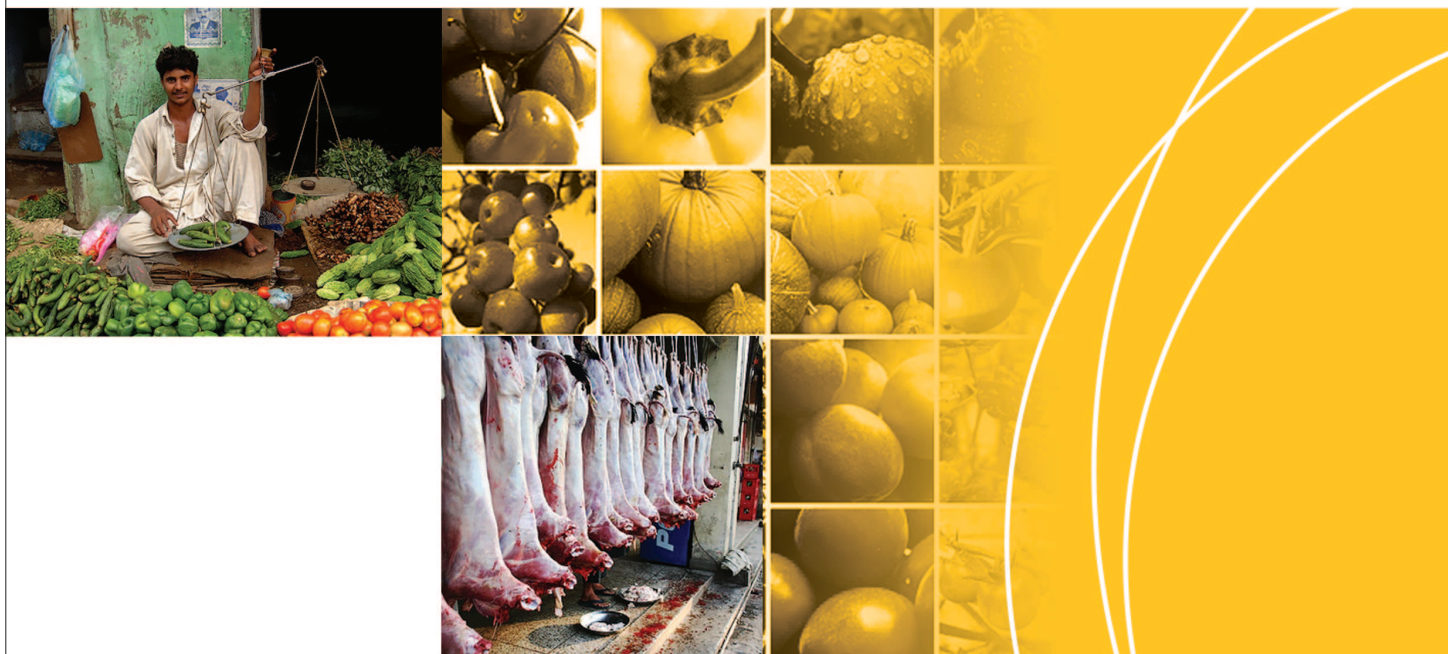


IFC Advisory Service in the Middle East and North Africa

# Meat, Fruit, Vegetables, Oils and Fats



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.

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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.



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## 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 Meat, Fruit, Vegetables, Oils and Fats 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 sub segment. However, it is highly recommended that product development undergoes the usual general practice and protocols employed by the bank. It is also 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 strategies.

## 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 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 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 / sub-segments of Pakistan to determine banking and financial needs of the sector.

This booklet contains the findings pertaining to the manufacturing and services segment of “*Meat, Fruit, Vegetables, Oils and Fats*” which includes the following as the name suggests:

- Meat (Poultry, bovine and ovine)
- Fruits and Vegetables
- Oils and Fat (cooking oil and ghee)

This segment is fairly unorganized and largely dispersed with a low banking history. The demand for meat, fruit and vegetables is expected to increase substantially. However, oil sub-segment faces a lot of strain due to import of oil.



### 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 25 SME owners were conducted for *Meat, Fruit, Vegetables, Oils and Fats* segment. The locations and classification of these SME's 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 sub segment was based on the following sampling methodology.

Particular	Criteria	Rationale
Size	<ul style="list-style-type: none"> <li>250 detailed one on one interviews for 10 segments</li> <li>25 SMEs surveyed within each segment.</li> </ul>	<ul style="list-style-type: none"> <li>Sample size is sufficient enough to gather relevant qualitative and quantitative information on each segment</li> <li>Increase in the sample size will only add marginal value to the overall information collected from the survey exercise</li> </ul> <p><b>Change of Definition of SME by SBP</b></p> <ul style="list-style-type: none"> <li>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</li> <li>Small enterprises would be defined as those businesses that have employees up to 20 and annual turnover up to PKR 75 MN</li> <li>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</li> <li>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</li> </ul>

Particular	Criteria	Rationale
Status	<ul style="list-style-type: none"> <li>At least 60% will be informal businesses</li> <li>At least 20% will be formal businesses</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>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</li> <li>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 sector</li> <li>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.</li> <li>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</li> <li>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</li> <li>Formal businesses have more structured requirements than those who use banks only for products such as fund transfers</li> </ul>





Particular	Crietaria	Rationale
Turnover	<ul style="list-style-type: none"> <li>At least 60% with turnover less than average PKR 75 MN</li> <li>At least 20% with turnover more than average PKR 75 MN</li> </ul>	<ul style="list-style-type: none"> <li>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</li> <li>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</li> </ul>
Employees	<ul style="list-style-type: none"> <li>At least 60% will have less than 20 employees</li> <li>At least 20% will have more than 20 employees</li> </ul>	<ul style="list-style-type: none"> <li>SMEs that are not in the manufacturing sector are relatively understaffed owing to the small size of their business and ease of management</li> <li>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</li> </ul>

Particular	Crietaria	Rationale
Banking history	<ul style="list-style-type: none"> <li>At least 80% with banking history</li> <li>At least 5% with no banking history</li> </ul>	<ul style="list-style-type: none"> <li>As per SBP prudential regulations any business operated by an individual, but meets the classification criteria of the regulations will be termed under SME</li> <li>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)</li> <li>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</li> <li>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</li> </ul>



### 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 crises. 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.
	Pakistan's close ties with China will enable the country to reap benefits from the latter's mounting growth and development through trade and investment
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	Meat, fruit and vegetables demand continues to increase, both locally and internationally, due to population growth, urbanization and rising per capita income. Poultry having the highest demand due to its low price as compared to bovine and ovine meat. Edible Oil sub-segment only meets local demand
Supply	Meat production has been increasing annually by 3.4%. Fruit and vegetables mostly exported in Europe and Middle East. Oil Industry falls short in fulfilling local demand which is compensated through oil with Malaysia being the major exporter of edible oil to Pakistan

Factors	Comments
Key Players	K n N's, Habib Oil Mills (Pvt) Limited, Unilever and Wazir Ali Industries (Dalda)
Trade Body	Ghee Corporation of Pakistan (Pvt.) Limited. Pakistan Poultry Association (PPA)
Regulatory Body	Pakistan Oilseed Development Board (PODB)
Recent Developments	Number of cold storage establishments has increased in the fruit and vegetable industry with improved technology.
Future prospects	The future prospect of the whole segment is very strong with significant growth expected provided energy inputs improve and export and import policies are favorable

#### Demand

##### *Meat*

The demand for meat and meat production continues to increase due to population growth, urbanization and rising per capita income.

Poultry is one of the organized and important segments of agriculture sub-segment of Pakistan. At present, poultry contributes 40% of the total meat consumption and is the cheapest meat available.

Demand for bovine/ovine meat is present throughout the year but peaks immensely during the religious season. As they are more expensive, chicken meat is consumed as a substitute, which affects the demand for bovine/ovine meat to a great extent.

##### *Fruits and Vegetables*

Increased health awareness, high population growth rate, changing dietary patterns of increasingly affluent middle class and availability of packaged vegetables, has generated a year round high demand for vegetables in the country.

Pakistan has been known to cultivate one of the best fruits and vegetables in the world and so there is a high demand for them in other countries, especially Middle East, U.S.A and Europe.

##### *Oils and Fat*

Oil and Fats is an essential part of Pakistani cuisine and so its demand locally remains stable throughout the year. With more health consciousness, over the years more preference has been placed on edible oils than ghee.

## Supply

### *Meat*

Traditional system of meat production and marketing are no longer able to meet the growth in demand of quality meat as indicated by continuous increase in prices of meat. Total meat production, which includes mutton, beef and poultry meat, was 1,957 thousand tons in 1999-00 which increased to 2,965 thousand tons in 2009-10, with annual increase of 3.4% during the last decade according to the economic survey 2009-10.

Poultry meat contributes 23.8% of the total meat production in the country. Pakistan's poultry industry comprises several sub-segments that are interconnected and have stakes in each other. These sub-segments include feed manufacturers, breeders, hatcheries, broiler farms and layer farms.

Pakistan is 2nd largest goat meat production country of the world after China. Sheep and goat farming for mutton production in Pakistan is mainly a small-scale rural activity that forms an integral part of an age-old system of mixed farming. Pakistan suffers in international meat market due to unsatisfactory slaughtering conditions of present slaughterhouses, whose hygiene standards fail to meet international requirements.

### *Fruits and Vegetables*

Majority of the fruits cultivated in Pakistan are exported to USA, Europe and Middle East especially apples, kino, mangos and guava. Potatoes, onions, mushrooms, chilly and garlic are amongst the well exported vegetables.

Unfortunately this sub-segment has not been able to cash as much as its potential, hence resulting in highly volatile vegetable supply market wherein the market is flooded with seasonal vegetables irrespective of demand on one hand and very high priced vegetables in off-season on the other. Export demands are given preference before the local demands are fulfilled.

At national level the country suffers high harvest losses due to careless harvesting, rough handling,



inadequate transportation and poor storage. This not only affects the fruit and vegetable sub segment but also the meat industry.

### *Oils and Fats*

Despite the efforts of the Pakistan Oilseed Development Board (PODB), the production of indigenous oilseeds is showing a consistent decline. This declining trend is mainly attributed to low priority given to oilseed crops. Also, gas shortages and load shedding puts tremendous strain on oils and fat production process.

Wheat, rice, maize, sugar and cotton are the major crops of Pakistan, which consistently occupy approximately more than 60% of all fertile land. This cropping pattern for the last three decades has led to increased import of edible oils for meeting domestic demands.

### *Key Players*

The major key players of the meat industry are K n N's and Al Shaheer Corporation.

For Oil and Fat industry, the major key players are Habib Oils Mills (Pvt) Limited and Unilever and Wazir Ali Industries (Dalda).

There are no established large scale players for fruits and vegetables in Pakistan.

### Trade Body

Pakistan Oilseeds Development Board governs the production of oils and fats. In the meat sub-segment Pakistan Poultry Association (PPA) overlooks the poultry sub segment. There is no trade body for fruit and vegetables sub segment.

### Recent Development

Recently Pakistan Poultry Association (PPA) has urged the government to abolish regulatory duty imposed on the import of maize and apply electricity tariff on the poultry farms in line with the agricultural tariff. As maize comprises 25% of poultry feed, such regulatory duty in turn affects the poultry meat and eggs prices.

Number of cold storage establishments has emerged with improved technology and space. This will help in building its export market to a great extends.

### Future Prospects

The meat industry depends a lot on the government expenditure to improve its present condition and to make it reach its full capacity. Unhygienic slaughterhouses continue to be a threat to its growth in future.

According to our primary survey, fruits and vegetable sub-segment depicts a smooth growth over the years provided favorable government policies are formed.

The oil industry faces strain due to high import of edible oils for other countries.

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

### *Fruit and Vegetables*

The fruits and vegetable sub-segment is largely dispersed across various cities of Pakistan, predominantly consisting of small fruit and vegetable stalls and small cold storage. The underlying causes for deploying primitive methods and having limited operations are as follows:

- 1) Lack of vision for growth
- 2) Limited perception of business requirements
- 3) Inability to deploy technology based equipment
- 4) Restricted funding sources
- 5) Inability to identify and explore new ideas

### *Oil and Fats*

Oil and Fat sub-segment is scattered across Pakistan, predominantly consisting of small mills which operate machinery and equipment intensive model. The underlying causes for having limited operations are as follows:

- 1) Lack of vision for growth
- 2) Limited perception of business requirements
- 3) Restricted funding sources
- 4) Inability to identify and explore new ideas

## 5 Market Assessment

### 5.1 Market & Demographic Profile

#### *Meat*

At present, the retail sales segment in Pakistan is relatively organized with sales being primarily generated via authorized dealers with strong financial and banking history. Most businesses are family owned. Underlying issues inherent to the sub segment include:

#### **Market Sizing and Lending Potential**

Businesses in the segment are widespread throughout various locations in rural and urban regions in the country. This segment barely has any major clusters. Almost all the cities have large and small scale fruit and vegetable markets which are the major cluster for vendors, and wholesalers of fruit and vegetables. Following tables presents just an estimate of the number of establishments that are present in the major cities of Pakistan.

Cluster Locations for Fruits and Vegetables	
Area	No. of establishments
Karachi	3,000
Lahore	2,500
Faisalabad	1,500
Rawalpindi / Islamabad	500
Gujrat	400
Gujranwala	400

Source: Trade Associations and Industry Sources

Cluster Locations for Meat	
Area	No. of establishments
Karachi	1,500
Lahore	1,000
Faisalabad	800
Rawalpindi/Islamabad	350
Gujrat	200
Gujranwala	150

Source: Trade Associations and Industry Sources

Cluster Locations for Oil and Fats Industry	
Area	No. of establishments
Karachi	4
Lahore	3
Rahim Yar Khan	1

Source: Trade Associations and Industry Sources

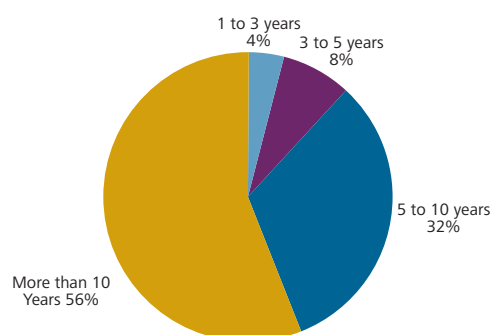
## Segment Demographics

The segment is widely spread out across various regions in the country with major presence in Karachi and Punjab naturally, being the most populated areas of the country. Demographic information is attained from industry sources and primary research conducted using a selected sample of businesses in major cities of Pakistan.

Most of the owners have been running the businesses in this segment for more than 10 years or between five to ten years showing this segment to contain established businesses. The industry is in stabilized phase with very few new entrants in the market in the last few years.

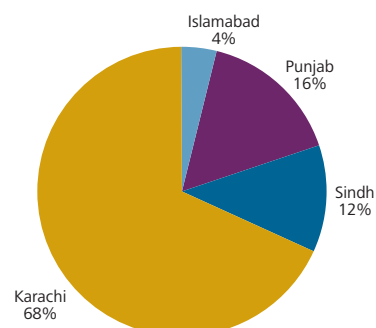


### Number of years in Operation



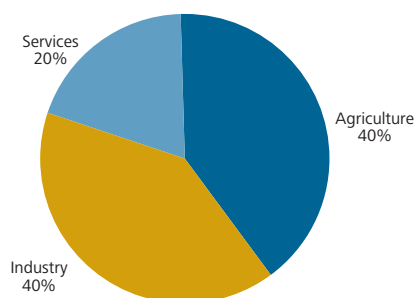
Source: Survey Findings

### Location of Businesses



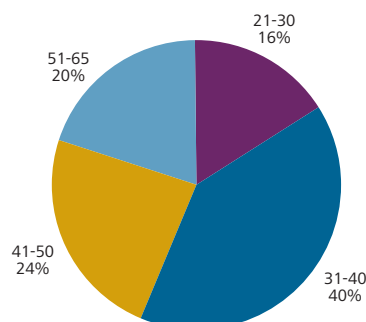
Source: Survey Findings

**Classification of Business**



Source: Survey Findings

**Age group of Business Owners**



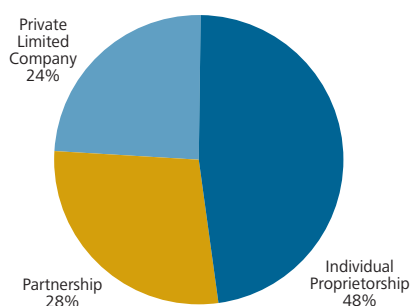
Source: Survey Findings

## 5.2 Owner Profile

The business owners consist of people in all age groups. 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.

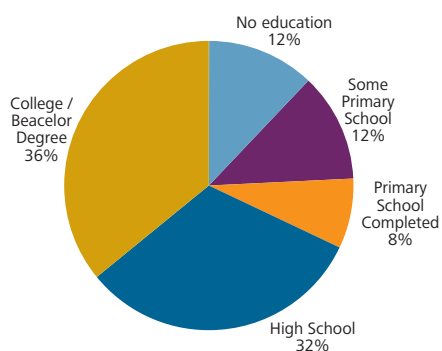
Majority of the business are run on either partnership or individual/proprietorship with only 5-9 numbers of employees working under one owner. However there are 16% of the businesses who have 24-50 employees. This is because the fruits and vegetables is a small set up as this sub-segment is both machine and labor intensive.

**Ownership Type**



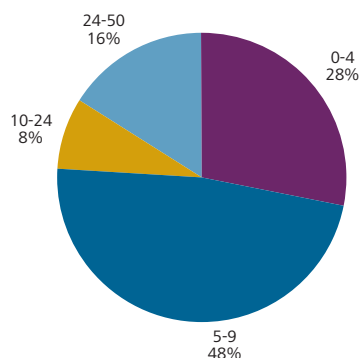
Source: Survey Findings

**Education level of Business Owners**



Source: Survey Findings

**Number of Employees under Business Owners**



Source: Survey Findings

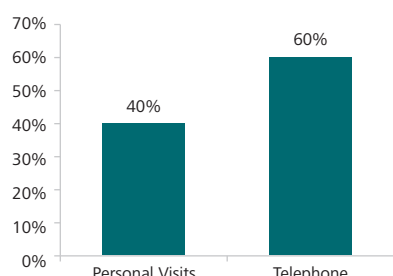
### 5.3 Business Linkages

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	Meat, Fruit, Vegetables, Oil & Fats
Owners	Growth and access to finance
Suppliers (Vegetables, fruits, cotton seeds)	Better terms, increased supply and lower risk
Customers	Product quality and reasonable pricing
Financial Institution	Debt servicing and increase in deposits
Government	Expansion of taxation bracket, economic growth, benefit to community at large

Personal visits by customers and telephone are the only means utilized and businesses in this segment barely use any other means of communication. In oil industry, a broker is present between both the suppliers and the customers for which telephone medium is more suitable, which is why this segment shows a high level of communication through telephone.

**Communication with Customers**



Source: Survey Findings

Businesses in the segment are predominantly serviced by formal wholesalers and informal market/ individuals though, a small number of business owners utilize formal retailers as their primary resource for supplies.

#### Major supplies for sub-segments include:

Meat	Fruit and Vegetables	Oils and Fats
Livestock from farms	Fruits and Vegetables from farms	Cotton seeds
		Mustard seeds
		Sunflower seeds
		Canola seeds
		Rape seeds

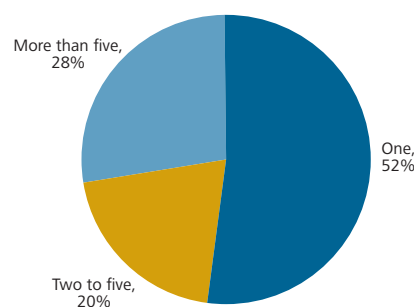
Source: Survey Findings



Most of the business owners in the oil industry rely on the same suppliers to meet their business needs, while meat, fruit and vegetable sub-segments have multiple suppliers. According to our primary survey findings, 20% rely on two to five suppliers and 28% rely on more than five suppliers.

Our primary survey findings reflect that supplier relations of meat, fruit, and vegetables business owners are quite different from those of oils and fats businesses. Perishable goods, such as meat, fruit and vegetables have multiple but mostly consistent suppliers to meet their business needs with few who are random. Oil and fat business owners deal with limited suppliers and mostly with brokers who later sell oil products in the market. Hence any supplier financing products need to be structured according to the business types within this sub-segment. Only 4% businesses in this segment are not satisfied with their existing suppliers.

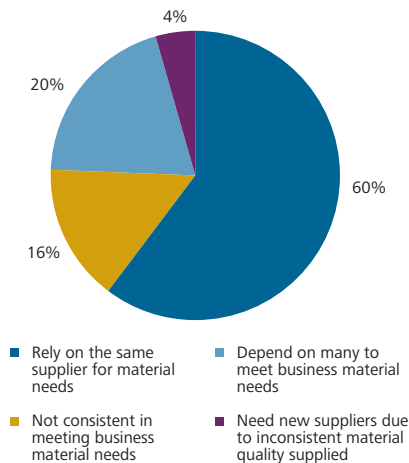
**Number of Suppliers**



Source: Survey Findings



### Supplier Relationship



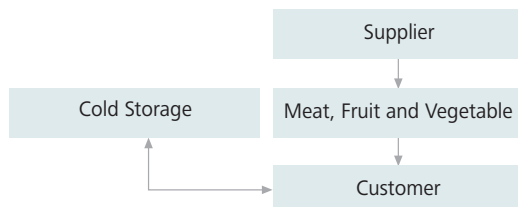
Source: Survey Findings

## 5.4 Business Cycle

### Meat, Fruit and Vegetables

This sub-segment experiences business cycles according to the seasons of certain fruits and vegetables. Meat industry experiences strong growth in religious and festive seasons. The businesses suffer from continual increase in prices which in turn causes reduction in sales.

Few cold storage facilities are available, which charge on a monthly basis. With limited cold storage facilities available for this sub-segment, the industry suffers from tremendous waste of perishable products.

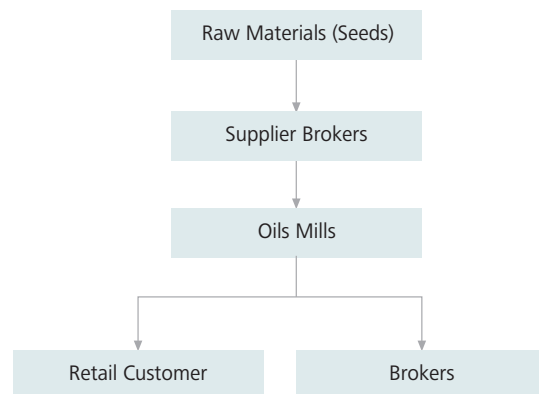


### Oils and Fats

The sub-segment experiences seasonal fluctuations more particularly with supply prices and is dependent upon business conditions. Our primary survey findings reflect that brokers usually visit the oil mills

directly charging a fixed rate and then selling to retailers in the market. Some retailers however pay personal visits to the oil mills, most of whom have long term supplier/customer relationship.

Suppliers to oil mills are usually fixed and are few in number. The suppliers buy seeds locally and sell them to the oil mills. Amongst the raw materials, mustard seeds are seasonal and so experience the most seasonal demand.



### Working Capital

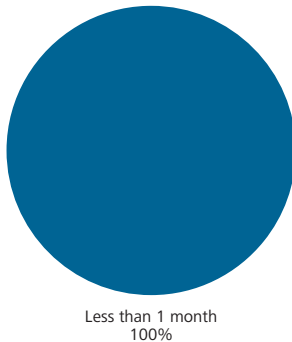
Working capital is dependent upon payment terms offered to customers and received from suppliers. Businesses in meat, fruit, vegetables, oils and fats operate mostly on immediate payment from customers; therefore have limited needs for working capital as well. There is however supplies made to customers for oil mills on credit.

According to our primary surveys, all of the interviewees receive less than one month credit from their suppliers. This is mainly due to the perishable nature of goods due to which the turnaround time, especially for meat, fruit and vegetables is very short. On the other hand credit terms are offered to customers mostly for oil.

Based on the Survey, there are 36% who operate on an immediate cash based payments which are all in the meat, fruit and vegetable sub-segment. Majority extend credit to customers for one month, who belong to the oils and fats industry.

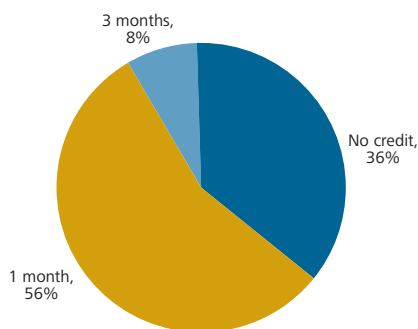


#### Repayment Terms offered by Suppliers



Source: Survey Findings

#### Repayment Terms for Customers



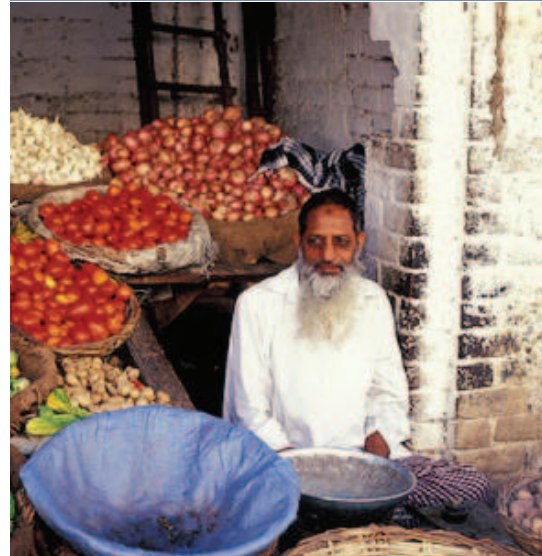
Source: Survey Findings

### 5.5 Financial Assessment and Profile

Most of the businesses in the segment prepare informal financial statements. Owners/managers keep track of accounts themselves. Absence of audits by chartered firms presents a constraint for preparation and keeping an organized track of cash movement.

From primary research and interviews of trade associations, it has been identified that average earning of the segment is between PKR 1-5 MN, with a great number relying on higher sales volume for earning better profits.

As per research findings, business owners in the segment had a fair 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 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.

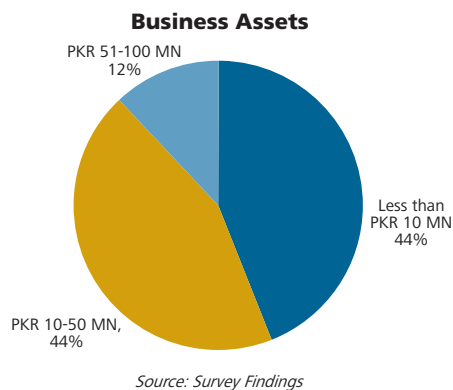
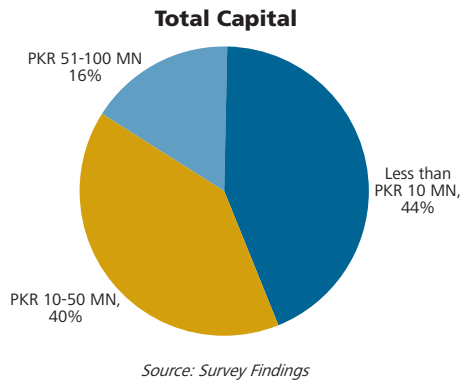
Conclusively it can be said that there always exists an ample demand for perishable food items like meat, fruit and vegetables. Oils and fats are an important ingredient in Pakistani cuisine for which there is always a demand which is not affected by any economic factor. The existing scenario provides conducive opportunities for entry and expansion of existing players in this segment.

### 5.6 Financial Information

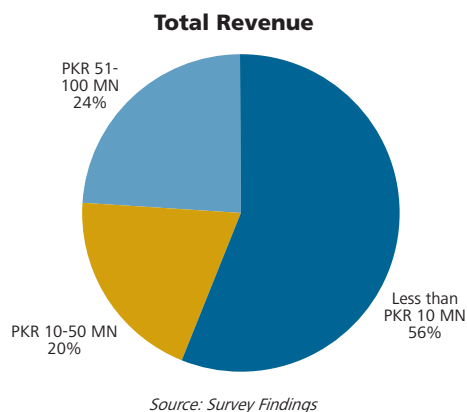
Primary survey findings portray the following outcome for segment under consideration. The results depict Total Average Capital, Assets, Revenue, Expenses and Income under the selected sample.

Survey findings demonstrate around 40% operate with total capital between PKR 10-50 MN, which represents the oils and fat sub-segment as it is a highly mechanized business. Approximately 44% businesses are operating with Total Capital and Total Assets less than PKR10 MN exhibiting a relatively low initial investment for startup of meat, fruit and vegetables sub-segments. Total assets comprise of land and

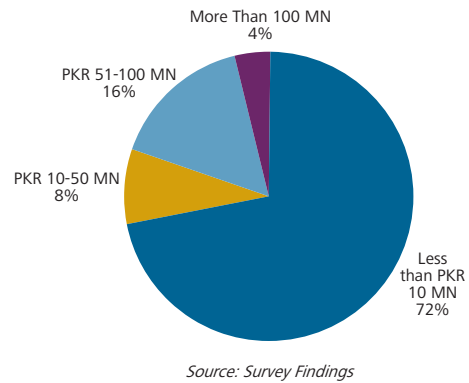
building, plant and machinery, inventory and receivables. Liabilities constitute trade payables and borrowing for working capital finance.



Annual revenue is predominantly less than PKR 10 MN throughout the segment and major growth constraints are mainly lack of cold storage facilities and gas and electricity shortages. Expenses primarily represent employee costs, material, rent, utilities, transport and storage.

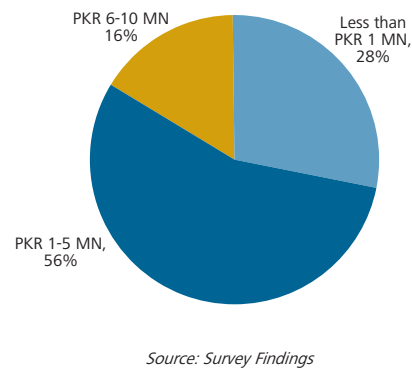


#### Annual Expense



All businesses display their earnings mostly between PKR 1-5 MN. However 12% owners experienced a decline in their earnings over the last year. 16% respondents earn between PKR 6-10 MN.

#### Total Income



#### Benchmark Financial Ratios

Financial Information	PKR
Total Capital (Net Worth)	24,016,000
Business Assets	36,836,000
Total Revenue	41,440,000
Annual Expense	32,360,000
Total Income	5,190,833
Key Financial Ratios	
Profit Margin	13%
Operating Expenses/ Revenue	78%
Asset turnover	22%
ROA	14%

Source: Survey Findings

These are the benchmark financial ratios calculated on the basis of average value of financial information obtained from the sample of 25 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 startup 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.	Equipment Requirement Cold Storage – 500 tons	Indicative Cost (PKR)
1	Plant for Blast Freezer	2,500,000
2	Plant for Cold Storage	4,500,000
3	Racking	500,000
4	Insulation Panels	5,500,000

S.No.	Equipment Requirement Meat Processing	Indicative Cost (PKR)
1	Expeller	250,000
2	Refinery	150,000
3	Filler Press	100,000
4	Meat Grinding Machine (each)	10,000
5	Commercial Weighing Scale	250,000
6	Small Weighing Scale	3,000
7	Knives and other cutleries	15,000

## 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 business. Among the fixed assets, financing need is mainly centered on machinery and equipment of the business.

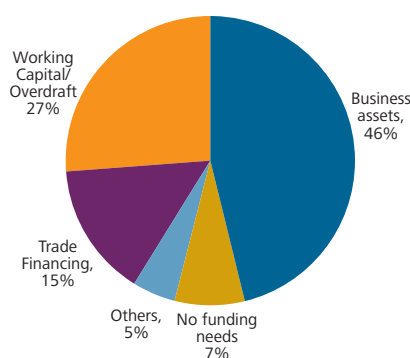
Very few businesses have fully stocked products owing to the problem of managing perishable nature of goods items and lack of cold storage facilities for meat, fruit and vegetable sub-segment. However, ready availability of perishable goods gives them an advantage over competition.



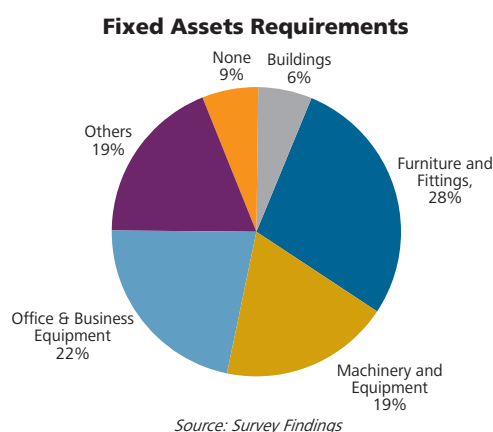
The segment is generally underserved with respect to financing and other products offered to them by banks. The business owners operating in the segment have their reservations in terms of availing financing facilities from banks and therefore do not have a vision for longer term and more far reaching relationship with banks and financial institutions primarily due to lack of awareness.

Businesses in the Oils and Fats industry require consistent supply of oil seeds but due to their seasonal availability, adequate storage is critical. Load shedding and gas shortages hamper the production process. Businesses in the oil and fats industry have to buy heavy equipment and machinery for their businesses and doing so results in blockage of funds until more capital is injected or existing merchandize is sold. Working capital financing can significantly assist in the business and therefore can be offered to the oil and fats businesses.

**Business Funding Needs**



Source: Survey Findings



## 5.9 Usage of Banking Products

The owners are not aware of any SME sector 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 unaware and therefore reluctant to use any financing or loan product to meet funding needs. Only 33% 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 payroll and money transfer are discouraged by the segment whereas the response for cash management and collection services is weak, only 9% business owners have shown intent to avail the service.

71% respondents do not pay for any of the proposed Insurance products and 88% of them are not interested in availing any insurance product in future.

The segment currently is not paying for any advisory service and has demonstrated lack of interest in obtaining advisory services from banks; only 17% owners pay for such services and 22% 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	80%
Term Deposits	0%

## 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.

The segment consists of more than 56% businesses that have been working for more than 10 years with almost half of the SMEs operating with unskilled workers; also 44% of the businesses are not formally registered with any trade union or association.

More than half of the Businesses in the segment do not prepare formal financial statements and none of them have an audit of financial statements. The analysis shows that the segment operates in a highly competitive market with a maximum amount of businesses having more than ten competitors. The majority of segment relies on the same supplier to meet material needs and do not have a regular stream of customers.

A large proportion of SME's in the segment do not use Banks to meet business needs and are not paying for any insurance products.

### Risks inherent to the segment include:

- Uneven cash flows
- Business uncertainty
- Single entry accounts
- 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 two years
- Review of accounts and register of invoices
- Review of ownership documents of shop/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 “Meat, Fruit, Vegetables, Oils and Fat” sub-segment:

#### Asset Products:

- Working Capital Finance Facility for Oil and Fats
- Cold Storage Equipment leasing for Fruits & Vegetables
- Meat Processing Equipment Leasing

#### Liability Products:

- Business Bank Account

#### Other Products

- Bancassurance
- Branchless Banking (Mobile)
- Utility Bill Payment

Working Capital Finance Facility for Oil Mills	
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"> <li>▪ Minimum Limit - PKR 500,000</li> <li>▪ Maximum Limit - PKR 3,000,000</li> <li>▪ Minimum and maximum loan limits are reviewed annually</li> </ul> <p>The loan limit allowed will not exceed average one year cost of purchase of raw materials for business determined over a period of last three years operating history</p>
Documentation	▪ Flexible repayment conditions: balloon payments offered or partial repayments
Repayments & Withdrawals	<ul style="list-style-type: none"> <li>▪ Flexible repayment conditions: lump sum payment on the due date or partial repayments</li> <li>▪ Multiple withdrawals are allowed during the tenure of loan</li> </ul>
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



Working Capital Finance Facility for Oil Mills	
Particulars	Details
Penalty	▪ No early repayment penalty will be imposed on the borrower

Cold Storage Equipment Leasing	
Particulars	Details
Down Payment	▪ Minimum initial down payment of 20%
Salient Features	<ul style="list-style-type: none"> <li>▪ Cold storage facility lending facility will be provided for expansion as well as set up of new cold storage facilities</li> <li>▪ A pre-approved list of equipment and machinery manufacturers will be developed based on information received from trade association and market reputation</li> <li>▪ Credit facility will be offered directly through pre approved equipment and machinery vendors</li> <li>▪ For set up of new facilities, equipment will be leased subject to verification of all civil works completed and only offered to businesses if owned premises in which cold storage is being set up</li> </ul>
Tenure	▪ 5 years
Loan Limit	<ul style="list-style-type: none"> <li>▪ Minimum Limit - PKR 1,000,000</li> <li>▪ Maximum Limit - PKR 7,000,000</li> </ul>
Documentation	<ul style="list-style-type: none"> <li>▪ Detailed documentation pertaining to business operations and profitability</li> <li>▪ For new facility proper bankable feasibility to be prepared</li> </ul>
Repayments & Withdrawals	▪ Repayments will be based upon preset Equal Monthly Installments
Markup	▪ As per prevailing KIBOR and spread
Penalty	▪ As per existing bank policies and cost of charges



Meat Processing Equipment Leasing	
Particulars	Details
Down Payment	<ul style="list-style-type: none"> <li>Minimum initial down payment of 20%</li> </ul>
Salient Features	<ul style="list-style-type: none"> <li>Meat processing equipment leasing will be provided for expansion capital only to businesses with an operational history of 3 or more years</li> <li>A pre-approved list of equipment and machinery manufacturers will be developed based on information received from trade association and market reputation</li> <li>Leasing facility will be provided up to the limit of existing installed capacity</li> <li>Credit facility will be offered directly through pre approved equipment and machinery vendors</li> </ul>
Tenure	<ul style="list-style-type: none"> <li>3 years</li> </ul>
Loan Limit	<ul style="list-style-type: none"> <li>Minimum Limit - PKR 500,000</li> <li>Maximum Limit - PKR 2,000,000</li> </ul>
Documentation	<ul style="list-style-type: none"> <li>Detailed documentation pertaining to business operations and profitability</li> </ul>
Repayments & Withdrawals	<ul style="list-style-type: none"> <li>Repayments will be based upon preset Equal Monthly Installments</li> </ul>
Markup	<ul style="list-style-type: none"> <li>As per prevailing KIBOR and spread</li> </ul>
Penalty	<ul style="list-style-type: none"> <li>As per existing bank policies and cost of charges</li> </ul>

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

Other Products	
Particulars	Details
Bancassurance	<ul style="list-style-type: none"> <li>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</li> </ul>
Branchless Banking (Mobile)	<ul style="list-style-type: none"> <li>Mobile banking services for instance balancing check, bill payment and funds transfer</li> </ul>
Utility Bill Payment	<ul style="list-style-type: none"> <li>Service for easy payment of electricity, gas, telephone and cell phone bills</li> </ul>

## 6.2 Eligibility Criteria for Asset Products

Indicator	Description
Borrower Eligibility Analysis	<p>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 meat, fruit, vegetables, oils and fat for the past three years and hold a valid CNIC</p> <p>In case of set up of new cold storage facility, the owner should be in business of farming and/ or trading for fruits and vegetables for the past five years and verifiable through past business records.</p>
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 “*Meat Fruit, Vegetables, Oils and Fats*” are spread out across the cities in various locations. Ideally the banks should launch the cold storage equipment leasing in Punjab which has the highest Agriculture production and consumption. The focus should also be Karachi as it is the export hub of Pakistan.

Entry strategy for this segment is listed below:

### Marketing Objectives

Marketing objectives for building and promoting the brand image of SME Products for the segment for Meats, fruits, vegetables and Oils are as follows:

- Conduct seminars with Ghee Corporation of Pakistan (Pvt) Limited and Pakistan

- Poultry Association (PPA) at various locations to create awareness of the banking products available for them.
- Through vendors, major preselected suppliers of livestock, vegetables, fruits, rape seeds, cotton seeds, mustard and sunflower seeds for this segment are also to be involved in seminars to be promoted in the market.
- RM teams are to visit meat, fruit and vegetables industry and oil mills to introduce them the means for their capital expansion.
- Industry focused advertisements are to be carried in oil mills industries to create awareness of banking products available to them.
- Meat, fruit and vegetables market are to be approached by direct sales agents for advertisement purposes regarding banking products for cold storage and meat processing unit facilities.

#### Promotional Activities

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

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

- Direct Sales Agents
- Trade association backed seminars
- Brochures

#### Distribution Strategy

To reach maximum percentage of target market, Banks need to have a well defined distribution strategy spread across various locations through its branches as well as products specialists and RMs. Banks should aim to cater banking needs of meat, fruit, vegetables, oils and fats segment through its products on national basis in major cities of the country. Initially the bank will provide financing facility for small and medium sized businesses for meat processing and for medium sized businesses for vegetables, fruits and oil.



Banks will adopt conventional channels for distribution:

- **Branches:** Establishment of lending branches in meat, fruit, vegetables, oils and fats segment regions like Punjab and Karachi as a first priority with high growth potential to attract a large number of customers for SME 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.



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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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