Financial Inclusion & Karandaaz's Women Ventures Program

Bad Credit & Recommendations

By

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Executive Master's in Business Administration

NUST Business School

National University of Sciences & Technology (NUST)

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A thesis submitted to the National University of Sciences and Technology, Islamabad,

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Executive Master of Business Administration

Supervisor: Ms. Kishwar Sameen Gulzar

NUST Business School

National University of Sciences & Technology (NUST)

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BUSINESS PROJECT ACCEPTANCE CERTIFICATE

It is Certified that final copy of EMBA Business Project written by Mohsin Ashfaque Khan Registration No. 327415 of EMBA 2K20 has been vetted by undersigned, found complete in all aspects as per NUST Statutes/Regulations/MS Policy, is free of errors, and mistakes and is accepted as fulfillment for award of EMBA degree. It is further certified that necessary amendments as pointed out by GEC members of the scholar have also been incorporated in the said business project.

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AUTHOR'S DECLARATION

I Mohsin Ashfaque Khan hereby state that my MS thesis titled "Financial Inclusion & Karandaaz's Women Ventures Program: Bad Credit & Recommendations" is my own work and has not been submitted previously by me for taking any degree from National University of Sciences and Technology, Islamabad or anywhere else in the country/ world.

At any time if my statement is found to be incorrect even after I graduate, the university has the right to withdraw my MS degree.

Name of Student: Mohsin Ashfaque Khan

Date: 18th April 2023

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I would like to thank my mother and my father for their constant support and unconditional love. I would also like to extend my gratitude to Ms. Kishwar Gulzar for always being a beacon of knowledge and helping me throughout my educational journey here at NUST.

TABLE OF CONTENTS

LIST OF TABLES

Page No.

LIST OF FIGURES

Page No.

LIST OF SYMBOLS, ABBREVIATIONS AND ACRONYMS

BMGF	Bill & Melinda Gates Foundation
CDA	Convertible Debt Agreement
CGAP	Consultative Group to Assist the Poor
FCDO	Foreign, Commonwealth, & Development Office
IC	Investment Committee
NBFC	Non-Banking Financial Company
PTA	Pakistan Telecommunication Authority
SBP	State Bank of Pakistan (SBP)
WV	Women Ventures

ABSTRACT

The following is a consultancy provided to Karandaaz Pakistan by Mohsin Ashfaque Khan (an MBA student of NUST Business School) to better improve their flagship gender financing program titled “Women Ventures” (WV). The WV program represents one of the largest financing platforms for women-led/owned/managed businesses in Pakistan, both in terms of the principal amount committed to these businesses, and the number of businesses in the portfolio. It started out as an annual challenge round in 2017 and took place 3 times (in 2017, 2018, and 2019) before being institutionalized as a program in 2020, where applications were reviewed on a rolling basis. This document aims to describe the rationale for Karandaaz Pakistan’s intervention in financing women-led/owned/managed businesses in Pakistan, the details of financing provided under the WV program, and the issues being faced by Karandaaz Pakistan in running the program in the foreseeable future. Additionally, the document also provides certain recommendations for the improvement of the WV program and to ensure the addition of healthy businesses in the WV portfolio. This document is intended to be viewed and used by Karandaaz Pakistan and the defense

committee of NUST Business School. It is stressed that the information inside this document, especially the terms of financing provided by Karandaaz, the details of the contract between Karandaaz Pakistan and the beneficiary women-led businesses, and the issues being faced by Karandaaz Pakistan from the existing portfolio businesses be kept **highly confidential**.

Keywords: Financial Inclusion; Women Entrepreneurship, Development Organization, Impact Investment, Bad Credit.

CHAPTER 1: INTRODUCTION

Karandaaz Pakistan is registered as a Section 42 private company under the Companies Act 2017. As a Section 42 company, Karandaaz Pakistan is established as a not-for-profit company. However, the company's official license from the Securities Exchange Commission of Pakistan (SECP) allows Karandaaz to lend money to Micro, Small-Medium Enterprises (MSMEs) in Pakistan, provided that the interest earned is reinvested in the company to accomplish the mission and goals on which the company has been setup. It was established in August 2014 to promotes access to finance for small businesses through a commercially directed investment platform, and financial inclusion for individuals by employing technology enabled digital solutions. The Company has financial and institutional support from its two sponsors, namely the Foreign, Commonwealth, & Development Office (FCDO) and the Bill & Melinda Gates Foundation (BMGF). The Consultative Group to Assist the Poor (CGAP), a member of the World Bank Group, has managed the start-up phase of the Company and continues to provide technical support. Karandaaz Pakistan is sponsored and governed by eminent Pakistanis and is managed by an experienced team with core expertise in international investment management and digital finance.

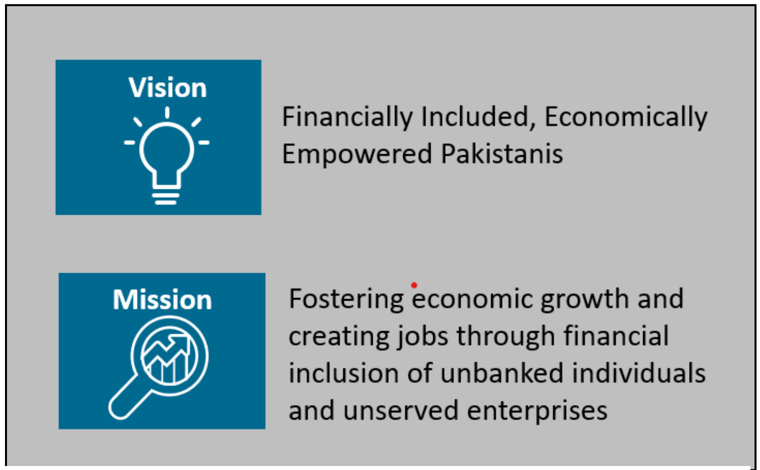


Figure 1: Karandaaz Mission & Vision

Widely recognized as a powerful tool for inclusive growth, financial inclusion has become one of the key priorities to promote social and economic development. Karandaaz Pakistan was established with the aim to impact poverty by improving economic growth, employment, and entrepreneurship, while addressing the needs of women and young people. Karandaaz Pakistan actively pursues this mission of *fostering economic growth and creating jobs through the financial inclusion of unbanked and underbanked individuals and enterprises*. The company views financial inclusion to be the provision of an appropriate and accessible range of quality financial services and products (equity, credit, insurance, savings, and payments) to individuals and micro, small and medium enterprises (MSMEs). Since its inception, Karandaaz has grown considerably in terms of market presence and operational scope guided by the initial programme documents, namely the Employment and Asset Growth (EAGR) Programme Business Case, and the Gates Foundation Strategic Goals Framework.

Karandaaz Pakistan has four major business lines (listed below), and 3 support programs which assist in achieving the overall mission of the company:

- **Karandaaz Capital:** supports the development of a market for MSME financing by piloting innovative products and establishing and using innovative platforms that can demonstrate increased access to finance for MSMEs;

- **Karandaaz Digital:** promotes use of digital payments by individuals through the development of key digital payments infrastructure, favourable policy environment and innovative pilots;

- **Karandaaz Innovation:** encourages innovative approaches for addressing challenges in financial inclusion with special focus on women entrepreneurs, youth and other financially excluded groups; and

- **Karandaaz Knowledge:** generates and disseminates evidence-based insights and solutions to influence the financial ecosystem and promote financial inclusion in Pakistan while positioning Karandaaz as a thought leader and center of excellence in the industry.

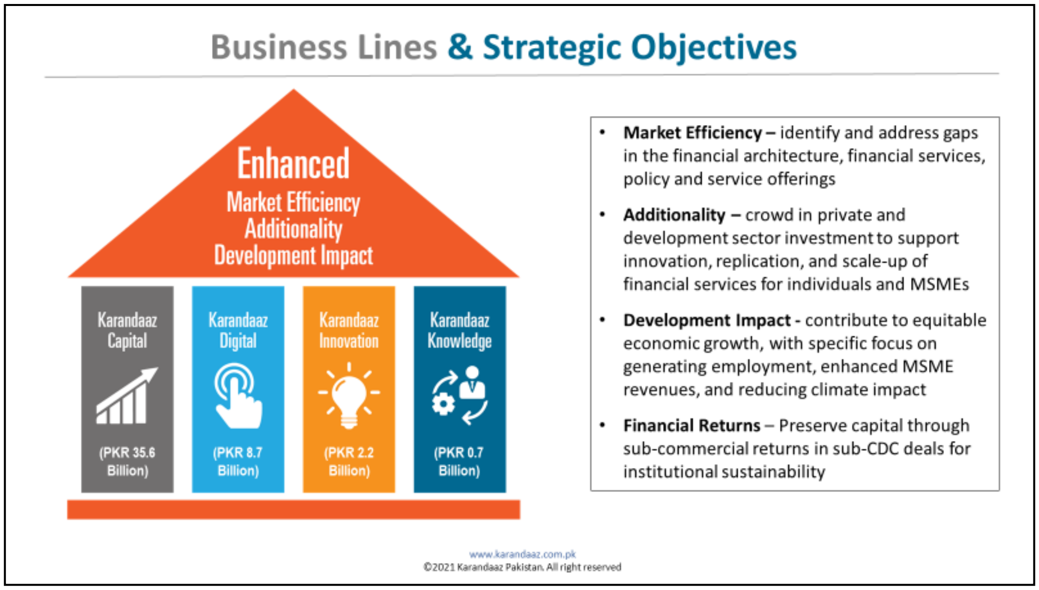


Figure 2: Business Lines & Objectives

Karandaaz's approach to catalyzing change in the market is common across all four business lines. It involves contributing to **'market efficiency'** by identifying and addressing gaps in the financial architecture and service offerings in Pakistan, application of **'additionality'** lens to crowd in private and development sector investment to support innovation, replication, and scale-up of financial services for individuals and MSMEs, and **'development impact'** of programmatic interventions to contribute to equitable economic growth, with specific focus on generating employment and enhanced MSME revenues.

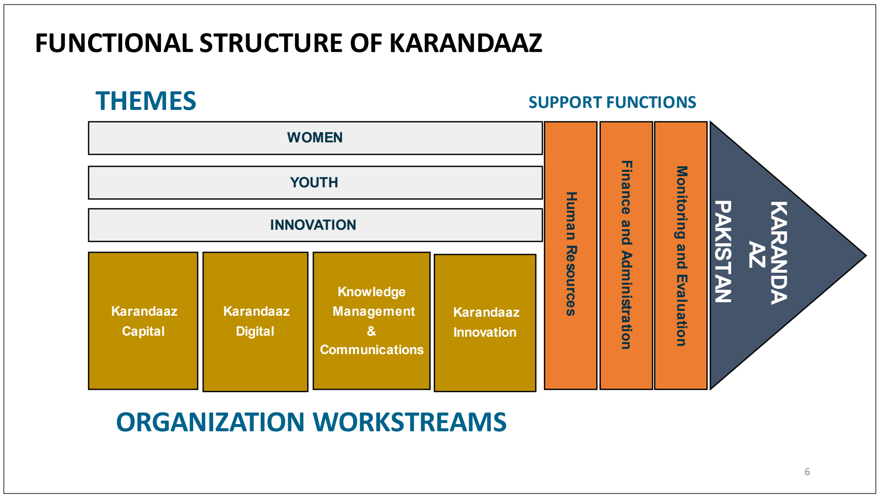


Figure 3: Karandaaz Functional Structure

To be recognized as a credible market player and innovation lead, Karandaaz's ability to self-correct is pivotal. Results achieved by Karandaaz' programmatic interventions are tracked through the organization's Monitoring, Evaluation & Learning (MEL) function, which has helped in refining the design of ongoing interventions and shaping the organization's forward-looking strategy. These learnings are communicated to internal and external stakeholders using a mix of mediums and tools.

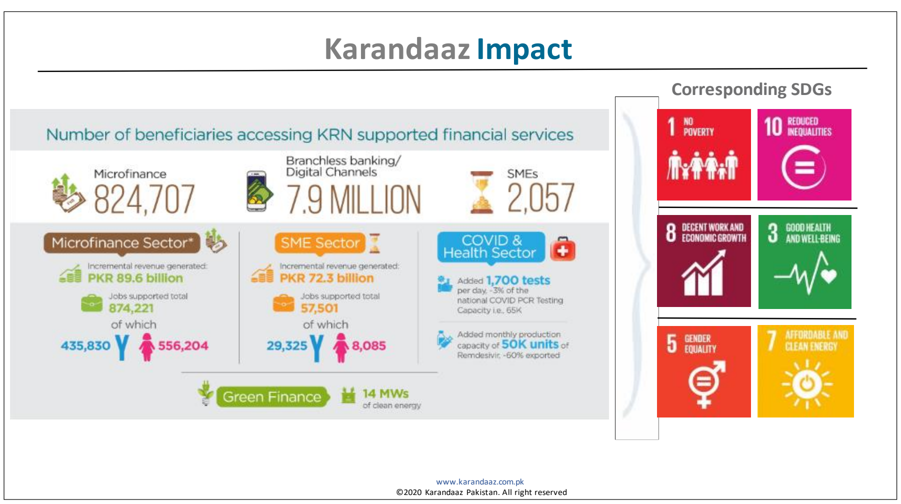


Figure 4: Karandaaz Impact

CHAPTER 2: KARANDAAZ PAKISTAN'S WOMEN VENTURES PROGRAM

Background

As mentioned above, one of Karandaaz Pakistan's core verticals is the Innovation vertical. The company defines "innovation" as any solution with the potential to improve existing practices or introduce new instruments and technologies that facilitate access to finance for SMEs and excluded individuals. The innovation could constitute a new or existing approach, technology, product or service that aims to provide a sustainable solution aligned with Karandaaz's goals of improving Pakistan's financial space with a focus on financial inclusion.

Under the Karandaaz Innovation vertical, disruptive approaches to address challenges in the financial inclusion space through the Innovation Challenge Fund (ICF) and supporting women entrepreneurs by providing customized financial instruments and business development support through the Women Ventures (WV) initiative are encouraged. Team Innovation leads the Karandaaz Innovation business line. It aims to encourage innovation in financial inclusion by demonstrating solutions to change industry behavior towards underserved segments and catalyze a spillover effect by attracting investment from the private sector. The Innovation team also develops market capacity to identify and develop solutions that are scalable and have industry level application by partnering with local players in developing indigenous solutions.

Rationale Behind the Women Ventures (WV) Program

While women's potential as drivers of social change is routinely harnessed for developmental progress, investment in women as agents of macroeconomic growth is limited. With their participation concentrated in the informal sector, women's contributions in Pakistan's economy remain obscured. South Asian countries are experiencing burgeoning working age population, and declining dependency ratios. Pakistan is transitioning towards two-parent income households to support increasing costs of living. Such demographic changes tend to encourage increased female labour participation. However, Pakistan is failing to benefit from this, with continued underutilization of its human capital. According to the World Bank's *Pakistan at 100: Shaping the Future* report, to absorb the rapidly increasing labour force, the economy will need to create 2.1 million jobs annually. For Pakistan and countries with similar predicaments, entrepreneurship, with a focus on women's financial inclusion, can facilitate job creation, spur the absorption of the informal economic activity into the formal sector and improve a country's macroeconomic outlook. Given the low base of financial inclusion for women, it's not surprising that Pakistan has one of the lowest rates of women entrepreneurship. The *Global Gender Gap Index 2022* ranked Pakistan as one of the second worst-performing country[1] where less than 7% of managerial positions are held by women. The situation becomes even more alarming when considering the percentage of women in Pakistan who can be

[1] https://www.dawn.com/news/1699399

characterized as female employers or business owners, which in 2021 was just 1% of the entire adult female population.

Female Participation in Economy
Gender gap within financially included population has widened to a staggering **30%.**
Pakistan is ranked at **153 out of 156** countries in the Global Gender Gap Report & has the **lowest gender parity** (0.33) **for "Economic Participation and Opportunity".**
7% of **Adult Female Population Financially Included** in Pakistan
14% of **adults females** are **estimated to be financially literate***, vis-à-vis 25% of adult men.
0.1% of total women employed in Pakistan are **categorized within the "employers" category** (i.e., with at least one employee).
1% Female entrepreneurs vs 21% of males
93% of **females reported to rely on internally financing for expansion of businesses. 75% in South Asia.**

Table 1: Female Participation in Economy

Women constitute 48.4% of the total population of Pakistan, however, as per the Labour Force Survey 2021, only 21% of the adult female population are employed. There has been an increase in female participation, however, the increase is mainly fueled by rural female labour force participation from 16% to 32% versus only 7% to 11% for urban women between 1992-2014. One of the major reasons for such high unemployment number stems from the fact that 50% of the adult female population in Pakistan remains illiterate, and those who are literate lack the necessary skills (such as financial management and accounting, business management, etc.) to gain employment (provided they are able to break free from cultural and societal norms which inhibit them to gain work).

The categories of labour force participation include employers (with continuous full-time employees), own account workers (women running their own business with ad-hoc employees), contributing family workers (those that contribute to household economic activity) and employees. As expected, the largest proportion fall into the 'employed' category.

A notable pattern in the women employment statistics is that 67% are employed in the agriculture, forestry, fishing and hunting sector. In 2012-13, this proportion exceeded 70%. Other sectors where women are employed include manufacturing, social and personal services, wholesale and retail, construction, and transportation/storage/ communication. In recent years, the number of women employed in agriculture has declined, while the proportion for manufacturing and services has increased, however, there is very limited occupational diversity or choice of occupations for women in service-oriented jobs such as shop keeping, accounting, retail or in digital technology.

The Labor Force Survey also shows that employment numbers for women in rural areas far exceed those in urban areas. This is in line with the number of women employed in the agri sector and the cottage industry. Urban employment of women in Baluchistan and Khyber Pakhtunkhwa is virtually non-existent.

According to the World Bank's note on *Female Labor Force Participation in Pakistan: What Do We Know?* women in the labor force also remain primarily involved in low-paid and low-skilled work. While the proportion of women with no education has declined from 2/3rd to little more than half the adult female population in the last two decades, skills training for women which could fill the gap in formal education, has also been inadequate, typically following *"traditional gendered patterns and [are] less diversified for women than men."*[2] Over 50% of women remain engaged in unpaid work. The note asserts that

[2] World Bank Group. Female Labor Force Participation in Pakistan: What Do We Know?

women remain employed mostly in low-skilled work, with some in high-level professional work, with very few enjoy middle-skilled positions.

The general lack of access to finance for SMEs in Pakistan, coupled with low levels of financial inclusion of women, disproportionately impacts women-led enterprises. According to the *Pakistan Startup Ecosystem Report 2021*, between 2015-21, investments in women-led businesses accounted for 1.4% of the total investment amount[3] (USD 8.1 million).

In terms of the investment amount, Karandaaz's portfolio of PKR 713 million makes up around 40% of the total investments raised by women-led businesses during the same period. However, when viewed against the global backdrop, the number and value of investments is miniscule. According to the 2021 KPMG *Global Analysis of Venture Funding* Report, approximately USD 621 billion was invested by venture capital firms globally, ranging across all stages of the funding lifecycle (seed, series A and onwards). Of this, Pakistan's share was merely USD 563 million in the same period. While there has been a surge in VC activity over the last few years in Pakistan, there are considerable funding gaps in the entrepreneurial ecosystem, and as expected, these impact women-led businesses more intensely.

Lack of Formal Financing to Women-Led Businesses

The disproportionate avenues of formal financing to women-led businesses forms one of the core reasons behind the inception of Karandaaz's Women Ventures program. Access

[3] Pakistan Startup Ecosystem Report, 2021

to finance and credit is important for economic growth, creating employment, smoothening consumption for households, and increasing the incidence of financial inclusion. However, the lack of access to formal finance for female entrepreneurs in Pakistan is a significant issue that hinders their ability to start and grow their own businesses. This problem affects both rural and urban women, and is rooted in a combination of cultural, societal, and systemic factors.

When considering the overall public sector initiatives taken by the Government of Pakistan to provide credit to female entrepreneurs (considering The State Bank of Pakistan's (SBP) Refinance Scheme for Women Entrepreneurs, First Women Bank, and Prime Minister's Youth Business Loan scheme), a total of PKR 4.952 billion was extended to women-led businesses between 2020 and 2021, which makes up only **0.94%** of the overall financing under public sector initiatives. If the focus is shifted towards private sector banks, the overall percentage of women borrowers of microfinance banks is 23% whereas only 9% of all SME financing is extended to women-led businesses. However, according to the Small and Medium Enterprises Development Authority (SMEDA) in Pakistan, only about 7% of SMEs are led by women, and only around 2% of them have access to formal credit. Core reasons behind such a lack of formal finance is primarily due to majority of the female adults having little to no assets to collateralize to gain financing. Indeed, it has been reported that only 4% of the adult female population in Pakistan has any assets to their name. Since financial institutions are highly risk averse and demand that their loans are backed by assets, women are deemed ineligible to gain loans. Additionally, if banks do extend financing to female-led businesses, they usually require a male guarantor to sign off on the loans, which diminishes the sovereignty of the female to make business decisions independently. Other reasons cited include religious beliefs (as banks discriminately charge higher interest rates to female, citing risk of return) and excessive documentation of loans.

These statistics clearly show that female-led businesses are either unable to access finance from formal financial institutions or prefer to use informal sources of credit for initiating or operating their business(es). Before we delve deeper into the reasons for the lack of formal finance, it is imperative to view the state of informal financing for women.

According to World Bank's Global Findex database, more than half of the world's unbanked adults live in seven countries, which include Pakistan where the unbanked adults make up 55% of the entire adult population, majority of which are females. The unbanked population, as a result, either prefer to use informal sources of credit or are propelled into the informal market for any financing.

According to a survey conducted by Access to Finance (A2F) with a sample size of around 10,000 respondents, the incidence of borrowing is largely skewed towards the informal market – over 95% of borrowers were borrowing through informal channels. This is both a result and cause of low penetration of formal financial services. The low incidence of borrowing from formal channels and a large unbanked population reinforces each other indicating that it is as much of a demand side problem as it is of the supply side. On the demand side, top reasons cited for borrowing informally included buying food (34.2%), life cycle events such as wedding and dowry (14.2%) and unforeseen and emergency situations (12.0%) such as medical bills and funeral. Majority of the borrowing respondents quoted three major reasons for using informal credit:

- Convenient location of the informal lender,
- Easier overall access (informal money lenders do not require excessive documentation and heavy collaterals) and
- An easy process to obtain money (processing times are significantly short compared to the formal market).

On the point of interest rates, 20% of the borrowing respondents mentioned low interest rate as one of the reasons to borrow from the informal market. This is a major misconception among informal borrowers as interest rates are generally higher in the informal market, ranging from 62% to 80%. However, in most instances, the interest rate is packaged as processing fee or an additional loan instalment within the principal amount.

It can also be seen that among borrowers captured within the formal financial system, majority is the male population while in case of informal lending, though the proportion of male borrowers is high, the male/female split does not vary significantly. This potentially points to difficulties women face in accessing formal credit. A number of reasons can be attributed to this, i.e. failure to fulfil documentation requirements or cultural barriers that limit the physical mobility of women and prevent them from moving freely in public places. A2F dataset provides further insight on the overall lending process of the informal market. More than half of the informal borrowers reported getting the loan in less than 5 days. 35% declared that they face no difficulties at all, 45% said the process is "somewhat easy" and less than 1% stated that it was very difficult. 78% of the informal borrowers mentioned that either no documents were needed, or the requisite documentation was not difficult to provide. Surprising, only 9% mentioned to have been asked about the proof of formal ID. With respect to provision of collateral, 78% of respondents stated that no security was requested against the loan.

While it is important to understand why people borrow, it is equally useful to explore the reasons that inhibit potential borrowers from borrowing. This part of the behavioural attribute completes the demand side credit dynamic. A2F data set reveals some interesting information in this regard. One key reason for not borrowing (irrespective of the gender) is lack of a credible credit history. This issue is widely acknowledged in the formal market, and it is expected that locally domiciled credit bureaus with their expanding data bases will help address this market failure. Inclusion of records regarding utility bill payments would provide some key insights on transaction history of a consumer new to the financial system. The other two major reasons quoted by male respondents for not accessing loans (from the formal market or informal market) are high interest rates and religious beliefs that prohibit taking interest bearing loans. In case of females, 23% stated that they are not even allowed to borrow. This highlights the prevalence of a societal encumbrance, as females are not allowed to participate in the economic decisions within a household. This also negatively impacts their inclusivity within the formal financial system.

It is imperative to note that certain formal financing institutions have shifted towards providing digital nano loans to include the financially excluded population of Pakistan, with certain products designed for and catering to the adult females. Companies such as Easypaisa, JazzCash, Sadapay, Creditfix, etc. have all released products for the masses where loans up to PKR 50,000 can be extended to users without any documentation, visitation, or other hassle. Regulatory frameworks have also been released by the State Bank of Pakistan to formalize this mode of financing when an outburst of digital loans providers was registered in the country after the Covid-19 pandemic and subsequent lockdowns. Now that they digital bank licenses have been issued to prominent financial organizations in Pakistan, the ticket size for loans and credit extended can rise exponentially and help in the overall financial inclusion mission in Pakistan.

Digital loans are loans that are provided through online platforms, rather than through traditional brick-and-mortar banks. These platforms use advanced algorithms and data analysis to assess the creditworthiness of borrowers and provide loans in a quick and convenient manner. The use of digital loans has also been made easier due to the availability of smartphones and internet access in Pakistan. This has led to a greater number of people being able to access these platforms and apply for loans.

The penetration and uptake of smartphones in Pakistan have increased significantly in recent years, driven by a growing middle class, increasing availability of affordable smartphones, and a rise in mobile internet use. According to a 2019 report by the Pakistan Telecommunication Authority (PTA), approximately 63% of the population of Pakistan owns a smartphone. This represents a significant increase from previous years, as smartphone ownership in the country was at just 18% in 2013. The country has also seen a significant increase in mobile internet users in recent years, with the PTA reporting that there were over 140 million mobile internet users in Pakistan as of June 2019.

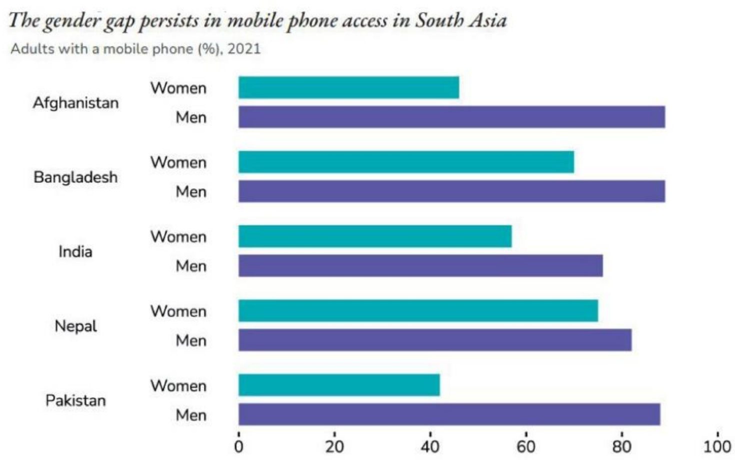


Table 2: Gender Gap in South Asia

However, the issue arises in the fact that in Pakistan, women are half as likely as men to have a mobile phone, with GSMA reporting that only 20% of the adult female population owns a smartphone. The problem is further exasperated by the fact that from these female smartphone users, a minute proportion has an active mobile wallet. Additionally, the number of digital loans disbursed to females may be inflated as these women might just be the face of the borrowing process and not the ultimate beneficiary. One of the core reasons which hinders an uptake of female mobile wallet accounts is the fact that their SIMs are not registered in their own name, but rather in the name of their parent or husband.

Findex's 2021 report also cites other reasons for the lack of female mobile wallet uptake in Pakistan, including insecurity in managing expenses (since under the current societal norms, financial management of the household or any business traditionally lies with men), women are unemployed and therefore only receive cash from their husbands/parents for any expenses, lack of financial education deters the adult female population from opening or operating a digital account, religious beliefs, etc.

To conclude, cultural and societal norms in Pakistan often discourage women from participating in the formal economy. This can include limiting their access to education and business training, as well as placing restrictions on their mobility and ability to engage in economic activities outside of the home. As a result, many women are not equipped with the skills and knowledge needed to start and grow their own businesses.

Another significant barrier for female entrepreneurs in Pakistan is the lack of collateral and credit history. Traditional financial institutions often require collateral and a credit history to secure loans, which can be difficult for women to provide, especially those from rural areas. This makes it difficult for them to access the financial services they need to start and grow their businesses.

In addition to these cultural and societal barriers, the traditional banking system in Pakistan is not geared towards small and medium-sized enterprises (SMEs). This makes it difficult for female entrepreneurs, who are often running SMEs, to access the financial services they need. The lack of appropriate financial products and services, such as microfinance, that cater to the needs of SMEs and women-owned businesses is also a significant issue.

Furthermore, a lack of awareness and knowledge about the availability of financial services and products can also be a barrier for female entrepreneurs in Pakistan. This is because they are not aware of the options available to them and how to access them. This lack of awareness can be particularly prevalent among women from rural areas, who may not have access to information about financial services and products.

Despite these challenges, there have been some efforts to address the lack of access to formal finance for female entrepreneurs in Pakistan. Microfinance institutions and non-governmental organizations have been working to provide financial services and education to women, particularly those from rural areas. Additionally, the government has also implemented policies and programs aimed at increasing access to finance for female entrepreneurs, such as the Prime Minister's Youth Business Loan scheme.

The above-mentioned discussion provides a dismal state of female employment and entrepreneurship in Pakistan. All the factors discussed above forms the fundamental methodology behind the inception of Karandaaz’s Women Ventures program. To summarize, below are the key highlights of the above discussion:

- Female literacy and employment remain significantly. This acts as a strong deterrent for women to enter or start their own business as they lack the basic skills required for operating their own venture,
- Female-led businesses lack access to finance from formal financial institutions, primarily due to lack of assets (which can be collateralized), excessive documentation, and male guarantors. Financing numbers from formal institutions to women-led businesses are significantly low,
- Venture capital firms in Pakistan have invested very little in female-led startups, even though the number of women-led/owned/managed startups in Pakistan have increased exponentially,
- Women rely on informal sources of financing, which are not recorded in the financial system of Pakistan, have draconian interest rates, and very low-ticket sizes,

Digital finance aims to enhance financial inclusion of women in Pakistan, however, smartphone penetration, registration errors, and lack of knowledge provides roadblocks to uptake.

CHAPTER 3: SALIENT FEATURES OF THE WOMEN VENTURES (WV) PROGRAM

As mentioned above, the Women Ventures program initially started as an annual challenge round, where applications were solicited once every year from women-led businesses to receive financing. This continued from 2017 till 2020, where the challenge round was institutionalized as a full-time program, where applicants could apply for financing on a rolling basis.

The table below shows the minimum requirements of the WV program which deems the eligibility of the applicant.

Figure 5: WV Application Requirements

The above snapshot is taken from WV's official microsite www.wv.karandaaz.com.pk. To summarize, the minimum eligibility criteria for applicants applying for the WV program are as follows:

1. The business should be owned/managed by a woman and shareholding of the female entrepreneur must be greater than 50% (majority shareholding),

2. The business should have an annual revenue of at least PKR 5 million,

3. The business must have an operational history of at least 3 years. A business with an operational history of less than 3 years will only be considered if the annual revenue is at least PKR 7.5 million,

4. The business must be a registered entity and should be a private (limited) company,

5. The owners of the business must have a valid CNIC (they should be registered citizens of Pakistan).

Interested applicants are required to complete the WV application form which is readily available on the WV website (link to the website has been mentioned above). Below is a snapshot of the process flow of the WV application and onboarding.

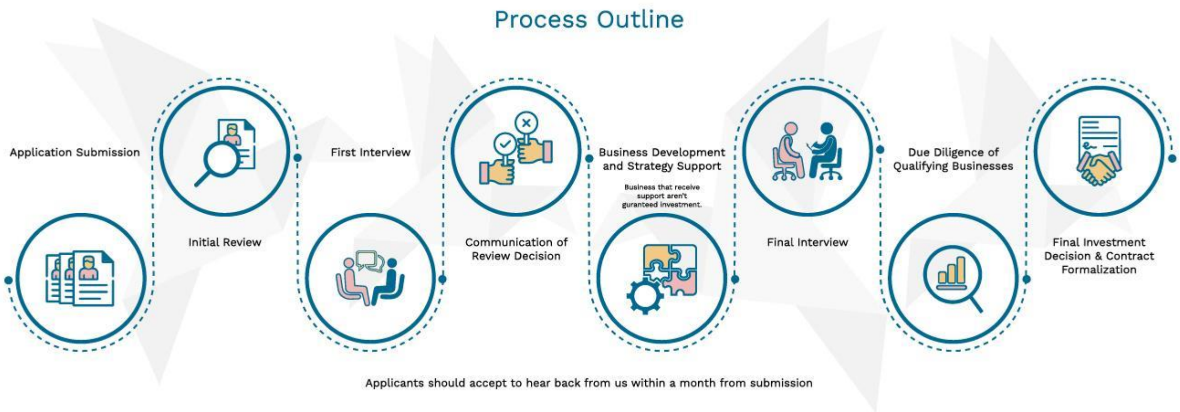


Figure 6: WV Application Process

The above depicted process flow is detailed in the steps below:

1. Applicants are required to submit their application form online by going to the WV website (link of which has already been mentioned above). The application form (attached in Annexure-1) contains questions regarding the entrepreneur, the business, the operations, and requires details on what the investment ask is and where the financing will be utilized (if provided). As per the current policy, an applicant, if successful, can receive an investment of up to PKR 35 million,

2. Once the application is received, it is reviewed by the Innovation Team of Karandaaz Pakistan where the application is reviewed and checked whether it meets the minimum eligibility criteria. Additionally, a sanity check is conducted on the numbers provided by business (monthly revenue, annual turnover, profit/loss). If application is deemed eligible, it is forwarded to the Investment Panel of the WV program.

3. The Investment Panel of the WV program consists of the Head of the Innovation Team, the Chief Risk Officer of Karandaaz Pakistan, and the Chief Executive Officer of

Karandaaz Pakistan. The applicants are then called for an initial screening interview with the Investment Panel, where the applicant is asked about the journey of the business, the current operations, and what the business aims to achieve in the next 5 to 10 years. The interview is then scored by each Investment Panel member and a mutual decision is taken on whether the applicant will be moved forward to the next step of the application process or not.

4. Subject to a successful initial/screening interview, the applicant is proceeds to the next stage of the application process, which is the Business Development & Support (BDS) stage. Here, the applicant is attached with the technical partner of the WV program Ernst & Young (EY). This stage has three core outcomes:

   4.1. EY visits the female entrepreneur and with the help of her team, develops a Business Growth Plan (BGP), which essentially is a roadmap for a business to get to where they want the business to be in the future. Part of the BGP is a detailed fund utilization plan, which breakdowns how the business will be utilizing the financing they may receive from Karandaaz Pakistan, and how the utilization will translate into revenues in the next 3 years,

   4.2. EY provides the business and their team a Finance for Non-Finance Mentorship session, which covers the fundamentals of accounting, how to prepare a balance sheet, and how to read financial statements. The mentorship consists of a two full-day session and aims to provide basic accounting and finance knowledge to the entrepreneur and their team, 4.3. EY provides the business and their team and Taxation Mentorship session, which covers the different types of taxes applicable, the current tax slabs and rates, how to file taxes, and address any other queries the business may have.

5. After the successful completion of the BDS stage, the Investment Committee is provided a copy of the BGP, and after a review, the applicant is called for a final interview. The applicant then presents their growth plan to the Investment Panel, and a detail Q/A session follows. The primary objective of the final interview is for the Investment Panel to decide whether Karandaaz should invest in the business, and if they do invest, how much should be invested. If the Investment Panel for the WV program agrees to the business case presented, they forward the application to the Investment Committee of Karandaaz Pakistan (consisting of 3 board members and the CEO).

Once the Investment Committee of Karandaaz provides their approval of the investment, EY is initiated to conduct a due diligence of the business. If the due diligence report submitted by EY is clean, the business is then sent a formal offer of financing by Karandaaz. If accepted, contract signing is initiated, and Personal Guarantees (PGs) are solicited from the directors of the business. The business is also required to open a designated bank account exclusively for the funds that will be received from Karandaaz.

Critical Analysis & Salient Features of the WV Program

After detailing the process-flow of the application, it is imperative to discuss and analyse the financing structure of investments under the WV program, including the mode of financing, the structure of disbursement, and other salient features. The points highlighted below cover these aspects and many more regarding the process flow in great detail. These features will also form basis of arguments and recommendations for the later stages of this document.

- Karandaaz Pakistan is registered as a Section 42 NPO. Resultantly, the company must adhere to regulations put forward by the Securities & Exchange Commission of Pakistan (SECP). This is a crucial point that will be explored further in the proceeding sections of the document.
- The entire process, from the solicitation of the application to a formal financing offer takes around 8 weeks. If one of the members of the Investment Committee of Karandaaz Pakistan is not available for a meeting, the final offer can take 10-12 weeks. If a business seeks to expand their operations in other cities, or to use the financing for infrastructure, the delay can render their fund utilization plan redundant due to the given economic climate.
- The maximum financing (ticket size of investment) that can be secured by an applicant is PKR 35 million (3.5 crores). The financing is disbursed in tranches (usually two tranches) and is dependent upon the completion of certain deliverables. While the disbursement of the first tranche is dependent upon the completion of certain documentary requirements, the second tranche is usually pegged with certain KPIs that the business will have to achieve. A sample of the fund disbursement table is attached in Annexure-II.
- No fixed collateral is required if selected for financing. The only form of security which is taken for an investment under the WV program is a PGs of all directors/shareholders of the business.

- Limited documentation is required for the application and the formalization of the investment (if selected). The application form is found online and requires no documentation to be submitted with it. If selected, a simple contract is signed along with a PG.

- The financing tool for investments used by Karandaaz under the WV program is a Convertible Debt Agreement (CDA). A CDA is essentially a debt which may be converted into equity at the maturity date of the agreement, subject to certain conditions (such as revenues reported by the businesses, geographical expansion, etc.). With the CDA, there is a latent intent of Karandaaz to gain equity in the female-led businesses they are investing it. This is a crucial point for later discussions.

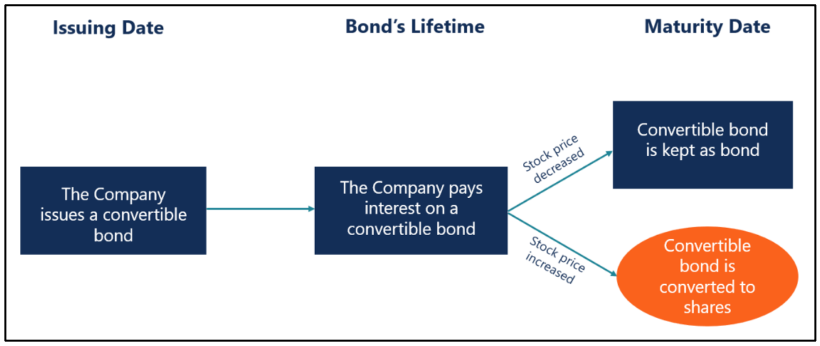


Figure 7: What is a Convertible Bond?

- If Karandaaz decides not to convert the debt into equity, the business, according to the contract, is required to pay back the principal amount invested as a bullet payment. That means the entire principal amount will need to returned as a single payment back to Karandaaz Pakistan.

- The financing is priced at a sub-commercial rate keeping in mind the development impact that the program is aiming to achieve. Although initially the investments were priced at 3-month Kibor – 2% or 6.00%, whichever is lower, currently, the investments are priced at a fixed 7.00% (keeping in mind the increasing Kibor rate). Upon closely examining the costs associated with keeping the program operational, which includes HR costs, admin costs, the costs borne in the BDS stage where EY provides technical assistance and mentorship sessions, and the cost of contracting EY to conduct due diligence on the shortlisted applicants, the increase in the pricing of the investment from 6.00% to 7.00% was primarily to fix Karandaaz's internal rate of return, given the increasing costs of doing business.

- The markup charged is paid by the business bi-annually, meaning that two markup payments are made by the business in a year.
- The total tenor of the CDA is 3 years. Within these 3 years, the business is offered a grace period of 12 months, both on the principal and on the markup. Thus, the loan provided to the business is essentially free for one year, and the markup payments are initiated from the 2nd year. The principal, however, as mentioned above, is repaid as a bullet payment on the maturity date of the CDA, provided Karandaaz makes a decision to not to take shareholding in the business.
- Karandaaz will only enter into contractual agreements with private (limited) companies. Businesses which are not registered as private entities are still encouraged to apply. However, if a financing offer is made to the business, the entity will have to convert into a private (limited) company before signing the contract. The obligation may prove to be unfavorable for many of the applicants who are operating as sole proprietors or partnerships as converting to a private (limited) company, although providing multiple benefits to the entrepreneur in the

long run, may prove to be costly in the short-run considering the higher taxation slabs and reporting requirements.

- Once a business agrees to the offer provided by Karandaaz Pakistan, the business is required to be owned and managed by a female, and the shareholding must remain female-majority.

Comparing the WV Program with Other Public & Private Sector Initiatives

If the details provided above regarding the WV program are analyzed, it is quite evident that Karandaaz's initiative in its mission to financially include women is very unique. From the terms that are offered, the technical assistance and mentorship sessions, and the sheer magnitude of the ticket size, the WV program has positioned itself strongly in the private sector and has repelled any other competitive program that had existed or was aiming to set foot in this specific industry.

The ability for Karandaaz to take such a risk of lending huge sums of money without any collateral stems from the fact that the company is backed by such huge donors (BMGF and the FCDO). The primary concern of these donors is that their donations, and subsequent investments by Karandaaz Pakistan, yield a high development impact. For Karandaaz Pakistan, two development impact indicators are reported to the donors:

1. The incremental employment opportunities generated (primarily female and youth employment) as a result of the funding received under the WV program,

2. The incremental revenue that has been added as a result of the funding received under the WV program.

As any other company with external investors, Karandaaz is also provided annual targets to achieve. However, their targets are primarily broken down into two main categories:

1. Spending target: This means that Karandaaz must spend all the money they have received from their donors that year in achieving the mission statement of the company,

2. Development impact: Specific revenue and employment generation targets are provided which must be met through the investments Karandaaz will make.

Considering the above-mentioned KPIs, Karandaaz can (and has) take a considerable chunk of the non-banking financial institution industry. The closest private sector competitor that the company has is Acumen, another foreign funded NPO. Ticket sizes offered by Acumen usually range between USD 250k-300k. However, the company differs from Karandaaz's WV program in the following ways:

- Acumen does not have a women-specific program like Karandaaz has,

- Acumen primarily makes equity investments, whereas Karandaaz Pakistan, although using a convertible debt instrument, has not taken equity in any of its portfolio businesses,

- Acumen primarily invests in public sector enterprises with a core welfare agenda. Some of the companies Acumen has invested in include Agha Khan Rural Support Program, Kashf School Sarmaya, National Rural Support Program, etc. Karandaaz, on the other hand, primarily invests in private sector organization, who have a core mission of profit maximization. This could be due to the KPIs that Karandaaz receives from its donors, primarily revenue generation.

The other private sector non-banking organization that comes remotely close to what Karandaaz is doing is Akhuwat. However, as with Acumen, Akhuwat does not have a female-centric financing product/program and the maximum ticket size for their investments is PKR 50,000, significantly less than what is being offered under the WV program of Karandaaz Pakistan.

When focusing specifically on commercial banks, including microfinance banks, who are providing finance to SMEs, the WV program takes the lead due to the following reasons:

- Commercial banks usually charge a floating price on their investment which starts from Kibor and includes a spread of 2% to 9%, depending upon the risk profile of the borrower and the ticket size of the financing.

- Commercial banks are required (by their internal risk controls) to take a collateral from the borrower against the financing. The collateral is usually a fixed asset with a value which is 125% of the amount which is being provided, or banks mark a lien of 125% of the financing amount on the borrower's bank account. The most relevant, female-centric product banks offer is a gold-based financing, where banks take gold as a collateral, provide financing of 80% of the value of the gold, and price the loan at a 9% spread. These draconian terms usually deter any borrower from availing this product.

The female-centric public sector programs do offer some competition to the terms offered by the WV program. However, close inspection will show that the terms offered by the WV program are far better and positively conducive to the women-led business. The table below compares three public sector initiatives and how they compete with Karandaaz's WV program on maximum ticket size, pricing, and collateral.

	SBP Refinance Scheme for Women Entrepreneurs	**SBP SAAF Program**	**PM's Youth Business Loan Scheme**	**Karandaaz's Women Ventures (WV) Program**
Maximum Ticket Size	PKR 5.0 million	PKR 10.0 million	PKR 7.5 million	PKR 35.0 million
Pricing	Up to 5.0% p.a	Up to 9.0% p.a	Up to 7.0%	7.0% p.a
Collateral	Yes	Yes	Yes	No

Table 3 Comparing Programs & Initiatives

Based on the above classifications, it is evident that the WV program offers more convenient terms and is much more easily accessible, when compared to public sector initiatives. One point not covered in the above table is the excessive documentation that all these public programs require, whilst on the other hand, applying for the WV program only requires filling a single application form online.

The WV Portfolio Details

Till date, the WV program has received more than 500 applications, from which more than a hundred have been provided technical assistance in the BDS stage and a total of PKR 613 million has been invested in 32 women-led businesses. These businesses are sector-agnostic and are spread out across Pakistan.

500+
Applications received

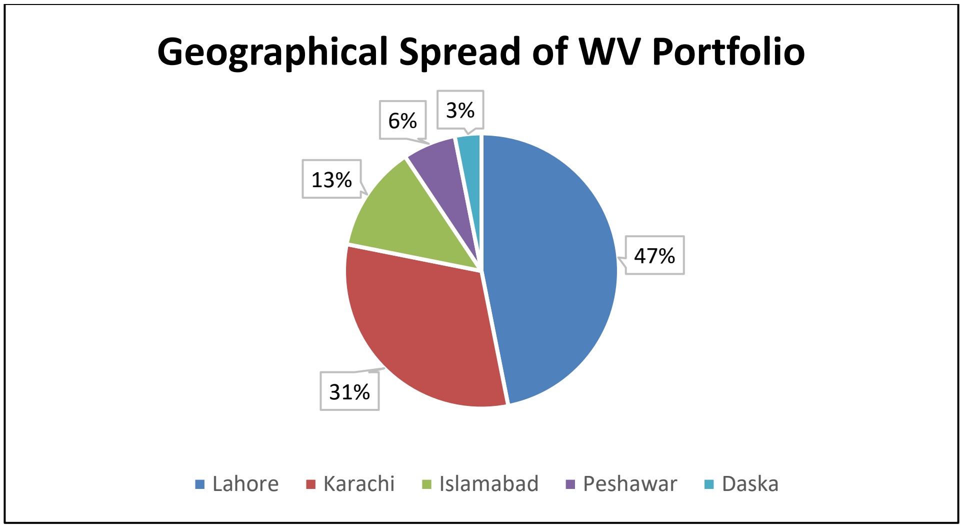
103
Business provided business development support

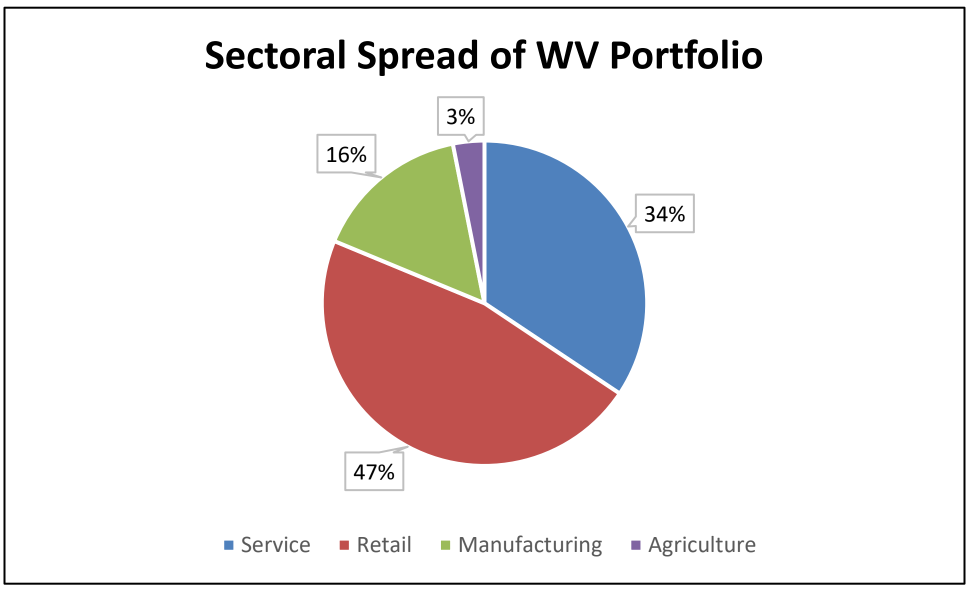
32
Business received growth capital funding

PKR 613 Million
Growth capital funds

The graph below details the geographical spread of the portfolio as well as the industry/sector spread. Evident from the data below, majority of the portfolio belongs to the 3 major cities of Pakistan, namely Karachi, Lahore, and Islamabad, with a few businesses belonging to other cities in Punjab. However, if the data from the application received is analyzed, the geographical spread of the awareness of the WV program spans pan-Pakistan.

It is also pertinent to mention here that in addition to these 32 businesses, Karandaaz has also provided grants to 11 businesses belonging in Baluchistan in 2017. However, businesses who have received grants do not fall in the purview of the report and thus will not be subject to any analysis.





When examining the financials of the portfolio, the result shows a bleak picture. Out of the PKR 613 million disbursed to these 32 businesses, the outstanding principal (the amount of money yet to be returned) stands at PKR 556 million, almost 90%. However, if we only consider the principal amount of businesses who have crossed the maturity of their contracts but are yet to pay back (or are unable to pay back), the outstanding amount drops down to PKR 328 million, more than 50% of the entire portfolio.

If the focus is shifted to markup payments by WV businesses, the situation becomes grimmer. A collective PKR 28.7 million markup remains unpaid by the WV businesses, which accounts for around 40% of the entire markup due over the tenor of the loan.

Currently the Innovation team is negotiating an extension plan with 18 businesses, where Karandaaz will be extending the tenor of their loans. This is essentially an effort by Karandaaz to restructure the loan in order for the businesses to repay their principal and overdue markups back. The remaining 14 women-led businesses in the WV portfolio have not reached maturity on their contracts with Karandaaz. However, the Innovation team is predicting that majority of the remaining businesses will require certain restructuring of their loans and are using the current restructuring tactics as precedent for future actions.

The restructuring terms offered by Karandaaz are detailed in the table below:

Down Payment of O/S Principal	25%	0%
Pricing	6% p.a	10% p.a
Extension in Tenor	1.5 Years	1.5 Years

Table 4: Restructuring Terms

The above-mentioned terms are currently being negotiated to the portfolio businesses whose contracts have reached maturity. As these businesses were offered their loan on 6% p.a pricing, the shift to 10% p.a for those who will not pay a down payment has become a particularly big pain point (even when the 10% pricing is significantly lower than the market average). However, the following bullets detail the issues that are plaguing the WV portfolio. Please note that considering confidentiality agreements, the specific names of businesses and their outstanding amounts cannot be stated:

- Two of the WV businesses have stated that they are going into liquidation and will not be able to repay their outstanding amounts (both the principal and overdue markup) as per their contractual obligations. Both these businesses belong to the retail sector, with one providing organic products to their customers and the other belonging in the fashion industry. Additionally, both the businesses do not possess enough assets from whose sale Karandaaz can recover their funds.

- Another business belonging to aero-space industry is inching towards liquidation. The business was provided financing for the development of a sustainable and efficient aero-engine in 2017. However, limited-to-no progress has been made in the development, and the entity is currently still attempting to file a patent for their engine.

- Majority of the remaining businesses have cited the Covid-19 pandemic and the turbulent economic climate as reasons for low revenue numbers. As majority of the businesses in the WV portfolio belong to the retail and service sectors, the impact of the pandemic and the subsequent lockdowns has been rough. Once the lockdowns were removed, the resulting economic meltdown experienced in Pakistan have caused overheads to increase exponentially, lowering profit margins further.

- Businesses who have crossed the maturity dates of their contracts have outright refused to pay. Current negotiation efforts have all faltered as the businesses are not coming to the table to discuss any partial or complete repayment structuring. Multiple businesses have requested Karandaaz to waive their loans off completely and to consider the amount that they owe as grants.

- Businesses have been providing faulty and cooked-up financial statements to show losses. Even though these financial reports are audited, it is quite easy to see that these reports depict false information and have been perverted by external influence. This poses a problem for the Innovation team as they are being provided misleading information regarding the financial health of the business. Majority of the WV portfolio whose contracts have matured have recorded losses in their financial statements, even when their businesses have been booming.The horrific business condition is shown just to gain extra leverage to not repay Karandaaz and/or to attain an extension on their loan tenor.

- Multiple businesses entrepreneurs have been avoiding calls, emails, and requests for site visits by the Innovation team and are proving to be hard to locate. There are also two instances where the entrepreneur has shifted houses and offices and not provided their updated residential or commercial addresses.

Some entrepreneurs have offered to sell their entire business to Karandaaz, while others have demanded that Karandaaz exercise their right to convert in the business (according to the CDA signed). In an unfortunate meeting, an entrepreneur of a portfolio business threatened Karandaaz with suicide if they push her to reach an agreement on repayment. Threats to harm the reputation of Karandaaz as an institution and its donors are common amongst all businesses.

CHAPTER 4: WOMEN-LED BUSINESS; BAD CREDIT?

The current scenario detailed above has made structuring repayments quite challenging for the Innovation team. However, if the portfolio, the structure of financing by Karandaaz, and the company itself is analysed further, it becomes obvious that the portfolio businesses who have crossed maturity are executing a willful default on their contractual obligations. This means that although these female entrepreneurs have the ability to pay (because of booming business or profitable balance sheets), but do not have the willingness to repay their outstanding amounts back. Additionally, it is a safe assumption that these 18 businesses will infect the remaining 14 businesses in the WV portfolio and influence a willful default as well.

Thus, it can be stated that these female-led businesses are a bad credit; a credit which no commercial bank, or any other non-banking institution, would want on their financial books. It may even be fair to assume that women-led businesses, as a collective, may be considered as bad credit, considering the sheer amount of financing provided to female-led businesses by Karandaaz forms almost half (or more than half) of the total financing to this segment in Pakistan. However, the unfortunate health of the WV portfolio partially lies on Karandaaz and their arrangements for financing.

Below details the reasons for which the WV portfolio can be considered as bad credit. The points provided below will form basis for recommendations, which, if adhered to, may lead to a more profitable and secure portfolio for Karandaaz in the future.

Deserving Credit?

A quick glance at the profiles of the entrepreneurs of the businesses financed under the WV program raises multiple questions. Majority of the portfolio businesses are owned and managed by females coming from a financially strong background, and from wealthy and influential business-families. There is an essence of privilege in most of the female entrepreneurs, if focused specifically on wealth. Many of these entrepreneurs have stated multiple times to Karandaaz personnel that had they not qualified for funding under the WV program, they had the means to finance their expansionary plans themselves comfortably. This essentially goes against the principal rationale of the WV program, since the program aimed to finance businesses that could not attain financing from commercial banks. Considering the financial health of these entrepreneurs, no bank would have any issues in financing their companies. Moreover, at least 3 businesses in the current WV portfolio had a strong conflict of interest with one of the members of the Investment Panel of the WV program when they had applied for financing. Details of the conflict cannot be disclosed. Other entrepreneurs have used the financing they received from Karandaaz on all activities other than in the expansion of their businesses, e.g in purchasing vehicles for personal use, using the funds for marriages, foreign trips, funding a child's foreign education, etc.

Grantrepreneurs?

As evident from the arguments provided above, it can be said that the portfolio businesses who were supposed to repay their financial obligations to Karandaaz are currently willfully defaulting on their payments. Additionally, some of these businesses have even requested or demanded Karandaaz to convert this debt into a grant and dissolve the contract signed. This essentially proves the statement that majority of the businesses in the WV portfolio had no intention to repay their dues back and tried sourcing a grant from Karandaaz.

The general perception that majority of the public have about Karandaaz is that since it is a foreign-funded development organization, the funds that are being provided to businesses are in the form of a grant. What worsens this impression is the fact that nowhere on Karandaaz's website or the WV application form is it mentioned that "investment" for Karandaaz is defined as a debt and not a grant. Furthermore, portfolio businesses, who are well-aware of Karandaaz's footprint in the development sector have always considered the money that they have received for their business as a grant and have considered the contractual obligation to repay the loan as a "recommendation". Considering the above-mentioned perception, Karandaaz unknowingly entered into contracts with businesses who had no intention to honor the commitments in the contract. The entrepreneurs who received this funding with the intention of not returning it back can indeed be then referred to as a grantrepreneur.

Karandaaz Pakistan: Institutional Challenges

It is a common perception that Karandaaz Pakistan, as a Section 42 Not-for-Profit (NPO), is illegally financing women-led businesses and charging an interest on the debt, considering their status as a legal entity. This cannot be farther from the truth. Karandaaz's license allows Karandaaz to conduct all financial operations, including lending capital to businesses and charging a spread on the debt financed, if none of the profits from their activities are retained. As long as Karandaaz keeps reinvesting the interest that they earn back into the activities that drive their mission/vision, they are allowed to charge interest on loans they provide.

However, where Karandaaz suffers most is on the subject of legal recourse. As mentioned previously, the only security that Karandaaz solicits from the entrepreneurs whose businesses are in the WV portfolio is a personal guarantee of the directors. In addition to this, Karandaaz can always state that the terms and conditions of the contract signed with the business have been violated since the business is refusing to honor their financial obligations. Karandaaz can also engage an audit firm to conduct a forensic audit of the business to ascertain if the funds the business received under the WV program were used for person means.

However, as Karandaaz is registered as a Section 42 company, it is regulated by the SECP. This means that all suits that Karandaaz files will be settled in the Civil Courts. Considering the judiciary of Pakistan and how civil suits are conducted, the case could be dragged on for multiple years and will cost a hefty sum for the institution.

Furthermore, the contracts that Karandaaz signs with the businesses also have certain clauses which are not in the favor of Karandaaz. The contract very clearly states that in matters of dispute, before seeking legal recourse, the matters should be settled through arbitrage. Thus, Karandaaz cannot take these businesses to court before conducting a costly arbitrage, where the decree may not even be in the favor of the institution.

Additionally, considering Karandaaz's sponsors (BMGF and the FCDO), and the image of Karandaaz as a flagbearer of women empowerment and financial inclusion in Pakistan, initiating a civil suit against a female entrepreneur will cause huge reputational losses.

Majority of the businesses in the WV portfolio comprise of entrepreneurs who are influential and have a huge social media following. Any attempts by Karandaaz to sue them on any matter will instantly become public and will lead to extremely negative publicity towards the institution, whose Communications team will be inapt to manage such a crisis. Such negative press will be unfavorable for Karandaaz as that would result in multiple possible consequences such as:

- Sponsors' cutting ties with Karandaaz,
- Cuts in funding,
- Drying up of WV application pipeline,
- Inability of Karandaaz to meet development impact targets,
- Huge expenses in crisis management and defamation lawsuits,
- Multiple projects being sliced or paused due to partners cutting ties.

Flawed Financing Instrument

The interesting choice of instrument for financing under the WV contract has also been challenging for the company. As mentioned earlier, a convertible debt used an instrument where the debt may be converted into an equity. The instrument is largely used by Venture Capital (VC) firms, where capital is deployed in startups who use the financing to scale up their operations. Once the company is set for expansion, the debt is then converted into equity as that becomes more profitable for the VC. Thus, by using a CDA, there is an almost guarantee that the debt will be converted into an equity stake during the tenor of the loan.

During the contract signing ceremony for the 2018 cohort of WV businesses, Karandaaz personnel had reportedly assured the signing companies that they will not be asked to repay their debt back and that Karandaaz will be converting the debt into equity. Many businesses have stated that this was the primary reason why they signed the contracts with Karandaaz. However, Karandaaz has expressly stated that they have no desire to convert in any of the WV businesses, past or future. The organization has justified this stance on the following reasoning:

- None of the businesses are profitable enough to be partnered with,
- Taking an equity in certain businesses will set a precedent that Karandaaz is a VC firm and will take shareholding in all its portfolio businesses,
- Having shareholding in multiple businesses in the portfolio will increase HR costs of Karandaaz as additional resources will need to be hired who are well-versed in the different industries these businesses operate in,
- Taking equity in WV portfolio businesses will require Karandaaz personnel to sit in the businesses' board meetings and take part in important discussions regarding future plans. Neither does Karandaaz have the HR and admin cost, nor the freedom in their schedules for these activities.

Given the sentiments that Karandaaz has towards taking an equity stake in the WV businesses, the choice of financing instrument does not support their stance. A simple debt agreement could have been used in place of a convertible debt agreement since Karandaaz has no plans to take shareholding in the portfolio businesses. The use of a CDA is not only misleading, but opens up new issues for Karandaaz, due to multiple contractual clauses that are feasible for invested companies but not for debt financing. Additionally, many of the portfolio businesses were also relaxed in terms of repayments as they were certain that Karandaaz would be taking an equity stake in the business resulting in these businesses taking a more devious approach and defaulting on many of their payments.

Draconian Repayment Structure

Although prima facie the repayment terms of the debt financing by Karandaaz may look extremely relaxed and accommodating, a closer inspection will prove that they are in fact a recipe for disaster. For a quick reminder, please find below some of the terms of repayment:

- The debt is priced at 6% p.a,
- A grace period of one year on the principal and the markup,
- The markup is to be paid biannually,
- The principal is to be repaid as a bullet payment on the maturity date of the contract,
- The tenor of the loan is 3 years,
- The maximum financing a business may receive is PKR 35 million,

- ❖ If the business decides to return the entire loan back within one year, a 15% interest will be charged on the entire loan amount.

The average ticket-size of the portfolio is almost PKR 18 million (almost 2 crores) with the maximum funding provided to a business being PKR 35 million (3.5 crores). Although the size of the funding is commendable, the repayment plan raises multiple questions.

The sheer size of the financing requires a longer loan term. An average loan term in commercial banks for an amount as small as PKR 5 million is 5 years. A 5-year repayment term is also common amongst all State Bank initiatives for gender financing as well. To shorten the tenor at 3 years puts immense pressure on the business to not only spend the entire amount, but to turn the financing into exponential revenue so that the debt can be repaid.

Furthermore, what is more problematic is the grace period. There is a grace period of a full year on the principal and markup amounts. Even though that means that the loan is essentially free for the business for a full year, it also means that the actual repayment time for the loan is 2 years. What makes matters even worse is that the entire principal amount is contractually ordered to be repaid as a bullet payment. With an average ticket size of PKR 18 million, removing such a huge amount of capital from the business in one go is more damaging than beneficial, and rids the business of any progress that they have made.

Furthermore, focusing on markup payments, a structure where payments are to be made on a biannual basis is also damaging as the business ends up removing a higher amount out of the operations in one go. Currently, the extensions that the business have been offered are on the same structure, with a modification that the markup must be paid quarterly and not biannually. Regardless of whatever extension is provided, any structure which involves a bullet payment of such a magnitude, considering that these businesses are SMEs, will be extremely detrimental to the operations of the business, especially those who require a higher working capital to run the business.

Hobby, Passion Project, Or Means of Sustenance

A close inspection of the WV portfolio also reveals an interesting observation. Almost 57% of the portfolio comprises of entrepreneurs who have had multiple businesses in the past. On average, these entrepreneurs had started two different startups, both completely different from one another in terms of products (e.g one of the entrepreneurs had a tourism company initially, started a graphics designing company after some years, and then decided to launch a retail fashion company which Karandaaz currently supports). What's more disturbing is that all the previous businesses of these entrepreneurs were wound up in matter of a couple of years.

Many of these entrepreneurs stated in their initial pitches for the financing by Karandaaz that their current business is their passion-project and was started because developing the product was their hobby and they decided to earn money from it. Additionally, as mentioned previously, many of these entrepreneurs have a very strong and wealthy background. Thus, these businesses are not their means of sustenance, and these entrepreneurs can survive comfortably if their businesses were shutdown.

This statement, although harsh, can be double-checked from looking at the financial statements of the businesses. These entrepreneurs have put in minimal amounts of money into their own business. Funding received from Karandaaz for these businesses are on average 3.2 times more than the capital that these businesses have put themselves. This essentially means that these entrepreneurs have very little skin in the game, and very little to lose if their businesses fail. That is exactly why these entrepreneurs are very comfortable liquidating their business or selling it to another investor. They will be involved in the operations of their business for as long as their hobby or passion for that specific activity is alive and can comfortably move away from the business once the passion burns down. Their lifestyle or means to sustain does not depend on these businesses, and thus, focus and effort to make their business a success is very limited.

A Front for Male-Owned Business?

Upon close interaction, it becomes evident that some of the businesses in the WV portfolio may have a female director/CEO and may have majority shareholding of a woman but are primarily operated and managed by men. If the female entrepreneur is questioned about some of the operations of the business or asked about the financial health, they are usually quite aloof and are unable to answer or give details. Some of the entrepreneurs are not even aware of where some of their outlets are, who their suppliers are, or what their expansionary plans are.

The men running the business had taken advantage of sub-commercial pricing and the size of the loan and had made all the relevant changes required to ensure they are eligible for the WV program. This includes making the female a titular CEO and giving them majority shareholding (in some cases, the female would have 50.1% shareholding so that she barely achieves majority). The reality is that these women have absolutely no clue regarding the business or the operations. This is quite a common phenomenon, as many of the initial interviews have both male and female directors sitting together, with the male director answering all the questions. When the female director is asked to answer questions relevant to the business, she struggles or is fed answers by the male counterpart.

Thus, the woman-led business is actually a front where the male director is operating and managing the business but has cheated the system to get hefty and cheaper financing from gendered programs. Such leakages are quite common in gender-financing programs but are more evident in the WV portfolio. There is no women empowerment and financial inclusion taking place, just fraud and deceit.

Untrustworthy, Devious Portfolio

The entire portfolio can be characterized as negative, and devious. All the business in the portfolio who have crossed the maturity of their contract are in contact with one another and have formed a union of sorts against Karandaaz. They have appraised the contracts they have signed with Karandaaz from their lawyers and have realized that Karandaaz cannot initiate legal recourse due to the institution's shortcomings (detailed above). It is exactly for this reason that these portfolio businesses are so aggressive and apprehensive towards Karandaaz when it comes to the repayment of their outstanding dues. They are well-aware that Karandaaz cannot exercise the personal guarantee, that any lawsuit will be settled in civil courts, and that any other action to solicit funds from these businesses will not be in Karandaaz, or its sponsors' favor. It is extremely uncommon in the public and private sector financial companies where the institution that has lent money is on the backfoot of negotiations and is extremely defensive in its stance.

None of the portfolio businesses have adhered to any of their contractual reporting obligations either. They have not stuck to the agreed fund utilization programs and have either provided incomplete invoices of the funds spent or have not provided them at all. Bank account statements have also not been provided by the businesses.

Additionally, these businesses have been providing fraudulent and cooked-up audited financial statements. This fact was confirmed by one of the portfolio businesses' finance manager. The manager stated that the financial statements were altered to show that the business was incurring a loss and was unable to pay back the outstanding dues that the business owed to Karandaaz.

Furthermore, an interesting revelation was also revealed by several finance managers. If you recall, one of the core requirements to successfully receive financing under the WV program is that the business must be a private (limited) company. This clause is primarily present to support Karandaaz's mission towards formalizing businesses and financially including them. However, the conversion to a private (limited) company has not been well-received by many of the portfolio businesses, and even applicants for the WV program, citing higher taxation and reporting requirements.

In order to avoid the higher taxation slabs and reporting requirements, most of the businesses in the WV portfolio have registered another company as either a sole proprietor or a partnership and have moved much of their business on the new company's books. This, for the business, resolves two core things:

- This allows the company to show a loss in the financial accounts of the private (limited) company (that is eventually shared with Karandaaz) and show profits on the hidden company,

- This enables the business to avoid paying higher taxes.

The relationship of Karandaaz and these businesses is far from a partnership. There is an essence of mistrust from both ends of the spectrum and no amount of effort can result in a working relationship between both parties. This is exactly why all negotiations to finalize the extension in tenor and repayment terms have failed so spectacularly. The portfolio businesses simply do not wish to pay back Karandaaz and have all ganged up to ensure none of them are pressed in any manner. Any hint of legal action from Karandaaz's end will trigger a hate-campaign on social media which can cause huge reputational damages. Both parties blame each other, with the WV businesses blaming Karandaaz in being mislead (regarding the conversion into equity) and for not understanding the horrific repercussions that both the Covid-19 pandemic and the economic climate have caused on their business. Karandaaz does not believe these claims put forward and insinuates that these businesses have been providing incorrect financial information, have misappropriated the funds that they received, and are not concerned with repaying a single penny.

CHAPTER 5: WAY FORWARD

The above discussion details why the women-led WV portfolio can be considered as bad credit, one which any commercial bank or a non-banking financial company would not want on their books. The sheer amount of financing that is outstanding and the extremely high probability of default of these businesses, coupled with the hostile stance of these entrepreneurs makes the chances of any recovery highly unlikely. What makes matters worse is the development impact numbers that Karandaaz has reported based off their financing in the WV program. Although for the purposes of the program and the positive publicity which it requires, the actual development impact numbers are highly depressing.

As mentioned earlier, Karandaaz is required to provide a report on the following indicators under the WV program:

- The incremental job addition,
- The incremental revenue addition.

Based off the financials of 2021 of the WV businesses, the following shows the impact of Karandaaz's funding on the above-mentioned indicators

Revenue Pre-KRN Intervention (PKR, Million)	Revenue-Post KRN Intervention (PKR, Million)	Incremental Revenue Addition (PKR, Million)	Jobs Pre-KRN Intervention	Jobs Post-KRN Intervention	Incremental Job Addition
1,185	1,782	597	1,016	1,540	524

The above-mentioned results are quite disappointing if consider the following factors:

- ❖ Karandaaz has been providing financing to WV businesses since 2017 (thus, it has been in operation for 5 years),
- ❖ A total of PKR 613 million has been invested in the businesses.

Furthermore, the risk team of Karandaaz Pakistan has calculated that the probability of default of the WV business stands at 0.81. This means that there's an 81% chance that the entire portfolio will default and Karandaaz will not be able to recover the amount that has been financed (including the markup).

The damage has already been done. The above-mentioned discussion details the current issues of the portfolio, the hostility of the WV businesses towards the institution, their stance on the repayment of their overdue amounts, contractual flaws, and institutional challenges. Much has been assumed, debated, and concluded. What is required is a way forward.

The following points detail some of the recommendations that Karandaaz may wish to follow in order to ensure relative success of the WV program and lower default probabilities of their portfolio. The end-goal is to build a quality portfolio which can actually cause a higher development impact, ensure that financial knowledge is imparted to female entrepreneurs, and result in a higher internal return for Karandaaz so that the program does not have a problematic going concern. These recommendations take into account all the problems and issues listed above but does not portray a remedy for the existing portfolio but suggests measure to improve the future cohorts of the WV program:

Moving Operations Under an NBFC

The first recommendation would be to move the operations of the WV program under a new NBFC. The NBFC could be a wholly owned subsidiary of Karandaaz Pakistan and can be establish primarily as a lending-arm of Karandaaz Pakistan. Although NBFCs are still regulated under the SECP as Karandaaz is, what protects NBFCs further is the regulatory framework that SECP published specifically for them. Among other things, registering as an NBFC will aid Karandaaz in the following core areas:

- Being an NBFC, Karandaaz will be allowed to operate on the same relaxed terms and conditions as compared to commercial banks. The relaxation will primarily depend on the institution's and its sponsors' risk appetite,

- Under the NBFC regulations, suits related to misappropriation of funds, contractual obligations, fraudulent activities, or any breach of contract will be settled in banking courts. Banking courts are much more efficient when it comes to settling suits and cases will not linger on for years like they do in civil courts.

- Loans issued by an NBFC are reflected in an individual's ECIB. Thus, any bureau check will show that the entrepreneur or the directors of the company are delinquent or defaulters, if any of them try to take the route the existing portfolio is taking.

Just the threat of taking suits in the banking court will be enough to deter any entrepreneur for evading any repayments or taking a hostile attitude towards the institution as the banking court poses much more threat to entrepreneurs than a civil court.

Transfer or Forget

This recommendation draws from the previous suggestion of establishing a wholly-owned NBFC subsidiary of Karandaaz. Considering the existing portfolio, especially those businesses who have reached and crossed maturity of their contracts and have not repaid over overdue amounts, Karandaaz should consider the following options:

- Karandaaz could factor the entire outstanding portfolio or the businesses who have reached maturity on their contract to a third-party collection agency. This would ensure that at least 50-70% of the committed amount is recovered,

- Karandaaz could write-off the entire committed amount of the current portfolio and consider any recovery as a profit,

- Karandaaz could novate the current portfolio to the NBFC. This will allow Karandaaz to take the same measures as future portfolio businesses in case of a default. Instead of offering these businesses extensions under the same contract as Karandaaz is currently doing, the company could provide extensions under the NBFC. In order to entice the businesses to sign with the NBFC, Karandaaz can offer even more relaxed conditions such a much lower interest rate (maybe 5% p.a) and a longer tenor of extension (3 years). This will allow Karandaaz to move their advances to the NBFC's books, novate the entire rights and responsibilities of the contract to the NBFC, and allow the NBFC to use whatever means they want to to recover the funds. The novation of the current portfolio will also protect Karandaaz from any direct institutional attacks and attacks towards its sponsors.

The third recommendation seems more suitable for Karandaaz. Even though the actions of the NBFC will somewhat protect Karandaaz from institutional and reputational losses, it will send a clear message to the existing portfolio (whose maturity dates are yet to be reached) and future portfolio businesses that Karandaaz will go to lengths to recover their funds if any fraud or misappropriation of funds have taken place. The NBFC will be free to send out legal notices to the fraudulent businesses, exercise the director's personal guarantees, and take the entrepreneurs to the banking court to settle suits. This will also circumvent the existing contractual obligation of conducting arbitration before filing suits which exists in the current contracts signed between Karandaaz and portfolio companies. Even though this may be a costly activity for Karandaaz and their NBFC, there will still be a higher probability of recovery of funds considering the NBFC's higher authority compared with a Section 42 company.

A Structure for Pricing & Investments

During the discussion on comparisons between the WV program and other public and private sector initiatives, it was seen that many of the public-sector initiatives have different brackets of investment and pricing that are dependent on either the size of the business or the investment ask, or any other factor. Such a structure should also be replicated for the WV program. When considering the program and the portfolio businesses, it seems very strange that a business who barely met the revenue requirement of the program (of at least PKR 5 million per annum) has the same amount of financing and pricing as another company who had an annual revenue of PKR 150 million. Additionally, even though WV's technical partner EY and the Investment Panel for the WV program rationalize the investment ask of the WV applicants, it is quite evident that businesses have been provided a debt-burden more than they can bear. The extremely high financing amounts that these businesses have received has also played a huge role in these businesses defaulting on their outstanding amounts.

Thus, a structure needs to be in place through which the investment amount and the pricing of the loan can be decided and verified. A potential structure could be the diversification of investment amounts and pricing based on the annual revenue of the business. Different tiers could be established based on the different ranges of annual turnover, through which financing and pricing can be decided. The below table provides an example.

Terms	**Tier 1** Annual Revenue of up to PKR 50M	**Tier 2** Annual Revenue of >PKR 50M and up to PKR 100M	**Tier 3** Annual Revenue of >PKR 100M
Financing	Up to PKR 15M	PKR 15M to PKR 25M	PKR 25M to PKR 35M
Pricing	7% p.a	9% p.a	10% p.a
Waiver of Markup Accrual			
Minimum Security			
KRN IC Approval			

The above-mentioned table will be replicated and completed as we move forward with the recommendations.

Structured and Agreed Repayment Plans

The current repayment plans that Karandaaz offers do more harm to the business than good. Especially considering that the entire principal has to be repaid as a bullet payment, the current structure is enough to completely bring a company out of business. If we consider the average ticket-size of the current WV portfolio, which is PKR 18 million, taking such a huge chunk out of the business on one-go can be extremely detrimental, especially if a business operates on high working-capital requirements. Additionally, the biannually markup payments, and the grace periods of markup and principal all incur a huge debt burden on the business and makes it difficult for them to take out hefty amounts in debt-servicing.

It is proposed that a repayment structure is agreed with the business beforehand and the repayment plan is made part of the contract. Additionally, it is also recommended that there be no grace period on the principal, and that the principal repayments are made part of the markup payments. This is for two core reasons:

- It reduces the debt-burden on the business,
- It imparts financial knowledge and planning on the business and feeds into the greater mission of financial inclusion of women.

The above recommendation will essentially move away from bullet repayments and protect Karandaaz and the portfolio businesses from defaulting or worse liquidating.

On the other hand, grace periods on principals and markups should be allocated based on the relevant tiers the portfolio business falls in, if any are required. For example, for portfolio businesses that fall in the first tier (refer to the table provided above), the grace period could be 6 months and for tier 2 businesses, grace period could be 3 months. However, it is recommended that no grace period should exceed 6 months as that would once again feed into the problem that is trying to be fixed. The waiver on markup accrual can also be granted based on the grace period allocated.

Additionally, making the amortization schedule part of the contract will make the plan a contractual obligation. Any missed payments can thus be contested in court, and timely action can be taken.

Terms	**Tier 1** Annual Revenue of up to PKR 50M	**Tier 2** Annual Revenue of >PKR 50M and up to PKR 100M	**Tier 3** Annual Revenue of >PKR 100M
Financing	Up to PKR 15M	PKR 15M to PKR 25M	PKR 25M to PKR 35M
Pricing	7% p.a	9% p.a	10% p.a
Grace Period on Payments	6 months	3 months	N/A
Minimum Security			

KRN IC Approval			

Minimum Security Requirements

Although the WV program boasts unsecured lending of up to PKR 35 million, the report has shown the evidence of taking such a high exposure without any collateral. However, we must not negate the facts that we stated in our earlier discussion under the rationale for the WV program, where it was stated that only 1% of the females in Pakistan have any asset to their name. Indeed, it is because of a lack of collateral that these females cannot approach a commercial bank for financing. Thus, taking a collateral under the WV program such as taking charge on a fixed or moveable asset will go against the core vision and rationale of the WV program.

We have seen that taking personal guarantees as collateral has not helped Karandaaz and has not acted as a deterrent against the WV businesses in diving into illicit activities. Although if the above-mentioned recommendation of establishing an NBFC for lending is incorporated, the PGs can be exercised, and they will be able to provide security against Karandaaz's lent capital. However, it is recommended that another soft security is solicited from WV businesses. Our choice for a secondary security will be post-dated cheques.

Post-dated cheques feed right in from our previous recommendation of deciding a repayment plan beforehand and making it part of the contract. If a repayment plan is agreed with the business before the contract is signed, and as the repayment plan will be agreed in tandem with the business, we believe that the entrepreneur must be confident enough in their ability to follow the repayment plan that they provide post-dated cheques for the payments. The solicitation of post-dated cheques will also ensure two additional things:

- The entrepreneur will have more skin in the game and will be more focused on fulfilling their contractual commitments,

- The post-dated cheques will provide more legal cover to Karandaaz as if a cheque is bounced thrice, it is considered as a criminal act and the entrepreneur can be taken to court.

Of course, Karandaaz will inform the entrepreneur a few days prior before presenting the cheque and can also provide a couple of days or even a month as a grace period if cheque bounces the first or second times. However, if the cheque bounces the second time, Karandaaz will have the advantage as presenting the cheque the third time unsuccessfully will allow the institution to seek legal recourse towards the business.

It is recommended that PGs and post-dated cheques be taken as minimum security across all tiers of investments as that will deter all portfolio businesses from misappropriation of funds, non-payments, and fraud.

Terms	**Tier 1** Annual Revenue of up to PKR 50M	**Tier 2** Annual Revenue of >PKR 50M and up to PKR 100M	**Tier 3** Annual Revenue of >PKR 100M
Financing	Up to PKR 15M	PKR 15M to PKR 25M	PKR 25M to PKR 35M

Pricing	7% p.a	9% p.a	10% p.a
Grace Period on Payments	6 months	3 months	N/A
Minimum Security	(i) Personal Guarantees, (ii) Post-Dated Cheques.		
KRN IC Approval			

Enhanced Due Diligence

Conducting an effective and detailed due diligence of the business and the entrepreneur is extremely crucial. Currently, this activity is outsourced to EY who just checks public records to see if the entrepreneur has had any criminal history or history of lawsuits. There are no site visits, checks on whether the entrepreneur has any other businesses or had any other businesses, there are no checking of financial records to see if they make sense or if they are in-line with the information provided to Karandaaz, there are no checking of utility bills, and no interview with the entrepreneur is conducted.

All these gaping holes must be covered by the due diligence team because many of the current portfolio businesses would have been filtered out and not granted capital if an effective due diligence was conducted. The current practice of outsourcing due diligence to EY must be changed instantly to a company whose primarily service is conducting due diligence. A company like Corporate Research & Investigation (CRI) or Prime Human

Resource Services (Prime HR) must be considered for this role as they are more experienced in conducting a thorough due diligence. However, EY should still be involved in the process and the responsibility of checking financial accounts and appraising financial statements must lie with them.

Streamlining the WV Application & Onboarding Process

Lastly, minor changes are recommended in the current application and onboarding process. As mentioned above, the current process flow, from reviewing the application to providing an offer, takes a minimum of 8 weeks to complete. Recall that the last step involves pitching the investment decision of the WV applicant to the Investment Committee of Karandaaz Pakistan. The availability of the investment committee becomes a huge blocker to speeding up the decision process. Even though Karandaaz states that it takes a minimum of 8 weeks for a formal offer, the reality is the decision can take anywhere from 10-14 weeks.

On top of that, meeting the conditions precedent to the first tranche (such as opening of a designated bank account, signing of official documents, submission of PGs, etc.) can take further time. Thus, in reality, a successful applicant receives the first tranche of their committed investment after almost 18-20 weeks from the submission of their application.

Although each step is required, we recommend one little change. Instead of taking every investment decision to the Investment Committee of Karandaaz, only decisions of higher ticket sizes should be subject to their review. According to the recommended terms summarized in the table, we suggest only Tier 3 business decisions should be reviewed and appraised by the IC of Karandaaz, while Tier 1 and Tier 2 business decisions should lay with the Investment Panel of the WV program. As the Investment Panel of WV consists of the Head of the Innovation team, the Chief Risk Officer of Karandaaz and the Chief Executive Officer of Karandaaz, the panel is more than capable of taking investment decisions of for the first two tiers.

Terms	**Tier 1** Annual Revenue of up to PKR 50M	**Tier 2** Annual Revenue of >PKR 50M and up to PKR 100M	**Tier 3** Annual Revenue of >PKR 100M
Financing	Up to PKR 15M	PKR 15M to PKR 25M	PKR 25M to PKR 35M
Pricing	7% p.a	9% p.a	10% p.a
Grace Period on Payments	6 months	3 months	N/A
Minimum Security	(i) Personal Guarantees, (ii) Post-Dated Cheques.		
KRN IC Approval	N/A	N/A	Yes

This will greatly reduce the time taken to decide on the WV applicant's application status and will thus reduce the time taken to make an offer. In this economic climate, speed of decisions is extremely important and vital, as many business projections can become redundant if any decision delays actions. Prices of raw materials are climbing each day and liquidity to make effective and efficient decisions is the need of the hour. Reducing the time taken from the submission of the application to the disbursement of the first tranche will greatly help in delaying the expiration of the projection and will allow entrepreneurs to make quicker (and cheaper) decisions.

CHAPTER 6: CONCLUSION

This document details the rationale behind the origin of the WV program by Karandaaz Pakistan and compares it with other public and private sector programs who are also furthering the female financial inclusion agenda. The document then dives into detail about the WV program, its terms and conditions, and other salient features, after which it provides key highlights of the businesses currently supported in its portfolio.

The document then sheds light on the current issues being faced by Karandaaz Pakistan on account of the WV portfolio, and why the WV portfolio of businesses can be considered as bad credit. Justifications for stamping the portfolio as bad credit is provided in detail. Lastly, multiple recommendations are provided to Karandaaz Pakistan which can result in the betterment of their program, and a profitable portfolio of businesses, which would further the developmental impact Karandaaz aims to make in Pakistan.

This report is in no way an attempt to diminish and undermine Karandaaz's highly commendable effort and program in financially including and empowering women in Pakistan. Any gender-financing program is highly welcomed and well-received, whether it is from the government or private sector entities. However, Karandaaz's WV program sets itself aside from its competitors due to their large ticket size, sub-commercial pricing of the debt, and extremely favorable conditions. All the terms, coupled with Karandaaz's technical support in imparting financial and taxation knowledge, their support in digitization operations through providing accounting software, and their support in formalizing businesses through converting them into Private (Limited) companies, makes the WV program an excellent initiative with no credible competitors. The sheer risk and unsecured exposure Karandaaz is willing to take for the furthering of women empowerment shows their and their sponsors' dedication to the cause.

Even though the WV program is currently supporting 32 businesses, it still accounted for almost 50% of the entire financing to female-led businesses in Pakistan last year. Karandaaz has identified the gap which exists between financing these businesses and the risk-aversion of public and private sector entities to provide financing at terms which are favorable, and take into account the realities, of women in Pakistan. The program has exploited this gap, is currently still active, and still receiving hundreds of applications each year.

However, multiple factors detailed in the document have perverted the essence and the core vision of the program. The portfolio businesses, have created tensions, caused roadblocks, and have indulged in hostile and aggressive tactics to portray the WV program, and Karandaaz's efforts in a bad light. Institutional and contractual challenges on account of Karandaaz have added fuel to the fire and have caused a stalemate between certain portfolio businesses. The current situation has the potential to harm the remaining businesses in the WV portfolio and future businesses supported by Karandaaz, unless remedial measures are not taken. This document has provided several recommendations which can aid Karandaaz in addressing the challenges that exist with the current portfolio and safeguard itself from future negative consequences which may cause hurdles in the development impact Karandaaz envisions to create.

The recommendations provided are fit and appropriate to address the challenges Karandaaz currently faces. It is in the best interest of all stakeholders to ensure the WV program excels in its mission and vision. The dearth of financing opportunities for female-led/owned/managed businesses in Pakistan requires that the handful of programs that are still operations and are furthering the female empowerment agenda remain active and thriving. The document attempts to play its limited, yet effective, role in doing just that.

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APPENDIX A: WOMEN VENTURES APPLICATION FORM

Basic Information

1) Name of Business *

2) Incorporation Status *

Is your company registered? If yes please choose legal status. If not, please select "None of the above".

Registered with SECP Sole proprietor Partnership None of the above

3) NTN Number *

Note: Having an NTN number is a requirement for eligibility.

4) When did you start your business? *

Please specify the month and year.

5) When was your business registered? *

Please specify the month and year.

6) City where business is located *

If you operate in multiple cities, please provide the location of the head office.

7) Region/Province where business is located *

8) Is the business owned by a woman? *

Please note, if a woman does not have a majority share, she will not be eligible for this program.

A woman owns a majority share of the business A woman and a man have an equal stake in business ownership A woman owns a minority share of the business

<="" span="" style="outline: none !important; color: rgb(0, 0, 0); vertical-align: top;">Is your business managed by a woman? *

Choose the option that applies. Please note, if the business is not managed in whole or in part by a woman, you are not eligible for this programme.

◉ Business managed by a woman ○ Business managed jointly by a woman and a man ○ Business not managed by a woman

10) Name of Owner(s)/Shareholder(s) and percentage of shareholding *

Please provide the name of owner(s), and in brackets provide their percentage share of ownership in the business.

11) I certify that I am eligible to apply to this program *

In order to qualify for this program, the business must have a female owner (i.e. a woman should have majority or share of the business) and a female manager (i.e. a woman must be managing in whole or in part the key operations of the business). If you do not comply with these two conditions (as stated in the above questions), please do not proceed with this application.

◉ Yes ○ No

Contact Information

12) Primary Contact: Full Name *

13) Primary Contact: Designation *

14) E-mail Address *

Please provide e-mail address of primary point of contact. We will use email as the primary means of correspondence so provide an email address you actively use.

15) Mobile Phone Number *

Please provide the phone number of the primary point of contact.

16) Landline Number (optional)

Please provide the landline number of your business.

17) CNIC *

Please provide the CNIC of the primary point of contact. Only write numbers, no dashes.

18) Postal Address *

Please provide the postal address for the business.

19) Website URL *

Please provide a link to your website

20) Skype ID (optional)

The Business: Growth Potential and Financials

21) What is the nature of your business? *

Please provide information regarding the scope of your business, including the kind of products or services that are provided.

22) What is the sector that your business operates in? *

Please select the relevant sector, or choose other and specify.

23) Who are your customers? *

Please provide information regarding your customers, whether they are individuals, or institutions, your target demographic and target market.

24) How has your business grown over time? *

Please provide information on business growth since the start date. You can do so by answering the following questions (in the questions below “year” refers to the last 12 months): a) What is the percentage increase in sales (in PKR) for each year, during the last 3 years? b) What is the percentage increase in customers for each year, during the last 3 years? c) Have you added new branches/locations over time, or added new business lines? If yes, please describe.

25) How has the company's employment base grown? *

Please specify how many people were employed at the start of the business, and how many are currently employed.

26) **Please provide your revenue figures for the last 3 years (FY 2019-20, FY 2020-21, FY 2021-22)?** *

27) **How much revenue has the business earned (in PKR) in the last 12 months?** *

PKR

28) **What is your average monthly sales in PKR?** *

PKR

29) **Is the business profitable?** *

(•) Yes ( ) No

If you answered "Yes" please provide the annual profit for the last two years. If you answered "no", please provide the annual loss for the last two years. *

Specify Year 1: Profit or Loss amount, and Year 2: Profit or Loss amount in PKR.

30) **Where would you like to see your business in the next five years?** *

Explain the ambition for your business in the next five years.

Business Needs

31) **Has your business, or any of the founders/the management team previously been through an incubation/acceleration or business development programme? Has your business previously received any grant? If yes, which one and when. If no, please type Not Applicable.** *

Please provide the name of the program, its duration and the month/year of your participation.

32) **Which aspect of your business would you like Karandaaz to help with?** *

Please identify the area of business development services and mentorship you would like to get. You can identify up to three (03) areas.

☐ Corporate Registration, Legal and Compliance ☐ Financial Management ☐ Marketing ☐ Human Resource Management ☐ Taxation ☐ Franchising ☐ Business Continuity Planning ☐ Cash Flow Management ☐ Other (Please specify)

33) **Please describe why you think the business development support services identified in the previous question will be important for your business's growth.** *

Explain how the support that you seek from Karandaaz will impact your business.

34) **How much investment (in PKR) are you seeking from Karandaaz?** *

PKR

35) **How will you utilize capital raised from Karandaaz to grow your business?** *

For example to add more outlets, to expand your production capacity, for franchising your business, to add a product line, etc.

36) **How much incremental revenue do you expect to be added following a capital raise from Karandaaz? How many additional jobs would be generated?** *

For example how will utilization of capital raised result in greater revenue, and more direct, and indirect jobs, etc.

The Team

37) Name and Designation(s) of Key Team Member(s) *

Include management roles, such as CEO/President, COO/VP of Operations/General Manager, CFO/Financial Controller, VP of Production/Production Manager, VP of Marketing/Marketing Manager, Head of HR and other professional roles.

38) Total number of employees? *

Both full-time and part-time.

39) What percentage of employees are women? *

40) Number of full-time employees *

Full-time employees that work at least 30-40 hours per week.

41) Number of part-time employees *

Part-time employees that work less than 30 hours per week.

42) How did you hear about our program? *

☐ Word of Mouth ☐ Radio ☐ Other Karandaaz Clients ☐ Karandaaz Website ☐ Karandaaz Facebook ☐ Karandaaz Twitter ☐ Karandaaz LinkedIn ☐ Newspaper Ad (Urdu) ☐ Newspaper Ad (English) ☐ Direct Email from Karandaaz ☐ Instagram ☐ Other

If you chose "Other", please specify

Permission to share data with banks and other partners interested in providing business support.*

◉ Yes ○ No

Submit Application

APPENDIX B: SAMPLE FUND DISBURSEMENT FORM

No.	Timeline	Milestone	Deliverable	Convertible Amount to be disbursed
1.	**January 2023**	Execution of the Convertible Agreement Provision of business related documents	1) Signed Convertible agreement 2) Updated Business Plan and Agreed Budget 3)Provision of personal guarantees by all Sponsors of the Company 4) Incorporation documents of all associated companies 5) Provision of Basic Sponsor Fact Sheet 6) Last submitted tax returns of business 7) Provision of copies of any licenses, relevant to the business.	50% of the Convertible Amount
2.	**June 2023**	Completion of Amendments in Bylaws Transfer of Business Assets Provision of additional documents for due diligence	1) Proof of 70% spend of the first disbursement 2) Transfer of all business assets (moveable and immovable) in the name of the Company 3) Provision of monthly stock reports from first disbursement to second 4) Provision of latest business financial statements 5) Agreement on Repayment Schedule	50% of the Convertible Amount