KARANDAAZ

KARANDAAZ NEWS BITES

QUARTER IV - 2016

Issue No. 5

Finalists of FinTech Disrupt Challenge 2016 with Ali Sarfraz, CEO of Karandaaz Pakistan and judges

IN THIS ISSUE...

CEO's Message

Dear Friends,

I am pleased to share the fifth issue of Karandaaz Pakistan's quarterly newsletter. The previous quarter has been a busy one. Key highlights include holding of an innovation challenge on remittances, announcing the winners for FinTech Disrupt Challenge 2016, and closing out four significant deals with Punjab Agri Department, Pakistan Post, Bank Alfalah and JazzCash all of which are aimed at promoting financial inclusion. We also received an overwhelming response for the Digital Money Course certified by the prestigious Fletcher School at Tufts University. I am delighted that Karandaaz Pakistan has proven to be an enabler in the industry, pushing through with its innovations in this sector, building sustainable models for digital finance, and bringing financial inclusion to the hitherto underserved or excluded segments of society.

Happy reading!
Ali Sarfraz Hussain
CEO Karandaaz Pakistan

Karandaaz and LUMS Center for Entrepreneurship Conduct First-Ever FinTech Disrupt Challenge in Pakistan

The FinTech industry in Pakistan is in its nascent stages and is faced with issues of access to finance and limited mentorship. Recognizing the enormous potential of FinTechs to develop easily scalable solutions by leverage technology, FinTech Disrupt Challenge 2016 galvanized Pakistani startups to propose innovative products and services in areas like payments, financing, insurance, savings and investment for grants up to PKR 10 million.

Banks, government regulators, incubators, complementary actors from the FinTech industry assembled at FDC 2016 to see 23 shortlisted startups present their ideas to a panel of experts. Leading industry practitioners like Nadeem Hussain and Qasif Shahid gave keynote speeches at the event about "Unbundling Commercial Banks" and "Design Mechanics for Setting Up FinTech Operations in Pakistan" respectively.

FDC 2016 culminated with the announcement of three winners, Ricult Pakistan, Paysys and Publishex who won a grant amount of PKR 10 million each.

Karandaaz Partners with Bank Alfalah to Provide Digital Financial Services in Pakistan

In pursuit of its mission to digitize Pakistan's financial services landscape, Bank Alfalah has signed two major agreements with Karandaaz Pakistan. The agreements are aimed at promoting access to finance for small businesses through a commercially directed investment platform, to work jointly on multiple strategies to digitize payments and create convenient, transparent and reliable channels of financial transactions, through a suite of financial products and services with a focus on retail supply chain payments.

Under the first agreement, Karandaaz Pakistan will provide technical and financial assistance to Bank Alfalah for the development of a digital strategy that will help the bank offer digital financial services to its customers, particularly the under-banked segments of the market. The second agreement focuses on digitization of supply-chain payments and conversion of cash transactions to wallet account based transactions.

Karandaaz and Punjab Agri Department Come Together to Introduce Solutions for DFI

Karandaaz partnered with the Agriculture Department of Punjab in order to introduce solutions for digital financial inclusion of small farmers as part of the Kissan Package, announced by the government. Karandaaz would provide technical support in envisioning the scope of entire project and technical as well as financial support for piloting the proposed processes and service designs.

Karandaaz Enters into an Alliance with JazzCash to Enhance Access of Digital Financial Services

Karandaaz and JazzCash entered into a strategic alliance to enhance access of digital financial services in Pakistan.

Under this partnership, Karandaaz Pakistan will provide a grant as well as technical support to JazzCash in implementing key findings of the human-centered design research recently completed by the former. This support will help bring greater innovation to JazzCash's exisiting Mobile Application and increase its uptake amongst over 50 million Mobilink-Warid customers.

Karandaaz & PlanetN Hold Workshops on 'Cracking the Blockchain Code' and 'Cracking E-commerce 2.0'

Blockchain is a public ledger of all Bitcoin transactions that have ever been executed and is constantly growing as 'completed' blocks are added to it with a new set of recordings. Blockchain therefore provides various benefits including transparency, efficiency, lower costs and reliability amongst others, to governments, financial services organizations, investors and entrepreneurs. In addition to these benefits, Blockchain is also a substantial force in fostering financial inclusion for citizens in poverty.

Ali Sarfraz, CEO Karandaaz, describing the objective of the workshop

Karandaaz Pakistan and PlanetN took the lead in disseminating knowledge regarding Blockchain in the local market. Mr. Faisal Khan, a leader in the payments eco-system of Pakistan and abroad, conducted a session explaining the technology in detail. A simulation was also provided by participants from UrduBit where-after breakout sessions on Payments, Identity and Land title registry took place.

The workshop on E-commerce focused on areas of customer facilitation and protection, e-payments, managing delivery logistics and using e-commerce to grow Pakistan's exports.

SMEs learnt how they could manage their own e-commerce channels. Participants of the workshop included members of government, leading e-commerce sites UrduBit, GameStorm, Yayvo, HBL, UBL, MCB, Eastern Garments, Well.pk, BlueX, Wavetech, Food Panda, FINJAS, Junaid Jamshed, Bakeware.pk, TPS Online, Interlink, IDG, NIFT, Leopards as well as aspiring startups from the industry.

E-commerce adoption has positively impacted revenues and profitability of SMEs. Despite high potential, a majority of Pakistani SMEs are yet to adopt e-commerce or are sub-optimally engaged.

Such knowledge-building platforms are becoming increasingly imperative in view of rapidly changing E-commerce trends in Pakistan due to the growing number of broadband/3G/4G users as well as government efforts for digital inclusion. Moreover, e-commerce will gain further inducement as internet becomes accessible to the remaining unserved population. In light of this rapidly increasing trend this workshop gathered relevant stakeholders to discuss essential parameters of e-commerce; the role of e-commerce in development of SMEs; policies and regulations that can help this sector grow and challenges and opportunities for Pakistan at an international level.

Karandaaz Partners with Pakistan Post to Support its Reforms Agenda of Digitizing Money Orders

With the joint vision of promoting financial inclusion to the underbanked and unserved populations, Karandaaz Pakistan and Pakistan Post have signed a partnership agreement to digitize money orders. The agreement was signed between Fakir Syed Shaharyaruddin- DG Pakistan Post and Ali Sarfraz Husaain -CEO Karandaaz Pakistan and the signing ceremony, held in Islamabad, was chaired by Secretary Communications Mr. Khalid Masood Chaudhry and Dr. Lousie Walker- Group Head, Economic Growth DFID.

Under the agreement, Karandaaz Pakistan will provide technical support in designing a new product 'mobile money order' from conceptualization to deployment. The Karandaaz team's technical knowledge and its funding support will assist Pakistan Post in the identification of managerial and technical requirements for the new service and will strategize and develop a complete business plan. The project is envisioned to improve Pakistan Post's service penetration and also create new revenue streams.

DG Pakistan Post acknowledged the role of Karandaaz Pakistan in furthering one of the key goals of Government of Pakistan of improving the level of financial inclusion in the country. The project will help improve Pakistan Post's service channel penetration from 6.5 to 30 per 100,000 persons by 2020 and offer a new portfolio of financial services via the digital platform.

Karandaaz is committed to enabling greater financial inclusion for currently underserved rural populations and catering to their financial needs. Through this partnership with Pakistan Post, Karandaaz hopes to assist in the development of a digital platform for money order which has the potential to reach the underserved with improved speed, safety and convenience.

KARANDAAZ PAKISTAN RESEARCH SHOWCASE

Study on Profiling and Segmenting the Road Transport (Logistics) Sector with Assessment of Informal Financing

Karandaaz Pakistan will be undertaking a study to deepen the understanding of the road transport sector (logistics sub-sector), and especially to enhance knowledge of how improved access to formal sources of finance in this sector, can play a role in improving productivity and growth. For this purpose, a sector profiling and segmentation exercise will be conducted, supplemented with an in-depth assessment of access to formal and informal sources of finance. The primary aim is to provide insights into the sector to formal financial institutions allowing influence to the design of suitable products and services, enabling the formalization of lending and growth of the portfolio of financial services available to the sector.

Such cutting-edge research is critical for understanding a sector that, on estimate, contributes around 11% to Pakistan's GDP accounts for 6% of employment and 15% of the public sector development program (PSDP). Logistics in Pakistan rely mainly on road networks where96% of total national freight is carried by road transport. This network has seen major expansion in recent years where the number of registered trucks increased from approximately 148,600 in 2000 to more than 251,000 by 2014, while the number of registered buses increased from 154,000 to more than 223,000 during the same time period.[1] The importance of the study has increased with the development of the China Pakistan Economic Corridor (CPEC) and the potential of minimizing trade losses that might occur from a weak infrastructure.

Despite sustained growth, the logistics industry is reported to account for losses of 4–8.5% of GDP due to overall poor performance. Also, in addition to consuming 35% of total energy and causing damage to national road infrastructure due to faulty design and loading norms, 30–40% wastage of agricultural produce has been reported due to poorly equipped and inefficient vehicles.[2]

The research will undertake sizing, profiling and segmenting of the transport sector with a focus on road transport, inclusive of trucking as well as light weight vehicles (vans, pickups, tractors, etc.). Also, in addition to identifying and analyzing the regulatory and policy environment this research will provide insights into underlying sector economics and the distribution of value/earnings across players/actors.

Moreover, comparative analysis of the current financing options with formal and informal sources in the industry will be undertaken. Finally, the research will be aimed at understanding the value propositions offered by formal and informal options and will shed light on financing gaps that exist in this sector, the impact on growth with increased access to finance, the multiplier impact on GDP, employment and associated sub-sectors.

[1] Economic Survey of Pakistan 2015-16

[2] European Union and Competition Commission of Pakistan. Road Freight Transport Sector and Emerging Competitive Dynamics. http://trtapakistan.org/wp-content/uploads/2016/01/Road-freight-transport-sector-and-emerging-competitive-dynamics_final.pdf

FINANCIAL INCLUSION IN NUMBERS

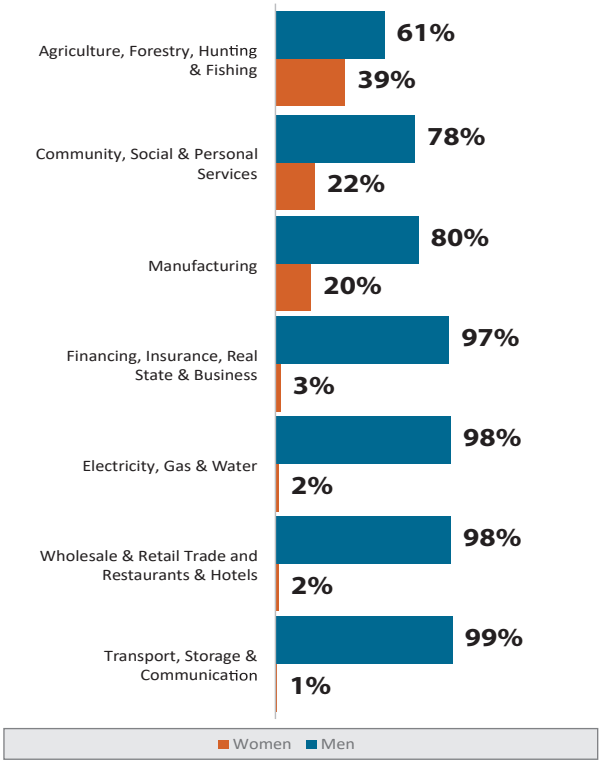
World Economic Forum's Global Gender Gap Report 2016

The table below shows the gender gap index for Pakistan, comparing 2006 with 2016. As seen, Pakistan fares 143rd of 144 countries in the Global Gender Gap Index in 2016, even worse than 2006 when it ranked 112th out of 115 countries. War torn countries such as Syria fare better than Pakistan in gender parity.

Year	2016	2006
	Rank	Rank
Global Gender Gap Index	143	112
Economic Participation & Opportunity	143	112
Educational Attainment	135	110
Health & Survival	124	112
Political Empowerment	90	37
Rank out of	**144**	**115**

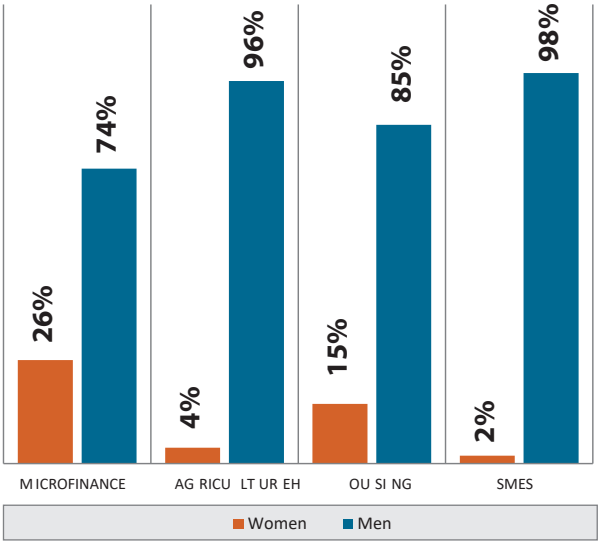
UNWOMEN Study on Women's Participation and Empowerment in Pakistan: Gender-wise Distribution of Borrowers

Gender disaggregated employment data reveals that women are under-represented in most of the industrial sectors in Pakistan.



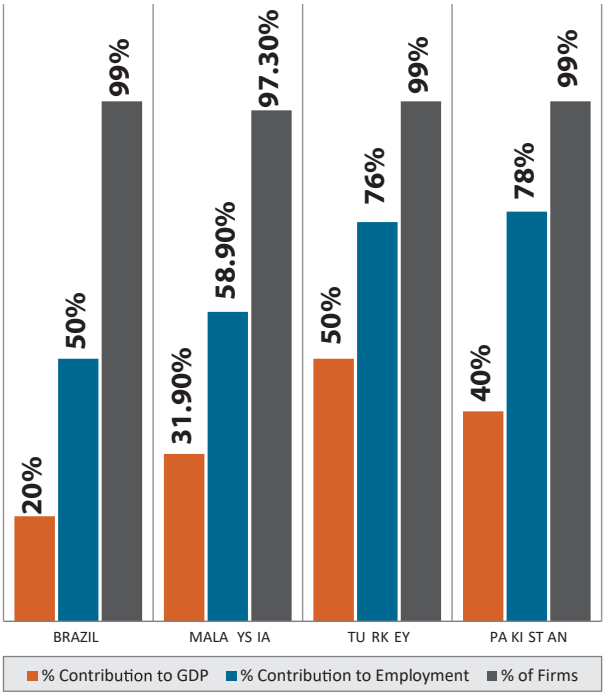
UNWOMEN Study on Women's Participation and Empowerment in Pakistan: Percentage Share of Employment by Industry

A gendered look at borrowers highlights issues of access to financial services for women in different sectors across Pakistan.



SME Sector Genesis, Challenges & Prospects by SMEDA

The chart shows the growing significance of SMEs in the emerging economies.



FEATURED BLOGPOST

Good intentions: Why what you measure in financial inclusion is so important to the outcomes you achieve

Financial inclusion is increasingly recognized as a policy instrument to deliver on policy objectives such as welfare, health outcomes and food security. In fact, it is deemed so important that the recently published **United Nations Sustainable Development Goals (SDGs)**[1] include equal access to financial services for all people as one of the goals to ending poverty. To track and measure the SDGs, a number of indicators have been agreed upon. For the financial inclusion component, the designated indicators are bank account uptake and activity.

Setting indicators and targets such as these are important. Policymakers are decision-makers. They set objectives and design interventions to achieve those objectives. To know whether they are meeting their objectives, or if changes are needed, requires measurement. But measurement is a double-edged sword: if you are measuring the wrong things, you are likely to focus on the wrong interventions.

The **"One Rupee trick**[2]**"** that recently caught the headlines in India provides an example of the unintended consequence from setting the wrong targets. With the best of intentions, the Indian government in 2014 launched an initiative to bring basic bank accounts to all. It mandated account-based targets for banks to deliver on this promise. This led to 240 million new bank accounts being opened since then.

However, it soon transpired that these accounts were not being used: the majority had zero balances, indicating that they were dormant. Just opening accounts was clearly not sufficient. So the focus shifted to measuring active accounts, defined as those with a non-zero balance. For a while it looked as if remarkable progress was being made: dormancy reduced dramatically. Here, finally, was a true financial inclusion success story.

But in reality, some bank managers had found a way to fool the system by simply depositing negligible amounts into accounts to make them appear active. It was discovered that more than 10 million accounts had only one Rupee in the balance. Though the targets were being met on paper, actual usage was non-existent and the account holders themselves were likely oblivious to what was happening in their accounts.

There are many lessons to be learned from this story. For us at the i2i facility, a resource center based in South Africa that deepens understanding of financial inclusion through data, the story has demonstrated how critical the nuances of our measurement frameworks are. One of our objectives over the next few years is to work with governments and the broader financial inclusion community to develop measurement tools that better reflect our intentions.

To know what to measure, we must first own up to a common deception in financial inclusion: that financial services uptake is the objective. In fact, savings, credit, payments and insurance are **roads, not destinations**[3]. We use them because we want to get somewhere, not because we want to travel. The real destination is the more fundamental needs that people must meet through financial services. These can include receiving income, buying groceries, paying for schooling or healthcare, buying stock for a business, or sending money to elderly parents, all of which, in turn, help you to live your daily economic life, be more resilient, or meet your financial goals.

A financial service such as a bank account may connect you to one or more of these destinations, but to do so it must be used. For example, in Indonesia, Findex data shows that seven out of ten bank accounts are dormant or used as a mailbox, whereby all income received into the account are cashed out in one single transaction. As with all those one-Rupee accounts, it is unlikely that the dormant bank accounts are meeting any of the financial needs noted above. And those used as a mailbox may only meet some of them. Where fees are incurred on such accounts, customer value may actually be eroded. Unused accounts are also not profitable for providers. So, if we set targets that incentivise the delivery of services to people who are not likely to need it – and will hence not use it – we are not achieving our end-goal, and, in some cases, may actually be making their financial lives worse.

Why are accounts not used? Does this mean that we have thus far been measuring the wrong things and, if so, what else should we prioritise?

To answer these questions we first need to know where we are and where we want to go.

For example, measuring the number of adults that use a formal financial service may indicate the **breadth** of the financial sector, but tells us little about how the financial sector is meeting the needs discussed above. If we broaden this to also include the **depth**[4] of usage, or the number and types of financial service these adults use, it tells us how responsive the financial sector is to needs. By considering both breadth and depth, we can more accurately identify where the development focus should be.

If breadth of usage is low, providers should focus on improving the distribution infrastructure in a country, specifically payments to reach new consumers. If breadth of usage is high, then providers

should focus on targeting existing clients with a more comprehensive and tailored portfolio of financial services. We have found that this shift to depth typically happens when breadth reaches 50% in a country.

Whilst this is a very crude indicator, it already sharpens our measurement tools to allow a more targeted and sequenced policy response to help us get to where we want to go. Further, focusing on needs and unpacking people's usage decisions can help to design discrete interventions for specific segments of the population. Just understanding that it is not useful to push full functionality bank accounts, or productive credit, to parts of the population that are unlikely to need – and hence use - it, already takes you a long way to knowing where to focus policy attention and resources.

Thinking about financial inclusion targets and measurement in this light opens up new possibilities. Our task now is posing and testing concrete hypotheses to unlock these possibilities, and to explore the potential of different data sources, including supply-side and transaction data, to answer these questions. Finding new metrics for financial inclusion is an ambitious agenda – but one which is within grasp if we work with the right partners.

This blog has been cross posted in collaboration between insight2impact and Karandaaz Pakistan, and authored by Hennie Bester & Richard Chamboko.

Hennie Bester and Richard Chamboko lead the insight2impact (i2i) facility work on deepening measurement in financial inclusion.

[1] http://www.un.org/sustainabledevelopment/sustainable-development-goals/
[2] http://www.economist.com/news/finance-and-economics/21707234-indian-banks-staff-found-dodgy-ways-meet-targets-set-higher-ups-accounts
[3] http://www.i2ifacility.org/This_road_will_not_get_you_there.html
[4] http://cenfri.org/making-access-possible/depth-sounding?highlight=YToxOntpOjA7czo1OiJkZXB0aCI7fQ==

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

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.

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.

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 nancial inclusion goal by developing and disseminating evidence based insights and solutions to influence market and the financial inclusion ecosystem.

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