



KARANDAAZ NEWS BITES

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CONTENTS

CEO's Message

Karandaaz invests PKR. 64 Million in 15 women-led businesses

Karandaaz investments in healthcare and agriculture

FINCA enters partnership with Karandaaz to launch 'Women Community Mobilizer' programme

Karandaaz Paving the Way for Women's Financial Inclusion

Karandaaz Spearheads FinTech Domain in Pakistan

State Bank of Pakistan and Karandaaz to work together for Regulatory Framework on Digital Banks in Pakistan

Research Showcase

Financial Inclusion in Numbers

Featured Blog

1

2

2

3

3

4

4

5

6

6



Successful grantees and investees of Karandaaz Women Entrepreneurship Challenge 2017 with Ali Sarfraz, CEO Karandaaz, and Patricia Seex, Head of Economic Growth Office of DFID

CEO's MESSAGE



Greetings on behalf of Karandaaz Pakistan. I am very pleased to share that Karandaaz Pakistan has made two landmark investments, one of which is in the healthcare sector and the other in the agriculture sector of the country. As an investor with a double bottom line approach, we at Karandaaz are especially excited about the social impact of these investments. The health sector investment will enable our investee company to expand their diagnostic service offerings across the country, reaching threefold the number of patients. Our agriculture sector investee company will provide a state-of-the-art controlled atmosphere warehouse which will improve post-harvest storage of agriculture produce making it possible for farmers to reduce losses in their produce and attain a better price. In addition, the investments will create 900 new jobs, of which approximately 180 are expected to be for women and more than half will be for Pakistani youth.

Karandaaz has also entered into an agreement with the State Bank of Pakistan (SBP) to provide support on ascertaining and developing a regulatory framework for digital banks in order to create an enabling environment for extending low cost digital financial services to the unbanked and underbanked population of Pakistan and enable the shift to a cashless economy.

After the success of its first Women Entrepreneurship Challenge (WEC 2017) Karandaaz launched the second round, WEC 2018, and has received healthy traction from the market. A number of other activities were also undertaken during the last quarter, including a pilot with FINCA Microfinance Bank to mobilize economically active women to use digital financial services through roaming female agents, a Gender Conference to introduce the market to a number of projects focused on improving access to finance for Pakistani women, and a Customer Segmentation Study in partnership with Dalberg that will build personas of digital financial users enabling more suitable product design. All these, and more, are covered in this issue of Karandaaz News Bites. Happy reading!

Ali Sarfraz

CEO, Karandaaz Pakistan

Karandaaz invests almost PKR 64M in 15 women-led businesses

Karandaaz Pakistan has signed financing agreements with 15 successful female entrepreneurs who took part in the Women Entrepreneurship Challenge – 2017. The entrepreneurs will receive grants and investment worth an estimated PKR 64 million to expand their businesses. The Challenge, funded by UK's Department for International Development (DFID), facilitates growth of women-led businesses by providing them technical support. More than 650 women-led businesses applied for the 2017 Challenge, of which 36 received business development training through Karandaaz's partner organizations: Invest2Innovate (i2i) and a consortium of the National Incubator Centers of Lahore and BUIITEMS, Quetta.

Speaking at the event, Ali Sarfraz, CEO Karandaaz explained,

“Karandaaz partners with women entrepreneurs so they can realize the true potential of their ideas. We are happy to share that the Women Entrepreneurship Challenge 2018 is currently underway and this time we have planned to provide the selected businesses customized support. They may also be

eligible to receive financing from Karandaaz at the end.”

Shumaila Afsheen, Owner of Sprinkles Café, Quetta and a recipient of a grant from Karandaaz is of the opinion that,

“If a woman can be a pilot or an engineer, then why can't she start a business? Women must challenge these conventional ideas. I had started a business but did not know how to make a proper business plan, define procedures, and maintain accounts. Karandaaz trained us in a number of these aspects.”

Patricia Seex, DFID's Head of Economic Growth, said,

“The aim of this project is bigger than supporting these women to grow their businesses and create jobs for others. It will create role models to inspire other women entrepreneurs. And show to banks and other economic actors that investing in women's business is good for social and financial returns.”

UK-funded Karandaaz investments in healthcare and agriculture expected to generate 900 jobs

The UK-funded Karandaaz investments will triple the impact of a leading health diagnostic service provider and will help establishing a unique warehouse for agricultural produce in Punjab. These two investments are expected to create more than 900 new jobs in Pakistan. This was announced at the signing of two new equity investment deals in Islamabad.

The first deal was signed with Excel Labs which will help Excel Labs network expand its service by three times and provide easy access to world-class diagnostic services for millions of Pakistanis. The second deal was signed with an innovative entrant in agriculture sector. Through this investment, Punjab will have its first state-of-the-art controlled atmosphere warehouse, benefitting the farmers through better off-season prices and reducing post-harvest losses.

Karandaaz's latest equity investments will allow both these high-growth businesses to expand their operations and

create more jobs, and economic activity in the health and agriculture sectors. These equity investments are collectively expected to result in almost 900 new jobs out of which 200 will be for women and more than half will be for youth. These investments will also catalyze growth in these two high-potential sectors at the macro level.

Navid Goraya, Chief Investment Officer Karandaaz Pakistan added,

“The investment in Excel Labs network will enable it to increase its capacity and perform several million additional tests across the country. The diagnostic labs will also have three times greater geographic coverage through new lab collection points in Punjab, Khyber Pakhtunkhwa, and AJK. Similarly, our investment in a controlled atmosphere warehouse will strengthen a market leader and an innovator in agriculture. Increase in the capacity of this innovative establishment will lead to farmers' ability to increase longevity of their produce and reduce wastage.”

Talking about the significance of these investments, CEO Karandaaz Pakistan, Ali Sarfraz said,

“The focus of Karandaaz's investments is on deploying growth capital in businesses with potential for profitable growth and employment generation, in addition to generating risk-adjusted financial returns for Karandaaz. We are mainly focusing on investments that have a demonstration effect and support the development of a market for SME financing.”



Dr. Naseer Ahmad, CEO Excel Labs (Pvt) Ltd. and CEO Karandaaz Ali Sarfraz signing equity deal

Speaking about the investments, DFID Pakistan Head Joanna Reid said,

“The census results tell us that Pakistan’s economy needs to grow even faster, and Small and Medium Enterprises should be the engine of that growth. DFID created Karandaaz to fill a gap in the financing market for SMEs and to demonstrate that while investing in Pakistani companies makes business sense, it can make development sense too. Today’s deals will create 900 new jobs and support important services – such as a tripling of the coverage of Excel Lab’s medical diagnostic tests. We are proud to help the people of Pakistan to develop their economy. And we hope that Karandaaz’s success will inspire others to invest in the entrepreneurs that are driving Pakistan’s growth.”

FINCA enters into a strategic partnership with Karandaaz to launch ‘Women Community Mobilizer’ programme

FINCA, one of the leading microfinance banks, announced a strategic partnership with Karandaaz Pakistan. This initiative between Karandaaz and a DFSP (Digital Financial Services Provider) – SimSim, will enable a new approach of digital financial services in Pakistan.

The yearlong partnership is aimed at developing and rolling out digital financial services targeting a specific market group of economically low income active women engaged in some form of trade such as cottage industry, factory work etc. This will not only encourage them to adopt advanced technology while availing a digital marketplace/e-commerce but also promote local goods/services through SimSim mobile-wallet and integrated platforms.

The programme has been launched through a grant from Karandaaz Pakistan for developing specific use cases and products to encourage and promote financial inclusion for women in marginalized economic segments.

FINCA has been supportive of women and their enterprises. This exploratory grant will contribute towards collection and analysis of findings from the field to ascertain a successful business model for repeat customers to enable a comprehensive and deeper financial inclusion of women, and determines a dollar value for an economically active woman through the defined protocols.

Commenting on the venture, Mudassir Aqil, CEO of FINCA said,

“We are proud to collaborate with Karandaaz on this front whereby we’ll be empowering the most powerful asset of our country; women! As per recent statistics, less than 5% of the women in Pakistan are financially included, which is an alarming figure. Audience with a technology enabled digital payment solution which will ultimately help us achieve a bigger objective of a progressive Pakistan.”

Speaking on this occasion, Ali Sarfraz, CEO of Karandaaz Pakistan said,

“Karandaaz remains committed to breaking barriers for women’s economic empowerment in Pakistan. Women face several challenges in accessing financial services such as lack of information and access to business networks, mobility, and assets. Karandaaz’s interventions are customized to overcome these challenges. I am confident that our efforts from our annual Karandaaz Women Entrepreneurship Challenge to our annual conference to deliberate on barriers to greater financial inclusion for women are all steps in the right direction and will have a lasting impact on women’s economic empowerment in the country.”

Karandaaz Pakistan Paving the Way for Women’s Financial Inclusion

Karandaaz Pakistan arranged an international conference in Islamabad in partnership with The World Bank to share data insights on the state of financial inclusion of women in Pakistan and present Bill & Melinda Gates Foundation’s Global Strategy on Gender and Financial Inclusion. Representatives from the World Bank, Bill & Melinda Gates Foundation, leading banks and telcos, and the FinTech industry attended the event. The conference highlighted the most significant challenges and barriers faced by low-income women to accessing formal financial services.

Karandaaz has taken many initiatives in the recent past to improve the state of women’s financial inclusion. One such initiative is to research, design and develop an agent banking model that will serve low-income women in partnership with Unilever, JazzCash, and Women’s World Banking. Karandaaz

in partnership with Information Technology University (ITU) of the Punjab has initiated three research projects through the Fintech Center to improve the existing knowledge on women’s use of digital financial services. Karandaaz is also working on a study to improve the payment processes for BISP beneficiaries. Karandaaz also showcased its Women Entrepreneurship Challenge 2017 at the conference. 35 women-led businesses were provided customized business training, mentorship and access to finance. The purpose of these initiatives is to demonstrate successful models for increasing women’s financial inclusion in Pakistan and their ability to play an active role in overall economic growth of the country.

Evidence from nearly 100 emerging economies shows that increasing women’s participation in the economy leads to

other gains at home, at work, and in society at large. Women have limited agency in financial matters with the men in the family holding this responsibility. Results from a study of an ongoing research programme called 'Financial Inclusion Insights (FII)', supported by the Bill and Melinda Gates Foundation found that only 16% of Pakistani women who derive their income from the formal economy have sole control over their incomes.

Speaking at the conference, Melinda Good, Operations Manager, World Bank Pakistan said,

“Empowered Pakistani women can transform the country's socio-economic reality. Currently, women's labor force participation is 25%, only 1 in 100 women are entrepreneurs, and only about 1 in 10 women are financially included. There is an untapped potential here.”

The World Bank Group is working closely with the Government and other stakeholders to increase women's participation in the economy and their access to relevant financial services such as payments, savings, insurance and credit.

Sarah Hendriks, Director, Gender Equality, the Bill & Melinda Gates Foundation stressed on the need for greater financial inclusion of women,

“Millions of women around the world face barriers to earning a living and controlling their assets. This is especially true of the world's poorest women. The Bill & Melinda Gates Foundation will invest \$170 million designed to help drive women's financial inclusion, enhance women's participation in agricultural markets, and support a new wave of self-help groups that can empower the next generation of women and girls.”

CEO Karandaaz, Ali Sarfraz said,

“Fostering financial inclusion for women is a core and cross-cutting 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. We are focusing on women's economic empowerment as a key way to drive progress in the deep, complicated intersection of poverty and inequality.”

Karandaaz Pakistan Spearheads FinTech Domain in Pakistan

Grantees of Karandaaz Pakistan FinTech Disrupt Challenge showcased innovative technology-based solutions for financial sector at an event here in Karachi. Karandaaz Pakistan has been successfully running its annual FinTech Disrupt Challenge since 2016 and provided grants to some of the most innovative ideas for development, implementation, and scaling up of financial technology solutions. With funding from Bill & Melinda Gates Foundation, the primary thrust of the challenge is to work with technology driven start-ups to introduce enhancements and innovations in financial products and services such as payments, credit, savings, and insurance; infrastructure; and process support. Each cycle of the annual challenge is launched with a call to action, inviting applicants to submit their product for evaluation, short-listed teams presenting to a panel of judges, and the best ideas winning a grants of up to USD 100,000. The successful grantees of the previous rounds shared their models, progress, and lessons learned at the event.

Industry practitioners, bankers, entrepreneurs, media personnel and others participated in the event and witnessed the emerging innovators present their products and

solutions. The participating FinTechs included leading names such as Ricult Pakistan, PaySys, PublishEx, CreditFix, Agri-Gate, Invoice Wakalah, and UniKrew Solutions. The event provided an opportunity to the FinTechs to explore avenues for possible partnerships with financial institutions, telcos and private sector investors. The current round of the FinTech Disrupt Challenge is focusing on innovative solutions to address the bottleneck lack of interoperability and use cases in Pakistan's financial space.

Ali Sarfraz, CEO Karandaaz Pakistan said while speaking at the event,

“Innovation and technology when combined, can bring essential yet affordable financial services within the reach of people, including those from the underserved segment of the country. I congratulate our grantees for being able to make their mark through brilliant imagination and hard work. Karandaaz Pakistan will ensure that this initiative continues to transform Pakistan's financial landscape.”

State Bank of Pakistan and Karandaaz Pakistan to work together for Regulatory Framework on Digital Banks in Pakistan

State Bank of Pakistan (SBP) and Karandaaz signed an agreement under which Karandaaz will support State Bank's efforts to create an enabling environment based on international best practices for digital banks. Karandaaz will provide technical assistance to the SBP for formulating legal

and regulatory framework including licensing criteria for digital banks in Pakistan. The agreement was signed by Syed Irfan Ali, Executive Director, State Bank of Pakistan and CEO Karandaaz, Ali Sarfraz. Mr. Riaz Riazuddin, Deputy Governor SBP, dignitaries from SAARC countries visiting Islamabad to

attend the SAARC Finance Forum 2018, and other senior officials witnessed the signing ceremony.

Improving the efficiency, effectiveness and fairness of the banking system through strengthening and streamlining the regulatory and supervisory framework are amongst the six main goals of SBP's Vision 2020. The banking sector and market players at present need regulatory direction to offer services as standalone digital banks. State Bank of Pakistan is already working to introduce a separate category of banking services through promulgation of a framework for digital banks in Pakistan. The output of this engagement will be a comprehensive regulatory framework, including licensing criteria, operating guidelines and any amendments required in existing legal frameworks for the advent of digital banks in Pakistan.

While speaking at the occasion Ali Sarfraz, CEO Karandaaz said,

“The technical assistance will include extensive review of existing laws, rules & regulations and international best practices on regulatory frameworks for digital banks. Extensive consultations

will be held with the industry players for developing a robust and conducive regulatory regime for digital banks.”

Speaking at the occasion, Syed Irfan Ali, Executive Director State Bank said,

“In Pakistan, more than 90 percent of the population has access to most affordable ICT services in the world. The consumers' use of electronic payments in Pakistan has grown significantly in recent years. This trend will accelerate in coming years due to the vision of State Bank of Pakistan on provision of digital financial services, especially to financially excluded segment of population.”

The SBP is incorporated under the SBP Act, 1956, which gives the Bank the authority to function as the central bank of the country. The SBP Act mandates the Bank to regulate the monetary and credit system of Pakistan and to foster its growth in the best national interest with a view to securing monetary stability and fuller utilization of the country's productive resources.

Research Showcase: Study on Merchant Payments in Pakistan

The SBP, together with the branchless banking providers and other key stakeholders, realize the potential benefits that financial inclusion can create on an economy. Merchant payments is identified by all stakeholders as a key payment use case that is being used by almost every segment of the population and it's currently based on cash transactions. In order to understand the merchant payments space better, Karandaaz initiated a consultation process with all stakeholders and it clearly turned out as a fact that there is a lot of unknown factors that can be explored to find real issues that are currently hindering the growth of digital merchant payments in Pakistan. Moreover, there is a lot of anecdotal evidence available that needs formal validation and documentation to translate perceptions into factual information that explains the pertaining issues regarding merchant payments. Karandaaz Pakistan has stepped forward to support the need and as a part of overall strategy on micro payments, it will commission a comprehensive study to understand the merchant payments landscape of Pakistan. This work will be carried out by a research firm or consortium of firms in close coordination with Karandaaz Pakistan.

Retail payments are predominately depended on cash-based transactions. Despite numerous service providers in the market digital retail payments did not penetrate to substantially in the country. Karandaaz Pakistan in collaboration with SBP have initiated micro payment gateway initiative and it is envisioned to enable and facilitate merchant payments in the country. As a part of the overall initiative, Karandaaz intends to conduct merchant payment study for following objectives:

The primary objective of this study is to find, substantiate with data evidence and showcase factors that are currently hindering the growth of digital solutions for retail payments in Pakistan. There is an identified need of segmenting the merchants and profiling of each segment. In addition to it, the study shall answer the requirements of each segment of the merchant from the financial and payments perspective.

Moreover, the study should also evaluate modern technologies like Smartphone applications, QR code, Near Field Communication (NFC) that may bring cutting edge solutions to disrupt the digital retail payments in Pakistan. It is important to consider the combination of deep user insights, technology capabilities and micro merchant focused that can assist in increasing uptake and usage of digital retail payments in Pakistan.

There are multiple views and opinions of stakeholders that explains the slow growth of digital retail payments in Pakistan but there is no publicly available research work that can support any particular argument of stakeholders. The study can be broken down into three different broad chapters which are:

1. Landscape and current state of merchant payments
2. Merchant Segmentation exercise
3. Best practices and proposed interventions (Policy, regulatory, products & services etc.)

Based on the identified needs of merchants and keeping international best practices and technology availability into consideration the study will recommend interventions which can be multiple including but not limited to regulatory interventions, products and services, processes etc.

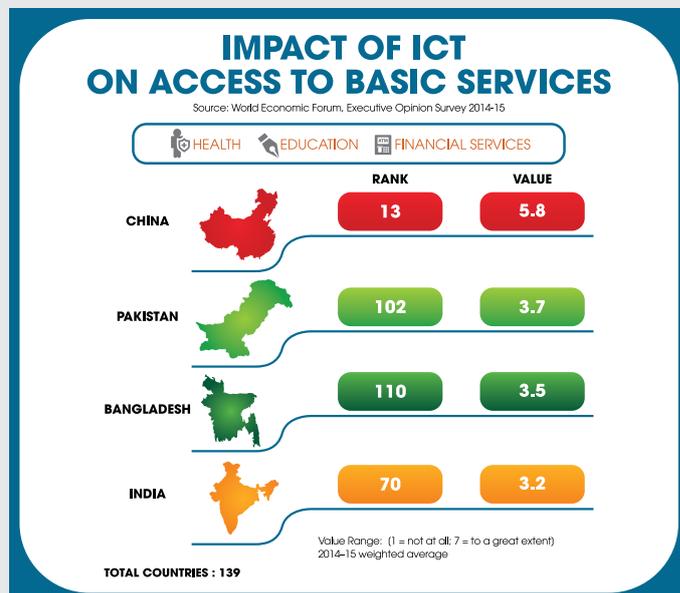
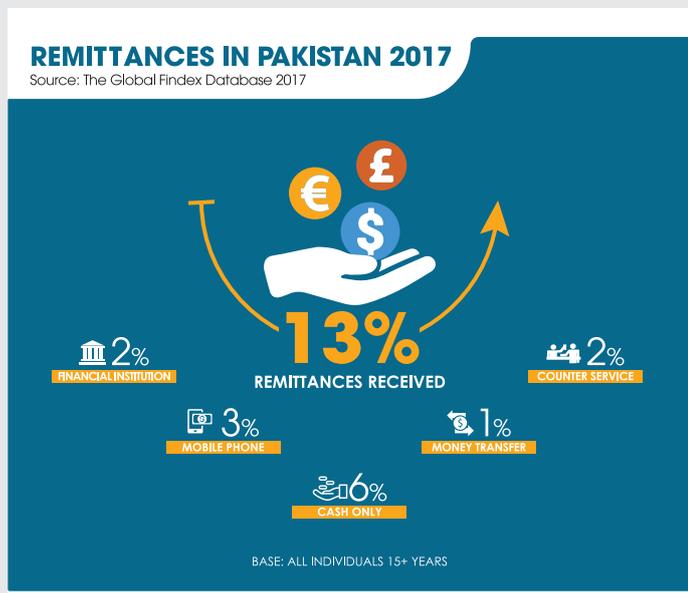
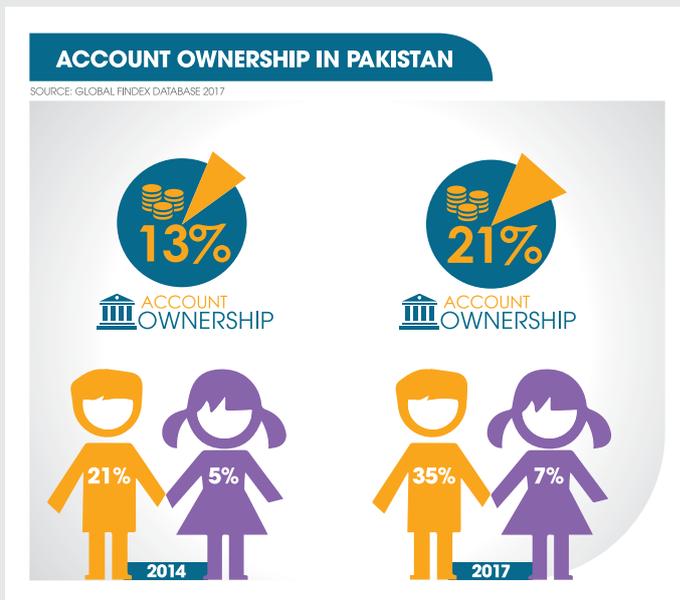
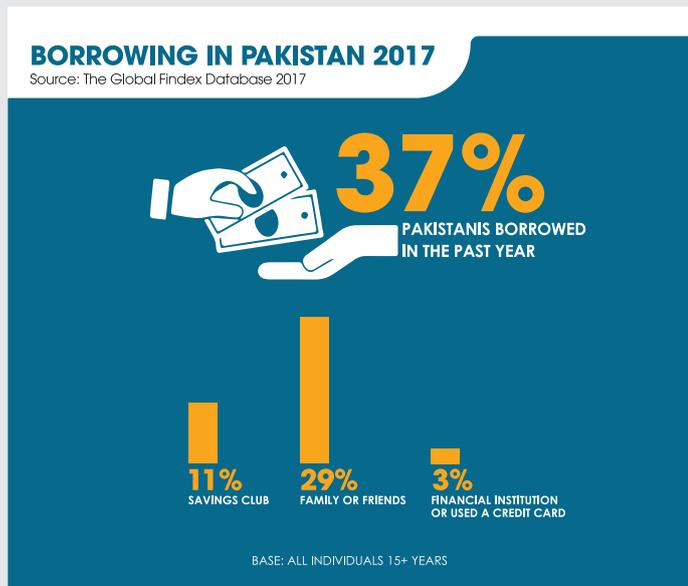
The study methodology may accommodate testing of following hypotheses:

1. Economics: the cost of device is too high which does not make a positive business case for service providers to deploy

- at all types of merchants. With the introduction of modern technology, the cost element can be significantly reduced that can help to penetrate at all level of merchants.
2. Regulatory Environment: due to high taxation on sales, there is a general belief in the minds of merchants to avoid any documented means of transactions on their merchandise sales. This has created huge constraint in adapting digital means of transactions.

3. Convenience/ease of use: the device literacy and general literacy levels are low in the country. Any solution that can be designed with HCD methodology with focus on illiterate users can help significantly in the uptake and usage of digital retail payments.
4. Engaging customers: leveraging social network can be used to keep customers engaged, minimize trust barriers, and ultimately increase activity among users.

Financial Inclusion in Numbers



Featured Blog

The Importance of Efficient Payment Mechanisms for Social Safety Nets – The Beneficiary Perspective

The Benazir Income Support Programme (BISP), launched in 2008, with an annual budget of \$1.15 Billion, is the largest and most systematic social protection initiative ever implemented in Pakistan. Targeted exclusively towards 5.6 million poor

women, the success of the programme lies more in its adoption and adaption to ever changing payment disbursement mechanisms in as efficient and transparent a manner as possible.

Within a span of ten years, BISP has managed to try out four payment mechanisms, with the intention to ensure that the social protection programme results in the desired impacts, i.e, enhancing the financial capacity of the poor, including the financial independence of women, reduce poverty and ensure equitable distribution of wealth, ensuring basic level of sustenance to the poorest to enable them to consume the minimum caloric intake per day. For purposes of efficient delivery of the programme, BISP has employed several payment mechanisms, incorporating learnings from one to the next. Starting with postal delivery of cash, dabbling in disbursements through mobile wallets, withdrawal from ATMs through a Beneficiary Disbursement Card (BDC) to the latest, Biometric Verification Systems (BVS) based withdrawal at branchless banking agent touchpoints, in each instance, the focus has been to ensure that the entire cash grant reaches the intended – the beneficiary, or the poorest woman herself.

Currently only two systems are at play in the field, BDC and BVS. A recent study commissioned by KarandaaZ Pakistan to study the BVS cash withdrawal mechanism has unveiled insightful learnings from the perspective of the beneficiary.

The study points to the beneficiaries' clear preference for BVS based cash withdrawal process as opposed to BDC. The most important reason cited for the same was the receipt of cash by the women themselves, since biometric verification is predicated on the physical presence of the woman to affix her thumb impression. Interestingly enough, the women were also highly appreciative of the 'social' aspect involved in BVS payment mechanism; women travel together in groups to get to agent shops. For them it is a social occasion which affords them the opportunity to exchange news, conduct other activities such as mobile uploads, buy groceries, and generally have a little time to themselves away from their daily routines.

It can be discerned that BVS payment mechanism has managed to certainly and definitively, break through the cultural barrier of access for, and by women, given the mandatory requirement of physical presence of the beneficiary. It not only ensures proof of life but confirms to a high degree of certainty that the hand receiving the cash grant is identified to be that of the 'right' woman, thereby contributing to her agency. This has also done away with quite a few card related issues such as lost/stolen cards, forgotten passwords and informal middle men to assist in the withdrawal of funds. The proof lies in the reduced number of complaints being received from the field by BISP staff with regards to the BVS.

Having said the above, increasing a BISP beneficiary's agency may not quite constitute her 'independence'. Given that she is still heavily reliant on the middle man, or the Agent, as is the case with BVS, it is rather baffling to note her continued obliviousness, of something as basic as the exact amount to which she is entitled. Is it that her lack of literacy forbids learning and remembering the exact amount, or does the challenge lie in the design of the payment mechanism itself which excludes action and interaction by on part of the beneficiaries?

The Study commissioned by KarandaaZ conducted a few



experiments for a deeper dive to understand the matter. An interesting finding that surfaced was that while most beneficiaries can read simple numbers individually, (or seek help from those who can), their comprehension skills are rather weak for compound or complete numbers. This does not imply that beneficiaries cannot count cash. They recognize currency notes, and can count them when presented with actual currency, or their photos. In another experiment conducted, BISP beneficiaries responded quite well to audio queues. Considering that a sizeable number of beneficiaries have access to a feature phone, simple instructions in a 'local' language were understood quite well and accurately. It does pose opportunities for redesign of the existing technology interface to include visual and audio aides.

With the BISP cash grant, the challenge may lie in the rather odd amount of PKR 4,834/- as well. Most of the time the change of PKR 34/- is not on hand by the agents, resulting in handing over of the round figure of PKR 4,800/- which is recognized easily by the beneficiaries. The study notes that the women are unaware of the fact that the agents assisting in the cash-out do receive a commission. However, when asked about the missing PKR 34, they considered it a fair price to pay for the 'free' service. This inadvertent contribution to an unfair practice is more an issue of inconvenient payout, rather than evidence of ignorance. Hence even if informed of the exact amount to be received, chances are that it shall not be enquired after or pursued if not received.

If the BISP beneficiary is not truly ignorant, nor truly illiterate, how do we account for her lack of interest in the payout amount? The answer might be a lot simpler than we think. These women learn of BISP disbursements without being formally contacted, place their thumbs on screens without being prompted, and adapt to new payment mechanisms as and when required. We may not agree with their methods of employing or relying on formal or informal middle men, but one has to appreciate their rather enterprising nature of adopting and devising new ways which suit their way of life, in its convenience and efficiency.

KARANDAAZ PAKISTAN

KARANDAAZ PAKISTAN, a Section 42 company established in August 2014, promotes access to finance for micro, small and medium-sized businesses through a commercially directed investment platform, and financial inclusion for individuals by employing technology enabled solutions. Karandaaz Pakistan has received funding from the United Kingdom's **Department for International Development** (DFID) and the **Bill & Melinda Gates Foundation** (BMGF). The company has four verticals:

Karandaaz Digital



Focuses on expanding the poor's access to digital financial services in Pakistan by working across the ecosystem with all stakeholders.

Karandaaz Capital



Provides wholesale structured credit and equity-linked direct capital investments to micro, small and mid-size enterprises (MSMEs) that demonstrate compelling prospects for sustainable business growth and employment generation in Pakistan.

Knowledge Management and Communications



Supports the company's core financial inclusion goal by developing and disseminating evidence based insights and solutions.

Karandaaz Innovation



Manages the Innovation Challenge Fund and Women Entrepreneurship Challenge, providing risk capital and grants to partners with the aim to generate innovative solutions in areas of financial inclusion and entrepreneurship.

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