

Karandaaz Digital Financial Services

Pilot to Scale – Digital Payments Projects (P2P, P2G, P2B, B2P)

Terms of Reference (ToRs)

All applications will be submitted through email at programofficedfs@karandaaz.com.pk

Overview:

Karandaaz Digital Financial Services (DFS) private sector engagement unit has formalized its strategy for 2020-2024 under which there will be multiple categories of programs run to support DFS industry of Pakistan in building models and solutions for the financial inclusion of the unbanked and underbanked population. In addition to empowering those who do not have an account, the review states that the underbanked population should be targeted with pilots that introduce financial deepening to such segments.

Private sector engagements are divided in two major domains: DFS Industry Engagements and Fintech Ecosystem Interventions. DFS Industry Engagements comprise of two categories: “Pilot to Scale” projects and “Digital Experiments”. Karandaaz Pakistan is accepting proposals under this pilot to scale category, details of which are given below.

Purpose of the Document

This document describes in detail the category “**Digital Payments**” under the private sector engagements vertical. It shall be used to take a direction on creation of projects that may support the financial services industry that fall under this category.

Introduction to Pilot to Scale Category

Karandaaz Pakistan aims to partner with different private sector entities to build on the “**Pilot to Scale**” category with a refined approach to adapt pilots focusing on the uptake, adoption and subsequent scalability of digital financial services. The idea behind this category is to test pilots around digitizing financial services for viability in Pakistani market and scale the successful ones in partnership with the DFS private sector players and disseminate learnings for wider use. The pilot to scale category is further distributed into three main types of domains:

1. **Digital Payments**
2. Sectoral Lens: Digitization of Payments in Value Chains
3. Identification of product white spaces in DFS – Creation of new financial use-cases on digital channels

The above three categories have emerged as focus areas based on the learnings from the past interventions undertaken by DFS department with the private industry from 2016 to 2019 and also based on the white spaces in the market. The objective of focusing on these categories is to broaden the horizon of Karandaaz interventions and include all major efforts (in addition to the payments only) that are a pre-requisite to digital payments in different industries and value chains.

The following matrices shall be used to conduct a quick scalability assessment for assessment of the Pilot to Scale based projects for Karandaaz program qualification.

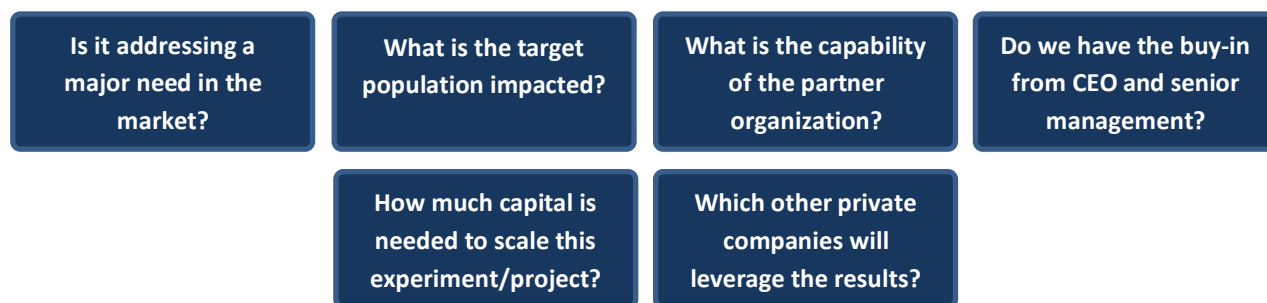
Pilot to Scale Category

Digital Payments

Digitizing Payments in Value Chains

Use-cases for Digital Channels

Scalability Assessment Matrices for Pilot to Scale Project



Introduction to Digital Payments Workstream

Payments use-cases have widely remained non-digital in Pakistan primarily due to absence of digitization of the processes and systems. While there are multiple reasons for lack of digitization, we have seen efforts by banks, acquirers of retailer payments and bill aggregators to digitize payments use-cases. This large segment needs to be supported to digitize enough payment use-cases to create traction for the consumers to adopt to a digital channel for a frequent use.

A key pre-requisite to payments digitization is the digitization of service itself, recognition and authentication of digital payment by the service and service fulfillment.

The purpose of creating Payments ‘Workstream’ is to:

1. Identify new use-cases of payments and make them interoperable for the public use
2. Energize financial institutions in piloting payments use cases with the objective of scaling
3. Identify the right consumer adoption strategy by testing different digital consumer channels and interfaces for the digital payments
4. Support prospective payment initiatives in getting connected to the latest infrastructure or technology enhancements.

Categories of Transaction Types within Payments Workstream

‘Digital Payments’ category has 4 main areas of intervention that provide basis for qualification of the project to be supported under this category. Following is the list of 4 categories:

1. Interventions that enable interoperable **Peer-to-Peer (P2P)** financial transactions
2. Interventions that result in ease of **People-to-Merchant (P2M)** transactions and payments
3. Projects that result in digitization of **People-to-Government (P2G)** and **People-to-Businesses (P2B)** transactions and payments
4. Projects that result in digitization of **Business-to-People (B2P)** transactions and payments

	People (P)	Business (B)	Government (G)
People (P)	P2P	P2B	P2G
Business (B)	B2P	B2B	B2G
Government (G)	G2P	G2B	G2G

For the understanding of applicants, Karandaaz DFS team has put together some examples of the main 4 types of the transitions which are given in the table below:

P2P <i>People to People Payments</i>	These types of transactions will include projects like: <ul style="list-style-type: none"> • Enabling alias based P2P transactions (Transfers using email or phone numbers etc.) • Scheduling social payments (Bill Split etc.), Restaurant Tips on alias addresses • Contextual Payments like donations & Zakat etc and freelancer payments etc. • Enabling informal merchants (Facebook and home) to receive payments from customers • Instant lending products at the time of a purchase etc.
P2M <i>People to Merchant Payments</i>	Projects areas may include: <ul style="list-style-type: none"> • Merchant self-registration • Consumer to Merchant payments channels testing (Static QR, Dynamic QR, USSD etc.) • Removing barriers of merchant payments (testing payment acknowledgement methods etc.) • Adoption schemes for both merchants and consumers (value adds for merchants etc.)
P2X <i>People to Business and Government Payments</i>	Projects areas may include: <ul style="list-style-type: none"> • Bill aggregation of govt. services enabling P2G transactions (Chalaans, passport fee etc.) • Payments on alias for national causes/drives like Dam Fund, hospital fund etc. • Digital Purchase of insurance, equity assets, funds etc. • Support government entities for digitization of P2G transactions (NITB, PITB etc.)
B2P <i>Business to People Payments</i>	Projects areas may include: <ul style="list-style-type: none"> • Profit disbursement, Salary disbursement, lucky draw winning disbursement etc. • Product refunds, insurance claims etc. • Invoice discounting, retailer to people credits etc.

Karandaaz Objectives for the Project

Karandaaz objective is to:

1. Catalyze development of use-cases that would increase the traffic of financial transactions from cash to digital.
2. Support process digitization and payment digitization for the value chain actors to enable payments on digital channels for the end -consumers.
3. Increase availability of payments use-cases on digital channels for the end-consumers

Pre-requisites for applying

- Private Sector Institutions who can apply include – Commercial Banks, Branchless Banks, PSO/PSPs, and non-banking financial institutions fintech, bill aggregators etc.
- The proposal must demonstrate a link to financial inclusion/usage of digital financial services/adoption of digital payments and should address some of impact areas given below:
 - Potential for Innovation in digital financial services space
 - Impact on Women’s financial Inclusion
- The proposal must clearly highlight the gap it’s addressing along with quantifiable impact numbers demonstrating link to financial inclusion
- Applicant should be willing to run required analysis & share trends with Karandaaz that would present a holistic view of the impact pre-& post project execution
- Share insights on the resulting trends during & after the project execution
- The proposal must highlight partner’s ability and willingness to execute projects with the objective of financial inclusion for excluded segments

Information about Grant Amount and Utilization

Grant Amount?

Based on the project, the scope it covers and the impact that can be capitalized through pilot to scale, KarandaaZ anticipates to remain flexible and is open for proposals.

Grant Utilization

- Identification of consumer adoption strategy for a use-case
- Creating Awareness of Payment use-cases in consumers
- Digitizing information flow to enable a use-case
- Incentives for adoption in a pilot
- Technical development in the systems
- Development of a solution
- Testing multiple payment options
- Testing multiple consumer interfaces
- On-ground activation for adoption

Out of Scope

- Activities outside regulatory ambit
- Long-term consumer or channel incentives
- Expense on capital expenditure more than \$5,000
- Expense on resources not working directly on the project
- Support in G2P project

**Above information is just for direction; this document must not be used as definitive guideline*