



# KARANDAAZ NEWS BITES

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L-R: Rehan Akhtar - Director DFS, Murium Hadi - Gender Advisor Karandaaz, Ali Sarfraz - CEO Karandaaz, Umar Saif - Chairman PITB, Lubna Razzaq - ITU, Jason Lamb - Deputy Director, Financial Services for the Poor, BMGF, Ali Mehmod - Program Officer, Global Development Financial Services for the Poor, BMGF at agreement signing between Karandaaz Pakistan and ITU FinTech Centre

## CEO's MESSAGE



Greetings from Karandaaz Pakistan. I am delighted to share about a broad range of new initiatives and notable progress in this first issue of Karandaaz News Bites in 2018.

In this quarter, we expanded our ongoing relationship with Orix Leasing Pakistan by signing a small business finance facility of PKR 700 million which Orix will use for building the portfolio of Small Enterprises. Karandaaz also concluded an agreement to invest a subordinated loan of PKR 1.725 billion in Pakistan Microfinance Investment Company (PMIC) to increase lending to micro-enterprises. Our new agreement with the Information Technology University (ITU) of the Punjab to initiate three research projects through the FinTech Center ITU will help improve the existing knowledge on women's use of digital financial services and the barriers they face in accessing these services. We successfully concluded mentorship and incubation programme under Women Entrepreneurship Challenge; about twenty women-owned business will receive a capital injection from Karandaaz for growth and asset creation. Karandaaz would also like to acknowledge the commitment of its partners: financial institutions, government entities, and incubators for their continued support and commitment in working towards the common goal of promoting financial inclusion.

I'd also highlight untiring efforts of current and previous Karandaaz team members who were instrumental in this exciting journey. I request you all to visit our website & social media pages and share your feedback with us. Happy reading!

Ali Sarfraz

CEO Karandaaz

## Karandaaz to Invest PKR. 700 Million in ORIX Leasing for Strengthening Small Enterprises



Karandaaz Pakistan, is providing a loan of PKR 700 million to ORIX Leasing Pakistan to increase access to finance for small enterprises. ORIX will use this facility to on-lend to small businesses and grow the share of loans to small enterprises in its portfolio.

Small and Medium Enterprises (SMEs) are vital to economic and social progress. According to the State Bank of Pakistan,

SMEs contribute 30 percent to Pakistan's GDP, driving economic growth and job creation. Karandaaz is committed to enhancing access to finance for SMEs and this agreement with ORIX will contribute to achieving this target. This loan facility from Karandaaz will benefit over 160 small businesses, creating approximately 850 new jobs, and increasing revenue for the partner businesses by PKR 4.4 billion.

Mr. Ali Sarfraz, CEO Karandaaz Pakistan said:

**“We believe that this loan facility from Karandaaz will enable ORIX to enhance its focus on small enterprises, in line with its credit model and business strategy. This is one of many such initiatives that Karandaaz Pakistan has undertaken to promote inclusive economic growth, job creation, and improved incomes through greater financial inclusion of Pakistanis.”**

Ms. Joanna Reid, Head of DFID Pakistan said:

**“The UK is working with Karandaaz in Pakistan to think big but start small; a stronger small business segment for an economy means a direct increase in jobs and revenue growth for the country. This loan facility is part of the UK Department for International Development's efforts to deepen access to finance for small enterprises. I am delighted that DFID's investment in Pakistan is contributing to private sector-led and sustainable economic growth.”**

## PMIC and Karandaaz Pakistan Sign Subordinate Loan Agreement

Karandaaz Pakistan and Pakistan Microfinance Investment Company (PMIC) have signed a subordinate loan agreement under which Karandaaz Pakistan will provide PMIC with a subordinate loan of PKR 3.4 billion to be released in two equal tranches. This agreement is envisaged to play an important role towards achievement of financial inclusion goals defined in the National Financial Inclusion Strategy (NFIS) and Microfinance Growth Strategy 2020. The subordinate loan will be leveraged by PMIC to raise more funds to meet the needs of Microfinance Banks (MFBs) and Non-Bank Microfinance Institutions (NBMFIs) for larger funding lines with longer tenors. The sub loan will also increase the per party exposure limit of PMIC and shall allow PMIC to lend more funds to its microfinance borrowers.

Speaking on the occasion, Mr. Ali Sarfraz, CEO Karandaaz Pakistan stressed on the importance of microfinance for the success of Pakistan's National Financial Inclusion Strategy. He said:



L-R: Mr. Ali Sarfraz, CEO Karandaaz Pakistan and Mr. Yasir Ashfaq, CEO PMIC

**“We are delighted with our role in establishing PMIC in 2016 with the financial support from UK's Department for International Development and now to be further strengthening it through this subordinated loan for on-lending to microfinance institutions and microfinance banks. This additional capital that focuses on specific lending programmes will help PMIC in supporting more unserved and underserved microenterprises. We are hopeful that by increasing the access of finance to businesses, we will be able to achieve our development targets of more jobs and better incomes at household level.”**

Mr. Yasir Ashfaq, CEO PMIC commented:

**“As sector developer for the microfinance sector in Pakistan, PMIC is committed to meet the demand for financial services in the country especially for the marginalized and underserved segment of the society. We believe that this subordinate loan agreement with Karandaaz Pakistan will enable PMIC to focus on product innovation, especially for micro and small enterprises and job creation through our borrowing institutions (Microfinance Institutions and Microfinance Banks) and would accelerate financial inclusion in the country.”**

## ITU Fintech Center Inks Agreement with Karandaaz Pakistan for Financial Inclusion through Technological Solutions

Information Technology University (ITU) of the Punjab and Karandaaz Pakistan entered into an agreement to initiate three research projects through the Fintech Center established at ITU. The three specific academic researches undertaken by this FinTech Center will improve the existing knowledge on women's use of digital financial services and the barriers they face. The research center will help to develop a deeper understanding of the challenges in financial inclusion and exploring the potential of data science and Information Communication Technologies as a viable solution. The signing was witnessed by a delegation of the Bill & Melinda Gates Foundation (BMGF), which provides funding support to Karandaaz to promote financial inclusion of individuals through digital technologies.

Women in Pakistan often face multiple barriers in availing formal financial services. These researches will help in understanding and proposing solutions to mitigate these barriers. The researches shall be conducted in Pakistan with technical collaboration between Digital Financial Services Research Group of the University of Washington, Seattle and ITU faculty. One of the researches will focus on viability of a mobile app to form a rotating savings and credit association of women that will help them save and borrow collectively. Another research will help in designing a digital financial system for business and personal use of micro entrepreneur women. The third research will focus on digital solutions to safeguard women against SMS frauds in Pakistan.

Speaking on the occasion, Dr. Umar Saif, founding Vice Chancellor of ITU and Chairman PITB said:

**“Joining hands with international development partner Bill & Melinda Gates Foundation and Karandaz for innovation and research in financial technology space is a welcome step. We envision to partner with local and international entities for financial inclusion through innovative applications of technology. This collaboration would help Pakistan to reform the digital financial services especially with inclusion of women.”**

Mr. Jason Lamb, Deputy Director, Financial Services for the Poor, Bill & Melinda Gates Foundation said:

**“We believe more knowledge and research will help trigger greater financial inclusion of women through technology in Pakistan. It is heartening to see academicians stepping up to work closely with the industry in solving issues and that Karandaaz and ITU have partnered to make this possible.”**

Ali Sarfraz, CEO Karandaaz Pakistan, emphasized the role of digitization in providing the access of financial services to women:

**“Fostering financial inclusion for women is a core theme for Karandaaz Pakistan. 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 important aspect of achieving the goal is to improve women's access to financial services and digital platforms can play a decisive role in bringing the financial services to women.”**



Ali Sarfraz, CEO Karandaaz and Umar Saif, Chairman PITB signing the agreement

## Karandaaz to Provide Funds for Development and Testing of Innovative Credit Scoring Models

Karandaaz launched the second round of its Innovation Challenge Fund through which it will be providing funds for development as well as testing of innovative credit scoring models. Overall funding available through Karandaaz includes:

1. Grant Funds required for model development
2. Grant Funds required for operationalizing and implementing the project
3. Returnable Capital required for loan testing (first loss guarantees and/or risk participation based on methodology proposed by the applicants will be offered).

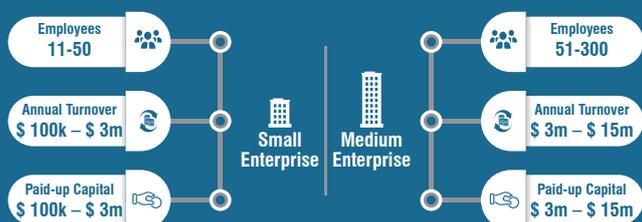
This round is targeted to local financial institutions, FinTechs,

advisory and research firms, credit agencies and similar entities, and international organizations of a similar nature in partnership with local financial institutions.

These innovative models will develop and test path-breaking credit scoring models for SME lending in Pakistan and provide lenders with an opportunity to use new and existing sources of information and data, such as big data and smart data, to build better and more appropriate risk assessment models for SMEs. Karandaaz is also providing returnable capital under this challenge round to test validity of proposed lending methodologies.

## Financial Inclusion in Numbers

### What are Small and Medium Enterprises?



SOURCE: International Finance Corporation

### % of SMEs with Female in Ownership

10.8



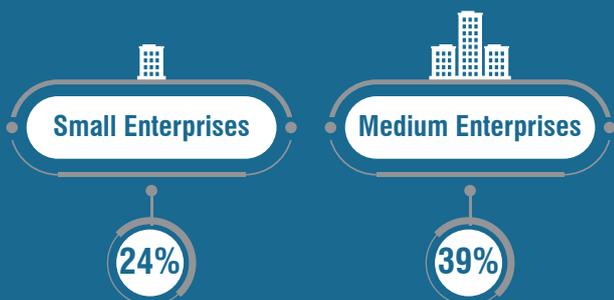
5.2

### % of SMEs with a Female in Top Management

SOURCE: World Bank Enterprise Survey 2015

Representative of 16,674 enterprises across manufacturing & service industries in four provinces

### % of SMEs with a Bank Loan, Line of Credit or Overdraft Facility



SOURCE: World Bank Enterprise Survey 2015

Representative of 16,674 enterprises across manufacturing & service industries in four provinces

### Reliance on Internal Funds for SME Working Capital (%) and Fixed Investment (%)



SOURCE: World Bank Enterprise Survey 2015

Representative of 16,674 enterprises across manufacturing & service industries in four provinces

## Featured Blog Post

### The State of Housing Finance in Pakistan

By: Ali Akbar Ghangro

Housing is a fundamental need whose provision can ensure a minimum standard of welfare for a family unit. Indeed, it has been recognized as such through the "Universal Declaration of Human Rights" and its reaffirmation at the 1996 UN Habitat Conference through the "Adequate Shelter for All" slogan. In the context of such cannons and conventions, the indicators on Pakistani housing paint a dire picture. There is a yawning demand-supply gap of over 10 million houses that grows at the rate of 400,000 annually[1]. Commercial development covers a fraction of the annual demand that merely peppers over the chasm and points to an alarming market failure. The inadequate supply in the sector has created a burden on existing housing stock resulting in quality deterioration, haphazard expansion and perpetuation of slums[2].

The government made an effort to formulate a national level, cohesive policy to address the myriad challenges associated with the sector through the "National Housing Policy 2001" document, later revised in 2013 to reflect government's shift in preference towards provision through the free market and empowerment of sector stakeholders. In 2007, the Central Bank supervised the report authored by Housing Advisory Group (HAG) that articulated a set of ten challenges and proposed recommendations and an action plan against each. The major issues to this day still range from weak enforcement of foreclosure laws, lack of standardization in land titling, onerous stamp duties, availability of low cost housing and access to finance.

HAG's only action point that has seen some progress is the establishment of the Pakistan Mortgage Refinance Company (PMRC) to increase access to finance to the housing sector. PMRC will provide long term loans at a fixed rate to banks who will in turn pass this on to customers at the retail level. A combination of a fixed rate mark-up over a long tenure (e.g. in excess of 10 years) would not only result in improved affordability through a lower monthly instalment and higher eligible loan amount for the end customer but also a lower risk stemming from a floating interest rate. In the region, India, Egypt, Malaysia and Jordan have well established secondary mortgage markets and have a thriving mortgage industry.

The introduction of PMRC to the housing finance landscape would certainly provide an uplift to the financial industry. The sector's loan book comprises of a paltry 65,830 loans for a total outstanding amount of PKR 65 billion[3] down from PKR 89 billion 10 years ago. For some context, just the incremental demand from low-income housing is in excess of a trillion rupees[4]. Further, the Government sponsored House Building Finance Company (HBFC) that provides smaller loans targeted at the low-income segment is marred by operational and financial inefficiencies, chiefly, a high delinquency ratio.

While PMRC will add institutional robustness to the sector, pain point issues of the sector such as foreclosure and land titling need resolution almost simultaneously if not sequentially for the bigger objective (of provision of affordable housing) to be addressed. In the absence of concrete measures, banks will continue to lend to a segment of the population that is a) salaried and upper-middle income and b) intends to purchase property in high income neighbourhoods in urban areas.

Aside from banks, builders are also reluctant to go down market and tap into low-income segments, with the exception of ad-hoc initiatives, most of which are politically or philanthropically motivated. This area is a vacuum that is marked by lack of demand-side segmentation (what are the income segments for low and middle income housing and what is their financial capacity) and appropriate product offering is a noteworthy market failure.

It is essential that provision of low-income housing functions through the free market where the private sector entities take a lead through commercial incentives with the government interjecting to fill the vacuum through regulation and subsidies. It is for this reason that housing sector policies should not only take into account the financial needs of the final consumer but also the intricacies around builder finance. For instance, banks offer plain vanilla financing to builders even though products related to phased-in project related finance might be a better fit. The latter would circumvent risk from escalation of project cost due to construction delays.

There has been no shortage of experimentation with interventions in housing e.g. Khuda ki Basti is a successful example of low-income housing provision. At the end of this spectrum, there is also a thriving microfinance industry that is well poised to provide loans for staggered construction or home renovation. The roles of stakeholders in government policies are clearly highlighted just that their incentives need to converge and be aligned in the right manner. Regulatory initiatives such as standardization in land titling may involve participation by the municipalities – the lowest tier of government, however, how such rules are standardized and effectively enforced is critical in determining the strength of private sector's engagement in the housing sector. For now, the "Pakistani Dream" of owning a house remains elusive to its millions of inhabitants.



[1] Pakistan Housing Finance Project, World Bank 2017

[2] 36 percent of the population lives in slums. Ibid.

[3] SBP Housing Quarterly, Sept 2016

[4] <https://www.dawn.com/news/1377205>

## Research Showcase

### Customer Segmentation Study

Currently, 85% of the population of Pakistan are excluded from the formal financial sector. There is a lack of a standardized way of identifying and understanding the different groups of people who make up that population. Most attempts at segmentation have turned to demographic information, whether it's by occupation, income, gender, age, or location. In turn, there have been sporadic efforts to segment people by their psychographic information through various human-centered design programs, but they have tended to be customized segmentation models for specific, mostly one-off projects.

Market research information helps practitioners identify market opportunities and accelerate their product development efforts. This type of research is not readily available in Pakistan, which slows the pace of innovation and results in digital financial solutions that are supply-side driven and removed from the realities of the target audience's lives.

The aim of this study is to enable DFS practitioners to design and deliver more digital financial products based on low-income people's attitudes, behaviors, experiences, and preferences for money and technology. The study will fill the knowledge gaps in the market to for the delivery of more engaging and relevant customer experiences, as well as more appealing and relevant products.

The project is designed with the following major components:

#### A. Scan

The vendor will identify existing consumer segmentation models and relevant consumer research in a landscape scan in order to start from an informed point of view. The scan will leverage the Financial Diaries research as well as other key research sources. The purpose of the scan is to understand how others have approached building a customer segmentation framework in order to take the best elements of these prior efforts. By the end of this phase, the vendor will produce a summary document that identifies the different approaches, themes, and findings from the landscape scan and will highlight the gaps in the landscape that deserve additional investigation. The summary should highlight the

pros and cons of the various approaches, as well as surface potential ways to bridge, leverage, and build upon the existing models. The document will be shared with stakeholders through the project's communication and engagement strategy.

#### B. Go Deep

The vendor will conduct qualitative consumer research in Pakistan. This will utilize a mix of research methodologies (e.g. in-depth interviews, customer intercepts, rapid prototyping, and participant observation) in order to identify different customer segments—with a focus on the poor—and their respective behaviors, attitudes, experiences, and preferences for money and technology. The researcher will also determine whether it is appropriate to explore people's financial health as an input when constructing the initial customer segmentation framework, and explore utilizing gender as a lens through which to better understand customer segments. By the end of this phase, the vendor will produce a preliminary set of consumer segments that describes people's behaviors, attitudes, experiences, and preferences when it comes to managing their money and interacting with technology.

#### C. Validate and Size

The vendor will conduct quantitative research (or select and manage a partner vendor to conduct this research) to both validate the insights, themes, and consumer segments that have emerged from the Go Deep qualitative phase and to size these segments in Pakistan. The quantitative research will take the form of nationally representative surveys, and the design, fielding, and analysis of the survey instruments will be guided by the vendor.

#### D. Communicate

The vendor will create, in consultation with Karandaaz, a communication and engagement strategy from the beginning of the project to determine the optimal way of sharing the results of the consumer segmentation research. The vendor will implement the agreed upon communications and dissemination tactics, to inform and educate DFS practitioners on the findings of this project so that they are equipped with the information needed to improve and accelerate product development efforts delivering digital financial solutions for the poor.

## IMPACT

The goal of the customer segmentation framework is to develop a portable and nuanced framework for analysis and action in designing and delivering digital financial products. The framework is intended to address chronic issues of low levels of adoption and use of digital financial products amongst excluded populations (especially women) in Pakistan. The segmentation framework will help DFSPs tailor existing products and services to excluded populations, ideate and test new targeted products and services, or identify appropriate influencing channels and targeted marketing approaches.

This project is directly in line with Karandaaz objectives for catalysing market participants (commercial digital financial services providers) to develop new products focussed on thus far underserved and unbanked populations in the country.

Specifically the exercise will deliver:

- A segmentation model focused on excluded populations (including low income populations and women), including sizing, segment valuation, and targeted innovation opportunities;
- Audience, messaging, and narrative structure for storytelling pieces / digital media, and produce associated media;
- Dissemination activities to drive uptake through industry experts amongst digital financial service providers

## Pictorial Glimpses of Women Entrepreneurship Challenge 2017 March 9th - Pitch Day for Equity Investments and Grants



Ali Sarfraz - CEO Karandaaz, Joanna Reid - Head of DFID Pakistan, Matthew Rycroft - Permanent Secretary of DFID met participants of Women Entrepreneurship Challenge 2017



Participants of Women Entrepreneurship Challenge 2017 from Balochistan



36 women-led businesses were invited to pitch for grants and equity as part of Karandaaz Women Entrepreneurship Challenge 2017. These expert judges evaluated the businesses against predetermined criteria and recommend 21 startups eligible to receive grants and equity investments

## KARANDAAZ PAKISTAN

Established in 2014 and registered with the Securities and Exchange Commission of Pakistan as a nonprofit, Karandaaz promotes access to finance for small businesses through commercially directed investments and financial inclusion for individuals by employing technology enabled digital solutions. **Karandaaz Pakistan** has received funding from the United Kingdom's **Department for International Development** (DFID) and the **Bill & Melinda Gates Foundation** (BMGF). Karandaaz operates through four programme vehicles:

### Karandaaz Digital



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.

### Karandaaz Capital



Invests growth capital in micro, small and medium enterprises (MSMEs) with the objective of generating commercial financial returns for Karandaaz and supporting broad based employment generation in Pakistan.

### Knowledge Management and Communications



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.

### Karandaaz Innovation



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.

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