle and freight insurance

6 Proposed Banking Product Suite

6.1 Product Features

Based on our primary and secondary research we propose the following for social and economic growth of “*Other Land Transport (Logistics)*” sub-segment:

Asset Products:

- Vehicle Financing facility
- Fleet Tracking & Management System financing
- Fuel Finance Facility
- Loading Equipment Leasing

Liability Products:

- Business Bank Account

Other Products

- Banc assurance
- Branchless Banking (Mobile)
- Utility Bill Payment

Transport Vehicle Financing Facility	
Particulars	Details
Down Payment	<ul style="list-style-type: none"> ▪ Minimum initial deposit 20% of Value
Salient Features	<ul style="list-style-type: none"> ▪ Transport 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 i.e. additional vehicles obtained on lease will not exceed in number of existing fleet ▪ Loan amount will be directly transferred to approved vendors account ▪ Vehicles will be registered in the name of Bank <p>The total amount of financing for vehicles will not exceed the total average annual revenue of the business determined on the basis of the last three years.</p>
Pre approval suppliers	<ul style="list-style-type: none"> ▪ Three major vendors for transport vehicles will be pre-approved by banks
Tenure	<ul style="list-style-type: none"> ▪ 5 - 7 years
Loan Limit	<ul style="list-style-type: none"> ▪ Minimum Limit - PKR 1,000,000 ▪ Maximum Limit - PKR 10,000,000
Documentation	<ul style="list-style-type: none"> ▪ Business Financial Statements ▪ Proof of business operation for last five years
Repayments	<ul style="list-style-type: none"> ▪ Flexible repayment conditions: lump sum payment on the due date or partial repayments

Fleet Tracker & Management System Financing Facility	
Particulars	Details
Down Payment	▪ Minimum initial deposit 10% of principal
Salient Features	<ul style="list-style-type: none"> ▪ Fleet Tracker and Management System financing will be provided for companies operating transport fleet with an operational history of 3 or more years ▪ Financed amount will be directly transferred to approved suppliers' accounts against invoices
Pre approval suppliers	▪ Three major suppliers will be pre-approved by banks based on supply arrangements to fleet tracking and management companies
Tenure	▪ 3 years
Loan Limit	<ul style="list-style-type: none"> ▪ Minimum Limit - PKR 100,000 ▪ Maximum Limit - PKR 500,000
Documentation	<ul style="list-style-type: none"> ▪ Business Financial Statements ▪ Proof of business operation for last five to seven years
Repayments	▪ Monthly installment payments
Markup	▪ As per prevailing KIBOR and spread
Markup charges	▪ Mark up will be charged only on the amount utilized by the borrower
Renewal	▪ Renewal will be on the basis of fresh application, subject to clearing of entire loan amount including markup and credit history
Penalty	▪ No early repayment penalty will be imposed on the borrower
Insurance	▪ Mandatory Insurance Requirement of the banks

Fuel Financing Facility	
Particulars	Details
Initial deposit	▪ Minimum initial deposit of PKR 10,000
Tenure	▪ 3 years with a stipulation of Annual Cleanup along with mark-up as mentioned below
Loan Limit	<ul style="list-style-type: none"> ▪ Minimum Limit - PKR 100,000 ▪ Maximum Limit - PKR 3,000,000 ▪ Minimum and maximum loan limits are reviewed annually <p>Fuel Financing facility offered with arrangement with major fuel supplier such as Shell or PSO.</p> <p>Overall limit assigned for fuel financed not to exceed average of 3 months fuel usage determined on average usage for 3 months over a period of last 3 years</p>
Documentation	▪ One time documentation required for a period of three years
Repayments & Withdrawals	▪ Flexible repayment conditions: lump sum payment on the due date or partial repayments
Security	▪ Financing offered against fleet vehicles
Markup	▪ As per prevailing KIBOR and spread
Markup charges	▪ Mark up will be charged only on the amount utilized by the borrower
Renewal	▪ Renewal will be on the basis of fresh application, subject to clearing of entire loan amount including markup and credit history
Insurance	▪ Mandatory Insurance Requirement of the banks
Penalty	▪ No early repayment penalty will be imposed on the borrower



Loading Equipment Leasing	
Particulars	Details
Initial deposit	▪ Minimum initial deposit 20% of value
Tenure	▪ 3 years
Loan Limit	<ul style="list-style-type: none"> ▪ Minimum Limit - PKR 100,000 ▪ 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 to five years
Repayments & Withdrawals	▪ Repayments will be based upon preset Equal Monthly Installments
Markup	▪ As per prevailing KIBOR and spread
Insurance	▪ Mandatory Insurance Requirement of the banks
Penalty	▪ As per existing bank policies and cost of charges

SME Business Bank Account	
Particulars	Details
Minimum Deposit	▪ PKR 10,000
Account Type	▪ Non-remunerative Current Account
Documentation	▪ 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	
Particulars	Details
Bancassurance	<ul style="list-style-type: none"> Bancassurance products such as Freight Insurance, Vehicle Insurance, Business Premises Insurance, Personal Injury Insurance and Equipment insurance can be proposed by banks through its channels offering reasonable rates and servicing through banking channels such as direct debit
Branchless Banking (Mobile)	<ul style="list-style-type: none"> Mobile banking services for instance balancing check, bill payment and funds transfer
Utility Bill Payment	<ul style="list-style-type: none"> Service for easy payment of electricity, gas, telephone and cell phone bills

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 Land transportation for the past three years and hold a valid CNIC. At least 50% of borrower revenues need to be driven by contract based sales
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 one year with active accounts
Business Operations	Business should be in operation for more than three years

7 Distribution and Communication Considerations

SMEs in “Other Land Transport (Logistics)” are spread out in various locations all over Pakistan. The businesses operate in clusters from suburbs of the city or in close proximity to dry ports in all major cities.

Marketing Objectives

Marketing objectives for building and promoting the brand image of SME Products for Other Land Transport sub-segment are as follows:

- Educate the land transporters and create awareness for financial needs and banking products in the identified market regions
- Develop strategies to attract a large number of transporter interested in product schemes
- Design a comprehensive positioning strategy to create strong perception of the land transport lending product in the market
- Visits by regional managers and promotion of SME specific lending products via trade associations and trade bodies

Promotional Activities

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

- Product launch events conducted in liaison with Other Land Transporters trade association to create awareness of sub-segment specific banking products amongst the business owners

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

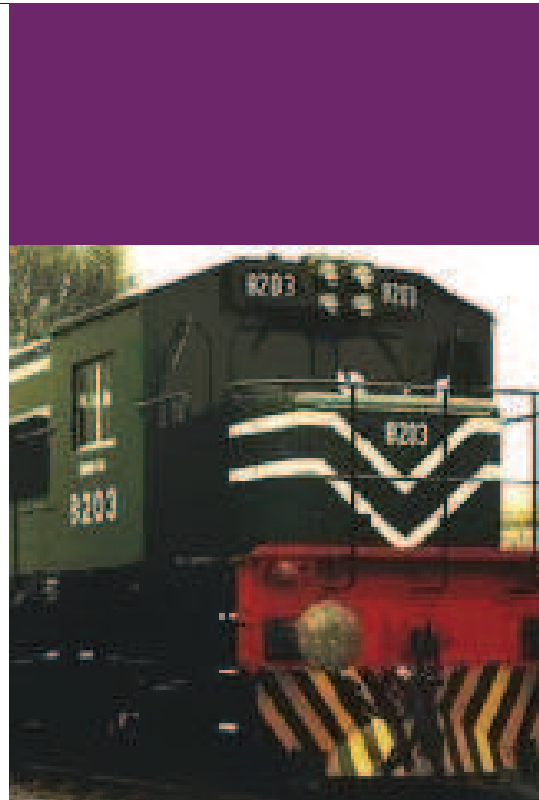
- Direct Sales Agents
- Tele Sales
- Trade association backed events
- Branches

Distribution Strategy

To reach maximum percentage of target market, Banks need to have a comprehensive distribution strategy. Banks should aim to cater banking needs of land transport sub-segment through its products on national basis in major cities of the country. Initially the bank will provide financing facility in major cities. However, banks will penetrate into other small business markets after establishing strong presence in major cities.

Banks will adopt conventional channels for distributions such as:

- **Branches:** Establishment of lending branches in land transport cluster 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.



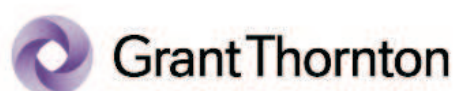
Acknowledgement:

Provision of data, selection of 10 SME sectors and participation in meetings / focus groups by the following banks:

Allied Bank Limited
Askari Bank Limited
Bank Alfalah Limited
Bank Al Habib Limited
Faysal Bank Limited
Habib Bank Limited
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

Researched by:



Anjum Asim Shahid Rahman

Chartered Accountants

House # F-67/III, Ibn e Qasim Park Road
Block-4 Clifton,
Karachi Pakistan

T +92 (0) 21 35822641-2

www.gtpak.com

www.gti.org

Contact Information:



State Bank of Pakistan

I.I. Chundrigar Road, Karachi, Pakistan.

Phone: 111-727-111

Fax: (+92-21) 99212433 - 99212436

www.sbp.org.pk



Kaiser H. Naseem

Head of Bank Advisory Services

MENA Region

Email: KNaseem@ifc.org

Akbar Zaman Khan

Bank Advisory Services

MENA Region

Email: AKhan12@ifc.org



2121 Pennsylvania Avenue, NW
Washington, DC 20433, USA
www.ifc.org

May 2011