



**BEFORE THE
COMPETITION COMMISSION OF PAKISTAN**

IN THE MATTER OF

FIRST PHASE REVIEW

**FURTHER SUBSCRIPTION OF VOTING SHARES IN M/S PAKISTAN
MICROFINANCE INVESTMENT COMPANY LIMITED BY M/S
PAKISTAN POVERTY ALLEVATION FUND, M/S KARANDAAZ
PAKISTAN AND M/S KREDITANSTALT FÜR WIEDERAUFBAU**

CASE: 843/Merger-CCP/16

Commission

Ms. Vadiyya S. Khalil

Chairperson

Mr. Shahzad Ansar

Member



ORDER

I Background

1. On 27th September 2016 M/s Pakistan Microfinance Investment Company Limited ("PMICL" or the "Target") through their authorized representative submitted a pre-merger application (the "Application"), notifying and seeking the approval of the Competition Commission of Pakistan (the "Commission") for further subscription of voting shares in the Target by M/s Pakistan Poverty Alleviation Fund ("PPAF"), M/s Karandaaz Pakistan ("Karandaaz") and M/s Kreditanstalt für Wiederaufbau ("KfW") (collectively referred to as the "Acquirers"). The Application was submitted along with the necessary information and applicable processing fee in accordance with the provisions of the Competition Act, 2010 (the "Act") and the Competition (Merger Control) Regulations, 2007 (the "Merger Regulations"). The Commission's review of the proposed transaction is as under:

II Merger Parties

Acquirer 1

2. Karandaaz, a company (registered under Section 42) established in August 2014, promotes access to finance for small businesses through a commercially directed investment platform, and financial inclusion for individuals by employing technology enabled digital solutions. Income of Karandaaz as per the audited financial statements for Financial Year ended June 30, 2016 was PKR (FY16) while its assets were reported at PKR (FY16).

Acquirer 2

3. The PPAF is an independent legal entity under the Companies Ordinance 1984 incepted in 2000. The Securities and Exchange Commission of Pakistan (SECP), the Federal Board of Revenue, the Employees Old Age Benefits Institution and other relevant authorities mandated under the law of the land for specific purposes regulate the affairs of the PPAF. Income of PPAF as per the audited financial statements for the fiscal year ended June 30, 2015 was PKR. Of the above, PKR was attributable to the PPAF's microfinance business in Pakistan. Its reported total assets for the year remained at PKR (FY15).

Acquirer 3

4. The KfW, formerly KfW Bankengruppe (banking group), is a German government-owned development bank, based in Frankfurt. It was formed in 1948 after World War II as part of the Marshall Plan. The development of KfW Group has been closely connected to the economic development of the Federal Republic of Germany. Since its founding in 1948 and according to its statutory mission, KfW has been supporting change and encouraging forward-looking ideas - in Germany, Europe and throughout the world. For this purpose it has provided nearly one trillion Euros in loans over 65 years. Income of KfW as per audited financial statements for the fiscal year ended December 31, 2015 was EUR (FY15) and its assets were valued at EUR (FY15).



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Target

5. PMICL is a newly incorporated Non-Banking Finance Company incorporated as a public limited company formed under the laws of Pakistan operating as an Investment Finance Company. PMICL will provide a wide range of micro financial services aimed at promoting financial inclusion in Pakistan in order to alleviate poverty and contribute to broad based development. As a newly formed entity, the Target has had no turnover in Pakistan or elsewhere in the last financial year.

III Transaction

6. In the proposed transaction the Acquirers intend to further subscribe voting shares in the Target resulting to an Acquisition. Currently, the paid-up capital of the Target is PKR [REDACTED]. Karandaaz and PPAF propose to subscribe to further voting shares in the Applicant equivalent to an amount up to approximately PKR [REDACTED] (Pakistani Rupees [REDACTED]) and KfW proposes to subscribe to further voting shares in the Applicant equivalent to an amount of EUR [REDACTED] (EUROS [REDACTED]). Therefore the total value of the transaction can be deemed to be approximately PKR [REDACTED] (Pakistani Rupees [REDACTED]) when considering the currency exchange rate of 1 Euro to 117.07 PKR as on October 4, 2016.
7. The transaction meets the notification thresholds as prescribed in Regulation 4(2)(a), (b), (c) & (d) of the Merger Regulations, with the combined assets of the parties being more than PKR 1 Billion and combined turnover being more than PKR 1 Billion. The transaction value also exceeds PKR 100 million and the percentage of voting shares to be acquired exceeds 10% of the total shareholding of the Target.

IV Relevant Market:

8. Microfinance is a means of providing financial assistance or services to lower income segment that otherwise would not qualify for a standard bank loan. In Pakistan, microfinance products are offered by Microfinance Institutions ("MFIs") and Microfinance Banks ("MFBs").
9. Micro-Financing can be categorized in 2, which are as under:
- Retail Financing: Financing to the end borrower
 - Whole sale Financing: Financing to Micro Finance Institution's/Micro Finance Bank's
10. The Commission has deemed the relevant product market to be of "Microfinance wholesale lending" as PMICL would also be dealing in wholesale lending of microfinance products as reflection to current operations of PPAF prior to this transaction. The identified relevant product market is in line with Section 2(1)(k) of the Act.



Since, PMICL's would be lending to borrowers located across the country, the Commission has therefore deemed the relevant geographic market to be all of Pakistan since the conditions of competition are sufficiently homogenous nationwide.

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V Findings of the Phase I investigation on the competition assessment

The competition assessment in Phase I have resulted in the following finding:

12. The proposed transaction would result in an acquisition comprising of investment by existing shareholders by way of further subscription of voting shares in the Target. Post-transaction, the Acquirers will continue to hold _____ of the issued and paid-up share capital of PMICL.
13. The proposed transaction would result in equity investment from PPAF, Karandaaz and KfW providing a sizable capital base for the Target to establish a viable platform and raise additional funding from the local and international financial markets to promote microfinance in Pakistan.
14. The relevant product market mainly consists of participants such as State Bank of Pakistan ("SBP"), PPAF and commercial banks/institutions. PPAF being the only party to the merger which is active in the relevant market, has a market share of _____. The other party to the merger, KfW is active in the retail segment as it owns _____ shareholding in NRSP Microfinance Bank Limited.
15. Post- transaction the market share in the relevant product market will remain the same. The proposed transaction involves an acquisition and is not likely to result in creation or strengthening of dominant position in the relevant market due to the fact that microfinance operations of PPAF will be completely transferred to PMICL.
16. The proposed transaction relates to an acquisition and is not likely to result in the creation or strengthening of a dominant position in the relevant market. The intended Acquisition does not meet the presumption of dominance as determined under Section (2) (1) (e) read with Section 3 of the Act.

VI Conclusion

17. In conclusion, there is no evidence that suggests a substantial lessening of competition by the creation or strengthening of a dominant position in the relevant market. The proposed transaction is hereby authorized under Section 31(1) (d) (i) of the Act.
18. It is so ordered.

Vadiyya S. Khalil

(Vadiyya S. Khalil)
Chairperson

Shahzad Ansari

(Shahzad Ansari)
Member



Islamabad, the 6th October 2016