

Financial Innovation Challenge Fund

General and Government to Person Payments Round
Guidelines



Financial Innovation Challenge Fund—General Guidelines

Introduction

State Bank of Pakistan is implementing the Financial Inclusion Program (FIP), sponsored by the UK Aid, with the aim to improve access to financial services in Pakistan. FIP has adopted a multi-pronged approach towards tackling the problem of financial exclusion by combining market forces and public sector principles. A noteworthy tool of this approach is to catalyze on innovations to widen the reach of financial services in Pakistan.

FIP has earmarked GBP 10 million in grants under the Financial Innovation Challenge Fund (FICF) to help the financial sector reach the excluded with use of innovations. Specifically, FICF will foster innovations to test new markets, lower cost of delivery, enable systems and procedures to be more efficient and provide new ways of meeting the unmet demand for financial services. The fund will hold specialized challenge rounds focusing on innovations that market wishes to undertake to alter the scope and reach of financial services. Hence, FICF will be open to both bank and non-bank financial institutions, telecoms, NGOs, and academic organizations.

Objectives

The following are the objective of FICF:

- a) Spur innovation and innovative practices that increase access to financial services by the unbanked or the financially excluded. The fund will provide support for pilots and for up-scaling financial services vis-à-vis seed capital and a platform for knowledge sharing.
- b) Leverage FICF funds to attract private investment. Additional capital will help create a bridge between pilot and roll-out of an innovation.
- c) Create linkages between successful projects with other funds under FIP and beyond to ensure that pilots can be brought to scale through donor and private sector coordination.

Scope

The broad scope of the fund is to facilitate the spread of financial services through innovation. Innovation may come in the following forms:

- a) A product or service completely new and novel proposed by the applicant; or
- b) A product or service that has been tested and proved successful somewhere in the world but is new to Pakistan; or
- c) An innovation that has been tested in Pakistan by organizations and has proved successful and the applicant organization wishes to test it with a new partner or in a different territory.

Innovations may hinge on either technological devices such as mobile phones or non-technological advances such as introducing warehouse receipts for farmers to serve as collateral for loans. However, in order to encourage market based innovations, SBP is expecting that the market will take the lead in developing scalable and sustainable ideas. Innovations may be broad-based and occur in products, delivery systems or marketing. Specific themes to be covered under FICF will be announced in the form of periodic challenge rounds. Round one will be held on Government to Person Payments.

Operational Mechanism

- a) Challenge Rounds: FICF will be rolled out in challenge rounds with each round focusing on a specific area. In the first stage, each round will invite applicants to submit brief expressions of interest describing the project and innovation that the applicant wishes to pursue. In second stage, based on the ideas proposed in the EOIs, selected institutions will work with FICF secretariat to develop a finalized business plan that will be presented to the FICF Advisory Committee for approval. The two stage process will ensure focus through inviting specific proposals and also allow challenge as the shortlisted grantees will get the opportunity to compete before the technical committee, comprising of SBP, DFID and market expert. FICF funds will be disbursed in accordance with the work plan thereafter, and regular monitoring will be conducted by the Fund Secretariat and consultants.
- b) Duration and Size: Grant sizes and duration will be determined according to the round in question, but generally grants will be expected to last one to two years. Applicants will be required to contribute at least 30% matching funds for the grants that they apply for.
- c) Management: FICF is housed in SBP. However, keeping in view its peculiar requirements, it is managed by FICF Advisory Committee. The Committee draws representation from SBP, DFID and experts from the private sector. The Committee is assisted by the Fund Secretariat in fulfilling its duties such as designing, screening, approval, and oversight of the challenge rounds. The role of private sector advisors is to provide technical inputs on the ideas received and investment applications. The Fund Secretariat will announce and appraise the eligibility, undertake due diligence of the financing proposals and monitor progress of the FICF in line with FIP objectives.
- d) Criteria: Broadly, the following criteria adopted:
 - i. Uniqueness of the innovation in product, service, system or procedure in question;
 - ii. Scope of innovation particularly, impact of innovation on broadening client base and/or diversity of financial services offered
 - iii. Financial viability of the innovation after grant funding is complete.

- iv. Level of financial resources that the applicant organization is willing to commit.
 - v. Quality of team that will be leading the innovation.
 - vi. Market positioning and ability of the applicant organization to introduce proposed innovation
 - vii. Plans of the organization to institutionalize the innovation within the organization
 - viii. Plans of the organization to seek private sector funding to take the innovation from pilot stage, with help of FCIF, to scale.
- e) Monitoring: Monitoring will provide support stakeholders to manage the process of innovation, report results and address pitfalls early on and mitigate risks. FICF quarterly reviews will be based on progress reports submitted by grantees. The quarterly reviews will present three key aspects of projects, including progress on grant utilization, work plan and outcomes. Every six months, there will be an independent review for which an independent consultant will be engaged.
- f) Knowledge exchange: FCIF will facilitate knowledge exchange through a single platform for inter-industry stakeholders to share ideas on regular basis with the aim to improve technical capacity within institutions. FICF grantees are expected to contribute regularly and share industry experiences in the form of regular reporting, contribution to newsletters, presentations and conferences.

Annex A: Government to Person Payments

The first round will be focused on developing mechanisms for Government to Person (G2P) payments. There is considerable evidence that with the appropriate agent model and technology infrastructure in place, G2P payments, which include wages, pensions and social transfer programs, can become a medium for financial inclusion. G2P payments are both substantial in both numbers and volumes, creating a considerable opportunity to link a large proportion of unbanked people to the financial system. Globally, CGAP estimates that 170 million people receive some form of G2P payments, yet less than one-quarter of such payments end up in bank accounts. Typically, one of the key challenges in G2P is that banks focus on fee income from governments rather than building further business from a low-income client base.

In Pakistan, G2P payments have typically been made at location specific cash payments. This system is due to limited options, as recipients lack bank accounts and banks have few accessible branches for cash disbursement. With the rise of branchless banking models, there are new technology based payment options, which are convenient, safe, and affordable. Despite recent experiments under the Benazir Income Support Program (BISP), Watan Card and World Food Program, there is room for further experimentation. Hence, broader and deeper alliances between government agencies and financial service providers to leverage the existing banking and agent networks to engage in the distribution of G2P payments. These steps will not only make G2P payments easier but, also bring more people under the ambit of the financially served.

SBP introduced regulations and developmental measures to promote branchless banking in Pakistan. This has catalyzed several branchless banking initiatives. Given that G2P is largely an unexplored territory in Pakistan, it requires considerable innovation. Hence, FICF will be launched with G2P payments as the first challenge round. Banks, public sector institutions, Microfinance institutions, government agencies, pension funds, and academic institutions are all invited to apply by submitting an initial expression of interest application as outlined in the G2P challenge round guidelines.

Round One: Government to Person Payments Guidelines

Introduction: Scope and Challenge

An Automated Government to Person (G2P) payments system has the potential to be a milestone in the financial inclusion agenda of Pakistan. An efficient G2P payments system is critical for transfer of wages, pensions and welfare schemes. In Pakistan G2P payments have typically utilized only location specific cash payments as banks and recipients are not situated in close proximity to each other. However, with increased experimentation in branchless banking models, government and service providers are becoming comfortable with technology based payment options, which are convenient, safe, and affordable and also reduce the risk of theft, error and other forms of cash leakages.

The eventual aim of the G2P Payments challenge round under the Financial Innovation Challenge Fund is to leverage an enhanced payment mechanism and attract recipients of government payments into the sphere of banking and financial services. In addition, welfare payments that are not just made by government agencies, but by NGOs and donor agencies as well often need to be delivered in emergencies where timely payment is a critical objective, which can be achieved through an automated payment system. Hence, different agencies will benefit from establishing an e-payment system.

On one hand, key benefits of automating G2P payments include:

- a. Reduce time lag in delivery and monetary inefficiencies due to leakages and corruption in the system leading to substantial savings and greater government credibility.
- b. Allow better targeting of subsidies while leveraging national infrastructure for identification and verification.
- c. Enhance scope of financial inclusion for banks to build financial services on top of payments through basic store of value accounts.
- d. E-payments also assist small businesses such as grocery stores and agents to create new opportunities in existing business infrastructures and enable small business owners to earn commission for providing an automated service point while the additional service helps attract an increased number of customers.

On the other hand, costs associated with implementation of e-payments are largely fixed, which primarily include infrastructure overheads. However, the operating costs of the automated versus manual system are lower leading to substantial savings in the long run. A study, "Inclusive growth and financial security: the benefits of e-payments to Indian society",

conducted by McKinsey on benefits of e-payments in India estimates that the direct benefit of cost-saving to government coffers stands at USD seven billion annually. The study adds further that indirect benefits with e-payment such as financial inclusion and economic opportunities will bring in additional un-estimated benefits.

Challenge Round Objectives

The quality of proposals will be judged based on the ability of applicants to address broader objectives listed below:

- a) Forming public- private partnerships with focus on developing technology-based solutions for G2P payments through store of value accounts. Projects should seek to address some or all of the following:
 - i. Promote use of technology for payments delivery such as back office links to accounting systems at government agencies;
 - ii. Set up a network of transaction points for delivery of G2P payments and other financial services;
 - iii. Leverage use of existing infrastructure by developing, training and monitoring of agent network; and
 - iv. Increase speed and efficiency reduce leakages of G2P payments.

- b) Leverage existing G2P payments store of value accounts to deepen access to financial services through the following:
 - i. Increase financial literacy;
 - ii. Develop a mechanisms for complaints by customers; and
 - iii. Develop products and services suited for needs of the G2P customer base.

Submission of Expression of Interest

The reference sheet provides a brief snapshot of the expression of interest.

Application Deadline	May 30, 2011 5 p.m.
Deliverable	2 page expression of interest sent electronically at ficf@sbp.org.pk Hard copies may be sent to: Director Agriculture Credit and Microfinance Department Programs Division Second Floor State Bank of Pakistan I.I. Chundrigar Road, Karachi Tel: +92 21 99221557 Fax: +92 21 99221567
Total grant funding available	GBP 3 million will be earmarked for this round, which will be distributed among select grantees
Matching Grant	At least 30% of project cost must be covered by grantee organization
Eligible institutions	Banks, MF Providers, Pension funds, Government agencies, telecommunication companies and academic institutions. <u>Service providers must collaborate with G2P payment agencies to be eligible to apply.</u>

Expression of Interest Form

The expression of interest is a first step in the two-stage application process. The expression of interest shall be no more than **two pages** (supporting annexure may be submitted), which will answer the following questions:

- a. Describe the G2P payments innovation and how it will add value to the applicant organization.
- b. Elaborate on the track record and market positioning of the applicant organization to introduce the proposed G2P innovation.
- c. What is the cost of the project? What is the level of the organization's contribution?
- d. Comment on the profile of the team leader and his/her qualifications and skills to lead the project?
- e. What are the challenges and risks does the organization foresee in initiating this project and how does it plan to address them?

Submission of Business Plan

Short-listed applicants will be contacted within 15 working days and asked to submit a business plan, with a deadline that will be announced at that stage. The FICF Advisory Committee will invite short-listed applicants to present their business plan. The business plan will present detailed analysis of the project focusing on the business case for the proposed G2P payments solutions including a market segment analysis, SWOT, cost-benefit analysis, in-depth risk assessment and the steps to combat the key risks and a comprehensive budget. In addition, the business plan must outline concrete steps taken by the organization to attract investors to the project. Furthermore, business plan should specifically address the components identified in the Expression of Interest.

Deadlines

The deadline for submitting an Expression of Interest is by CoB, May 30, submitted electronically on ficf@sbp.org.pk or hard copies may be sent to:

Director

Agriculture Credit and Microfinance Department

2nd floor, State Bank of Pakistan

I.I. Chundrigar Road, Karachi

Tel: +92 21 99221557

Fax: +92 21 99221567

Assessment Criteria

The strength of the framework will be assessed on the basis of the following criteria:

- i. Uniqueness of the G2P innovation in question to the organization
- ii. Scope of innovation particularly, impact of innovation on broadening client base and/or variety of financial services offered
- iii. Extent of market research on the project including profiling of G2P recipients.
- iv. Impact of innovation on future profitability of the organization.
- v. Level of financial resources that the applicant organization is willing to commit.
- vi. Quality of team that will be leading the innovation.
- vii. Plans of the organization to institutionalize the innovation within the organization
- viii. Plans of the organization to seek private sector funding to take the innovation from pilot stage to full scale.
- ix. Risks and benefits of the technology to be used.

Enquires relating to Submission of Application

All enquiries relating to the application process may be made at ficf@sbp.org.pk Senior Joint Director

Financial inclusion Program

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