



KARANDAAZ

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DFID representatives with ICF 2 grantees and Karandaaz team

CEO'S MESSAGE



Greetings on behalf of Karandaaz Pakistan! In this edition of Karandaaz quarterly newsletter, we start off with an update on our Innovation Challenge Fund, through which competitive grants worth PKR 25 million have been provided to three incubators and accelerators across Pakistan. These grants are helping run focused, high quality entrepreneurship training programs for women-owned businesses. In this quarter, Karandaaz also partnered with GSMA, Telenor Microfinance Bank and JazzCash to hold a 2-day Mobile Money Hackathon in Karachi. Over 40 young innovators got together and designed some really exciting mobile money APIs. Karandaaz is proud to have supported this first-of-its-kind initiative that shall go a long way in increasing awareness, demand, and implementation of the mobile money industry APIs in Pakistan.

In October 2017, DFID Director General for Economic Development, Rachel Turner attended the signing of an agreement between Karandaaz and Bank Alfalah Limited. Under the agreement, Karandaaz Pakistan will provide a grant of over PKR 63 million to Bank Alfalah Limited for Supply Chain Financing Advisory Services. This support will help the bank provide credit to SMEs by using cutting edge financial products through especially trained teams.

Karandaaz also completed two very important studies; one on the Warehouse Receipt Financing and the other on the Nature and Characteristics of SME Financing and NPLs in Pakistan. You can read more about the significant findings of these studies in this newsletter and visit Karandaaz website to access complete reports.

Finally, I would like to appreciate the efforts of everyone here at Karandaaz Pakistan for their continued hard work and wish you all a happy and prosperous 2018. Let us continue striving together for a more financially inclusive Pakistan.

Ali Sarfraz

CEO, Karandaaz Pakistan

Karandaaz Supporting Women Entrepreneurs through its Innovation Challenge Fund



Through the DFID-funded Karandaaz Innovation Challenge Fund (ICF), grants worth PKR 25 million each have been provided to three incubators and accelerators across Pakistan. These partners, i.e. Lahore University of Management Sciences (LUMS); Balochistan University of Information Technology, Engineering and Management; and Invest2Innovate (Pvt.) Ltd are using the grant money to identify women-owned, growing businesses and provide them with high quality entrepreneurship training. Businesses that perform well in the programme will be eligible to receive investment from Karandaaz. This second round of ICF is

running from September 2017 till March 2018. The first round of ICF, that ran earlier this year, focused on improving the current mechanism of foreign remittances from Pakistani workers working in different parts of the world.

Women face several challenges in accessing finance for growing their businesses. The current round of Karandaaz ICF is customized to overcome some of these challenges, such as lack of information and business networks, mobility, and lack of assets. Under this programme, women owned/operated businesses enrolled in the programme are being provided training & mentorship and up to six competitively selected businesses will be provided funding of PKR. 15 million each for expanding their business. The programme will also build the capacity of incubators to continue supporting female economic empowerment and give the implementers an opportunity to test customized approaches to solving issues that women in business face in the country and scale up these approaches.

Speaking about the programme, CEO Karandaaz Mr. Ali Sarfraz explained,

“Karandaaz is committed to breaking barriers for women entrepreneurs in Pakistan. We want to demonstrate to the private sector the tremendous potential within women-led businesses. We were happy to see the enthusiasm amongst the incubators and accelerators who came up with novel ideas to support women-led enterprises during the qualifying rounds for this grant. I am confident that through steps such as Karandaaz Innovation Challenge Fund, more incubators will focus on working with women-led businesses and the winning programmes will set models of success.”

Mobile Industry Players unite to host the Mobile Money Hackathon in Karachi

Key players in the mobile industry in Pakistan collaborated to host a 2-day Mobile Money Hackathon in Karachi on Saturday 7 – Sunday 8 October, 2017. Karandaaz partnered with Telenor Microfinance Bank and JazzCash, together with the GSMA to host companies and developers in the financial services industry, including banks, aggregators, payments switches, start-ups, FinTech companies and established players for the weekend challenge of testing and building solutions for harmonised API use cases. The hackathon took place at DotZero, Karachi's community space for technology entrepreneurs and start-ups.

This hackathon was part of a series that will take place in Africa, Asia and Latin America over the next two years, with the purpose of increasing awareness, demand, and implementation of the mobile money industry API.

The API specifications have been jointly designed by key industry stakeholders—mobile money providers, platform vendors, third



party service providers and industry partners — combining best practices in the technology industry, with the aim of reducing integration time and complexity within the mobile money industry and to limit and avoid fragmentation in the mobile money ecosystem. The APIs will be implemented across the mobile money industry with other operators in Asia and beyond. The GSMA Mobile Money API was implemented on the JazzCash and Telenor Bank platforms for the hackathon.

The Mobile Money Hackathon was the first of its kind to be hosted in South Asia and follows the success of the first two hackathons held in Dar es Salaam, Tanzania. The hackathon was structured to solve two challenges – merchant payments and bill payments. The participating teams presented innovative solutions for scenarios dealing with these challenges and built solutions for either one of the two challenges. The winner team was awarded two expenses-paid tickets to Mobile World Congress, the world's largest gathering for the mobile industry, to be held in February 2018.

Pakistan has seen rich innovation in mobile financial services in recent years, and with useful APIs across the industry, the foundation is established for further growth and diversity in the industry.

Sharing his thoughts, Mr Shahid Mustafa, President and CEO of Telenor Microfinance Bank, said,

“We are happy to collaborate with the GSMA and other financial sector players to bring the new instalment of global Hackathon series to Pakistan. With high level of Telecom penetration coupled with low banking sector use, Pakistan offers a great opportunity to innovators, looking to use FinTech to enhance banking/financial services use.”

Ms. Aniqa Afzal Sandhu, Chief Digital Officer – Jazz, stated,

“JazzCash’s goal from day one has been to bridge the prevalent banking divide in the country. One key part of this is promotion of innovation through working with private partners in the mobile money ecosystem and global bodies like the GSMA. And focusing on harmonized APIs allows us to utilize best solutions from around the globe in designing viable, advanced and secure offerings for customers in a digital age.”

Mr. Ali Sarfraz, CEO of Karandaaz, added,

“We are very excited to have partnered with the GSMA for this first-of-its-kind Hackathon in Pakistan. Karandaaz stays committed to promote the creation and uptake of different mobile money use cases. The GSMA has provided the perfect platform through this Hackathon by creating an enabling environment and bringing together the developers and exposing branchless banking operators’ APIs to promote a culture of innovation within the digital financial services arena.”

United Kingdom’s Department for International Development Supporting SMEs through Karandaaz Pakistan

United Kingdom’s Department for International Development (DFID) is supporting the growth of small and medium enterprise (SME) sector in Pakistan through Karandaaz Pakistan. The DFID Director General for Economic Development, Rachel Turner, visited Pakistan in October, and as part of her visit she also attended the signing of an agreement between Karandaaz and Bank Alfalah Limited. Under the agreement, Karandaaz Pakistan has provided a fixed grant of over PKR 63 million to Bank Alfalah Limited for Supply Chain Financing Advisory Services. This support is building the capacity of the bank to provide credit to small and medium enterprises using cutting edge financial products through especially trained teams.

Separate agreements were also signed between Karandaaz and three business incubators- Lahore University of Management Sciences; Balochistan University of Information Technology, Engineering and Management; and Invest2Innovate (Pvt.) Ltd. to launch the second round of Karandaaz Innovation Challenge Fund for supporting women entrepreneurship with a grant of PKR. 25 million each.

Speaking at the occasion, DFID Director General for Economic Development, Rachel Turner emphasized the importance of the SME sector as an engine of growth for a developing economy.

Ms. Turner said,

“SMEs, especially women-owned businesses, can be a driving force for the sustainable growth of an economy. United Kingdom is proud to have invested in this vital sector in Pakistan and we are confident that this investment will have long-term dividends for Pakistan’s economy.”

CEO Karandaaz, Ali Sarfraz explained,

“Karandaaz is committed to breaking barriers for small and medium entrepreneurs. The partnerships that we have forged today show the large spectrum of strategic interventions that we are making so that SMEs can build their capacities to expand and sustain their operations and also access finance for business development.”

CEO Bank Alfalah Limited, Mr. Nauman Ansari, acknowledged the assistance from the DFID. Speaking at the occasion he said,

“This partnership is significant, not just to us as a bank but for the entire SME sector. Bank Alfalah has been declared Pakistan’s ‘Best Bank’ and ‘Best Customer Franchise’, and this alliance is further evidence of our commitment to our customers and to the development of the sector.”

Karandaaz Collaborates with Unilever, JazzCash and Women's World Banking to Empower Women

A collaboration amongst four Pakistan and multi-national organizations was announced in December to enhance the availability of financial services to low-income women across Pakistan. The partnership brings together the technical expertise of Pakistan's premiere mobile financial services provider JazzCash and consumer products giant Unilever Pakistan Limited and will be executed with the support of Karandaaz Pakistan and global nonprofit, Women's World Banking. The partnership aims to research, design, and develop an agent banking model that will serve low-income women who often face barriers to accessing formal financial services.

The project builds on Unilever's vast network of Guddi Bajis, female retail agents, who sell Unilever products in rural and low-income communities across Pakistan. Women's World Banking will draw on nearly 40 years of researching women's lives to develop and test solutions to enable these Guddi Bajis to serve as mobile banking agents. These female entrepreneurs will be an extension of Jazz's retail network, making the JazzCash mobile account available to women in rural neighborhoods using mobile and digital technology. This type of agent banking allows women to bank near their homes, cutting the cost of transport and time away from home and work, which can make saving at a bank branch impossible.

Jazz CEO Aamir Ibrahim said,

“JazzCash endeavors to provide basic financial services to the unbanked segment in Pakistan.”
Unilever Pakistan Chairperson and CEO Shazia Syed said, “The Guddi Baji initiative empowers rural women by enhancing livelihoods and increasing influence within their communities. We are breaking gender stereotypes and creating role models.”

Women's World Banking will work closely with Karandaaz Pakistan, which promotes financial inclusion for individuals by employing technology-enabled digital solutions. The two organizations will leverage global best practices from their experiences in developing successful agent banking models to serve women and help guide this project.

Anna Gincherman, Chief Product Development Officer at Women's World Banking, highlighted the value of agent banking for women's financial inclusion. She said,

“Women already know and trust these shops and can now make deposits and withdrawals there rather than storing cash at home where it can slip through their fingers. The agents hold tremendous promise for bringing a woman into the formal financial system where she can open a bank account in her own name, plan for her future, build a safety net for times of crisis, and even grow her business.”

Ali Sarfraz, CEO Karandaaz Pakistan, emphasized the role of digitization in bringing financial inclusion to women. He said,

“Fostering financial inclusion for women is a core theme for Karandaaz Pakistan. If we have to make any tangible progress on the UN's Sustainable Development Goals, Pakistan needs to act immediately to ensure women's participation in the process of development. One way to do that is to improve women's access to financial services and digital financial services can play a decisive role in bringing the financial services to women.”



Featured Blog Post

The Unrealised Potential of Mobile Wallets in Pakistan

By Imran Khan and Sidra Butt

Currently, Over the Counter (OTC) transactions in Pakistan account for just over half (52%) of Branchless Banking Transactions[1] by value and less (42%) by volume. The vibrancy of OTC transactions could provide a stepping stone to mobile wallets. This, in turn, would enable the deepening of the digital financial ecosystem through advanced service offerings for saving, borrowing, and risk mitigation. Pakistan's Financial Inclusion Strategy[2] makes this bet, relying on growth of digital transactions accounts (DTA), that is, wallet accounts, as one of the four main 'drivers'[3] for financial inclusion, by enabling 'access and use a range of quality payments, savings, credit, and insurance services which meet their needs with dignity and fairness'.[4] This blog seeks to provide an overview of the progress (or lack thereof) that mobile money providers in Pakistan are making towards driving mobile wallet ownership and promoting advanced usage to contribute to greater financial inclusion in the country.

Strong Potential for Wallets – The Business Case

The recent introduction of regulations related to biometric verified OTC transactions[5] has had both positive and negative impacts. Yet for service providers, the increased cost of providing OTC services presents an additional pain-point, among other existing challenges. Because of the large investment required[6], providers are yet to provide BVS systems to over a third (38%) of agents. The rising costs of OTC also strengthen the business case for mobile wallets through cost savings on airtime distribution, greater customer loyalty, and lower commissions that result from increasingly self-initiated transactions.[7] Of course, to generate substantial savings, providers must encourage their customers to register and entice significantly more wallet customers.

The Challenges

Remarkably low wallet penetration

To date, however, mobile money account ownership among Pakistanis remains very poor (0.6%), compared to wallet markets in East Africa (67% in Kenya, 53% in Tanzania, and 38% in Uganda). This is in spite of growing number of agents who offer wallet registrations (34% in 2017, up from 21% in 2014). Although opportunities to register for a wallet account have been expanding, the ability or willingness of customers to sign up still lags. As a result, the proportion of Pakistani adults with a registered mobile wallet account grew just marginally over the past three years, from 0.4% in 2013 to 0.6% in 2016. [8]

Agent Capabilities

Only one-third[9] of agents currently offer wallet registration. While 46% of those who do not yet have this capacity want to offer this service, many lack the necessary permissions, whereas others are yet to receive the requisite training/education from the providers. In addition to a minority of agents who offer wallet signups, customer awareness and understanding of providers' wallet service offerings hinder wallet uptake.

Customer Understanding

Of the 60%[10] of Pakistanis with at least some awareness of the different features of the wallet, only 0.11% go on to

register and use the wallet services. The top reason for not using mobile money was not seeing a need to use the service, followed by a lack of understanding of what the service is or how it can be used.

Even many existing OTC users who already use the services for person to person (P2P) transfers and/or utility bill payments gave contradictory reasons for not registering for wallet accounts. A third of OTC users (33%) felt that they have no need for a wallet account and 14% said they did not have enough funds for wallet accounts. In other words, a significant proportion of current OTC users believe that they do not need mobile wallets because they cannot identify any valuable use-cases for wallets. This is an especially serious concern for providers that seek to transition OTC users to wallets.

Agents also concur that the main reason[11] for the slow growth in mobile wallet uptake and usage seems to be a lack of awareness among customers, who either do not see or know about the use-cases and value propositions of wallets. This also explains why a significant proportion of registered accounts, about 52%[12], are still inactive.

Further education on wallets and other value added services such as utility and insurance payments is therefore required to improve customers' understanding of the advantages that using a wallet offers, which would, in turn, lead to increased uptake and usage. Other pull-factors will also play a critical role in attracting new customers and driving the uptake of wallet accounts. These include services like Government to Person Payments (G2P), such as the Benazir Income Support Payments (BISP) and Business to Person (B2P) transfers by organisations like microfinance institutions (MFIs) and other bulk payments.



Driving Uptake and Usage

Proactive Agents

Only about 40% of agents educate their customers about wallets, of which only half (21%) offer wallet registration. However, the ANA Pakistan study showed that mobile money agents who do educate customers about wallet accounts conduct 18% more wallet registration transactions and significantly more wallet cash-in (31%) and more wallet cash-out transactions (22%), than those agents who do not educate. This has the effect of boosting their own business and customer wallet take-up.

Moreover, agents who receive induction training within the first three months of joining are significantly more likely to educate customers about wallets than those who did not receive training (45% as opposed to 36%, respectively). Providers should induct agents consistently, and highlight the value and business opportunities unlocked by educating current and potential customers on wallets and wallet-based services as part of the curriculum. They may also consider introducing incentives to encourage agents to acquire new customers.

Agents Support and Better Marketing

Providers should consider rewarding agents, especially the top performers, for their education and marketing efforts related to wallet accounts and customer acquisition. Providers could offer additional training to graduate the agents into more aggressive 'sales agents', with additional compensation for specific wallet opening and activity targets, so that agents receive remuneration only for active wallets. Cost reductions that result from more intensive wallet adoption and use, referenced above, could offset such remunerative efforts. Moreover, providers' should review their Above the Line (ATL) promotional and marketing materials to ensure that they enhance mobile money awareness and build an understanding of the relevance of wallet services in daily life beyond what is available via OTC.

Research Showcase

Nature and Characteristics of SME Financing and NPLs in Pakistan

Karandaaz Pakistan recently launched a report on the nature and characteristics of small and medium enterprise (SME) financing and non-performing loans in Pakistan. The study explores trends in SME financing over the past decade, and reasons that have contributed to a high ratio of non-performing loans.

SMEs in Pakistan account for 30 percent of GDP, generate 78 percent of non-agri employment and contribute 25 percent of manufactured goods exports. Despite these vital contributions, SMEs in Pakistan suffer from limited access to formal credit, which was at a mere 7 percent of total private sector credit in 2016. The study identifies the lack of adequate documentation, information asymmetry between banks and SMEs and insufficient collateral as some of the main contributors of low SME financing in the country.

Similarly, NPLs for the SME segment in Pakistan have remained north of 20 percent in the previous decade whereas cross-country comparison indicates significantly lower SME NPL ratios for most East Asian and South Asian economies. The report highlights some of the factors contributing to low financing and high NPL ratios for SMEs in Pakistan.

A primary research question therefore, was to ascertain some of the factors contributing to low financing and high NPL ratios for SMEs in Pakistan. A key finding has been a significantly lower non-performing loan ratio, at approximately 8 percent, for relatively fresh credit to SMEs. In addition, outreach numbers for access to finance among SMEs was found to be even lower than the reported 5 percent, emphasizing the need for widespread effort for the financial inclusion of SMEs. The detailed report can be found on Karandaaz website.

Warehouse Receipt Financing

Karandaaz Pakistan, in November 2017, launched a study on Warehouse Receipt (WHR) financing in Pakistan. WHR financing is a form of institutional credit that is extended by banks to farmers and traders against physical commodities stored in licensed warehouses. Given that post-harvest losses for grains and fruits are estimated to be 15-18 percent and 25-40 percent respectively, WHR financing can be pivotal for

The Next Frontier

In order to drive the National Financial Inclusion Strategy forward, encouraging the uptake of wallets through rigorous education, promotion, and registration efforts are key to creating a sustainable ecosystem with 'a range of quality payments, savings, credit, and insurance services' which meet the needs of all Pakistanis. The emergence and diversification of such services may also work conversely to encourage wallet uptake further.

Beyond the current offer of merchant payments, G2P such as the BISP and B2P transfers, bulk payments, meaningful savings, and the eagerly anticipated credit and insurance products would facilitate both wallet adoption and meaningful financial inclusion in the country.

increasing efficiency in the agricultural sector in Pakistan and results in significant benefits to all stakeholders.

The study assesses the current status of uptake of WHR financing in the country through in-depth interviews with current and potential users, suppliers and regulators of the scheme including the State Bank of Pakistan (SBP), provincial food departments in Sindh and Punjab, Securities and Exchange Commission of Pakistan (SECP), National Bank of Pakistan (NBP), Habib Bank Ltd. (HBL) and Zarai Taraqiati Bank Ltd. (ZTBL).

Important insights surfaced by the report include how WHR financing can, through a well-developed ecosystem, reduce post-harvest losses of agricultural commodities and enable growers to command better prices for their produce by avoiding distress sales immediately after harvest. A comprehensive analysis of the price trend of major agricultural commodities over the last five years reveals that WHR financing could be a viable source of credit for wheat, rice, cotton and maize farmers in Pakistan. These commodities are storable and their post-harvest price trends over the last four to five years justify delayed marketing. It is worth noting that the majority of farmers in Pakistan have small landholdings – over 72 percent hold less than 8 acres of land. Once the system is strongly established, small farmers will also be able to benefit from WHR financing.

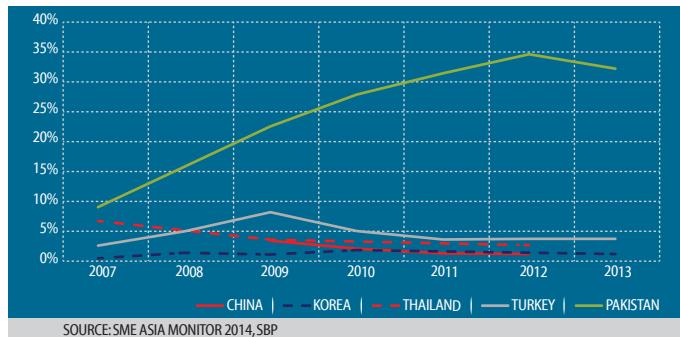
The study identifies some important aspects that require focus for catalysing and ensuring the proper implementation of WHR financing in the country. These include the development and adoption of the secondary legislation, the development of a collateral management company (CMC) and expansion of the storage capacity, amongst others. A priority identified in the report is also to launch widespread awareness campaigns for educating all stakeholders, especially the farmers, on the functioning of this mechanism.

The report also suggests although various stakeholders are working towards developing a WHR financing system in Pakistan, the system still has considerable ground to cover in terms of developing regulatory, institutional, and infrastructural frameworks that are necessary for establishing the system in the country. The detailed report can be found on Karandaaz website.

Financial Inclusion in Numbers

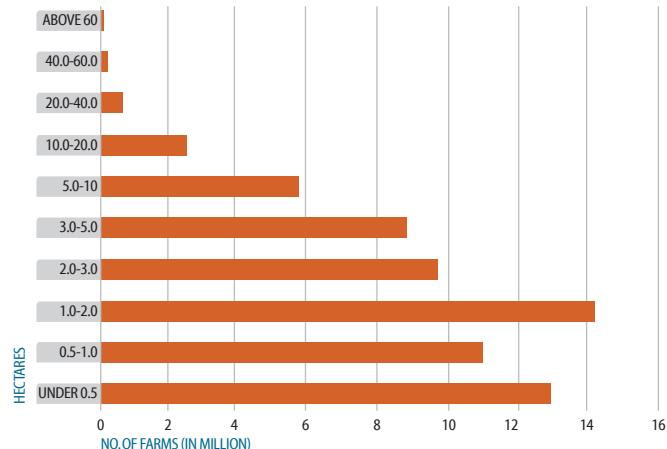
Nature and Characteristics of SME Financing and NPLs in Pakistan

Cross-Country Comparison of SME NPL Ratio

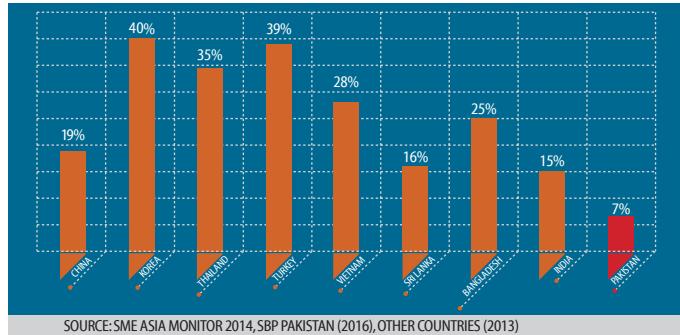


Warehouse Receipt Financing

Land Ownership Statistics in Pakistan



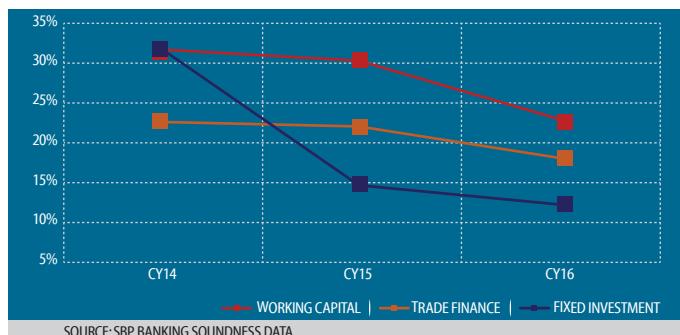
Cross-Country Comparison of SME Loans as a Share of all Loans



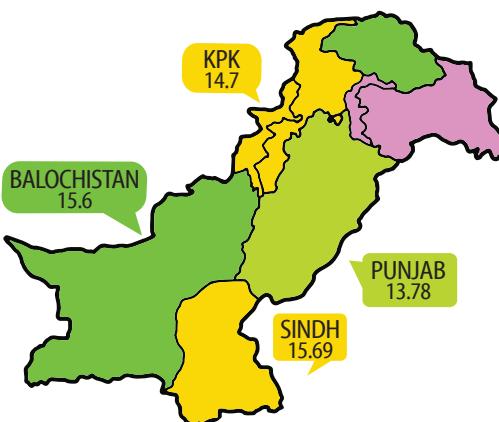
Post-harvest Price Variations

	2012	2013	2014	2015	2016
WHEAT	16.4 (%)	27.2 (%)	8 (%)	8.5 (%)	7 (%)
RICE	12.5 (%)	1.7 (%)	14.4 (%)	9.6 (%)	
MAIZE	33 (%)	14.6 (%)	8 (%)	27 (%)	-1 (%)
COTTON	29 (%)	12.7 (%)	-1.5 (%)	32 (%)	11.9 (%)

SME NPL Ratio by Type of Financing



Grain Losses in Storage (%)



Source: State Bank of Pakistan. Framework for Warehouse Receipt Financing System in Pakistan, 2014

COMPANY INTRODUCTION

KARANDAAZ PAKISTAN, established in 2014 and registered with the Securities and Exchange Commission of Pakistan as a nonprofit, is promoting access to finance for small businesses through commercially directed investments and financial inclusion for individuals. Karandaaz operates through four programme vehicles:

Karandaaz Digital 	Karandaaz Capital 	Karandaaz Knowledge Management and Communications 	Karandaaz Innovation 
<p>Provides technical assistance and services to promote financial inclusion through technology enabled solutions. Karandaaz Digital is working with national regulators, public agencies, private corporations, and technology entrepreneurs to strengthen national payments infrastructure, digitizing government to people payments, corporate supply chains, and supporting FinTech innovation in Pakistan.</p>	<p>Invests growth capital in small and medium enterprises (SMEs) with the objective of generating commercial financial returns for Karandaaz and supporting broad based employment generation in Pakistan.</p>	<p>Develops and disseminates evidence based insights and solutions to inform the core themes of the company, including innovation, women entrepreneurship and youth, and to influence the financial ecosystem to promote financial inclusion in Pakistan.</p>	<p>Manages the Innovation Challenge Fund (ICF) providing risk capital and grants to partners with an aim to generate innovative yet practicable solutions for solving complex problems in areas of financial inclusion and entrepreneurship. The fund is especially focused on addressing persisting barriers faced by SMEs, women and youth in accessing appropriate financial services and participating in the economy.</p>

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BILL & MELINDA GATES foundation

