



INNOVATION CHALLENGE FUND

Toolkit



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Concept of Innovation Challenge Fund

Introduction

Karandaaz Pakistan seeks to promote access to finance for small businesses through a commercially directed investment platform, and financial inclusion for individuals by employing technology enabled digital solutions. By providing and leveraging long term financing and business expertise to small growing businesses (SGBs) in Pakistan; directly and in partnership with other private and public intermediaries, Karandaaz's vision is to foster inclusive economic growth, job creation and rising incomes.

In 2016, with the financial and institutional support of the United Kingdom's Department for International Development (DFID), Karandaaz launched its Innovation Challenge Fund (ICF).

Objective

The Innovation Challenge Fund (ICF) serves as a mechanism to spur innovation in the financial inclusion and entrepreneurship space.

Broadly speaking, ICF has the following objectives:

- 1) It acts as a catalyst to help design and implement innovative and practical solutions to complex challenges faced by individuals and entities under specific themes.
- 2) It seeks to foster inclusive economic growth and financial inclusion through the provision of patient risk capital, in the form of equity, debt or grants to partners. In particular, this involves overcoming challenges in areas of women and youth participation in the economy and access to finance for SMEs.
- 3) Finally, it seeks to create a demonstration effect and leverage interest and investment from the private sector to facilitate financial inclusion and access to finance for previously underserved and excluded segments.

Program Process

Typically, challenge funds are run as open competitions inviting solutions supported with evidence-based proposals. The proposals are evaluated against a pre-decided scoring criteria and a winner(s) is selected. The Karandaaz Innovation Challenge Fund (ICF) works along similar lines.

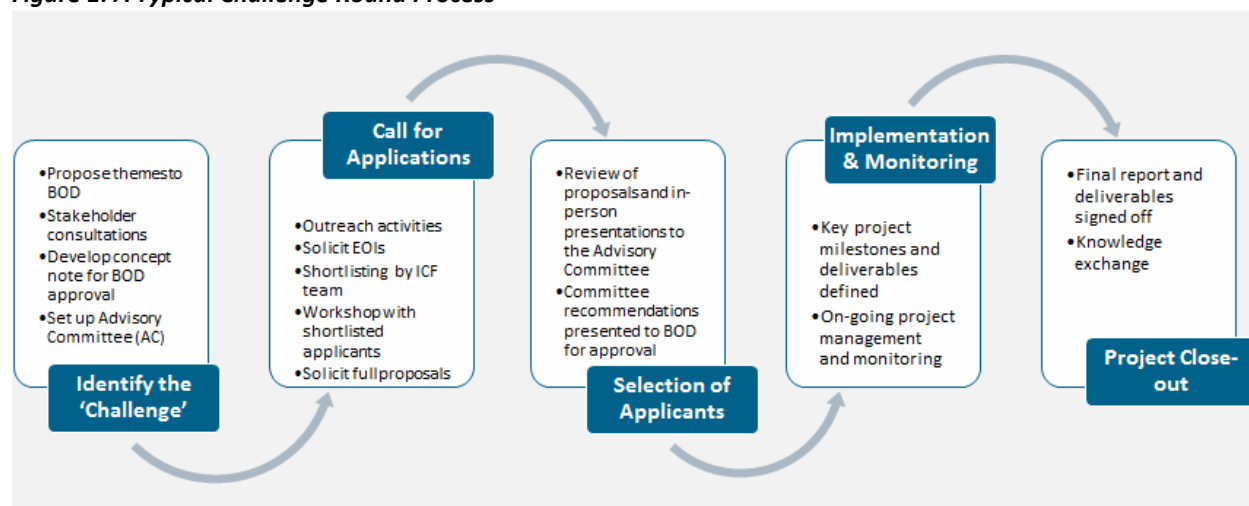
Each round of the ICF sources proposals targeting the development of products, services, business models and other private sector solutions to challenges in the field of women and youth participation in the economy, financial inclusion and access to finance for SMEs. ICF is run by a lean team overseen by the Board of Directors (BOD) and an advisory committee of experts (relevant to each thematic round), that facilitate selection and funding decisions.

A challenge round typically involves the following stages (also captured in Figure 1 below):

- 1) **Design**
Identifying the 'Challenge' and sufficiently defining the problem
- 2) **Mobilization**
Call for Applications and Selection of Applicants

- 3) **Delivery**
Implementation and Monitoring of selected projects
- 4) **Closure**
Project Close-out

Figure 1: A Typical Challenge Round Process



So far Karandaaz has initiated four challenge rounds:

- 1) Innovation Challenge Fund- Round 1 Testing Products and Services for International Remittances
- 2) Innovation Challenge Fund- Round 2 (renamed Women Entrepreneurship Challenge 2017)
- 3) Innovation Challenge Fund- Round 3 Innovative Credit Scoring of SMEs
- 4) Women Entrepreneurship Challenge 2018

The Women Entrepreneurship Challenge (WEC) was piloted as a thematic ICF round but recognizing the importance of facilitating the growth of women enterprises in Pakistan, Karandaaz in consultation with DFID, decided to make this an annual round. The Women Entrepreneurship Challenge is run parallel to other theme based ICF rounds.

Design Stage

Identifying the 'Challenge' and sufficiently defining the problem

This stage involves identifying and conceptualizing the theme for the Challenge round through internal team discussions and stakeholder consultations. The theme is generally related to a key problem, market failure or opportunity for market development in the financial inclusion space. The broader theme needs to be sufficiently defined so the private sector (and other relevant entities) can effectively respond to the call for ideas. The definition and scope of the theme is generally captured through a 'Concept Note'. This note is approved by the Karandaaz Board of Directors (BOD). The note provides the conceptual framework for a round in addition to providing a road map for execution and delivery.

Concept Note

Broadly, a Concept Note contains the following sections:

- *Summary of challenge round*

This section should serve to highlight the salient features of the challenge round.

- *Background*

This section of the Concept Note should provide an introduction to the challenge round, by stating the problem that needs to be addressed and explaining its root causes. The narrative should be substantiated through facts supplemented by sourced references. For example, for ICF 3 (see box below) a lack of lending opportunities for SMEs was identified as a problem. To substantiate this, the State Bank of Pakistan's (SBP) SME Finance Review was quoted: *according to the SBP while nearly 90% of the country's enterprises are categorized as SMEs, only 8% of total private sector financing goes to the SME sector (SBP SME Finance Review June-2017)*. A root cause for the problem is that information asymmetry between lending institutions and SME borrowers makes it difficult for creditors/investors to assess the credit-worthiness of SME borrowers. After introducing the problem, it should be established that an opportunity exists to address this problem in the form of an 'intervention'. The purpose of the challenge round is to facilitate this intervention.

CASE STUDY: ICF ROUND ON INNOVATIVE CREDIT SCORING MODELS FOR SMEs (ICF3)

In 2017, Karandaaz ran a challenge round that aimed at triggering innovation in the credit risk appraisal ecosystem for SMEs. According to the State Bank of Pakistan, around 93% of SMEs do not have access to financing, putting outstanding SME financing at around PKR 379 billion (SBP SME Finance Review, June 2017). Based on the above, the 'challenge' identified was that a lack of appropriate credit scoring risk assessment models creates a bottle neck for increasing lending to SMEs in Pakistan.

To address this challenge, Karandaaz sought to invite proposals from the private sector that introduced and tested path-breaking credit scoring methodologies that broke away from conventional, collateral-based models used in banks today.

See [Annexure 1 – Innovation Challenge Fund Round 3: Concept Note](#)

- **Objective**

Goals and objectives of the challenge round should be listed out in this section. Objectives are specific and can often be quantified. Objectives should be limited to two to four, as fewer objectives facilitate a more practical approach and achievable aspirations. Goals are usually longer-term, and may not necessarily be achieved within project timelines. For example, for ICF3, by building more appropriate risk assessment models for SMEs, Karandaaz seeks to “promote the growth and sustainability of the SME sector, translating into higher economic benefits for Pakistan, in the form of increased output, job creation, and export development”.

- **Advisory Committee Composition**

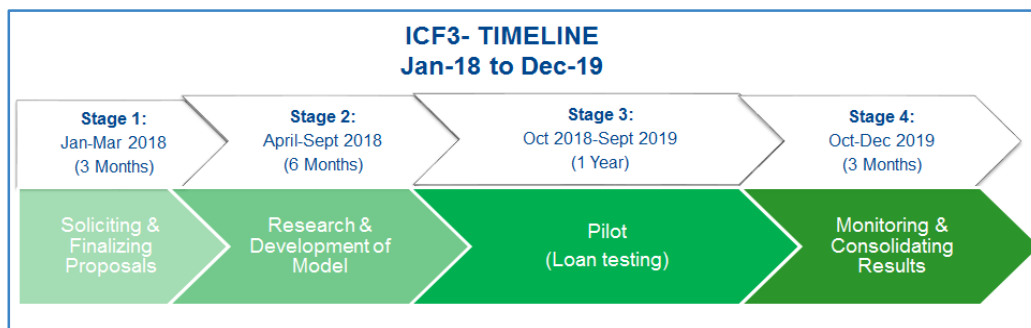
This section details the role of the Advisory Committee (AC), and provides a framework for its subsequent composition. The members of the AC are brought together to provide guidance to Karandaaz staff on designing and executing a challenge round. This section of the Concept Note is supplemented by [Advisory Committee TORs](#), which are shared with AC members (See [Advisory Committee](#) section below for more details).

- **Implementation Approach and Timelines**

This section should detail the implementation methodology, including a tentative timeline of activities. Activities include, but are not limited to the following:

- Outreach and solicitation of applicants
- Selection of EOIs
- Request for technical and financial proposals
- Proposal presentations
- Selection of finalized partners
- Signing of contracts
- Achievement of project milestones as per agreed Work Plan from signed contract
- Monitoring of project progress
- Project closure
- Consolidation of findings and lessons learnt

CASE STUDY: ICF 3 SAMPLE TIMELINE



- *Risks*

Our experience suggests including a section detailing risks of implementing a given challenge round. Having visibility on potential risks assists future decision making, especially with respect to building in mitigation strategies.

- *Budget Forecast*

The last section of the Concept Note will be the budget forecast. Although a detailed analysis will not be necessary, there needs to be a brief breakdown of major line items, backed by reasonable analysis.

With each progressive round, we have refined the Challenge Fund process flow to create greater operational efficiency. However, given the different thematic focus of each round, we realized that catalysing innovation requires considerable flexibility, particularly in the designing of the ICF round. Working with unknowns creates challenges for work planning and budgets. For example, for ICF3- Innovative SME Credit Scoring, aspects of budget are highly dependent on the proposals put forward by the applicants, given the subjective scope of the activity, and the comfort of the lending institution whose portfolio will be used to test/pilot the credit scoring model. As a result, the ICF team has to wait to receive the proposals to create a more accurate budget for the challenge round.

Consultations during Design Stage

Once the theme for a particular round is identified, the ICF team holds consultations and meetings with multiple entities and subject experts to refine the idea and develop the framework of the round. This helps to:

- i) understand market dynamics and refine the problem statement
- ii) map the stakeholders and define an outreach strategy
- iii) promote the challenge round

For example, during ICF Round 3, the ICF team met with representatives from banks, fin-techs, research and advisory firms, and credit rating agencies as part of their market scoping and stakeholder consultation exercise before launching the challenge round. The consultations helped inform the scope of the challenge, and helped Karandaaz understand that it needs to keep the funnel large in terms of entities that are eligible to apply. It also helped structure the two-stage selection process whereby initially financial institutions and non-financial institutions (such as FinTechs and academia) could all apply independently but at the RFP stage (discussed below), non FIs would need to partner with FIs. And finally, through this outreach the ICF team was able to identify representatives from the private sector who eventually became part of the ICF 3 Advisory Committee.

Advisory Committee

Karandaaz sets up the Advisory Committee (AC) to provide strategic guidance and oversight to the ICF team during the design and implementation of the Challenge Round. The committee is identified and engaged after the concept note is approved by the BOD to ensure buy-in and relevance throughout the

[Mobilization](#) process. Terms of Reference (TORs) are prepared for every challenge round (see box below for ICF 3- TORs). Broadly, they include the following:

- Define the members and their roles and responsibilities
- Provide timelines of meetings and level of effort required
- Location of meetings
- Honorarium for external experts

CASE STUDY: ICF 3- ADVISORY COMMITTEE ROLE

The role of the Advisory Committee will be to provide strategic advice to Karandaaz's team on ICF3 and provide oversight to the programme. To do so, the AC will:

-
- (a) Provide advice on design of the challenge round and its key activities.
 - (b) Enable linkages with industry players to ensure appropriate outreach regarding the challenge round.
 - (c) Review and approve key documents related to the challenge round, such as the EOI and RFP and selection criteria for partners.
 - (d) Evaluate shortlisted proposals and attend in-person presentations of applicants in order to select final partners under the challenge round.
 - (e) Provide troubleshooting advice if required during implementation of projects that receive funding under the challenge round.

See [Annexure 2- Innovation Challenge Fund Round 3: Advisory Committee TORs](#)

Generally, the AC is composed of a Karandaaz Board Member who serves as the Chair of the Committee, one representative from Karandaaz management, a representative from DFID (where DFID chooses to nominate a member), and 1-2 external sector experts relevant to the challenge round theme. The AC may expand its membership or appoint advisors to assist it in reviewing proposals and selecting grantees/partners through the course of the challenge round. The composition of the AC is approved by the Board and changes with the nature of each round. The Committee is expected to treat all material shared by Karandaaz during the process as confidential including the concept paper, EOI applications, Business Plans and Presentations. Members are asked to declare any potential conflict of interest before reviewing the applications received. Private sector representatives engaged as members of the AC are paid a lump sum honorarium for their services.

Documents required for Design Stage

- Concept Note
- Advisory Committee Terms of Reference

Mobilization Stage

Call for Applications and Selection of Applicants

This stage involves outreach to relevant entities, and solicitation of applications from them for the challenge round. Generally, Karandaaz follows a two stage process for soliciting applications, whereby initially an Expressions of Interest (EOIs) is to be submitted, followed by a full-fledged proposal from shortlisted entities. In this section, we provide an overview of the outreach strategies and application process.

Outreach during Mobilization Stage

The mobilization stage involves a considerable amount of outreach. The approach to outreach needs to be customized depending upon the stakeholder mapping that emerges out of the consultations in the design stage. Some themes tend to be narrow in terms of relevant entities that need to be engaged whereas others can require a more mass market engagement. Karandaaz has undertaken both types of outreach for its different rounds, and approaches to both are discussed below.

- *Targeted Outreach*

This approach is generally adopted where the stakeholders are narrow and concentrated in a specific sector. For example, challenge rounds that are targeted at banks, FinTechs, and other financial institutions would fall into this category. In Karandaaz's experience, doing a mass media outreach campaign is neither required nor may it be effective in such cases. Instead a more targeted and intensive market engagement exercise works better.

All ICF rounds are advertised through newspapers and social media, even for targeted rounds. This is important for transparency purposes.

- Furthermore, where targeted outreach is needed to generate interest, Karandaaz uses meetings, calls, letters and e-mails to relevant players. For example, for ICF 3, personalized letters were sent to presidents of various banks in Pakistan disseminating details of the challenge round, include guidelines for applying. These activities may be supplemented by sharing of posts on social media, including Karandaaz's Facebook, Twitter, LinkedIn etc.

- *Wider Outreach*

This approach is generally adopted where Karandaaz is looking for applications from a broader, more general population. For example, Karandaaz's [Women Entrepreneurship Challenge](#) (WEC) would fall in this category as we are seeking to engage all women-led businesses across Pakistan.

To reach a larger audience, the ICF team partners with Karandaaz's Communication department to engage an advertising agency to design, produce and implement a media campaign around Karandaaz and DFID's branding and marketing guidelines. The ad agency is expected to design the theme for a given round including a colour palette, design grid, fonts and language that will translate onto all subsequent marketing items used by the on-ground activation team (see below). These include, but are not limited to:

- i) Billboard advertisements
- ii) Digital streamers

- iii) Ridge branding
- iv) Backdrop and standees used during on-ground activation sessions
- v) Social media banners and posts on Facebook

The ad agency, is also expected to propose a suitable media strategy to reach the maximum number of the targeted audience, backed by circulation figures. This may include a robust online digital awareness campaign comprising of digital ads and on-line blogs. Appearance on radio and TV shows could supplement these efforts; highlighting success of previous rounds, and details of new initiatives.

For on-ground activation, an activation agency may be engaged. The activation agency finds suitable locations for billboards, streamers and ridge branding and uses the design created by the ad agency for Out of Home activation. The placement of marketing material is dependent on the target audience. For WEC 2018, for example, billboards were placed across three major cities; Lahore, Islamabad and Karachi on bridges, and busy commercial areas where traffic and footfall was considerable. Radio PSAs were in English and Urdu on channels with accessibility across the nation. Similarly, both English and Urdu language newspapers were used to market the challenge round. The activation agency also identifies and solicits interest from suitable organizations/individuals and may hold public, media events to garner their interest. For WEC 2018, roadshows were held across multiple cities at Women's Chambers of Commerce to educate members on program details and guidelines for applying.

Finally, testimonials and documentary style videos of past grant recipients may be used to highlight a given program (See box below). These videos are promoted through social media, Karandaaz's website and through Public Relation activities/agencies.

CASE STUDY: WOMEN ENTREPRENEURSHIP CHALLENGE 2018

Project Description

Karandaaz Pakistan (KRN), sponsored by UK's Department for International Development (DFID) launched the second round of their Innovation Challenge Fund (ICF2) in September 2017, with the aim of supporting women-led businesses by providing them customized business training, mentorship and access to finance.

36 business received business development services through this program, and 15 were selected for funding through Karandaaz. A media firm was engaged to document the visual and written journeys of a select number of these businesses, and highlight the impact of Karandaaz's program on their lives and businesses.

The challenge round Supporting Women Entrepreneurs occurs annually. The short video clips, and human-centric stories were intended to serve as a branding and marketing aide to attract more women-led businesses to apply to, and benefit from the program

Application Process

Call for Expressions of Interest

The first step of the application process, after outreach involves submitting an **Expression of Interest (EOI)** form. Generally, a call for EOI includes:

Organization Overview

The Organization Overview introduces Karandaaz Pakistan; its objectives, core functions and how they work.

Project Description

Project Description breaks is broken down into four categories:

1) ***Background and Objectives***

The background of the project defines the purpose of the challenge round, the need of the project, and how and why Karandaaz decided on a particular thematic focus.

2) ***Scope of Work***

The scope details key project milestones and expectations.

3) ***Application and Selection Mechanism***

The EOI selection criteria is defined in this section

Expected Timelines and Process Flow

The expected timelines are defined as per the project process.

A link to the EOI form (for online submission), is included in the call for EOI document.

CASE STUDY: ICF 3 EXPRESSION OF INTEREST

Karandaaz invited financial institutions, data analytic firms, rating agencies and other innovators to participate in the challenge round, by responding to a call for Expression of Interests. The EOIs were reviewed and shortlisted by Karandaaz's ICF team based on a minimum eligibility criterion:

Eligibility Criteria for EOI Selection:

- A local financial institution with demonstrated experience in the SME sector in Pakistan. Non-financial organizations/firms may apply as a consortium with a financial institution. EOI should include a Letter of Intent from the partner financial institution.
- The proposed project team should have expertise in developing economic models.
- The proposed team should demonstrate a willingness to share broad-based learning with stakeholders.
- The participating institutions should be tax registered and compliant with tax regulations of Pakistan.

(See Appendix 4 [ICF 3 EOI Guidelines](#) and Appendix 5 [ICF 3 EOI Form](#)).

Request for Proposals and Presentation

After EOIs are selected by the ICF team by assessing them against the eligibility criteria, shortlisted applicants are requested to:

- Submit a detailed Project Plan, including a Technical and Financial Proposal
- And, present their Technical Proposals to the Advisory Committee

A workshop may be held with selected individuals/institutions to provide guidelines on proposal expectations. The **Technical and Financial Proposal** generally include the following (sections may be added or omitted given the scope of a particular challenge round):

1. *Executive Summary*
2. *Value Proposition*
 - Define the problem
 - Explain program differentiation; expertise in field of relevance; list of skills/competencies and value addition
3. *Market Analysis*
 - Demand side analysis (who does the idea target, what would be the benefits to the intended target audience, particularly with respect to financial inclusion)
 - Supply side analysis (mapping of relevant market ecosystem, existing programs and services, limitations of current programs)
 - Legal, financial and government policies and frameworks that are relevant
4. *Business Model*

Proposed solution process flow:

 - Detailed information on the proposed innovation/idea for the project, i.e. how it will solve the problem
 - Implementation plan, including different phases of the project life cycle
 - SWOT analysis (if relevant)
 - Annual Work Plan and key milestones
 - Plan for monitoring and learning from the project
 - Innovativeness of the approach
 - Sustainability and scalability of the product, service or approach
5. *Company Profile*
 - Prior experience in a similar field
 - Details on the Applicant (and its teams) Resources and Capabilities
 - Management and technical team proposed that will be engaged for this project
6. *Comprehensive Risk Assessment Plan*
 - Operational, strategic, compliance and financial risks
 - Risk mitigation plan
7. *Budget*
 - Capital requirements and working capital estimates
 - Funding sources and uses
 - Projected Fund usage timeline and plan (linked to Deliverables)
8. *Annexures*
 - Copy of Company Registration/Certificate of Incorporation
 - Copy of NTN
 - Audited Financial Statements
 - Letter of Commitment (in case of consortium)
 - Implementation Timeline

See [Annexure 6- Innovation Challenge Fund Round 3: Proposal Submission and Evaluation Guidelines](#)

After both the Technical and Financial components of the proposal are submitted, the applicants present the Technical Proposal to the Advisory Committee (See [Annexure 7- Innovation Challenge Fund Round 3: Proposal Presentation- Agenda & Schedule](#) for a sample presentation day agenda). Applicants are requested to fill out standard terms and condition forms during the presentation day (See [Annexure 9- Innovation Challenge Fund Round 3: Terms & Conditions Form for Participant](#)), and Advisory Committee members are asked to sign conflict of interest forms (See [Annexure 8- Innovation Challenge Fund Round 3: Conflict of Interest Form for Judges](#)). The Advisory Committee reviews and scores the proposals against a pre-determined evaluation criterion. The criteria for scoring the applicants is specific to the particular thematic focus of a given round (see [Annexure 10- Innovation Challenge Fund Round 3: Scoresheet for Proposal Presentation Day](#) for a sample scoresheet), however broadly, the assessment may include but is not limited to:

- Relevant experience of the applicant
- Profile of the project team
- Quality of the proposed methodology
- Innovativeness of the approach

On-boarding Due Diligence

After the presentation, the Advisory Committee's recommendations for finalists are shared with the Board of Directors of Karandaaz for approval. Once approved, the ICF team conducts an on-boarding due diligence exercise. Regulated partner institutions, such as banks may be exempt from undergoing the due diligence exercise.

The due diligence exercise includes an assessment of the following:

- Partner's governance
 - To determine the legal basis for the potential partner organization
 - To assess the overall commitment/buy-in of the potential partner organization towards the project
 - To ensure no past history of issues exist that may damage the reputation of Karandaaz and its sponsors
- Partner's ability to deliver
 - To ensure the potential partner organization has had the ability to cope with similar kinds of projects
 - To ensure the potential partner organization and its staff will be able to remain directly engaged with the project
 - To ensure they will have an ability to monitor and evaluate the project and a willingness to share broad lessons with the wider market
- Partner's financial stability
 - To determine their current financial position
 - To ensure proper system and controls are in place to handle this kind of project
 - To ensure procedures and mechanisms are in place to manage and maintain expenditures related to project cost

The ICF team uses their best judgement to arrive at the overall risk assessment of the potential partner, in terms of the above factors. Risk in the following cases shall be assessed as 'Low':

- Governance
 - Public listed companies
 - Companies regulated by the SBP and/or SECP except private limited companies, or single member companies
 - Companies which have mandatorily or voluntarily adopted the SECPs code of corporate governance
- Ability to deliver
 - Organizations with more than 10 years in experience in the relevant subject/field
 - Organizations which have previously worked with Karandaaz in more than two projects of duration 6 months or more and are positively recognized
- Financial stability
 - Organizations with stable cash flows and operating profits for a period of 5 years or more as per annual audited financial statements

Potential partner organizations with higher risk ratings will undergo additional due diligence steps. An ICF team member, and a designated representative from Karandaaz's finance department may visit the organization's place of business, and conduct a first-hand review of its systems, controls and management capacity to the satisfaction of the reviewing team.

Documents required for Mobilization Stage

- Expression of Interest Advertisement
- Expression of Interest Guidelines
- Expression of Interest Form
- Proposal Submission and Evaluation Guidelines
- Proposal Presentation- Agenda & Schedule
- Conflict of Interest Form for Judges
- Terms and Conditions Form for Participants
- Judges Scoresheet for Proposal Presentation Day

Delivery Stage

Implementation and Monitoring

Signing of Contract

Once projects and partners to be funded are selected, the ICF team is responsible for negotiating terms of engagement with the partner, and having them drafted through a legal counsel.

The funding amount is based on a variety of factors:

- 1) Financial component of the partner organization's project proposal; which details their funding ask and fund utilization plan
- 2) Financial viability of funding ask and fund utilization plan
- 3) Availability of funds at Karandaaz

As explained in the [Concept Note](#) section above, the initial budget forecast proposed for a given challenge round is based on a series of assumptions which need to be adjusted after proposals have been submitted from potential partnering organizations. Often, there is considerable discrepancy between Karandaaz's budgeted forecast, and the potential partner's funding ask, which is why it is important to build flexibility into the challenge round budgets. The ICF team is responsible for negotiating a reasonable figure with the partner whereby, the scope of the project is not comprised and the grant remains within internal budget considerations. In Karandaaz's experience, these decisions often require buy-in from multiple stakeholders within partner organizations and take up considerable time and effort.

Monitoring progress

Once projects and partners to be funded are selected, the ICF team is responsible for ensuring the projects are delivered as per agreed plan. Hence, the 'delivery' stage involves on-going project monitoring and management of grant/project portfolio in accordance with milestones that are agreed with the partner.

Periodic meetings are held between Karandaaz's ICF team, Finance department, Monitoring and Evaluation Department (MEL) and the partner(s) to monitor project progress. The partner(s) also periodically submits a Progress Report (See [Annexure 11- Innovation Challenge Fund: Progress Report Template](#)) detailing project progress against agreed milestones, challenges faced and lessons learned in project implementation, next steps and financial spent against disbursed funds.

Progress reports and periodic update meetings facilitate the need to change the scope of the project, or extend project timelines if required. A project may be extended if the following situations arise:

- A major change in the context of or key assumptions underpinning the project
- A change in the risk environment
- Unforeseen political, social, economic or legal challenges
- Changes in the strategic priorities of the organization
- Unexpected changes in the operating environment
- Changes to the scope of the project agreed with Karandaaz

Financial management of projects

Generally, funding to partners is in the form of milestone-based grants. Funding is disbursed in tranches after the fulfilment of agreed milestones detailed in the partner’s initial Technical proposals. Funding is made into a designated bank account, which the partner can only use for Karandaaz funds to ensure accountability and transparency. Advance payments to implementing partner are approved only by exception. The first tranche is released after signing of grant, and completion of certain conditions precedent detailed in the contract. After the completion of a given milestone, the partner sends an Invoice to Karandaaz (See [Annexure 12- Innovation Challenge Fund: Invoice Template for Disbursement of Funds](#)). Upon ensuring that the milestone is completed in a satisfactory manner, Karandaaz releases funds to the partner. The last tranche of 10% is generally retained till after Project Closure. The partner organization is expected to undergo a project audit, whereby their expenses against already released grant funds are confirmed. If there is a deficit, the remaining tranche is released, upon submission of remaining deliverables (if any) and Project Closure report (see [next section](#)).

Sample Milestone-based Disbursement Schedule

Tranche No.	Milestone	Deliverable	Loan Amount to be disbursed
1.	Execution of Grant Agreement	Signed Grant Agreement Updated Business Plan and Fund Utilization Plan	20%
2.			
3.	Project Closure	Project closure report Project Audit report	10%

Documents required for Delivery Stage

- Contracts with Partners
- Addendums or Modifications to Contract (if necessary)
- Progress Report
- Invoice Template for Disbursement of Grant Funds

Closure

Project Close-out

Following the completion of milestones, and submission of supplementary documents, the partner is expected to undertake a project audit. The purpose of the audit is to provide assurance that project funds have been used for the intended purposes. Terms of Reference for audit are shared by Karandaaz with the partner(s) in advance (See [Annexure 13- Innovation Challenge Fund: TORs for Receipt & Expenditure Verification of Grant Agreements](#)). The partner is then expected to engage a QCR rated audit firm and get Karandaaz's approval on the proposed firm. The engagement letter signed with the auditor is also shared with Karandaaz.

Finally, there is an exchange of knowledge sharing between Karandaaz and the partner(s). Partner(s) are expected to submit a Closure Report (See [Annexure 14- Innovation Challenge Fund: Project Closure Report](#)) to mark the formal completion of the project. Broadly, the **Project Closure Report** includes the following sections:

1. *Basic Information*
Detailing partner name, address, project start and end date, total project budget, and total funding from KRN.
2. *Summary, Progress and Results*
 - Project Summary
 - Key results and achievements against milestones, including challenges
 - Risk management and mitigation
3. *Value for Money*
 - Economy: Buying inputs of the appropriate quality and the right price
 - Efficiency: Converting inputs to outputs through project activities
 - Effectiveness: Project outputs achieving the desired outcome on the goals outlined in the Project
4. *Sustainability*
5. *Learning*
6. *Recommendations and Feedback for Karandaaz*
7. *Financial Report*
 - Expenses against budget as per contract
 - Auditors note on key findings

Partners' often require Karandaaz's support in completing reporting and financial management requirements. This is especially true for private sector players with limited understanding of grant management expectations. In Karandaaz's experience, project timelines have been extended to facilitate partners through these project closure activities. Post grant monitoring is conducted for a period specified in the contract.

Documents required for Project Close-out

- Project Closure Report

Lessons Learnt

Each round of the Innovation Challenge Fund has a different thematic focus. With every progressive round we have refined the process flow, pivoting to incorporate lessons learnt from previous experience. Some of the key lessons learnt so far are:

1. Dealing with uncertainty

Catalysing innovation requires considerable flexibility, particularly in designing a challenge round. This creates challenges for work planning and budgets as we work with unknowns. Since there are discrepancies between the budget forecast and the scope of activities proposed in the design phase, and the eventual budget and project milestones defined by potential partners in the proposal phase, we find that negotiations to finalize contract terms takes considerable time and effort. These considerations need to be built into challenge round timelines.

2. Partners limited understanding of progress reporting expectations

Grantees, particularly private sector partners, have a limited understanding of how to report on progress against milestones as well as financial aspects of the grant. They require a considerable amount of hand-holding from Karandaaz with respect to reporting and financial management. Reporting expectations need to be clearly communicated and agreed with the partner prior to contract signing. If an additional resource with the necessary expertise needs to be assigned for progress monitoring and reporting activities to support the Project Manager, this should be done so at the inception stage.

3. Change in key management

Change in the management/key personnel of a partner's project team is a key risk to project execution. There is a need for ensuring top management buy-in to enable continuity and sustainability through the project period.

4. Contingency plans need to be in place in cases of project derailment

In case projects get derailed, a clear escalation pathway should be defined with the partner. It is advisable to identify key risk factors beforehand, determine possible outcomes and implications, and identify best pathways forward prior to derailment of project expectations.

5. Supporting partners in refining ideas and proposals can improve quality of project deliverables

Facilitating linkages between potential partners and industry experts to help improve technical components of challenge round proposals and ideas, can make project deliverables more relevant and achievable. Advisory Committee members may be solicited to guide partners on improving the quality of their ideas to enable project execution that is in line with the needs of the market.

6. Avoiding redundancy and ensuring value addition

Karandaaz recognizes that a variety of players in the market fund similar initiatives. The challenge for the ICF team lies in ensuring continued value addition through our programs. Market scoping activities and stakeholder consultations during the design stage of a challenge round helps the ICF team get clarity on current projects in the market, enabling refinement of scope of activities to ensure value addition where possible.

7. Using previous experience to inform future strategies

With each progressive challenge round, lessons with respect to risk, strategy and operational efficiency from previous rounds should inform the direction of succeeding rounds. For example, the first round of the Women Entrepreneurship Challenge (WEC 2017) yielded important lessons, which have informed the approach and design of WEC 2018. The key lessons included:

- Women entrepreneurs are unwilling to participate in programs outside their city.
- Incubator programs are more suitable for start-ups than established businesses.
- Outreach strategies need to be adapted if we are to attract established businesses.
- Organizational capacity of incubators is stretched as they are working with multiple stakeholders at the same time.
- Monitoring and Evaluation capacity of implementing partners requires strengthening.
- Women entrepreneurs are looking for flexible programs with support for managing family obligations.
- Programme delivery is mainly in English, excluding potential applicants who may not be well versed in the language.

Annexures

Annexure 1 – Innovation Challenge Fund Round 3: Concept Note

Annexure 2- Innovation Challenge Fund Round 3: Advisory Committee TORs

Annexure 3- Innovation Challenge Fund Round 3: Expression of Interest Sample Advertisement

Annexure 4- Innovation Challenge Fund Round 3: Expression of Interest Guidelines

Annexure 5- Innovation Challenge Fund Round 3: Expression of Interest Form

Annexure 6- Innovation Challenge Fund Round 3: Proposal Submission and Evaluation Guidelines

Annexure 7- Innovation Challenge Fund Round 3: Proposal Presentation- Agenda & Schedule

Annexure 8- Innovation Challenge Fund Round 3: Conflict of Interest Form for Judges

Annexure 9- Innovation Challenge Fund Round 3: Terms and Conditions Form for Participants

Annexure 10- Innovation Challenge Fund Round 3: Judges Scoresheet for Proposal Presentation Day

Annexure 11- Innovation Challenge Fund: Progress Report Template

Annexure 12- Innovation Challenge Fund: Invoice Template for Disbursement of Funds

Annexure 13- Innovation Challenge Fund: TORs for Receipt and Expenditure Verification of Grants

Annexure 14- Innovation Challenge Fund: Project Closure Report Template

Annexure 1 – Innovation Challenge Fund Round 3: Concept Note

Summary

Lack of appropriate credit scoring risk assessment models is a bottleneck for increasing lending to SMEs in Pakistan. Through ICF3, Karandaaz seeks to invite proposals on innovative SME credit risk scoring/assessment methodologies that are appropriate for the Pakistani market. Funding will be used to support the development of the model as well as testing it on a small portfolio of SME loans.

Background

Small Medium Enterprises (SMEs) account for a substantial part of a country's economy, with significant contributions towards GDP, employment generation and export development.¹ Despite this, SME lending in Pakistan is woefully low. While nearly 90% of the country's enterprises are categorized as SMEs, only 8% of total private sector financing is given to the SME sector.² According to the State Bank of Pakistan (SBP), 177,000 SMEs are currently borrowing from banks in Pakistan- that is, only 7% of the total sector population of 3 million registered units.³ This means 93% of SMEs do not have access to financing, putting outstanding SME financing at around PKR 379 billion.⁴

Limited financial access is a significant barrier to the growth, sustainability and productivity of SMEs. As noted during Karandaaz's 2017 Strategic Review Session, several factors have contributed to the supply-demand gap in SME finance⁵:

- *Lack of strategic focus on SMEs* by banks, given historically "risk free" business models.
- *Gaps in key infrastructure*, such as a collateral registry and well developed credit bureaus.
- *Absence of low-cost operating models in banks to serve SMEs*, with a strong preference for asset-backed collateral.
- *Limited trained work force within banks* which can develop and use the right credit models to assess the risk of SMEs.

Essentially, the lack of SME-appropriate credit-scoring models make it difficult for lenders to assess the credit-worthiness of SMEs. This in turn makes SMEs costly to acquire, underwrite and finance, contributing to the SME Credit Gap. (See Figure 1.)

¹ The Economic Census of 2005 indicates that nearly 90% of the 3.2 million businesses in Pakistan are SMEs, contributing to 30% of the GDP and 25% of total export earnings. SMEs also employ 70% of the non-agricultural workforce. "SMEDA Research Journal." December 2016. Accessed October 31, 2017.

https://www.smeda.org/index.php?option=com_content&view=article&id=7:state-of-smes-inpakistan&catid=15

²"SBP SME Finance Review June-2017." Accessed October, 31, 2017.

<http://www.sbp.org.pk/sme/PDF/DFG/2017/QSMEF-Jun-2017.pdf>

³ Ibid.

⁴ Ibid.

⁵ Refer to KRN Strategic Session Review Report (September, 2017) and DFID's Enterprise and Asset Growth Programme (EAGR) Business Case (March, 2014)

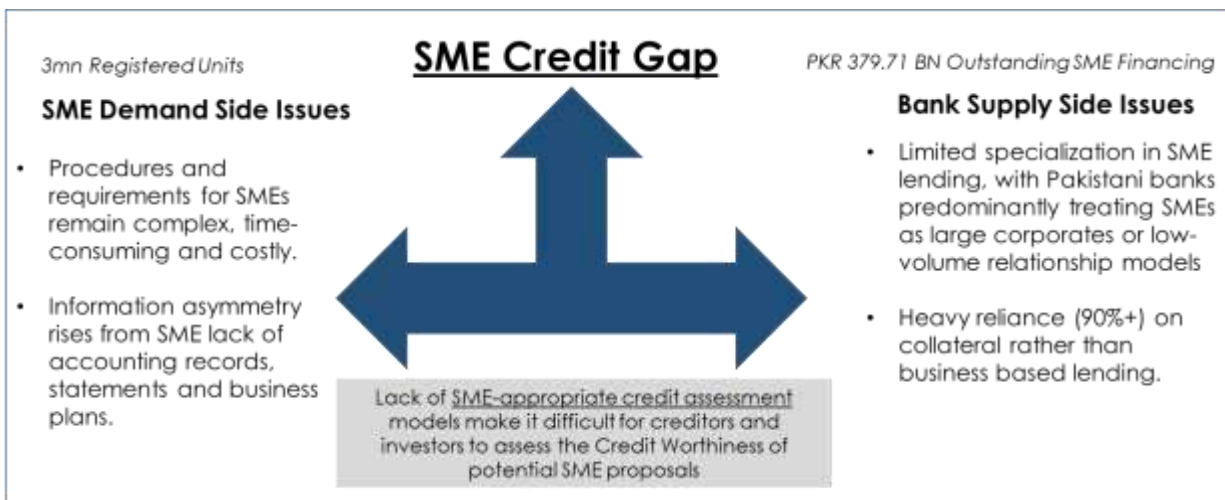


Figure 1. SME Credit Gap

Additionally, the State Bank of Pakistan’s ‘National Financial Inclusion Strategy’ (NFIS) emphasizes a growing need to address this SME credit gap through well-targeted and innovative interventions. In particular, the NFIS highlights “psychometrics, “big data” and digital footprints”, as tools that are already being used to enhance credit scoring models in a number of countries, including Kenya (M-Shwari), Brazil (Oi Paggo), and Peru (Financiera Confianza).⁶

In light of this context, KRN seeks to disrupt the status quo and develop innovative approaches to assessing credit needs and risks of SMEs. Through ICF3, KRN will be inviting proposals for credit appraisal/risk scoring methodologies that break away from the conventional, collateral-based model used in banks today.

ICF Round 3 Objectives

In Round 3 of the ICF, Karandaz seeks to introduce and test path-breaking credit scoring methodologies specific to SMEs in Pakistan.

More specifically KRN will,

- Stimulate the market to develop new SME credit assessment models and enable entry of new players/service providers in the sector.
- Generate demonstration effect by testing and documenting the experience of clean lending to SMEs.

In particular, the goal of the challenge is to provide lenders with an opportunity to use new sources of information and data, such as Big Data and Smart Data (including mobile-phone usage patterns, utility bill payment history and others) to build better and more appropriate risk assessment models for SMEs and test clean lending methodologies.

In doing so, KRN will improve the ability, capacity and willingness of financial institutions to increase lending to SMEs. This, in turn, will promote the growth and sustainability of the SME sector, translating

⁶ “National Financial Inclusion Strategy, Pakistan”. Accessed November 27, 2017
<http://www.sbp.org.pk/ACMFD/National-Financial-Inclusion-Strategy-Pakistan.pdf>

into higher economic benefits for Pakistan, in the form of increased output, job creation, and export development.

Advisory Committee

An Advisory Committee will be set-up to oversee the design and implementation of the Challenge Fund. The Committee will be identified and engaged early on in the process to ensure buy-in and relevance.

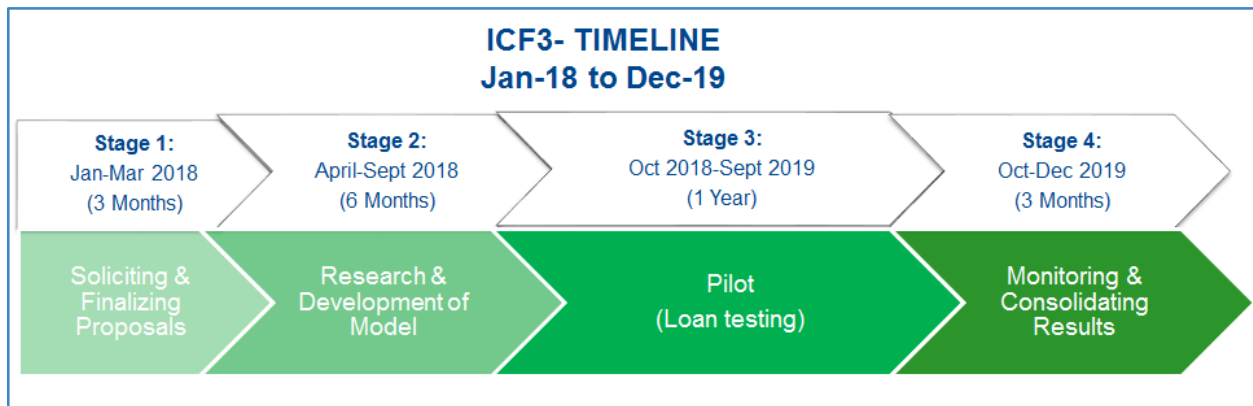
Some of the prospective members can come from the following:

- Karandaaz Board/Committee Member
- DFID representative
- Private sector representative (preferable with experience in economic modelling)

The ICF staff will provide support to the Advisory Committee.

Implementation Methodology

Karandaaz is inviting financial institutions, data-analytic consultants, rating agencies, and other innovators to participate in the challenge round. The anticipated timeline for the grant, from soliciting proposals, to monitoring and consolidating results of the finalized model is 2 years. Details of each stage are given below.



Stage 1: Solicitation of Applications and Selection of Partners

Timeline: January to March 2018 (3 months)

Expressions of Interest: KRN will invite innovators from relevant industries, including financial services, tech, and telecom, and data analytics to propose an **Alternative Credit Assessment Model for SMEs** through an Expression of Interest (EOI). The EOIs will be reviewed and shortlisted by KRN's ICF team, based on a minimum eligibility criterion.

Eligibility Criteria for EOI Selection:

- A local financial institution with demonstrated experience in the SME sector in Pakistan. Non-financial organizations/firms may apply as a consortium with a financial institution. EOI should include a Letter of Intent from the partner financial institution.
- The proposed project team should have expertise in developing economic models.
- The proposed team should demonstrate a willingness to share broad-based learning with stakeholders.
- The participating institutions should be tax registered and compliant with tax regulations of Pakistan.

Request for Proposals: Shortlisted teams will be invited to submit and present a detailed Business Plan, containing financial and technical proposals. Proposals will be presented to and reviewed by the Advisory Committee. Evaluation criteria for proposals will be determined by the Advisory Committee.

Final Selection: The Advisory Committee's recommendations will be presented to the Board, who will finalize the grantees. We are anticipating two grant recipients.

Stage 2: Research and Development of Model

Timeline: April to September 2018 (6 months)

In this stage, the Grantee(s) will develop the idea or concept that could become an alternative credit scoring method for SMEs. This stage will include data collection, desk research of other countries/economies with similar mechanisms, analysis of existing databases to identify potential predictive indicators for risk scoring, and the integration of relevant data points with the purpose of creating the scoring mechanism. In this stage the product or methodology will be researched and finalised, but not yet offered to the market in any significant degree.

Stage 3: Pilot (Loan Testing)

Timeline: October to September 2019 (12 months)

In this stage, the solution/methodology developed in the R&D stage will be tested under real-world circumstances. The financial institution will be testing the model live with a test portfolio of approximately 50-100 loans for a period of one year.

Stage 4: Consolidating Results & Learnings

Timeline: October to December 2019 (3 months)

KRN will work with partners to consolidate learnings from the pilot.

Budget Forecast

The forecast is based on KRN staff estimates. Actual amount may vary based on actual proposals and judgement of the panel of judges selecting final winners.

KRN anticipates two types of funding for the program:

- 1) *Grant for development of Model:* These funds will be used for developing the credit assessment model

2) *Guarantee against loan made using the Model:* Karandaaz will provide a guarantee up to X% of the value of the loans made using the Model.

	Description: Type of Funding	Amount: GBP	Quantity: No. of Grantees	Total: PKR
1.	Grant Money: Funds for Model Development (approx.)			
2.	Returnable Capital: KRN Guarantee (approx.)			
Total Grant Amount in PKR:				PKR

Annexure 2- Innovation Challenge Fund Round 3: Advisory Committee TORs

CONTEXT

The Karandaaz Board approved the third round of the Innovation Challenge Fund in the 17th BOD meeting held in December 2017. This round (ICF3) will focus on testing alternative credit scoring models for SMEs.

Lack of appropriate credit risk assessment models is a bottleneck for increasing lending to SMEs in Pakistan. Through ICF3, KRN will be inviting proposals for credit appraisal/risk scoring methodologies that break away from the conventional, collateral-based model used in banks today. The goal of the challenge is to provide lenders with an opportunity to use new sources of information and data, such as Big Data and Smart Data (including mobile-phone usage patterns, utility bill payment history and others) to build better and more appropriate risk assessment models for SMEs and test clean lending methodologies.

Karandaaz will be inviting financial institutions, data-analytic consultants, rating agencies, and other innovators to participate in the challenge round. The anticipated timeline for the grant, from soliciting proposals, to monitoring and consolidating results of the finalized model is 2 years (see below).



The Karandaaz Board approved the formation of an Advisory Committee which would provide guidance to the Karandaaz staff on designing and executing ICF3.

ROLE

The role of the Committee will be to provide strategic advice to KRN team on ICF3 and provide oversight to the programme. To do so, it will:

- a) Provide advice on design of the challenge round and its key activities.
- b) Enable linkages with industry players to ensure appropriate outreach regarding the challenge round.
- c) Review and approve key documents related to the challenge round such as the EOI, RFP and selection criteria for grantees.
- d) Evaluate shortlisted proposals and attend in-person presentations of applicants in order to select final grantees under the challenge round.

- e) Provide troubleshooting advice if required during implementation of projects that receive funding under the challenge round.

The Committee will treat all material shared by Karandaaz during the process as confidential including the concept paper, EOI applications, Business Plans and Presentations.

Members will be asked to declare any potential conflict of interest before reviewing the applications received.

COMPOSITION

As approved by the BOD, the Committee will be chaired by Ms. Romana Abdullah, Karandaaz BOD Member. Its composition will be as follows:

1. Romana Abdullah, KRN Board member (Committee Chair)
2. Waqas ul Hasan, DFID, Sr. Private and Financial Sector Adviser
3. Navid Goraya, CIO KRN
4. Amber Paracha, Pak Brunei Investment Company Ltd., Head- Credit Risk
5. Owais Zaidi, Credit Fix, Founder

The Committee may expand its membership or appoint advisors to assist it in reviewing proposals and selecting grantees.

COMPENSATION

Private sector representatives engaged as members of the Committee will be paid a lump sum honorarium for their services. This will be paid once the grantees' selection process is completed.

Annexure 3- Innovation Challenge Fund Round 3: Expression of Interest Sample Advertisement



BILL & MELINDA
GATES foundation



**TRANSFORMING
SME FINANCE**
*Innovative Credit Scoring
of SMEs*

POWERED BY
**KARANDAAZ
PAKISTAN**

Karandaaz Innovation Challenge Fund invites expressions of interest from financial institutions, FinTechs, and other innovators interested in developing and testing innovative credit scoring models for SMEs in Pakistan.



**#SMECreditScoring
#TransformingSMEFinance
#ICF3**

Download application form from:
www.XYZ.com

Last date to apply:
March 15, 2018

For details, visit our website:
www.karandaaz.com/ICF3

Annexure 4- Innovation Challenge Fund Round 3: Expression of Interest Guidelines



KARANDAAZ PAKISTAN

Call for Expression of Interest for Grant & Support Funding

KARANDAAZ INNOVATION CHALLENGE FUND FOR ROUND 3: SME CREDIT SCORING MODELS

Issue Date: January 26, 2018

Deadline for Questions: February 19, 2018

Deadline for Submission of Proposals: February 26, 2018

www.karandaaz.com.pk

This notice is placed by Karandaaz Pakistan. You are requested to direct all your queries to the Karandaaz Pakistan office in Islamabad, Pakistan using the e-mail address provided below.

Title of EOI: Innovation Challenge Fund Round 3: *Transforming SME Finance: Innovative Credit Scoring of SMEs*

Date of EOI: Friday, 26th January, 2018

Closing date of EOI: Monday, 26th February, 2018

Address EOI response to: Innovation Challenge Fund

EOI Number: 09

E-mail Address: ichallenge@karandaaz.com.pk

A. COMPANY OVERVIEW

KARANDAAZ PAKISTAN (KRN), a not-for-profit company established in August 2014 under Section 42 of Companies Ordinance of 1984, 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 (BMGF).

KRN has four core work streams, with the Innovation Challenge Fund (ICF) falling under **Karandaaz Innovation (KI)**. Karandaaz Innovation provides 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 stubborn barriers faced by SMEs, women and youth in accessing appropriate financial services and participating in the economy.

B. PROJECT DESCRIPTION

a) Background and Objectives

Small Medium Enterprises (SMEs) account for a substantial part of a country's economy, with significant contributions towards GDP, employment generation and export development. Despite this, SME lending in Pakistan is woefully low. While nearly 90% of the country's enterprises are categorized as SMEs, only 8% of total private sector financing is given to the SME sector. According to the State Bank of Pakistan (SBP), outstanding SME financing crossed PKR 400 billion in December 2016, compared to PKR 284 billion in December 2013.

Limited financial access is considered to be a significant barrier to the growth, sustainability and productivity of SMEs. Several factors have contributed to the supply-demand gap in SME finance:

- *Lack of strategic focus on SMEs* by banks, given historically "risk free" business models.
- *Gaps in key infrastructure*, such as a collateral registry and well developed credit bureaus.
- *Absence of low-cost operating models in banks to serve SMEs*, with a strong preference for asset-backed collateral.

- *Limited trained workforce within banks* which can develop and use the right credit models to assess the risk of SMEs.

Essentially, the lack of SME-appropriate credit-scoring models make it difficult for lenders to assess the creditworthiness of SMEs. This in turn makes SMEs costly to acquire, underwrite and finance, contributing to the SME Credit Gap.

The National Financial Inclusion Strategy (NFIS), and the strategic direction of SBP, as emphasized in their latest “Policy for Promotion of SME Finance”, identifies the SME sector as one of the key priority areas. By 2020, SBP is working towards increasing the SME share of private sector credit, from the existing 8 percent to 17 percent, as well as increasing the number of SME borrowers from 174,000 to 500,000. There is a growing emphasis on addressing the SME credit gap through well-targeted and innovative interventions. In particular, the NFIS highlights “psychometrics, “big data” and digital footprints”, as tools that are already being used to enhance credit scoring models in a number of countries, including Kenya (M-Shwari), Brazil (Oi Paggo), and Peru (Financiera Confianza).

In light of this context, KRN seeks to disrupt the status quo and develop innovative approaches to assessing credit needs and risks of SMEs. **Through ICF3, KRN will provide grant funding for testing credit appraisal/risk scoring methodologies that break away from the conventional, collateral-based model used in banks today.**

More specifically KRN will,

- Stimulate the market to develop new SME credit assessment models and enable entry of new players/service providers in the sector.
- Generate demonstration effect by testing and documenting the experience of clean lending to SMEs.

In particular, the goal of the challenge is to provide lenders with an opportunity to use new sources of information and data, such as Big Data and Smart Data (including mobile-phone usage patterns, utility bill payment history and others) to build better and more appropriate risk assessment models for SMEs and test clean lending methodologies.

b) Scope of Work

Karandaaz is inviting the following entities (independently or in consortium) to participate in this round: **Local financial Institutions, FinTechs, advisory and research firms, credit agencies and similar entities; and international organizations of similar nature in partnership with local Financial Institutions** The anticipated timeline for projects funded is three years from selection of grant partners. Karandaaz will be providing funds for development as well as testing of innovative credit scoring models.

c) Funding Support from KRN

Overall funding available through Karandaaz will be broken down into the following:

- Grant funds required for model development:* this includes cost of consultant, technical experts, data acquisition, etc. which relates to developing the credit scoring model.
- Grants funds required for operationalizing the project:* this includes costs related to project management staff, procurement of any hardware, travel costs, data collection and project monitoring expenses etc.
- Returnable Capital required for loan testing:* Karandaaz may provide first loss guarantees and/or risk participation based on methodology proposed by the applicants.

d) Process Flow and Project Timeline

Stage 1: Solicitation of Applications and Selection of Partners

Timeline: January to March 2018 (3 months)

Expressions of Interest: KRN will invite innovators from relevant industries, including financial services, tech, and telecom, and data analytics firms to submit an Expression of Interest (EOI). The template for the EOI is provided in Section E below. The EOIs will be reviewed and shortlisted by KRN's ICF team, based on a minimum eligibility criterion (defined in Section C below).

Request for Proposals: Shortlisted teams will be invited to submit and present a detailed Business Plan/Proposal, containing financial and technical proposals. Guidelines for proposals will be shared with shortlisted applicants. Along with the proposal, applicants will be required to make a presentation on the same to the ICF3 Advisory Committee.

Final Selection: ICF3 Advisory Committee will determine the evaluation criteria for proposals. It will review and select winning applicants. The Advisory Committee's recommendations will be presented to the Karandaaz Board for approval.

Stage 2: Research and Development of Model

Timeline: April to September 2018 (6 months)

In this stage, the Grantee(s) will develop the credit scoring methodology for SMEs. This stage will include data collection/acquisition, desk research of other countries/economies with similar mechanisms, analysis of existing databases to identify potential predictive indicators for risk scoring, the integration of relevant data points with the purpose of creating the scoring mechanism and other activities required to prepare for live testing of the model in the field.

Stage 3: Pilot (Live Testing of the Model)

Timeline: October to September 2020 (24 months)

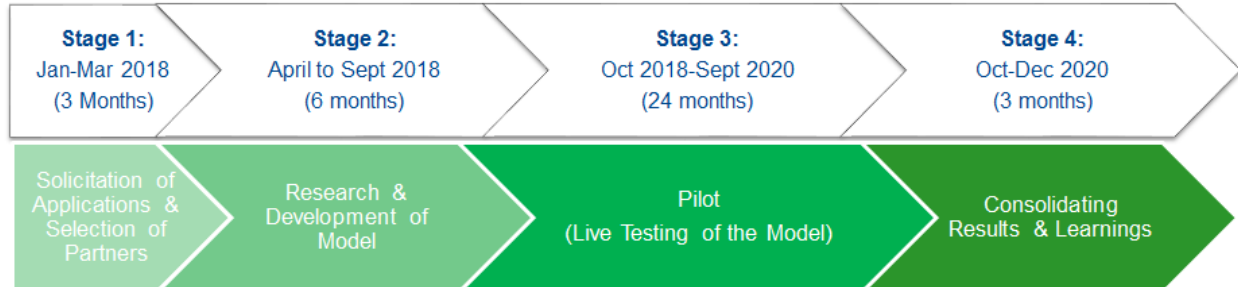
In this stage, the solution/methodology developed in the R&D stage will be tested with live loans to SMEs. The financial institution will be testing the model with a test portfolio of loans for a period of up to two years. The FI will treat this portfolio as an experiment, aiming to learn from the pilot and testing the model's robustness and power to predict firm behaviour.

Stage 4: Consolidating Results & Learnings

Timeline: October to December 2020 (3 months)

KRN will work with partners to consolidate learnings from the pilot.

ICF3- TIMELINE
Jan 2018 to Dec 2020



C. Eligibility Criteria for EOI Selection

- A **local financial institution** licensed to operate in Pakistan. The FI may apply on its own or in a consortium. The Lead Partner for Karandaaz in this case will be the financial institution. Preference will be given to FIs which partner with organizations with economic and credit scoring modelling expertise.
- A **local non-financial institution** with demonstrated experience and expertise in developing credit scoring models or similar risk assessment methodologies. While a non-financial institution may apply on its own at the EOI stage, if shortlisted for the RFP stage, it will be required to apply as a consortium with a financial institution. A letter of intent from the FI will be required as part of the proposal. The Lead Partner for Karandaaz in this case will be the financial institution.
- An **international non-financial institution** with demonstrated experience and expertise in developing credit scoring models or similar risk assessment methodologies. **While an international non-financial institution may apply on its own at the EOI stage, if shortlisted for the RFP it will be required to apply as a consortium with a domestic financial institution.** A letter of intent from the FI will be required as part of the proposal. The Lead Partner for Karandaaz in this case will be the financial institution.
- The proposed model is expected to **significantly** improve the current SME financing methodology and process by enabling a faster turnaround time, decreased documentation and/or ease of approvals of SME loan applications. The ticket size of the SMEs loans should be more than PKR 1.0 million.
- The proposed team should demonstrate a willingness to share broad-based learning with stakeholders.

Note: In this case, Financial Institutions includes all entities that have the regulatory authority (from SBP or SECP) to lend in Pakistan, including Non-Banking Financial Institutions (NBFIs).

D) Important Dates*

EOI Submission Deadline	By 5:00PM, 26th February 2018
Shortlist Applicants based on EOI	5th March, 2018

Submission of Detailed Business Plan by shortlisted applicants	By 5:00PM, 19th March, 2018
Presentation of Business Plans to KRN Advisory Committee and Review	29th March, 2018
Inform Applicants of Final Decision	After subsequent Board of Directors meeting

*These are indicative and may change.

Annexure 5- Innovation Challenge Fund Round 3: Expression of Interest Forms

Applicants are requested to complete the EOI form through our website (icf.karandaaz.com.pk), as specified in the format below. EOI Forms with supporting documents must be submitted by **5:00 PM** on **26th February, 2018** (Pakistan Standard Time). EOIs submitted after the deadline will not be considered for shortlisting. All queries may be sent to ichallenge@karandaaz.com.pk no later than 5:00 PM on **19th February, 2018**.

Name of Applicant's Organization(s)

Please list names of all organizations applying if in a consortium, clearly mentioning the Lead Organization.

Address of Applicant's Organization(s)

Please provide information for all organizations applying.

Year of Incorporation

Please provide information for all organizations applying.

Specific Law under which company is registered

Please provide copy of registration certificate for all organizations applying.

Tax Details of Organization

Please provide copy of official NTN certificate for all organizations applying.

Please provide brief overview of organization(s) current programme and services

Include information on relevant areas such as SME finance, economic modeling, credit scoring, risk assessment etc.

Please describe your proposed programme

Brief description of your idea and approach. Describe the type of data and research you will require, the SME segment you will target and why. Also discuss the roles and strengths of different partners if applying in a consortium.

Please provide names and brief bios of key personnel on the programme

The proposed team should have expertise in developing economic models, and a demonstrable track record in credit risk assessment (preferred).

Innovative aspect of your intervention

Why is your idea and approach innovative w.r.t SME finance in Pakistan?

Sustainability, Scalability and Soundness of programme

Interventions are expected to credibly demonstrate potential for scaling and sustainability after the support from Karandaaz has phased out, and should meet policy and regulatory standards for safe and sound financial systems.

Clearly specify how your organization will contribute to the project

These may be in-kind contributions in terms of staff time, office space, knowledge etc.

Suggestions for Karandaaz to consider

We welcome suggestions on the structure of this challenge round in terms of duration, structure of risk sharing, anticipated risks to consider etc. Please provide suggestions here.

Annexure 6- Innovation Challenge Fund Round 3: Proposal Submission and Evaluation Guidelines



Karandaaz Innovation Challenge Fund

Round 3: Transforming SME Financing

Innovative Credit Scoring of SMEs

Proposal Submission and Evaluation Guidelines

Ali Plaza, Mezzanine Floor, Nazimuddin Road, Islamabad 44000

Email: ichallenge@karandaz.com.pk

To complete the application process for ICF Round 3: **Innovative Credit Scoring Models for SMEs** (ICF3) of the Karandaz Pakistan Innovation Challenge Fund, applicants shortlisted at the EOI stage are requested to:

- A. Participate in the Proposal Development Workshop. (Date and location TBD).
- B. Submit a detailed Proposal by **5.00PM** Pakistan Standard Time on **16th April 2018**. The Proposal will comprise of a separate Technical Proposal and a Financial Proposal.
- C. Present their Proposals in-person to the Karandaz ICF3 Advisory Committee (date and location TBD, but within ten days of submission deadline of proposals).

Applicants will be evaluated against a pre-specified criterion. These guidelines provide details on the Proposal content and the Evaluation Criteria. The ICF3 Advisory Committee (AC)⁷ is responsible for selection of applicants and making its recommendation to the Karandaz Board. Final approval will be provided by the Karandaz Board.

At any stage of the application process, Karandaz reserves the right to request further information and/or clarifications from the applicant in relation to the submitted proposal.

A. PROPOSAL

Applicants are required to submit a Technical Proposal and a Financial Proposal. Both should be submitted simultaneously.

The **Technical Proposal** should be no more than 20 pages, and must include at least the following:

Section 1: Executive Summary (*no more than 1 page*): This should focus on the approach being proposed and the strengths of the applying institutions in delivering the project.

Section 2: Value Proposition (*no more than 1 page*): Briefly discuss your idea and approach here. Provide an overview of what you are proposing in terms of the SME segment you will be targeting and why, what are the challenges in lending to this segment and how the proposed model will overcome these challenges. Proposals which do not specify a customer profile and segment that the FI will be targeting will be penalized. Clearly state what makes this an innovation in SME finance in Pakistan and potential impact it can have if scaled up.

Section 3: Market Analysis (*no more than 3 pages*): This section should demonstrate your understanding of the SME finance market in the country. It is recommended that you discuss the demand side (size of the market, gaps in the market, customer segments, barriers in accessing finance etc.) and the supply side (who are the major players, existing products and services offered by the private and public sector, limitations of current products), regulatory frameworks and policies governing SME finance in the country, key trends and opportunities (for example, new market entrants, role of technology, macroeconomic developments). This Analysis should then be used to position your idea

⁷The Advisory Committee comprises of representative of Karandaz Pakistan (Board and Staff), the challenge fund sponsor, and private sector subject experts. The Advisory Committee reserves the right to appoint additional members for the purpose of selecting applicants.

within the SME finance landscape - which gap/challenge does it seek to address and why it is important to do so.

Section 4: Credit Scoring Model: Your Approach (no more than 5 pages): You should discuss your overall approach to developing the SME credit scoring model here.

This should cover the following:

- 1. Customer Segment and Profile:** Clearly state which segment in the MSME spectrum will be targeted, and why a credit scoring model will be an appropriate tool for this particular segment. If you have done some market analysis, include customer profiles that will be targeted. Specify if the FI is already serving this segment or if this is a new segment in the portfolio.
- 2. Data:** What data will you use? Is this already available or will you need to access it? How will you gain access? Why do you think this will provide a sound basis for your model? Are there examples of similar models being used or tested elsewhere?
- 3. Resource requirements:** What technical resources will you require? Do you need to procure any hardware or software? Please create a business case for the resources that you will need.
- 4. Project process flow:** What are the key milestones in your project (from R&D to live testing). Discuss what these entail and what will be the key deliverables at each stage that can be shared with Karandaaz. It is recommended that this information be presented in table format. The application must include a realistic time frame for implementation, including performance deliverables, timelines and milestones.
- 5. Innovativeness of the approach:** Discuss why this approach is innovative given the state of SME finance in Pakistan.
- 6. Implementation Plan:** The application must include a realistic time frame for implementation, including performance deliverables, timelines and milestones. Following the research and development phase, it should demonstrate a track record with measurable impact on access to finance as demonstrated by results from a pilot or other empirical testing. Proposals are to credibly demonstrate the number of underserved SMEs that could be reached over a designated time-frame, the volume of private SME finance that could be catalyzed, the amount of finance that would be available to individual targeted SMEs,
- 7. Sustainability, Scalability and Soundness:** Proposals are required to demonstrate potential for scaling and sustainability after the support from Karandaaz phases out, and should meet policy and regulatory standards for safe and sound financial systems. The new market areas to be served by the proposal and the potential for job creation (where possible).

Section 5: Loan Testing Strategy (no more than 2 pages): Lay out your approach to live testing your model. This should cover the types and number of loans, where you will test, who will manage the testing phase, who will monitor and track performance/results etc. The AC should be able to assess the robustness of your approach as well as its practical feasibility.

Section 6: Applicant(s) Profile (no more than 4 pages): This section should cover two areas:

- a. **Team Capabilities:** Please discuss why you are well positioned to undertake such a project. You should discuss your organizational profiles as well as the expertise of the team that will be executing the project. It should give confidence to the AC that the applicants have the required experience and relevant institutional background for this project. Discuss your project team structure here in relation to your approach. If you are working in a consortium, how will responsibilities and activities be divided and managed? CVs of key staff should be included in the proposals.
- b. **Commitment of the Applicant:** Given the medium-term nature of the project (24 months with possibility of extension, if required), the AC would assess: a) whether the project fits with the broader objectives and activities of the applicant, and b) buy-in of senior management and BOD to ensure continuity and commitment over the project's life

Section 7: Learning (*no more than 2 pages*): what will be your approach to capturing lessons from the project? How will these be documented and shared within your organization as well as with external audiences?

Section 8: Risk Assessment (*no more than 2 pages*):

Please provide a risk matrix here which covers key risks that you foresee in the project (regulatory, operational, strategic, compliance and financial) and the risk mitigation measures you propose. Also provide a risk rating (high, moderate, low) against all risks.

Any support required from Karandaaz in managing risks should be discussed in this section also.

The **Financial Proposal** should include a detailed budget covering the full duration of the proposed programme. Overall funding requested from Karandaaz should be broken down by:

- a) *Grant funds required for model development*: this includes cost of consultants, technical experts, data acquisition etc. which relates to developing the credit scoring model.
- b) *Grant funds required for operationalizing the project*: this includes costs related to project management staff, procurement of any hardware, travel costs, data collection and project monitoring expenses etc.
- c) *Returnable Capital (Karandaaz Guarantee) required for loan testing*: Based on the proposed testing methodology, please provide an estimate of the funds required. Karandaaz may provide first loss guarantees and/or risk participation based on methodology proposed by the applicants.

In addition to the above breakdown, also include a proposed milestone-based disbursement schedule.

All amounts should be in PKR. Funds will be provided in PKR to selected grantees.

Annexures (*not counted towards page limit*): The following documents should be provided with the technical proposal.

- Copy of Company Registration/Certificate of Incorporation (for all companies in case of a consortium)
- Audited Financial Statements (for all companies in case of a consortium)
- Letter of Intent from a financial institution working in the SME sector (in case of consortiums formed by non-financial institutions)
- Project implementation timeline with key milestones identified
- CVs of key personnel (no more than 3 pages per CV).

It is **strongly recommended** that applicants use the same headings as above for their Proposal. The technical proposal should be no more than **20 pages with 12 font size** in Times New Roman font.

The proposal and accompanying documents should be emailed to ichallenge@karandaaz.com.pk as well as submitted in hard copy to Karandaaz Procurement at the following address:

% Karandaaz Procurement

1-E, Ali Plaza, Nazimuddin Road, D Chowk, Islamabad, Pakistan

Telephone # +92 51-8449761

B. FINAL PRESENTATION

Each applicant is required to make a formal 30-minute PowerPoint presentation (15 min presentation + 15 min Q&A) to the Advisory Committee at a date and venue to be communicated after the submission of the Proposal. The presentation should ONLY cover the technical proposal and NOT the financial proposal.

The Presentation will provide the AC an opportunity for a face-to-face meeting with the Applicant to gain further clarity on the methodology/model, gauge the capability of the team, and assess the assumptions used to develop the proposals.

Karandaaz will cover the travel (domestic) and one-night lodging costs for 2 persons travelling for purposes of the presentation.

C. EVALUATION CRITERIA

The Technical Proposal and Presentation will be evaluated by the Advisory Committee as per the criteria and weightage specified in **Exhibit 1**.

Exhibit 1: Assessment Criteria

Assessment Metric	Relevant Proposal Section	Weightage
Relevant experience of the Applicant (3 bonus points for a relevant consortium)	Section 6 and Annexures	10%

Profile of the Project Team	Section 6	15%
Quality of the Proposed Methodology for Model Development	Section 3 and 4	20%
Approach to Live Testing of Scoring Model	Section 5	20%
Innovativeness of the Approach/Idea	Section 2 and 4	25%
Approach to Project Monitoring, Lesson Sharing and Risk	Section 7 and 8	10%
	TOTAL	100%

Minimum Qualification Criteria

Firms wishing to submit the proposal should meet the following requirements:

- Non-financial organizations/firms may apply, but as consortium with a financial institution demonstrated through a Letter of Intent.
- Firms must be a registered business with a NTN (for domestic firms).
- Firms must submit audited financial statements for the last three years.
- Firms should be GST and income tax registered (tax exempt firms should provide tax exemption certificate)
- Proposed project team should have expertise in developing economic models.

Copies of relevant documents should be attached with the proposal.

D. KEY DATES

Notification RFP Date: 19th March, 2018

Date of Proposal Development Workshop: TBD

Deadline for Questions on RFP: 5:00PM Pakistan Standard Time, 9th April, 2018

Deadline for Submission of Proposals: 5:00PM Pakistan Standard Time, **16th April 2018**

Tentative Date for Presentation to AC: 26th April, 2018

E. CONFIDENTIALITY

Information relating to the examination, evaluation, comparison, and post-qualification of proposals, and recommendation of contract award, shall not be disclosed to firms or any other persons not officially concerned with such processes until publication of the contract award.

Annexure 7- Innovation Challenge Fund Round 3: Proposal Presentation- Agenda & Schedule

Date: Thursday, May 31st 2018

Time: 10:00AM-5:00PM

Location: The Hive in Islamabad

1st Floor, Manzoor Plaza, Plot 14E, Fazle A.K. Fazl-ul-Haq Rd, G 6/2 Blue Area, Islamabad

Schedule for the day:

10:00-10:30 AM Judges and Participants Arrive.

Judges will be asked to sign Conflict of Interest Forms, and representatives will need to sign Terms & Conditions agreement.

10:30- 3:00 PM Teams present their proposals in their allotted time slots

- 30-minute presentation (15 minutes PowerPoint presentation & 15-minute Q&A)
- The presentation will only cover the Technical Proposal and not the Financial Proposal

No.	Start Time	End Time	Team
1	10:30:00 AM	11:00:00 AM	
2	11:00:00 AM	11:30:00 AM	
3	11:30:00 AM	12:00:00 PM	
4	12:00:00 PM	12:30:00 PM	
5	12:30:00 PM	1:00:00 PM	
30 minute break			
6	1:30:00 PM	2:00:00 PM	
7	2:00:00 PM	2:30:00 PM	
8	2:30:00 PM	3:00:00 PM	
9	3:00:00 PM	3:30:00 PM	
10	3:30:00 PM	4:00:00 PM	

4:00 - 5:00 PM Judges Deliberate

Annexure 8- Innovation Challenge Fund Round 3: Conflict of Interest Form for Judges

CONFLICT OF INTEREST FORM FOR JUDGES

Innovation Challenge Fund- Round 3: Innovative Credit Scoring of SMEs

CERTIFICATION AND AGREEMENT FOR THE USE AND DISCLOSURE OF INFORMATION AND

CONFIRMATION OF NO CONFLICT OF INTEREST

With respect to the Proposal Presentation Day for Innovation Challenge Fund Round 3 (ICF3)- Innovative Credit Scoring of SMEs, the undersigned hereby agrees and certifies the following:

1. I, will use the proposals, presentation, and all information therein, other than information otherwise available without restriction, for evaluation purposes only. I will safeguard all such information, and not disclose it (other than information otherwise available without restriction), except as approved by Karandaaz Pakistan.

2. I have carefully reviewed my employment (past, present and under consideration) and financial interests, as well as those of my household family members. Based on this review, I certify, to the best of my knowledge and belief as of the date indicated below, that I have no actual or potential conflict of interest, personal or organizational, that could diminish my capacity to perform an impartial and objective evaluation of the pitches, or that might otherwise result in an unfair competitive advantage to one or more prospective business. I understand that I will also be under a continuing obligation to disclose, and act as instructed concerning, such conflicts discovered at any time prior to the completion of the evaluation.

Name: _____

Signature: _____

Date: _____

Annexure 9- Innovation Challenge Fund Round 3: Terms & Conditions Form for Participant

TERMS & CONDITIONS FOR PARTICIPANTS

Innovation Challenge Fund- Round 3: Innovative Credit Scoring of SMEs

One representative from each participating organization in the team that is present should read the following carefully and sign at the bottom of the terms and conditions disclosure statement. Participants not submitting signed Form will not be eligible to make a presentation.

With respect to the Proposal Presentation Day for Innovation Challenge Fund Round 3 (ICF3)- Innovative Credit Scoring of SMEs held on 31st May, 2018, the undersigned hereby agree and certify the following:

1. Each participant will be voluntarily presenting their proposals in front of an audience, which may include judges, members of a video/photography crew, and ICF3 organizers.
2. Each participant hereby voluntarily releases ICF3 organizers, judges and other invited guests and/or dignitaries from any liabilities, responsibilities, and accountability relating to or arising out of their organization or participation in this event and any follow-on related proceedings.
3. Each Participant represents and warrants that neither its participation or disclosures during the event, nor ICF3 organizers' exercise of any of the rights granted to them under these Terms and Conditions will (a) infringe or violate any rights of any third party or entity, including, without limitation, those relating to patents, copyrights, trademarks, trade secrets, moral rights, mask works, defamation, privacy, publicity, false light, misappropriation, confidentiality, and/or any contractual or other rights recognizable under any applicable law, or (b) otherwise violate any applicable law or regulation.
4. Each participant agrees that any funding offered to selected team) s) shall be conditional upon Karandaaz Pakistan and the selected team(s) mutually agreeing upon milestones relating to ICF3. Details of the funding will be mutually agreed through co-signing of legal contractual agreements.
5. The participants agree that if they are selected for funding, it does not automatically accrue the right to receive funding, till an agreement is signed between Karandaaz Pakistan and the business.
6. The participants agree that if the final terms of the agreement are not mutually agreed with Karandaaz Pakistan, then Karandaaz Pakistan may withdraw the offer of funding at its sole discretion and without liability.
7. Each participant agrees that the judges reserve the right to accept or reject any presentation without assigning any reason whatsoever. Moreover, the decision of judges is final and not subject to contestation.
8. Each participant agrees to be filmed and/or photographed and available for interviewing, filming and photography and for other public relations, marketing and promotional activities associated with the event.

Read, understood and signed by representative from each organization/institution representing the team

Name: _____ Signature: _____

Organization:

Name: _____ Signature: _____ Organization:

Annexure 10- Innovation Challenge Fund Round 3: Scoresheet for Proposal Presentation Day

Team Name: _____

Judge Name: _____

Guidelines for Scoring:

- 30-minute presentation (15 minutes PowerPoint presentation & 15-minute Q&A)
- The presentation will only cover the Technical Proposal and not the Financial Proposal
- Total Score Points= Total Weightage (e.g. 10% weightage = 10 points, with 10 being the highest)

PLEASE DON'T FORGET TO SIGN!

Assessment Metric	Weightage	Score	Notes
Relevant experience of the Applicant (3 bonus points for a relevant consortium)	10%		
Profile of the Project Team	15%		
Quality of the Proposed Methodology for Model Development	20%		
Approach to Live Testing of Scoring Model	20%		
Innovativeness of the Approach/Idea	25%		
Approach to Project Monitoring, Lesson Sharing and Risk	10%		
TOTAL	100%		

Additional comments:

Date: _____

Signature : _____

Annexure 11- Innovation Challenge Fund: Progress Report Template

Karandaaz Innovation Challenge Fund

Progress Report

Date: -
Progress
Report #: -
Grant
Agreement: -

Milestones for this period as per Contract

Achieved?
(Please mark YES
or NO)

1
2

Section 1: Project Overview

This section should provide an overview of the project. It should include:

- Project objectives
- Overview of project design
- Duration of the project
- Approved Budget (Limit: 250 Words)

Section 2: Key Milestones & Progress to Date

This section should narrate the progress of the project against each Deliverable outlined in the contract.

Section 3: Challenges

This section should highlight challenges faced while implementing the project and steps taken to overcome them.

Section 4: Activities for Next Phase

Briefly describe the activities planned during the next phase, with expected dates of completion. Identify potential risks, challenges and mitigation strategies.

Section 5: Breakdown of the Grant Funds

[The financial report should be submitted in the "Financial Report" tab](#)

The narrative accompanying the report should be provided in this section. This could include, for example, significant variation from budget, and reasons for variation. Any requests for change to budget should be included here.

This report is submitted by:

Name: _____
Date: _____
Telephone: _____

Digital Signature

Template For Financial Report

Key Milestone : as per approved business plan:

	Deliverables	Description of Activity	Budget as Per Contract (PKR)	Actual Expenses (PKR)	Difference	Grantor's Allocation (PKR)	Grantees' Allocation (PKR)	Notes*
1								
2								
3								
4								

(Note: Each milestone will be defined as described above or as defined in the Grant Agreement)

Annexure 12- Innovation Challenge Fund: Invoice Template for Disbursement of Funds

Name:
Phone :
Email:

Date: _____

NTN #: _____

CNIC #: _____

Invoice # (e.g. 1 of 3) _____

KARANDAAZ PAKISTAN 1E, Ali Plaza, Nazimuddin Road, D Chowk, Islamabad Telephone: 051- 8449761
--

Total Amount (PKR): _____

Description of Deliverable (As per Contract)	Amount to be Disbursed (%age of Total Grant)	Amount (PKR)
Deliverable 1:		

Total _____

"I hereby certify that, to the best of my knowledge and belief, all payment requested are correct, accurate, complete, and in accordance with the signed ***Agreement with Karandaaz Pakistan*** "

Account Title _____

A/c #: _____

Bank Name & Branch Address: _____

Branch Code: _____

Swift Code: _____

IBAN: _____

Signature: _____

Name: _____

Date: _____

Annexure 13- Innovation Challenge Fund: TORs for Receipt & Expenditure Verification of Grant Agreements

Terms of Reference for RECEIPT and Expenditure Verification of Grant AGREEMENTs

The following are the terms of reference ('ToRs') on which the **Grantee** agrees to engage audit firm 'the Auditor' to perform an Audit and to report to Karandaaz Pakistan, the "**Grantor**".

Subject of the Engagement

The subject of this engagement is the Grantee's Receipt and Expenditure verification in connection with the Grant Agreement for the period covering and the action entitled as per **Clauses 13 and 14**.

And for any assets of the project hence there would be balance sheet and asset verification as entitled as per **Clauses 13 and 14**.

Engagement Type and Objective

The objective of this receipt and expenditure verification is for the Auditors to verify that the receipts and expenditures claimed by the 'grantee' for the project financed under the Grant agreement occurred and are accurate and eligible; and to submit to the Grantor the Audit Report with regard to the audit procedures performed. Verification means that the auditors examines the factual information in the financial records of grantee and compare it with the terms and conditions of the Agreement.

Scope of Work

The Auditor shall undertake this engagement in accordance with these Terms of Reference and:

- the International Standard on Related Services ('ISRS') 4400 Engagements to perform Agreed-upon Procedures regarding Financial Information as promulgated by the IFAC;
- the Code of Ethics for Professional Accountants issued by the IFAC. Although ISRS 4400 provides that independence is not a requirement for agreed-upon procedures engagements, the Joint Managing Authority requires that the Auditor is independent from the Beneficiary and complies with the independence requirements of the Code of Ethics for Professional Accountants

The Terms and Conditions of the Agreement:

The Auditor verifies that the funds provided by the Agreement were spent in accordance with the terms and conditions of the Agreement.

Planning, procedures, documentation and evidence:

The Auditor should plan the work so that effective audit can be performed. The Auditor should document matters which are important in providing evidence to support the report of factual findings, and evidence that the work was carried out in accordance with ISA and these ToRs.

Reporting

This report would be addressed to Project Director of the **Grantee**. This Report is solely for the purpose set forth in the above objective, has been prepared solely for the confidential use of the Grantee and the Grantor and is solely for the purpose of submission to the Grantor. This report may not be relied upon by the Grantee or by the Grantor for any other purpose, nor may it be distributed to any other parties. The Grantor may only disclose this Report to others who have regulatory rights of access to it in particular the donors.

Other Terms

If there is a requirement to perform additional procedures or an audit or review of the financial statements of the grantee in accordance with International Standards on Auditing, other matters might have come to our attention that would have been reported to the Grantor.

The Scope also cannot be relied upon to disclose whether fraud, errors or illegal acts exist. However, auditor will inform Grantor of any material matters that come to their attention.

TERMS OF REFERENCE

Audit Objectives:

To carry out grant-specific financial audit.

Scope of Work

The audit will cover, but will not be limited, to the following areas, as related to the grant:

- Accuracy of Project expenditures reported to Grantor.
- Compliance on contractual agreements with reference to agreement between Grantee and Grantor.
- Procedures for procurement for goods/services
- Valuation and Ownership, Existence (In case of Assets), Completeness, Presentation and disclosure in Financial Statement, Adequacy and accuracy of inventories, stocks and assets, if applicable.
- Accuracy of cash and bank book and bank balances reconciled to monthly bank statements
- Compliance with regard to local or national taxes, relevant laws and other relevant financial and reporting requirements of the Government of Pakistan.
- Status of accrued liabilities, if any.
- Audit opinion

Methodology

The methodology to be used to conduct this audit will be determined by the appointed auditor and shared with the Grantor during the pre-audit briefing.

Annexure 14- Innovation Challenge Fund: Project Closure Report

[Grantee letterhead]

Date: XXXX

Attn:

Head Innovation Challenge Fund

Karandaz Pakistan

PROJECT COMPLETION REPORT FOR THE [CHALLENGE ROUND]

Dear XXX

With reference to article XX of the [Grant Agreement] between Karandaz Pakistan 'company' and [Grantee Company Name] dated XXXX we are pleased to submit this project completion report for [Challenge Round] in the format given below.

PROJECT COMPLETION REPORT		
SECTION 1: BASIC INFORMATION		
1.1	Grantee Organization Name	
1.2	Grantee Organization Address	
1.3	Project Title	
1.4	Project Start & End Dates	Start: End:
1.5	Reporting Period	From:

		To:
1.6	Total Project Budget	
1.7	Total Funding from KRN	
1.8	Financial Funding from other sources Please state all other sources of funding and amounts in relation to this project. Sources should be listed in brackets e.g.,; PKR 100,000	

[Grantee letterhead]

SECTION 2: SUMMARY, PROGRESS AND RESULTS	
2.1	PROJECT SUMMARY a. In your own words please describe your project, its context, who has benefitted from it/will benefit from it and how the overall change has been achieved

	b. Please provide a couple of direct quotations from beneficiaries/customers that illustrate how the project intervention has improved their lives.

2.2	KEY RESULTS AND ACHIEVEMENTS FROM THE OUTSET OF THE PROJECT Please provide a summary of each milestone achieved as per contract expectations:

Milestone: xxxx

Deliverables Submitted (please specify Yes/No/Partially. If you write No or Partially, please provide an explanation):

Summary of progress:

Challenges and Learning:

(Note: Each milestone will be defined as described above or as defined in the Grant Agreement)

2.3

RISK MANAGEMENT & MITIGATION

With reference to the project's risk management matrix, please use the table below to describe the main risks you faced during the project period and how you dealt with them.

Which risk materialized in the project period? Describe briefly.	Was the risk anticipated? Yes/No/To some extent	What action did you take to address the risk? Briefly explain.	Was this action sufficient? Yes/No/To some extent

[Grantee letterhead]

SECTION 3: VALUE FOR MONEY

3.1	Economy: Buying inputs of the appropriate quality at the right price. What policies and practices have been followed by the project to ensure that funds were used to purchase inputs economically? What did the project do to drive down costs whilst maintaining the necessary standards of quality? Include references to the use of any relevant unit cost benchmarks. (Inputs include staff, consultants, raw materials and capital to produce intended outputs)
------------	--

3.2	Efficiency: Converting inputs to outputs through project activities. What steps have you taken during the project to ensure resources (inputs) were used efficiently to maximize the results achieved, such as numbers reached or depths of engagement? Include references to the use of relevant cost comparisons at any output level (e.g. standard training cost per trainee); Operating Cost as a percentage of Total Cost; and any efficiencies gained from working in collaboration with others.
------------	---

3.3	Effectiveness: Project outputs achieving the desired outcome on the goals outlined in Business Plan. To what extent do you consider the project to have achieved the anticipated changes for beneficiaries and target groups? How well did the outputs of the project work towards the achievement of the outcome?
------------	---

SECTION 4: SUSTAINABILITY

4.1

What have you done to ensure that **project outcomes** will be sustained beyond the lifetime of the grant?

[Grantee letterhead]

SECTION 5: LEARNING

5.1 Are there any lessons which you have learned that you think may be particularly useful for other partners, grantees and Karandaaz? Please describe them and explain their wider relevance below.

SECTION 6: RECOMMENDATIONS AND FEEDBACK

6.1 Please enter any recommendations and feedback you have for Karandaaz based on your experience with the program.

SECTION 7: REQUIREMENTS OF GRANT ARRANGEMENT

7.1 **USE OF DFID and Karandaaz LOGO**
Original Grant Agreement commits you, unless agreed otherwise, to explicitly acknowledge DFID/Karandaaz support through use of Karandaaz/DFID's UK Aid logo in all communications with the public or third parties about your project. Please outline the ways in which you have done this during the reporting period.

Should you have any questions or need more information on the above, please feel free to contact Mr. XXXX at _____.

Thank you.

Sincerely

XXXX

Appendix 5: Financial Report

Template For Financial Report

Key Milestone : as per approved business plan:

	Deliverables	Description of Activity	Budget as Per Contract (PKR)	Actual Expenses (PKR)	<i>Difference</i>	Grantor's Allocation (PKR)	Grantees' Allocation (PKR)	<i>Notes*</i>
1								
2								
3								
4								

Auditor Note: (On Key Findings)

Milestones:

Budget

Bank Accounts

Expenses

Final Comments:

(Note: Each milestone will be defined as described above or as defined in the Grant Agreement)