



In this Issue..

- CEO's Message
- Karandaaz, NBP Partner to Create a Digital Finance Ecosystem
- Karandaaz Pakistan Hosts Workshop on User Interface and User Experience (UI/UX)
- Meezan Bank, Karandaaz Pakistan Host Financing Conference for Vendors of Millat Tractor Ltd.
- Karandaaz Announces Challenge Fund on Remittances
- First Cohort from Pakistan Completes Certificate in Digital Money Course
- Financial Inclusion in Numbers
- Karandaaz Pakistan Research Showcase
- Featured Blog Post: Women Owned SMEs - A Vital Engine of Growth



Participants at the User Interface and User Experience Workshop hosted by Karandaaz Pakistan in Karachi in July 2016

CEO's Message



Dear Friends,

I am pleased to share the fourth issue of Karandaaz Pakistan's quarterly newsletter, capturing highlights of the previous quarter. From partnering with National Bank of Pakistan to create a digital finance ecosystem to hosting a workshop on user interface and user experience for a smartphone mobile money app, Karandaaz Pakistan made steady progress in its core work streams. We hosted a financing conference for vendors of Millat Tractor Limited in collaboration with Meezan Bank to educate them about the Supply Chain Finance Program. We are also encouraging innovation in the financial sector and have announced a challenge fund on remittances and will be hosting a FinTech Disrupt startup challenge in collaboration with LUMS Center for Entrepreneurship. I am delighted to report that nine students from Pakistan successfully completed the Certificate in Digital Money course and will be receiving certificates from the Fletcher School at Tufts University, USA. Furthermore, we are partnering with Digital Frontiers Institute once again to offer the next course in Pakistan and would like to invite applications for this cutting edge course. Finally, I would like to urge all of you to read the first-ever comprehensive Global Landscape Study on Digitising Person-to-Government Payments released during this quarter.

Happy reading !
Ali Sarfraz Hussain
CEO, Karandaaz Pakistan

Karandaaz Pakistan, NBP Partner to Create a Digital Financial Ecosystem

National Bank of Pakistan (NBP) and Karandaaz Pakistan signed an agreement on August 18 to work towards creating a Digital Financial Ecosystem through development of a comprehensive digital financial services strategy for NBP. The strategy will focus particularly on digitizing Government-to-Person (G2P) and Person-to-Government (P2G) transactions. The signing was undertaken at the NBP Head Office in Karachi, in the presence of Senior Management from NBP and Karandaaz Pakistan.

Karandaaz Pakistan Hosts Workshop on Smartphone User Interface and User Experience (UI/UX)

Karandaaz Pakistan organized a workshop on smartphone user interface and user experience (UI/UX) with the goal of catalyzing financial inclusion in Pakistan. The event showcased a design for mobile money smartphone application, with a focus on non-literate and less literate segments of Pakistan's market, developed using a Human Centered Design (HCD) approach. With increasing smartphone penetration in Pakistan, reported at 31 percent in 2015, there is great opportunity for HCD based smartphone apps. This innovation is expected to revolutionize the Mobile Financial Services (MFS) arena in Pakistan by enhancing application development by providers, while creating significant ease of adoption and use for the target market. We are pleased to report that our research has contributed heavily to the development of 21 principles for the design of smartphone interfaces and mobile money released by The Consultative Group to Assist the Poor (CGAP). This app design, along with the resultant wireframes, has been made available to providers for incorporation within their specific MFS applications, thereby enabling their customers to enjoy a richer and more user-friendly interface and process flow, and can be downloaded at www.karandaaz.com.pk/toolkit.

Meezan Bank, Karandaaz Pakistan Host Financing Conference for Vendors of Millat Tractor Limited

On August 4, Meezan Bank organized a conference for the vendors of Millat Tractor Limited in Lahore for promoting and creating awareness about the USD 50 million 'Supply Chain Finance Program' launched in collaboration with Karandaaz Pakistan. This conference forms part of the tripartite agreement between Meezan Bank, Karandaaz Pakistan and Millat Tractor Limited aiming to provide financial access to small and mid-size automotive part vendors in the country. The Conference was chaired by Mr. Faisal A. Malik, Head of Supply Chain Finance Program, Meezan Bank, who educated the participants about this supply chain initiative, detailing the program-based term funding structure, financing products and the overall process flow. The Supply Chain Financing program is specifically designed to address this need in order to ensure sustainability and growth for the SMEs.

Karandaaz Pakistan Announces Innovation Challenge on Remittances

According to The World Bank's Migration and Development Brief (October 2015), remittances into Pakistan were \$18.7 Billion for the FY 2015. This figure increased to \$19.9 Billion in FY 2016 but is expected to decline in FY 2017. The World Bank cites dire economic conditions and depreciation of currencies against the US dollar as one of the major sources for the decline in growth. An opportunity exists to design and implement a remittance system which not only promises greater outreach, speed, efficiency and cost but also meets the objectives of the regulators' requirements.

Karandaaz Pakistan announced an Innovation Challenge to improve the current mechanism of foreign remittances by overseas Pakistani workers. Some of the crucial aspects needing improvement are the outreach (specifically rural), speed, security, cost, ease of use and increased awareness. Under this Challenge Round, applications were invited to propose an innovative product, service or approach to improve the current delivery mechanisms. The objective of this Challenge Fund is to provide financial contribution to a project with a social impact, and funds will be awarded to successful applicants in January 2017.

First Cohort Completes Certificate in Digital Money Course certified by Tufts University

The first cohort of finance professionals hailing from diverse backgrounds completed the Digital Money Course organized by Karandaaz Pakistan in consortium with the Digital Frontiers Institute. The course was initiated in view of the rapid growth of digital payments in Pakistan which has opened new career avenues for those holding relevant skills and capacity.

The 12-week online certificate course on digital payments, offered in partnership with The Fletcher School at Tufts University, USA, was completed by nine officials belonging to the State Bank, public departments, leading national universities and emerging startups. The course proved to be a great success and one of the participants obtained the sixth highest score globally.

Karandaaz Pakistan wishes to build up on this great start and has, therefore, announced the second batch for the same course. Intake for the second cohort is underway and applications are being accepted on a rolling basis. The course will start in January 2017.



Financial Inclusion in Numbers

Quarterly Showcase



Figure 1 shows 6.6% increase in the number of branchless banking accounts in Pakistan recorded during the second quarter of 2016, compared to the first quarter.

Source: State Bank of Pakistan, Q2 Newsletter

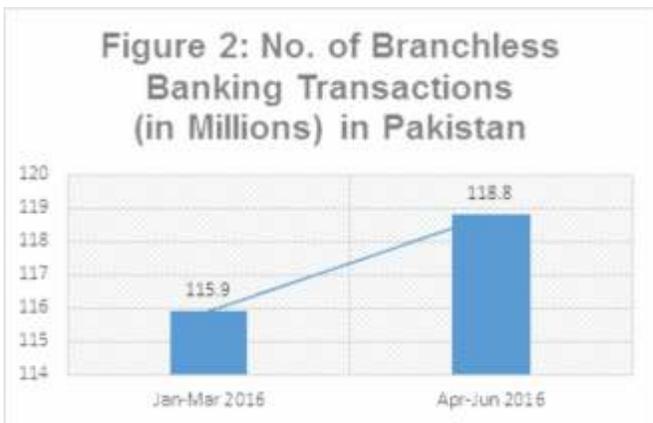


Figure 2 shows a steady increase of 2.5% in the number of branchless banking transactions in Pakistan during the second quarter of 2016 as opposed to the first quarter.

Source: State Bank of Pakistan, Q2 Newsletter

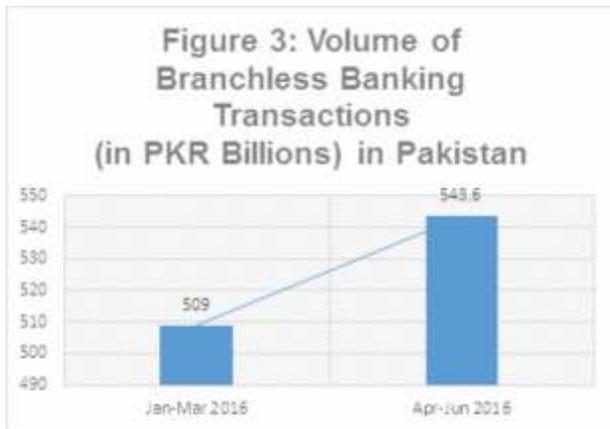


Figure 3 shows a healthy increase of 6.8% in the volume of branchless banking transactions undertaken in Pakistan over the second quarter of 2016 in comparison to the first quarter.

Source: State Bank of Pakistan, Q2 Newsletter

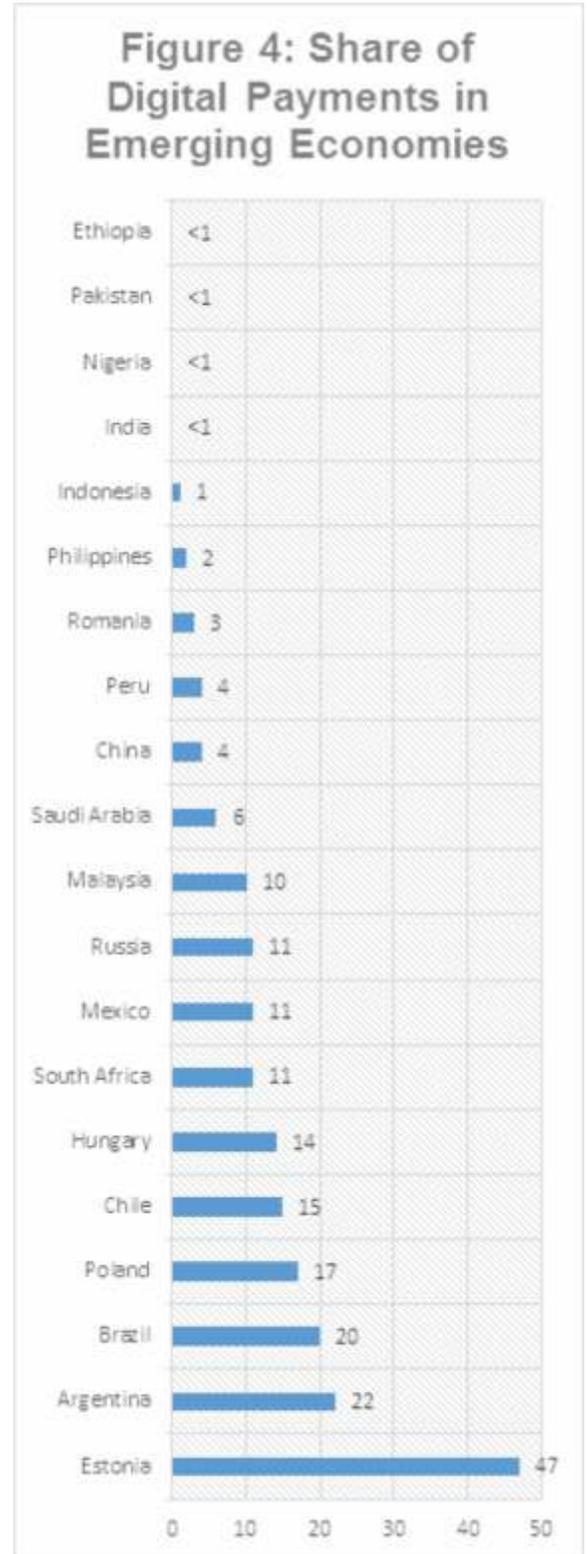


Figure 4 shows the share of digital payments in Pakistan compared to other emerging economies of the world. Source: "Digital Finance for All: Power Inclusive Growth in Emerging Economies" by McKinsey Global Institute Sept. 2016

Karandaaz Pakistan Research Showcase

Global Landscape Study on Digitising P2G Payments

Person to government (P2G) payments form a huge segment of government receipts carrying a value of around \$375 billion in low- and lower- income countries, thus making a very compelling statement for digitizing these payments. However, relevant literature that could pave the way for digitization of these payments is scarce. In order to bridge this knowledge gap, Karandaaz Pakistan conducted the Global Landscape Study on Digitising of P2G Payments with financial support from the Bill and Melinda Gates Foundation and UK's Department for International Development (DFID) and technical support from the Consultative Group to Assist the Poor (CGAP).

P2G landscape study is a pioneering research that comprehensively examines the opportunities and challenges associated with digitizing P2G payments, including mandatory payments (taxes, bill payments and fines), payments for government services (fees for passport, visa), as well as co-payments for social benefits (pensions). The report not only provides a practical framework to enable policy makers to ascertain a country's readiness and direct its progress on path to complete digitization of P2G payments, but also provides critical recommendations for governments, businesses, and consumers; illuminating the path to a systematic digitization process.

For this purpose a preliminary global scan of 61 initiatives, and in-depth analysis of nine diverse P2G initiatives across seven countries, including Rwanda, the Philippines, India, Tanzania, Ghana, Kenya and Pakistan, was conducted. In addition to this, more than 85 interviews were conducted with government officials, donors, financial institutions, MNOs, technology providers and payment experts. Furthermore, conversations were held with more than 90 users and non-users through one-on-one interviews and focus group discussions. The report showcases P2G digitisation initiatives ranging from setting up a national payments switch and e-governance platforms to school payments etc.

The study shows that P2G governments hold a promising potential for governments and private sector alike. Digitizing P2G payments would save operational costs for the governments, thereby cutting the operational cost of collection centers and cash-handling. It would also result in increased revenues by reaching a greater number of people and reducing leakages. Efficiency and effectiveness would also increase as digitization of payments would enhance transparency, in turn increasing accountability. In addition to these advantages, digitisation would also improve financial inclusion, which is one of the key objectives for the governments, especially in developing countries. Similarly, businesses can reap long-term benefits through P2G payments with sustainable business models, long-term commitment and staged growth plans. For citizens, digitisation holds a promise of significant time and cost savings through the usage of this payment system.

However, the report also points to the fact that this payment system is no magic bullet for financial inclusion. There are a number of barriers preventing this system to be fully adopted. Such as limited product relevance, need for digitizing

the entire process instead of just payments and fear of negative consequences. In addition, there are several other challenges; obtaining approval from multiple government bodies can be a time-consuming process; government investments in system lack flexibility to expand for growth and designing a sustainable business is not an easy task. Moreover there are deficiencies in existing payment ecosystem and insufficient investment in driving consumer awareness. All these issues indicate that leading a digital P2G payments system challenging.

A country has to take into account four critical factors before it can decide whether it is ready to digitise P2G payments, elaborated in the figure below.

EXHIBIT 10

P2G readiness framework

Determinants	Key components	
High levels of stakeholder buy-in	Overt commitment across relevant government agencies	<input type="checkbox"/>
	Strong partnership (including a viable business model) between government and financial service providers	<input type="checkbox"/>
Reliable Infrastructure	Reliable connectivity	<input type="checkbox"/>
	Strong back-end systems	<input type="checkbox"/>
	Inclusive and consumer-friendly national payments architecture	<input type="checkbox"/>
Supportive policy environment	Regulations that allow government agencies to accept digital payments	<input type="checkbox"/>
	Regulations that protect consumers	<input type="checkbox"/>
	Flexibility and responsiveness to trends in digital finance	<input type="checkbox"/>
Indications of citizen-readiness	Digitising payments will solve consumer pain points	<input type="checkbox"/>
	Other forms of digital payments gaining traction	<input type="checkbox"/>

Recognizing the benefits of payments digitisation, governments across the globe and especially in developing countries are moving towards digitization of P2G payments, and are investing in improving their broader digital payments ecosystem. These benefits include reduced processing costs, increased revenues through income and property taxes, increased service efficiency and effectiveness.

The study concludes with recommendations to develop robust systems and address underlying barriers so that consumer adoption can help in ensuring long-term success of this digital payment method. It also underlines the pivotal role that private sector has to play in driving initial product trial by providing upfront incentives to consumers. More broadly, donors and multilateral institutions can offer critical technical assistance to governments, while researchers and advocates can help in improving collective understanding of merits and demerits in adopting this system. This research shows that whereas the time to setup this system is long and challenging, it is gaining momentum by targeting investments in systems, policies, consumer awareness and combining with improvements in broader payment ecosystem. To read the complete report please visit: <http://karandaaz.com.pk/P2G-landscape-study>

Featured Blog Post

Women Owned SMEs: A Vital Engine of Growth

According to a growing body of evidence, increased female participation in the economy, particularly via women-owned small and medium enterprises (SMEs), has positive effects on economic growth and wider developmental goals and priorities. Despite such mounting evidence, we find that women-owned SMEs and female entrepreneurs face barriers and constraints that severely restrict their growth potential. This blog will highlight the necessity to create an enabling environment for female owned SMEs - both globally and in Pakistan - by detailing the benefits of female owned SMEs along with the multiple differentiated barriers that they face.

Why Women-Owned SMEs Matter: Currently, SMEs with full or partial female ownership represent 31-38% (8 to 10 million) of formal enterprises in emerging markets and contribute to economic and societal development in the following ways:

a) Women-Owned SMEs Make Significant Contributions to Their Economies: An increasing amount of data suggests that women-owned SMEs catalyze economic growth and accelerate job creation within their economies. In the United States, for example, women-owned SMEs (which are growing at more than double the rate of all firms) contribute about \$3 trillion to the US economy and have generated up to 23 million jobs. Similarly, according to a recent survey on female business owners in the Middle East and North Africa region, comparable economic benefits are visible in developing countries: women-owned SMEs in the region make up to an average of \$100,000 annually in revenue.

b) Women-Owned SMEs Contribute to Wider Development Goals: Female entrepreneurs who operate their own SMEs are more likely to help their countries achieve development goals. This is because women are more likely than men to use their earnings and increased bargaining power to invest in their family's welfare via spending on nutrition, healthcare and education. This creates a virtuous cycle, as it builds the potential of future generations, who in turn, can generate further economic growth and bolster gender and income equality.

c) Women-Owned SMEs are Promising Businesses: Women-owned SMEs demonstrate great potential for growth and profitability. Recent research by MasterCard has shown that in some countries, such as Indonesia, Malaysia, Singapore, Thailand and Vietnam, these SMEs have shown a consistent growth trajectory and have proceeded to grow at faster rates than businesses owned by men. Moreover, data suggests that in the absence of women entrepreneurs, output per worker is approximately 12% lower.

Why Women-Owned SMEs Fail to Grow: Women-owned SMEs are more likely than their male counterparts to cite access to finance as a constraint, with 29% of women-owned SMEs versus 24% of male-owned SMEs stating that they face difficulties in accessing necessary financial services and products. Women-owned SMEs have between \$260-\$320 billion in unmet financing needs worldwide and a collective \$1 trillion credit gap amongst the total number of firms that have at least one female owner. The financial gap is largely driven by the following factors:

a) Financial Barriers:

i) **Lack of Collateral and Proper Documentation:** Financial institutions often request land or property deeds as forms of collateral or verified documentation such as national identification cards or birth certificates. This can often become problematic for women to provide, especially in patriarchal societies where ownership of property and access to legal documentation is challenging for women.

ii) **Perceived Risk by Financial Institutions:** Female-owned SMEs are often seen as riskier, higher cost and/or lower return. For this reason, financial institutions are less keen to lend to female-owned SMEs.

iii) **High Cost and Inaccessibility of Financial Services and Products:** Commercial banks often do not provide products and services suited to SME needs and preferences. As a result, entrepreneurs rely on financing their businesses through personal savings, investment from private sources (family and friends) or through re-invested business earnings. Accessing financial services is especially challenging for women, particularly those women who reside in remote areas. Women who operate SMEs in remote areas often face high transaction costs of banks that operate within such remote areas or are hesitant to undertake unsafe and risky travel to urban centers to access requisite financial services and products.

In addition to financial barriers, there are also many non-financial barriers that women-owned SMEs face:

b) Non-Financial Barriers:

i) **Small Size, Limited Skills & Networks:** Globally, women entrepreneurs control less than 40 percent of formal microenterprises, less than 36 percent of small firms, and less than 21 percent of medium-sized firms. Most of these businesses operate in the informal, lower value-added service sectors and home-based businesses—all of which are more likely to lack the education, training, financial literacy, business skills and business acumen necessary for ensuring sustained growth of their firms. These factors severely limit their ability to engage in strategic focus and long term planning of their firms. Furthermore, small professional networks and limited mentorship opportunities have a knock-on effect by constraining women's ability to widen their connections and prospects for their businesses.

ii) **Social and Cultural Roles:** Deeply entrenched traditional and patriarchal perceptions on the roles of females within the household and society have kept women from engaging in entrepreneurial activity in certain countries. As such, women have restricted mobility, decision-making powers, and limited time available for working towards the growth of their businesses. In some countries, these perceptions can permeate into regulatory and legal structures and policy documents, which often request a male signatory.

The Pakistan Context: Pakistan has the lowest rate of female entrepreneurship in the world, with only 1% of female entrepreneurs compared to 21% of male entrepreneurs. Access to finance is one of the factors that has prevented women from engaging in entrepreneurial activities, with only 3% of women having access to an account at a formal financial institution. Beyond this, there are many structural, institutional and socio-cultural barriers that restrict the entrepreneurial capabilities of Pakistani women. These reflect many of the barriers discussed above, including limited access to information and mentorship, small and ineffective professional networks, limited business development skills, limited effective marketing platforms to promote visibility, patriarchal perceptions on women's role in society along with constitutional structures, policy documents and regulatory arrangements that put women at a distinct disadvantage. As such, we find that the majority of women operating micro and small businesses in Pakistan are low wage earners or middle income earners, who generate products specifically for a middle man, and focus on small home-based businesses with little growth potential (relating to fashion-designing, dress-making-knotting, canning work and food retailing). Efforts have been made to develop female entrepreneurship and support women-owned micro and small businesses in Pakistan; however, a study by the Pakistan Microfinance Network demonstrates that these efforts are often piecemeal and inadequate as they fail to ensure significantly increased female

Read more blogposts at www.karandaaz.com.pk/blog

access to financial products and services and have had limited success in promoting the development of female entrepreneurs beyond the small home-based businesses that they are currently engaged in.

Women-owned SMEs are a profitable, but underserved segment of the global economy. They have the capacity to generate sustainable and profound economic and non-economic returns to countries, including Pakistan. Despite

this, the constraints women face in attempting to grow their businesses are often insurmountable, especially at the individual level. Though steps are being taken to overcome these constraints, it is pertinent that policymakers and financial institutions take on concerted and vigorous efforts to create an enabling environment for women-owned SMEs to thrive and contribute to their economies.

http://www.ifc.org/wps/wcm/connect/a4774a004a3f66539f0f9f8969adcc27/G20_Women_Report.pdf?MOD=AJPERES

ibid

ibid

ibid

<http://www.goldmansachs.com/our-thinking/public-policy/gmi-folder/gmi-report-pdf.pdf>

<http://www.gpfi.org/sites/default/files/documents/SME%20Finance%20New%20Findings,%20Trends%20and%20G20%20GPI%20Progress.pdf>

<http://www.ub.edu/ubeconomics/wp-content/uploads/2014/02/308-Web.pdf>

<https://yali.state.gov/wp-content/uploads/sites/4/2016/03/WomenOwnedSMes+Report-Final.pdf>

http://www.ifc.org/wps/wcm/connect/a4774a004a3f66539f0f9f8969adcc27/G20_Women_Report.pdf?MOD=AJPERES

<https://yali.state.gov/wp-content/uploads/sites/4/2016/03/WomenOwnedSMes+Report-Final.pdf>

<http://www.gpfi.org/sites/default/files/documents/SME%20Finance%20New%20Findings,%20Trends%20and%20G20%20GPI%20Progress.pdf>

<http://tribune.com.pk/story/486722/financial-inclusion-an-unheard-of-phenomenon-in-pakistan/>

<http://tribune.com.pk/story/486722/financial-inclusion-an-unheard-of-phenomenon-in-pakistan/>

Pakistan Microfinance Network, 'Entrepreneurship and Financial Inclusion of Women in Pakistan' (unpublished), *Pakistan Microfinance Network*, 2014.

About the Author

Payam Akram currently works within the humanitarian and development sector in Pakistan, with research and communication experience in agencies such as IOM and UNOCHA. She is particularly interested in the nexus between humanitarian response initiatives and longer-term development solutions such as capacity building and poverty reduction. She holds a master's degree in Development and a bachelor's degree in International Relations from the London School of Economics and Political Science.

About Karandaaz Pakistan

Karandaaz Pakistan, a Section 42 company 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. The Company has financial and institutional support from leading international development finance institutions; principally the United Kingdom Department for International Development (DFID) and the Bill & Melinda Gates Foundation.

The Company has three work streams:

- **Corporate Investment and Credit (CIC):** The CIC line of business provides wholesale structured credit and equity-linked direct growth capital investments for small and mid-size enterprises with compelling prospects for sustainable growth and employment generation in Pakistan
- **Digital Financial Services (DFS):** The DFS line of business focuses on expanding the poor's access to digital financial services in Pakistan by working across the ecosystem with all stakeholders including regulators, policy-makers, government departments, businesses and researchers and academics with activities arranged in four key work areas—Policy and Regulation, Seeding Innovation, Experimentation and Solutions Development, and Scale and Outreach.
- **Knowledge Management and Communications (KMC):** The KMC line of business supports the company's core financial inclusion goal by developing and disseminating evidence based insights and solutions to influence market and the financial inclusion ecosystem.

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.

1E, Mezzanine Floor, Ali Plaza,
Nazimuddin Road, F-6/4, 44000, Islamabad
Tel: (051) 8449761
Email: info@karandaaz.com.pk

 facebook.com/KarandaazPK

 twitter.com/KarandaazPK

 linkedin.com/company/karandaaz-pakistan