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CEO's Message

Greetings on behalf of Karandaaz Pakistan!

I am delighted to share the many happenings at Karandaaz during the last quarter! Earlier this year, Karandaaz welcomed two new members to the Karandaaz Board – Dr. Shamshad Akhtar and Mr. Salim Raza, both former Governors of the State Bank of Pakistan. Dr. Akhtar will Chair the Board of Karandaaz Pakistan. We are confident that under their guidance, Karandaaz will grow from strength to strength.

We also continued to forge new partnerships in this quarter. Karandaaz Pakistan and National Rural Support Programme (NRSP) signed an equity investment agreement for scaling up NRSP Agriculture Processing Company Limited. A risk participation agreement was signed with JS Bank Limited to increase the availability of credit to Pakistan's SMEs. Another partnership, as part of Karandaaz's annual Innovation

Challenge Fund, was formed with Allied Bank Limited to develop a cash-flow based credit scoring model for SMEs. Grants have also been awarded to winners of the recent round of the Karandaaz FinTech Disrupt Challenge. In total Karandaaz has invested in 10 promising FinTechs in the last three years.

In this quarter we have also launched the Karandaaz Portal, a data hub for collated information on financial inclusion. Realising the importance of evidence based decision making for policy makers, financial service providers, development practitioners, and the private sector, the portal provides access to data from a wide range of sources. If you have not already, do visit our website to give it a try!

Ali Sarfraz
CEO, Karandaaz Pakistan

Newsflash

▶ Karandaaz Partners with National Rural Support Programme for Expansion of Agricultural Processing Company Limited

Karandaaz Pakistan and National Rural Support Programme (NRSP) signed an equity investment agreement for scaling up Agriculture Processing Company Limited (APCL) as an agriculture value chain proposition for smallholder farmers. APCL aims to scale up opportunities for warehousing, financial inclusion, and the incidence of rural industrialization for smallholder farmers in the rice value chain. The model has already been tested and successfully implemented by NRSP over the last few years under the Innovation Challenge Fund administered by the State Bank of Pakistan. The agreement signing ceremony was attended by Board members and senior management of both organizations.



Mr. Shoaib Sultan Khan, Founder and Chairman NRSP congratulated the management of both Karandaaz and NRSP for rolling out a project that will help smallholder farmers without compromising the principles of sustainability. Dr. Rashid Bajwa, CEO NRSP expressed his firm belief and confidence in the success of the initiative for achieving scale, profitability, and better opportunities for smallholder farmers.

Speaking at the occasion, Mr. Ali Sarfraz, CEO Karandaaz said,

“This investment from Karandaaz is expected to contribute toward scaling up of business opportunities in the agricultural economy, food security, and reap better rewards for Pakistani rice farmers. Raising equity and debt financing is a key challenge for SMEs and Karandaaz is strategically placed to fill this gap as a long-term investor with a focus on SME infrastructure development. Additionally, Karandaaz’s investment in APCL is expected to successfully demonstrate value chain services including warehousing at scale for the first time in the country.”

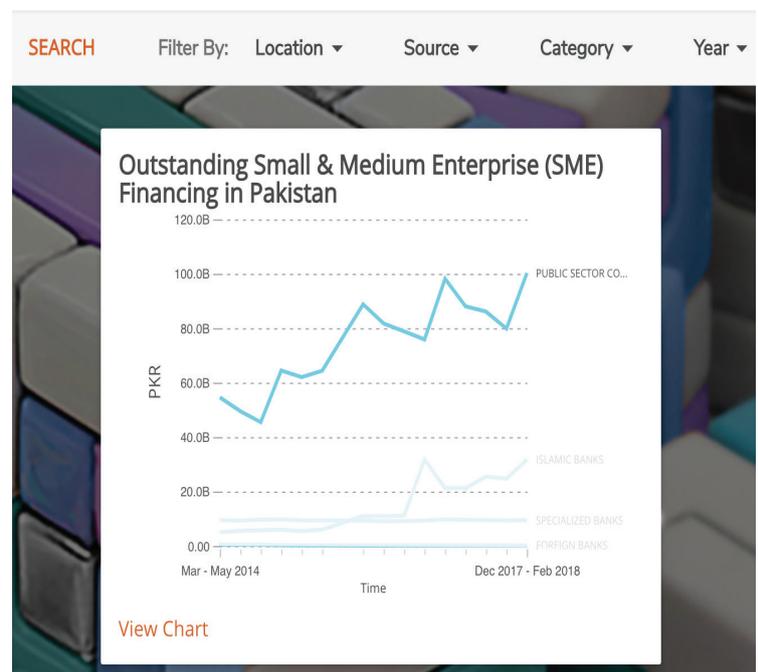
▶ Karandaaz Launches a Portal on Financial Services Indicators for Pakistan

Karandaaz Pakistan has launched an online data portal with aggregated data on financial services and selected socioeconomic indicators for the country. The data is classified by segment—SME, Agriculture, Branchless Banking, Demographics—and also allows for visualization by province, gender, age, etc., where available. Drawing on publicly available information from reputable sources, the breadth of information contained in the portal will be expanded over time with the addition of new data categories and metrics accompanied by continuous backend upgrades. The portal can be accessed at: <https://karandaaz.com.pk/karandaazportal/>

Karandaaz is of the view the portal will be useful for a wide range of stakeholders including policy makers, financial service providers, researchers and academics. Ultimately, the success of the portal will be contingent on the level of utility that it can create for policy makers and industry proponents. Therefore, in addition to providing a one-stop aggregator tool, in future, Karandaaz aims to add the capability of layering datasets, to generate more nuanced learnings and insights.

Speaking about the initiative, Mehr Shah, Director Knowledge Management and Communications, Karandaaz Pakistan said,

“Developing the portal has involved extensive effort in design, optimization, data entry and collation. The effort was hinged on a delivery model that leverages a SAS platform for data visualization, negating the need for maintaining expensive in-house servers and computing hardware which substantially reduced project cost. The result is an easy-to-use platform which ensures access to data at the click of a button.”



Ali Sarfraz, CEO Karandaaz Pakistan said,

“At present, there are numerous data sources on the provision of and access to financial services in Pakistan. These data are collected and collated at significant cost by government agencies, industry associations and development agencies. Therefore, while the availability of rich data was identified by Karandaaz as a positive, the lack of a platform to aggregate these indicators and industry benchmarks to allow for time series analysis and cross-sector comparisons was a pressing knowledge gap. We hope that this data portal will give rise to similar initiatives in other sectors, giving momentum to the good practice of making data the center piece of our discussions, debates and conversations on financial inclusion in Pakistan.”

► PKR 1 billion Announced for SMEs by UK-funded Karandaaz and JS Bank

In January Karandaaz signed an agreement with JS Bank in Karachi to jointly make PKR 1 billion available for small and medium enterprises (SMEs) financing. Increased access to SME financing will create jobs, improve household incomes and increase economic growth at a macro level in Pakistan.

JS Bank is one of Pakistan's fastest growing banking institutions, signed the risk participation agreement to jointly facilitate SME financing. The facility has been designed on a 50-50 risk participation basis between the two organizations to improve overall commercial lending for the SME sector in Pakistan.



Joanna Reid, Head of DFID Pakistan, while speaking about the partnership between Karandaaz and JS Bank said,

“This is an exciting new step in the UK's support to Pakistan's economic growth and improved business investment climate. I'm proud of the agreement signed today as SME financing means more jobs for younger people, a skilled workforce and innovation businesses. The UK is committed to support Pakistan to reduce poverty and achieve prosperity for all.”

Speaking at the occasion Mr. Ali Sarfraz, CEO Karandaaz Pakistan said,

“It is critical for broad based economic and employment growth in Pakistan that the existing credit contraction is reversed and brought in line with comparable international benchmarks of at least 20-30 percent of banking assets directed towards SME financing. It is also crucial for commercial banks to develop viable credit models to lend to this vital agent of the economy. Karandaaz is glad to be partnering with JS Bank, one of Pakistan's most forward-looking banks, to introduce this financing for SMEs.”

JS Bank's CEO and President, Mr. Basir Shamsi stated,

“Living up to its commitment towards financial inclusion, innovation and customer-centricity, JS Bank is striving to introduce value added partnerships and offerings catering to SME financing. We currently offer a range of trade facilitation services, business loans, dedicated relationship managers and other convenience focused amenities to augment the banking experience for our SME clients. This risk participation facility with Karandaaz will aid further enhancement of our SME financing portfolio and cater to the needs of the market.”

JS Bank, has embarked on several initiatives to strengthen its product lineup including variants of value-added financial services and technology based solutions to expand its SME relationships. In addition to introducing specific products and services for SME financing, the bank has further enhanced its focus through its relationship lending model as well as operating through several dedicated hub branches across the country.

▶ Financial Sector Stalwart, Dr. Shamshad Akhtar to Head Karandaaz Board



Karandaaz Pakistan is pleased to announce the appointment of Dr. Shamshad Akhtar as its new Chairperson, Board of Directors. Dr. Shamshad Akhtar replaces Dr. Ishrat Husain, who served as the Chairman of Karandaaz Board since the time of its inception in 2014. Dr. Husain stepped down following his appointment as Advisor to the Prime Minister of Pakistan on Institutional Reforms and Austerity.

Dr. Shamshad Akhtar has had a broad based development career in leading national and multilateral organizations spanning over 37 years. She has served as the Governor of the State Bank of Pakistan, Under Secretary General of the Economic and Social Commission of the Asia and Pacific (UNESCAP), Senior Special Advisor on Economics and Finance and Assistant Secretary General UN, the UN Secretary General's G20 Sherpa, Vice President, Middle East and North Africa (MENA) at The World Bank, and Senior Special Advisor to the President of Asian Development Bank (ADB). Most recently, Dr. Shamshad Akhtar served as Federal Finance Minister in the caretaker government prior to the general election of Pakistan in 2018.

Dr. Shamshad Akhtar has advised various governments and the private sector in specific areas of development, governance, poverty, privatization, and public-private partnerships in numerous sectors. As Governor of the State Bank of Pakistan, she was nominated Asia's Best Central Bank Governor by the Emerging Markets Group in 2006 and Bankers Trust in 2007. She was also amongst Asian Wall Street Journal's top ten Women Business Leaders in 2008.

▶ Karandaaz and Allied Bank Join Hands for developing an Innovative Credit Scoring Model for SMEs

Karandaaz Pakistan under its third round of Innovation Challenge Fund (ICF) has signed an agreement with Allied Bank Limited (ABL) to support the bank for developing an innovative, cash-flow based, credit scoring model for small and medium enterprises (SMEs). During this annual challenge, Karandaaz had invited ideas from entities interested in developing and testing innovative credit scoring models for SME lending in the country. ABL, the fifth largest bank of Pakistan with 'AAA' rating assigned by PACRA, will use the support from Karandaaz to design and test its proposed method of calculating credit scores for SME obligors looking to avail credit from the bank.

Currently, banks assess credit risk for lending to small and medium sized businesses based on collateral. Although SMEs accounts for 30 % of GDP, generate 78 % of non-agri employment, and contribute 25 % of manufactured goods exports, their ability to access finance suffers due to collateral related impediments. As procedures and requirements for SME financing remain complex, time-consuming, and costly, the SMEs end up relying on their own resources or informal financial service providers to meet their financing needs. The innovative idea emerging from the collaboration between Karandaaz and ABL will disrupt the status quo for assessing credit needs and risks of SMEs and help lead the industry to break away from conventional, collateral-based models presently used.

Speaking about the partnership, Mr. Tahir Hassan Qureshi, CEO Allied Bank said,

“Allied Bank Limited, with its extensive outreach of over 1,300 branches across the country aims to be the first bank of choice for customers. Simultaneously we have undertaken various initiatives to provide high-tech innovative solutions to meet customers' requirements and create sustainable value through quality growth, efficiency and diversity for all stakeholders. Being a socially responsible institution, ABL has always endeavored to play a proactive role in contributing towards the economy and society. We are confident that the success of this innovative credit scoring model will add value to our modelling capabilities. The associated learnings would also benefit the overall banking industry and SME financing landscape in the country.”



Speaking about the collaboration, Ali Sarfraz, CEO Karandaaz said,

“We are confident that the funding from Karandaaz to Allied Bank will help the bank pursue the agenda of disruption and innovation in financial sector and develop a model of innovative credit scoring that favors SME lending. Karandaaz is committed to the financial inclusion of small and medium enterprises and we can see that this round of Karandaaz Innovation Challenge Fund has motivated innovators to look beyond the obvious and come up with credit scoring ideas that suit small and medium sized entrepreneurs. Small and medium sized businesses must be provided an environment where access to finance through formal channels is easy for them so that they grow, create more jobs, and benefit the overall economy.”

Amongst other attending the signing ceremony were Ms. Aban Haq, Head of Innovation at Karandaaz, Mr. Aizid Gill, Chief Risk Officer, Allied Bank, Mr. Shahid Amir, Chief Commercial & Retail Banking Group, North, Allied Bank and other senior team members of ABL from Business and Risk Management.

► Mr. Salim Raza, Former Governor State Bank Joins Karandaaz Board



Karandaaz Pakistan announced the appointment of Former Governor SBP Mr. Salim Raza to its Board of Directors.

Mr. Salim Raza has over 40 years of experience in the banking and financial sector. He holds a combined BA and MA degree from Oxford University where he studied Politics, Philosophy and Economics at Oriel College. He currently serves on the Boards of Habib Bank Limited, International Industries Limited, and Planet N Group. He is an adjunct professor at the Institute of Business Administration (IBA), Karachi for Political Economy and also lectures on a variety of economic-development related subjects at different forums. He has held the position of the 15th Governor of SBP after having worked in international banking for 36 years. Mr. Salim Raza's business experience covers credit and corporate finance, real estate, and global asset management. He has also been the CEO of Pakistan Business Council (PBC).

During his tenure at SBP and his association with PBC many innovative initiatives were introduced to assist deepening of debt capital markets, broadening financial inclusion, increasing access to credit for the agricultural and SME sectors, reforming and improving efficiency within the banking sector, and advancing the cause of economic empowerment. Prior to that, Mr. Salim Raza held various positions at Citibank NA in Pakistan and abroad and served as Country and Regional Head for Citibank across various geographies in the Middle East, Asia, Africa, the UK, Central and Eastern Europe. In September 2018, Mr. Salim Raza was appointed to the Prime Minister of Pakistan's Economic Advisory Council as a member representing the private sector.

► Karandaaz Continues to Promote FinTech Innovation through Grants

Karandaaz Pakistan signed grant agreements with the winners of its third 'FinTech Disrupt Challenge' at a ceremony in Islamabad. The annual challenge, run with support from the Bill & Melinda Gates Foundation, funds ideas that use technology to bring financial services to underserved segments of the economy and create a social impact. In this round, Karandaaz invited FinTechs to design and present solutions in nine thematic areas including payments, interoperability, consumer/ retail banking, regtech, insurtech, mobile wallets, loyalty programs, lending, and savings. Three startups from this round were selected after a close competition between 16 startups. These are 'Matilda Solutions', 'Love for Data', and 'AgriMart'. Matilda Solutions is working on developing a biometric verification authentication suite which will include fingerprint verification, liveness detection, and facial recognition. Love for Data is developing a credit scoring algorithm based on data analytics which will predict fraud detection and credit profile of a consumer. AgriMart is a one window platform that is easily accessible to the agri community and can be used for complete agri-ecosystem and sustainable agriculture. Under this grant cycle, the three successful startups will each receive funding of PKR 10 million from Karandaaz to implement their ideas. During previous rounds Karandaaz provided grants up to PKR 500 million to Ricult Pakistan, Publishex Solution, Paysys Labs, Credit Fix, Unikrew Solution, Agri-Gate, and Invoice Waqalah.



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

“ We are confident that the grants agreements we signed today will help the three startups play an effective role in changing Pakistan's financial services landscape for the better. Over the years, Karandaaz FinTech Disrupt Challenge has emerged as a leading platform through which we give emerging and aspiring innovators an opportunity to materialize their groundbreaking ideas. We have established a model of supporting innovation in the FinTech domain for other players from public and private sector to emulate. Financial technology is now a viable new field for innovators in Pakistan and new funding avenues are becoming available for them.”

Blog

The Unbanked: A Hundred-million Question

In the context of developing countries like Pakistan, financial inclusion is generally considered to be more about broadening the access of formal financial services (payments, savings, loans, insurance products etc.) to individuals and Small & Medium Enterprises (SMEs) that are currently out of the banking system. However, access is step one; quality of access to the affordable products and services that meet different segments' unique needs would be the driving force for the uptake and usage of these services. Without offering any value to the masses, access might create a new problem in the form of inactive banking accounts.

In Pakistan, the unbanked population is estimated at 100 million adults, mostly women. According to State Bank of Pakistan's Access to Finance Survey (2015), the formally banked individuals (those having transaction accounts, either conventional or mobile money accounts) were 23 percent of the adult population¹. More recently, the World Bank's Findex database estimated the financially-included population at 21 percent of Pakistani adults, for 2017².



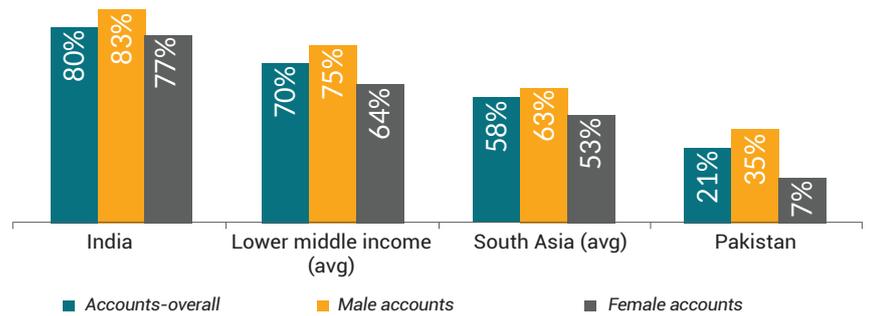
Digital Channels to the Rescue

Both those datasets highlight the stark fact that at least three quarters of Pakistan's adults are excluded from the formal financial system. Gender gap in account ownership is one of the widest in the world. The country also significantly lags behind the averages for South Asia and the lower-middle-income economic category (see the graph above)³. As per Financial Inclusion Insights (FII) Survey, significant preconditions to increase financial inclusion using Digital Financial Services (DFS) are present in Pakistan; 95% adults have the necessary ID, 77% have mobile phone access and are aware of Mobile Money, numeracy skills are at higher side but financial literacy is under 20%.

Pakistan's Account Ownership in relation to its Peers

(as % of 2017; among adults of age 15+)

Data source: Findex, World Bank



Successive Pakistani governments have focused in the last decade to improve financial inclusion. Learning from the experience of mobile payment operators in countries like Kenya, an effort has been focused on the 'digital' potential that exists in Pakistan, thanks to a reasonable density of mobile phones⁴. Indeed, technology-based payments are not only fast and cost-effective as opposed to paper-based transactions and are more secure due to multiple encryptions⁵.

According to McKinsey Global Institute (MGI)'s report "Digital Finance for all: Powering inclusive growth in emerging economies, 2016", the cost of offering customers digital accounts can be up to 90 percent lower than using traditional bank branches⁶. This in turn enables service providers to extend access to financial services for unbanked and underbanked individuals who would otherwise may not be profitable prospects.

A decade of digital focus

Branchless banking regulations were introduced in 2008⁷ by SBP as part of Pakistan's Financial Inclusion Program. The idea was to provide an entry point in the financial system to tens of millions of folks who had a cellular subscription but did not have a bank account. Moreover, scaling mobile financial services was cost-effective for increasing outreach as compared to brick and mortar

¹Financial Inclusion | State Bank of Pakistan (URL: <http://www.sbp.org.pk/Finc/About.asp>)

²The Global Findex database 2017 | World bank (URL: <https://globalfindex.worldbank.org/sites/globalfindex/files/2018-08/Global%20Findex%20Database.xlsx>)

³Ibid

⁴Telecom Indicators | Pakistan Telecommunications Authority (URL: <https://www.pta.gov.pk/en/telecom-indicators/1>)

⁵Encryption is the process of encoding a message or information in such a way that only authorized parties can access it and those who are not authorized cannot.

⁶Digital Finance for all: Powering inclusive growth in emerging economies, McKinsey Global, 2016, Page #7

⁷Branchless Banking Regulations Revised on July 2016 URL: <http://www.sbp.org.pk/bprd/2016/C9-Annx-A.pdf>

investments in the form of bank branches. The experience has been largely positive. As of June 2018, nearly 40 million mobile accounts had been opened by almost a dozen operators⁸. Further, as a sign of growing incidence of mobile wallets, the concentration of over-the-counter transactions in overall volume and value has been declining since 2017.

In 2015, a detailed policy blueprint emerged in the form of the National Financial Inclusion Strategy (NFIS). The strategy envisaged a target of having 50 percent adults having transaction accounts by 2020, besides raising percentage of women with transaction accounts to 25 percent, from 2.9 percent in 2014⁹. The focus was on digital transaction accounts, as a means to fast-track the mainstreaming of excluded segments in the formal financial system.

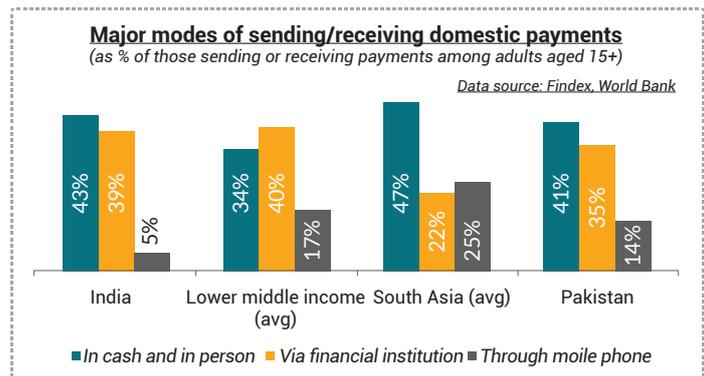
The current government has taken the baton and revised the strategy in 2018 and termed it as 'enhanced' NFIS¹⁰. Unlike the 2015 NFIS, the latest version explicitly states the target of having 65 million digital accounts by 2023. The key measures identified include development of Micro Payment Gateway (MPG)¹¹, a project by KarandaaZ and SBP, for retail payments in a cost effective and efficient manner. The government is also aiming for a complete digitization of all government payments and receipts, besides digitizing departments like Pakistan Post and the Central Directorate of National Savings. By 2023, 100% digitalization of Government payments and receipts along with back-end automation is part of the new NFIS. KarandaaZ Pakistan is working jointly with major government stakeholders to digitize Person to Government (P2G) and Government to Person (G2P) payments¹².

| Headline targets relating to Transaction Accounts | |
|--|------------|
| National Financial Inclusion Strategy (2015) | |
| Target for 2020 | |
| Percent of adults with transaction account | 50% |
| Percent of women with transaction account | 25% |
| Enhanced National Financial Inclusion Strategy (2018) | |
| Target for 2023 | |
| Number of active digital accounts - overall | 65 million |
| Number of active digital accounts - women | 20 million |

Source: NFIS (SBP); Enhanced NFIS (MoF)

Digital opportunity; real challenges

While the potential for digital transaction accounts looks great, several barriers exist in the way of adoption including socio-cultural barriers, consumer awareness and financial literacy. Despite a decade of reasonable policy focus on mobile accounts, the true potential of the DFS has yet to be actualized. Among those adults who send or receive domestic payments, cash-based transactions are still the preferred method, with only one in seven adults using the mobile phone to do it (see the graph above)¹³. The activity ratio of the Branchless Banking (BB) Accounts stands at 56%¹⁴, by the end of FY18 total number of BB Accounts stood at 39 Million, out of which 22 Million accounts were actually active¹⁵.



What about the rest who don't have an account at all? Findex survey shows that nearly half of the unbanked individuals cited "insufficient funds" as the reason behind not opening an account. Perhaps it is time to acknowledge that efforts need to be made to understand the circumstances and needs of the financially-excluded population to design relevant products. Work is already underway. The barriers and opportunities are nuanced within the low-income segment. Recently published Bill & Melinda Gates Foundation's Customer Segmentation Framework Report would enable digital financial service providers to develop modular products and services better suited to specific client segments especially at the bottom of the pyramid. A deep dive on women focused customer segmentation analyses the profile of female consumers, their attitudes, and gender specific barriers for financial inclusion. This public good will help practitioners identify market opportunities to address the chronic problem of low levels of adoption and use of digital financial products in Pakistan.

⁸Branchless Banking Newsletter: Apr-Jun 2018 | State Bank of Pakistan (URL: <http://www.sbp.org.pk/publications/acd/2018/BranchlessBanking-Apr-Jun-2018.pdf>)

⁹National Financial Inclusion Strategy, 2015 | State Bank of Pakistan (URL: <http://www.sbp.org.pk/ACMFD/National-Financial-Inclusion-Strategy-Pakistan.pdf>)

¹⁰Enhanced National Financial Inclusion Strategy, 2018 | Ministry of Finance (URL: <http://finance.gov.pk/NFIS.pdf>)

¹¹<http://www.finance.gov.pk/NFIS.pdf>

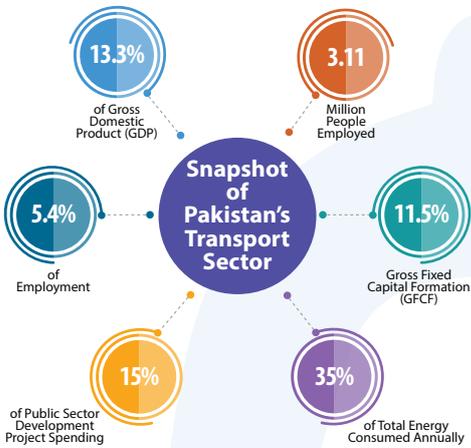
¹²<https://profit.pakistantoday.com.pk/2019/03/11/karandaaZ-the-gates-funded-nonprofit-seeking-to-bank-the-pakistani-unbanked/>

¹³World Bank Findex Database 2017

¹⁴SBP Branchless Banking Newsletter Apr-Jun 2018

¹⁵Active accounts are defined as those opened in the last 180 days or used at least once in the last 180 days.

Bankability of Pakistan's Road Transport Sector



Source of Financing for Purchasing and Modifying Freight Vehicle



*Personal Sources = Personal savings, selling of assets, selling of livestock, and borrowing from friends/family
 [Source: Survey]
 Owners who reported the source

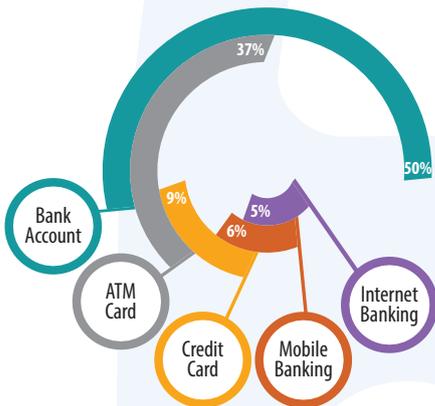
Source of Financing for Purchasing and Modifying Passenger Vehicle



*Personal Sources = Personal savings, selling of assets, selling of livestock, and borrowing from friends/family
 [Source: Survey]
 Owners Who Reported the Source

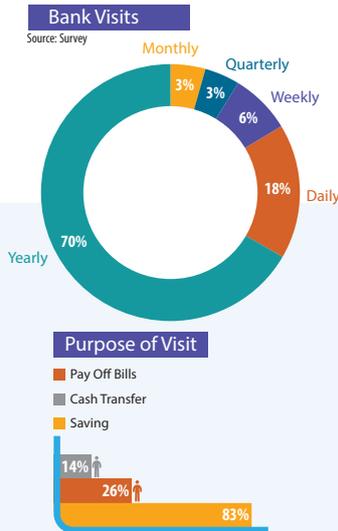
Banking Services Used by Passenger Transport Owners

Source: Survey



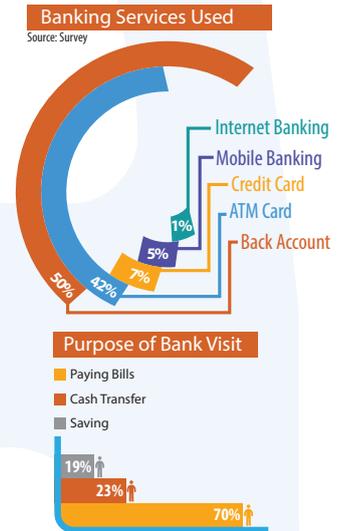
Banking Practices of Passenger Transport Owners

Source: Survey



Banking Practices of Freight Transport Owners

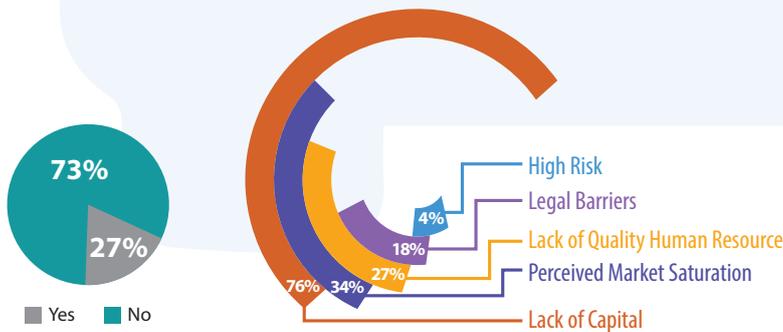
Source: Survey



Intention to Expand by Passenger Transport Owners

Source: Survey

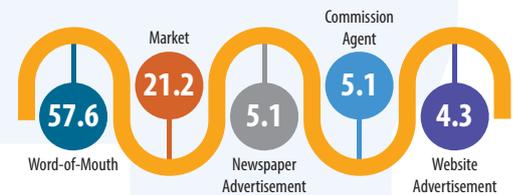
Reasons For Not Expanding



Sale of Vehicles by Type of Vehicle

(Percentage)

Ways and Means of Selling



Reasons for Selling



Source: Survey
 Owners who reported sale of vehicle

Research Showcase

Branchless Banking Agent Onboarding and KYC

Currently, 6% of the world's unbanked population lives in Pakistan and according to the World Bank's Findex 2017 report, only 21.3% of Pakistani adults have a bank account. As with many other markets, Branchless Banking (BB) services providers in Pakistan are an important means for financial inclusion. SBP's National Financial Inclusion Strategy (NFIS) recognizes them as key enablers for increasing the pace of financial inclusion in the country. Recent gains in the financial inclusion numbers can largely be attributed to BB services, almost 10 million BB accounts were opened during the July-Dec 2017, while the total tally at the end of December 2017 was 37 Million accounts – 80% male accounts.

Today the domestic digital financial services industry is facing challenges typical of a market that is well past the nascence stage, such as striking a balance between profitability, scale and innovation. Since it has an important role to play in the dissemination of financial services to the underserved and unserved population, the policy makers need to create an enabling environment to further support the industry's growth in the next phase.

A significant part of the BB infrastructure is agents who play a key role by serving as a link between providers and their customers. There are almost 400,000 agents in the markets, but just under 50% are active and serving limited use cases such as over-the-counter and bill payments. Since it typically takes 3-6 months to complete the agent onboarding process it is unfortunate that such a small percentage of agents is actively participating.

Inactive agents not only have an impact on both the outreach and profitability of the service providers but also negatively affect consumer's trust and use of BB services. The SBP prescribes two independent sets of requirements to be fulfilled by service providers to bring agents onboard; an agent business verification and a level 2 BB account, which can only be opened at bank branches with full KYC, requiring a series of paper-based documents. In all, this takes typically 4-6 weeks and in extreme cases up to six months.

Globally, the current agent onboarding and KYC processes tend to be largely paper-based with long turnaround times, with some exceptions in place. Some of the services providers have made a good use of technology to optimize the placement of agent businesses and bringing them onboard by signing them up digitally and relying on new ways of assessing their KYC. Eko India's typical agent onboarding process took 15-20 days before they digitized their registration process. Potential agents can now register themselves via an e-KYC form on Eko India's website, which has reduced agent registration time and has motivated a large number of businesses to register. Another example is the digitization of onboarding process at Zoono in Zambia. Zoono employed digital profiling techniques to identify traits of successful agents and then used them to recruit new agents, reducing the time typically needed for due diligence.

Evaluating the domestic landscape reveals that Pakistan is facing three challenges that call for changing agent onboarding processes

- a. A large number of inactive agents in the field;
- b. The onerous paper-based KYC processes
- c. Limited use cases in the market.

In light of research and interviews with the stakeholders, it was determined the following regulatory interventions may be suitable for current market conditions. They might prove to be fruitful to simulate growth in the domestic BB landscape through effective onboarding and management of BB Agents.

- **Tiered Agent Networks** can facilitate the segmentation of agents based on their function, such as account opening or serving existing customers. The tiers will allow the introduction of risk-based KYC requirements for agents, e.g. account opening agents shall be required to go through more stringent KYC exercise.
- **Digital KYC** and the effective use of the SBP's "Agent Chex" can allow for an efficient agent onboarding process. The SBP or an authorized body may manage a repository of agents that can be utilized by service providers.
- **Agent Certification** will allow for maintaining the quality of agents and reduce the risks of money laundering and fraud.

Globally players and regulators are experimenting with technology-based solutions to establish quality agent networks and SBP has also taken a timely decision to explore possibilities on the policy front. Aforementioned recommendations will have a positive effect on the growth of domestic agent network, financial health of service providers and agents and shall stimulate the overall financial inclusion in the market.

Karandaaz Stories

Karandaaz Fleet Financing Programme with BAFL

Karandaaz Pakistan enabled Bestway Logistics Services, a transportation company to expand its fleet and operations.

When Malik Matiullah started Bestway Logistics Services in 1997, he could not have imagined that managing the business's growth will become a challenge one day. Given that this transportation business began with only two vehicles, one can't blame him for not being able to foresee the day its fleet would exceed a number of 50 vehicles.

This growth and expansion has resulted after many challenges but despite the financial, human resource, and other challenges he faced, Matiullah was persistent. Today his business has expanded not only in terms of vehicles and human resource but provides multiple solutions and services. Bestway Logistics Services provides transportation of goods, fleet across Pakistan, clearing and forwarding processes with Pakistan customs, and transporting those items across the country and shipping across the nation. With 10 oil tankers, 10 flat bed trailers, 15-container transport, 15 cranes ranging between 20 and 50 tons in its asset inventory, Bestway believes that this is just the beginning.



In the initial years, the business faced a plethora of challenges ranging from finances to human resource, mechanisms, guidelines and balance checks. While the business was able to overcome most of these challenges with time, acquiring finance and managing it is a problem that the business faces even today.

According to Rehman Akbar, Chief Financial Officer Bestway Services, cash flow management is crucial for all businesses, particularly small businesses. To effectively manage cash flows, businesses often have to seek financing, which is a great challenge in Pakistan. When Bestway Services needed to invest in more vehicles to increase its fleet and services, it looked at several sources of financing. None of them suited the needs of the business and therefore Bestway opted for a financing programme run by Alfalah Bank under the bank's risk participation partnership with Karandaaz Pakistan.

Karandaaz Pakistan, with the funding from UK's Department for International Development (DFID), understands the potential of the SME sector and is working to promote access to finance for micro, small and medium – sized businesses through a commercially directed investment platform, and financial inclusion for individuals by employing technology-enabled solutions. These solutions include Karandaaz Capital, which provides wholesale structured credit and equity-linked direct capital investments to micro, small and medium -sized enterprises (MSMEs) that demonstrate compelling prospects for sustainable business growth and employment generation in Pakistan.

Bank Alfalah Limited (BAFL) is a leading commercial bank in Pakistan with a major focus on building a premier SME and digital banking franchise. BAFL has introduced a series of innovative SME focused credit programmes. Through a GBP 20 million risk participation facility agreement, Karandaaz committed GBP 5 million and BAFL committed GBP 15 million respectively to scale up five SME product programmes designed by BAFL and Karandaaz in partnership. The product programmes included commercial fleet, supply chain, POS merchant, Telco franchise and dairy supplier financing.

The financing from Bank Alfalah under this partnership with Karandaaz not only enabled Bestway Logistics Services to invest in 4 new trucks but also led to hiring more human resource and the development of existing workers. Muhammad Waris, a Forman who works at Bestway Logistics Services since 2004, admits that he has grown immensely ever since he first joined. "15 years ago, I joined as a driver. After driving the vehicles for 6 years, I was promoted to a Forman where I am in-charge of overseeing vehicles, their maintenance, and loading or unloading off the vehicles. I earn more money and am able to provide a better lifestyle to my family. My



children are now going to better schools and gaining better education”, he added. Not only does this show the impact on Waris’s life but also points towards the many ways the business is impacting the lives of his family and future generations too.

Waris is only one of the many employees whose lives have been impacted through the expansion of Bestway Services. With every truck that the company purchases, at least three to four people get direct employment and so many others get indirect benefits.

Bestway Services is now in its third generation and Matiullah is proud that his sons and nephews are joining the business after pursuing specialized education from abroad. He understands that the future generation may lead the business in different directions according to their own wisdom but for him that’s the beauty of running a business through generations.

For now, the next project for the business is a bus service by the name of Bestway Movers, which will be launched in the next few months. This bus service will take passengers from city to city across Pakistan. It is going to be a new line in the portfolio of the business, one that has the potential for immense growth and expansion. Matiullah believes this added line would not only take the business ahead but will also help in providing livelihood to hundreds of people.

Among the many challenges that Bestway Services faces every day, the China Pakistan Economic Corridor (CPEC) is a challenge for the transportation industry too. Currently, the industry is accustomed to operating from Karachi. “We are open to exploring the opportunities in Gwadar but Karachi will remain Pakistan’s hub and business cannot be completely shifted from here. Karachi is connected not only to the entire Sindh but also Punjab and the entire Pakistan. And it is for this reason that we will always operate from Karachi”, claims Matiullah. His future generation also understands that operating from Gwadar in the coming years may give an opportunity to expand the business exponentially.

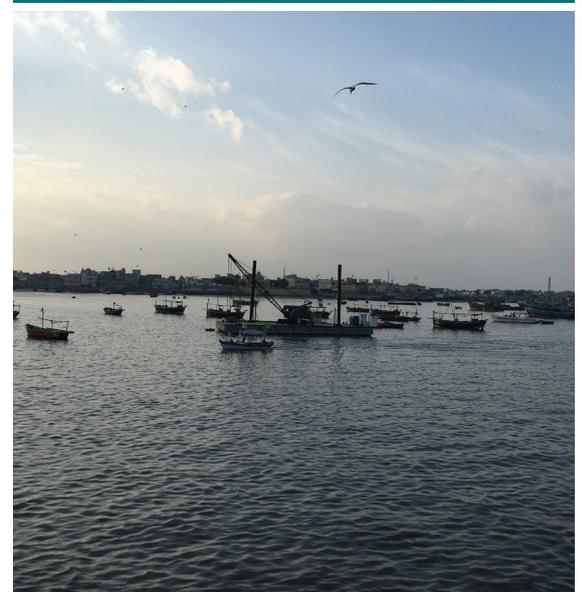
There may be a million challenges of operating a small-scale business in Pakistan but Matiullah still claims he hasn’t seen a country like Pakistan despite travelling far and wide. “Pakistan has everything – it has all the blessings the world to offer; all four seasons, rivers, sea, desert, forests and most of all, immensely talented human resource”, he ends the conversation on a positive note showing his hope for not just Bestway Services but for all businesses in Pakistan and the country as a whole.

“Pakistan has everything – it has all the blessings of the world to offer; all four seasons, rivers, sea, desert, forests and most of all, immensely talented human resource.”

Malik Matiullah,

Chairman

Bestway Logistics Services, Karachi



About Karandaaz

KARANDAAZ PAKISTAN is a Section 42 company established in August 2014 and focuses on fostering economic growth and creating jobs through financial inclusion of unbanked individuals and unserved enterprises, with a special focus on women and youth. The company has four verticals:

Karandaaz Capital

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



Karandaaz Digital

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

Knowledge Management and Communications

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



Karandaaz Innovation

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

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