Branchless Banking: Integrating Pakistan's Poor into the Global Financial Circuit

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This research explores the value transfer system of migrants working on daily wages in Karachi's marketplaces. Drawing on ethnographic research, the paper focuses on an informal money transfer system and how such channels overlap with emerging digital finance and branchless banking networks such as Easypaisa, the fastest and most popular service provider in Pakistan. Preliminary research shows that the rapid rise of Easypaisa, used for sending and receiving money and bill payments, offers an instant method of money transfer to laborers who have historically existed outside of the formal banking system. The integration of the unbanked is carried out under a state-led financial inclusion program aimed at developing the country's financial sector in order to provide easy access to credit, loans, and savings. While the state offers a legal and security framework, telecommunications and financial industries have formed a nexus offering branchless banking and money transfer services to the laborers. In this paper, I explore how branchless banking networks function by interlacing with the old patterns of capital flows based on kinship and trust, and how new financial tools make laborers vulnerable to global economic crises.

The questions I seek to investigate are:

1) How do laborers transfer value from the city of Karachi to villages and tribal areas of Pakistan?

2) How does the state's counter-terrorist surveillance impact laborers' traditional value transfer system?

3) How are emerging financial technologies such as branchless banking shaping customary ways of handling money in Karachi's marketplace?

The City and the Markets:

I conducted ethnographic research in Pakistan's largest wholesale marketplace, Bolton Market, in Karachi. A city of 18 million people, ethnically and linguistically diverse, Karachi is Pakistan's commercial and financial hub, feeding the majority of economic revenue into the state's coffers. Considered the sixth largest city in the world in terms of population, Karachi's marketplaces are of commercial and historic significance. The history of the market dates back to the late 19th century when indigenous Hindu-Sindhi merchants (*Amil*) and Gujarati bankers (*Sarraf*) operated the trade networks and also became the primary financiers of the East India Company (Cook 2015). When the British government finally conquered the territories of western India, the colonial authority created a stronghold in Karachi making the city landscape the reflection of its imperial design. For instance, the colonial sovereign image is visible in Karachi's larger urban landscape, which is divided into the Native Quarters and Colonial Quarters; the former's growth was organic, with narrow capillaries of alleys suitable only for pedestrians and animal carts, while the latter were developed rapidly and laid out in a grid with low population density (Hasan, Sadiq & Polak 2008). Moreover, the traditional sections of the city were deemed as 'backward' or inferior parts, while the new grid-like cantonments in the Colonial Quarters, Staff, and Civil Lines became the 'progressive' sections, synonymous with modern Karachi. The Native Quarters served as spaces for numerous shrines and mosques that still provide a serene and peaceful ambience for merchants and laborers. These sacred places also host esoteric Islamic practices and rituals that feed into commercial bazaar activities in various ways.

The geopolitical reconfiguration resulting from the Indian Partition altered centuries-old merchant networks along with the bazaars. For instance, the majority of the Karachi-based Hindu merchant class left for India in 1947. As a result, the bazaars' contemporary social composition became solely Muslim. In hopes of linking the country with international trade, Pakistan's fledgling state turned Karachi into the principal trading port of commodities and finance by investing heavily in industries and manufacturing. Bolton Market emerged as the financial and commercial center of the city, with more than 3,000 shops varying from cosmetics and jewelry dealers to currency exchange and textile exporters (Cheema 2007).

Bolton Market became a significant site for exchanging foreign commodities in the 1970s after nearby Dubai, the Arab Gulf city, developed a free trade zone. Built against the backdrop of the soaring oil boom, the city-state of Dubai still serves as the trading hub for regional markets. Trade from Dubai to Karachi of gold and consumer goods – electronics, health and beauty supplies, and apparel – shapes the contours of Pakistan's middle and upper class consumer culture. Commodities and capital flow between these port cities mostly via informal merchant channels. For instance, Bolton Market's traders pay Rs.500/kg ($5/kg) to a local "carry dealer" who manages and delivers secure and tax-free commodity shipments to the given address in Karachi. Occasionally, to evade customs duties, traders bring commodities through *khaip*, flying to Dubai in the morning and carrying the commodities in their suitcases to sell in Karachi at night. Similarly, both merchants and workers use the practice of informal money transfer (*hawala/hundi*) to send money to Pakistan. The interface of kinship, commerce, and culture between Dubai and Karachi marks a new chapter in the biography of Indian Ocean trade.

Today, a Muslim merchant class controls these businesses. The majority are ethnic Gujaratis and belong to the Ismailis, Khoja, Bohra, Memon, and Kathiawari subgroups (mostly Gujarati speakers from Western India). The other merchant groups are ethnic Punjabi, Sindhi, and Urdu-speakers, while the bazaar's daily wage earners are ethnic Pakhtun and Baloch. These diverse forms of Islam, ethnicity, and kinship are woven together in the richly complicated social composition of Bolton Market. Comprising the largest Pashtu-speaking community in the world, many of the laborers in Karachi come from Pakistan's tribal areas of Waziristan. The Pakhtun laborers control the city's major market segment of transportation, used for moving commodities, currency, and people, and are the largest ethnic group working as loaders or porters on daily wages of Rs.300/day (US$3).

One of the Pakhtun workers I came across was Bhandari, who comes from the tribal area of Bajaur near the Pakistan-Afghanistan border. He has been working as a porter in Karachi's various wholesale markets for more than thirty-five years. Now in his early fifties, Bhandari finds it extremely difficult to lift heavy boxes up and down in the warehouses, or to push the pull-cart to the truck station in Karachi. However, he has no other option than to lift heavy boxes in the market, for which he earns Rs.12,000/month. His two sons, ages 22 and 14, are also employed, bringing additional financial support to the household of 12 people. Upon asking how he sends money to his family in the village, Bhandari took me to another porter, Laal Zeb, who also comes from Bajaur. Zeb's brother owns a grocery shop in Bajaur. Bhandari handed over Rs.2,500 to Laal Zeb and told him to deliver an equivalent amount of food rations to his home in the village. Zeb called his brother and asked him to deliver the rations to Bhandari's house. The entire transaction took place orally without sending any physical cash to the village.

Often, the doctor's fees would also be paid in Karachi in case of family members' visits to a doctor's clinic in the village. In cases like these, the doctor would then come to Karachi and collect his bills from the laborers every six months. Most of these transactions are value transfer mechanisms involving no cash transfer, physically or electronically. If the laborer wants to transfer cash, then he would use the service of Karachi-based moneylenders who would charge Rs.30 on every Rs.1,000 (30% interest). In local parlance, it is called *badla* (exchange). In *badla* transactions, the cash would be delivered to a sender's home in the village.

These informal ways of money and value transfer are historical and embedded forms of exchanges that require no modern paperwork or identity card numbers. The kinship, ethnic, and village networks serve as channels of capital flows and value transfers. In the last decade, however, we are witnessing a new revolution in money transfer methods changing the old patterns and habits of transferring value from one place to another.

Branchless Banking

One important aspect of corporate finance is the role of information and communication technologies (ICTs) in advancing the discourse of financial inclusion for unbanked people driven by the thrust of "branchless banking" (Fisher & Downey 2006; Merritt 2011). In Pakistan, five foreign mobile phone companies, in partnership with eight licensed financial service providers, have brought the entire country under a comprehensive network coverage for paying bills, sending/receiving money within Pakistan or from abroad, or giving donations. In addition, new sets of financial rearrangements have been introduced into the markets, transforming retailers into branchless bankers, increasing the prospect of financial inclusion of the hitherto unbanked population. According to the State Bank of Pakistan (see Fig. 1), the average number of branchless banking transactions per day is increasing over time, as is the average size of transaction of Rs.3,700 (US$42.53). Similarly, the quarterly growth of the number of agents engaged in branchless banking is growing rapidly, transforming the retailers of commodities into retailers of money.

Indicators	Q2 2014	Q3 2014	Quarterly Growth
Number of Agents	168,615	186,618	11%
Number of Active BB Agents	140,747	151,448	8%
Number of Accounts	4,238,178	4,713,145	11%
Deposits as of date (Rs. in millions)	6,219	5,652	-9%
Number of transactions during the quarter (No. in '000')	71,194	66,806	-6%
Value of transactions during the quarter (Rs. in millions)	326,131	375,945	15%
Average Size of Transaction (in Rs.)	4,581	5,627	23%
Average number of transaction per day	791,041	742,293	-6%

Fig. 1 - Source: State Bank of Pakistan

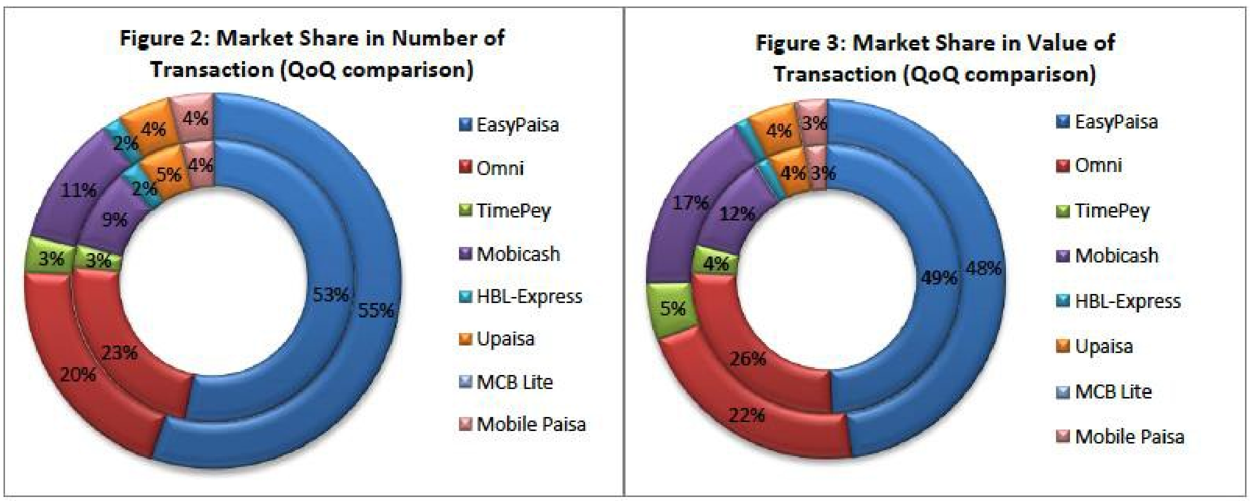

Fig. 2 - Source: State Bank of Pakistan

One of the most popular services for transferring money is Easypaisa, established in 2009 as a collaboration between the Norway-based mobile company, Telenor, and a Pakistan-based microfinance bank called Tameer Bank. In just a short period, Easypaisa has become a household name in Pakistan, catering to small businesses and migrant laborers. It has also expanded its reach to foreign remittances, credit loans, and bill payments, increasingly shaping the way money is handled in Pakistan. Easypaisa accounts for almost half of the market share of branchless banking. The phenomenal growth of Easypaisa became the key catalyst for the country's major financial service providers to start branchless banking, reconfiguring the financial networks historically dependent on the conventional means of kinship and trust (Shabib-ul-Hasan & Naz 2012). Despite the rapid rise of branchless banking, in the cash-driven marketplaces of the postcolonial world people are generally recalcitrant and show distrust towards emerging financial technologies. In my preliminary research, laborers mentioned that for every Rs.1000 Easypaisa charges Rs.60, compared to a local intermediary who charges Rs.30. More importantly, with kinship networks money is delivered at home, whereas with Easypaisa an individual has to go to the retail agent to receive the money. In conservative tribal areas where women are not allowed to move freely, getting a home delivery through a kinship network is still the most preferable way of transferring money.

However, the cutthroat competition among service providers has forced the branchless banking industry to deliver cash to homes, and has made it relatively easier for anyone to open an agent franchise. According to a Telenor staff member, who I call Kashif, the method of getting a franchise is simple. "The first thing we look at is if there is a physical space, especially the roof (*chaht*), and that it has legal property documentation. We do not give franchise status to shacks (*dhaba*), or at least in the book. But sometimes exceptions can be made," said Kashif. Initially the process of issuing a new franchising license would take 15 days because the application had to go first to Tameer Bank to be approved, but now the entire process takes only 2 days. "Now Telenor requires a physical space and biometrics" added Kashif. "If the biometrics match with the National Database and Registration Authority (NADRA), then we award the franchise. Otherwise, we do not" continued Kashif. "We have expanded our retail agent networks to garment stores, medical stores, general stores, etc. Our company wants to spread the retail agent network everywhere." Some of the busiest franchises are located in areas that are densely populated by the laboring classes and armed forces of Pakistan. “Since armed forces are under threat we have decided to establish a network of retail agents inside the military cantonments,” added Kashif. According to a Telenor representative, the success of Easypaisa was primarily because of Telenor’s standing as a mobile company. “Our GSM platform offers a vast network of mobile subscribers who are also becoming our Easypaisa customers. But other companies do not have a GSM network, so they are not successful like us,” said Kashif.

Retail Agents

There are more than 70,000 Easypaisa retail agents in Pakistan, and in Karachi alone there are more than 500 agents. The number of retail agents continues to increase rapidly given the fact that it takes just two days for a retailer to get a franchise. One of the retail agents in Karachi’s middle class neighborhood of Gulberg, whom we will call Tariq, has acquired services from all of the five major money transfer companies. However, he expressed disconcert when it comes to charging commission for each transaction. “In the beginning, Easypaisa used to offer Rs.9 on every Rs.1,000, but now they offer Rs.7. On Rs.15,000 we make Rs.58,” said Tariq. The commission is going down as the new companies are coming on the scene. The volume of transactions carried out is usually Rs.100,000, but in some migrant-dominated areas, the volume goes up to Rs.200,000 per day. “The only thing we require from our customer is a copy of their National Identity Card,” said Tariq.

Because of increasing competition among the branchless banking companies, retail agents are getting lower commission when compared to, for instance, Easypaisa, which charges Rs.60 on every Rs.1,000. Despite decreasing commissions, retail agents such as Tariq continue to operate their businesses, offering branchless banking services to lower income neighborhoods in Pakistan. Retail agents are embedded in neighborhood communities, connected with labor networks, and are known in the locality. “I am from this neighborhood, so people know me quite well. They trust me, too. I am doing this business as a *mohalla dari* (someone with neighborhood ties). Most of the time customers just come and hand over the cash for a domestic transfer, and they don't even ask for a receipt," Tariq said confidently. Since the nature of business involves money, it becomes imperative for the business owner to possess social and cultural capital. Tariq uses his social capital of being from the neighborhood, his familial ties, and his goodwill in the market to run his business successfully among the migrant laborers. His embedded ties give a personalized structure to the capital that usually operates in the formal bank settings. This is the main reason that the laborers use retail agents for domestic transfer rather than local banks. "These laborers do not go to the banks because the environment inside the bank, the glasses, screens, people in ties and suits, waiting in queue, work as deterrents for the laborers to enter the bank," explained Tariq. "Here they can come in like they are in a neighborhood shop and get our service. The atmosphere here is more localized and personalized," he elaborated further. New technologies and services such as Easypaisa are therefore not being imposed from the top or the outside, but rather rely and depend on existing structures of kinship, neighborhood, and familiarity to operate within the marketplace.

Laborers

Since its inception in 2009, Easypaisa has become a phenomenal success among migrant laborers and small businesses. Many laborers expressed satisfaction with the opening of the branchless banking services in their localities, giving them quick access to financial services hitherto unavailable to the masses. Historically, laborers rely on informal money transfer systems, as described above in case of Bhandari. Laborers often also send physical cash with a truck driver or a relative. But with the spread of Easypaisa and other such services, laborers find it convenient to transfer money instantly without relying on informal networks. This emergent form of money transfer is slowly changing the way people perceive money as well as impacting the existing social patterns of domesticity and gender norms.

One of the reasons that branchless banking is becoming popular in countries like Pakistan is the nature of existing financial services. For instance, many migrant laborers expressed dissatisfaction with the commercial banks. The banks are not geared to cater to the poor masses. Waqas and Sami, who work as janitorial staff in a corporate bank in Karachi, expressed that they are unfamiliar with how the money transfer system works in the banks. “We don’t use banks because we do not have any knowledge of the banking system, we do not know the method (*tariqa kar*) of how to send money,” said Sami. Waqas, who works as a glass cleaner, said, “It was six years ago when I first started using Easypaisa. I saw the TV commercial for Easypaisa, and then I went to the shop to send the money. I had doubts in the beginning. But I am middle school educated, so I was somewhat sure that the money would not be lost. Then I called my brother to ask if he had received the cash.” Every month Waqas sends Rs.6000 to his native village of Sajawal in Sindh. Sami shared a similar view on Easypaisa. His monthly salary is Rs.12,000, but with overtime he ends up making Rs.14,000. He sends Rs.8,000/month to his village Mir Pur Khas in Sindh. Out of Rs.8,000 his family manages to save at least Rs.4,000 for emergency purposes. He shared the following personal experience: “One time the message sent to the receiver was deleted, so I got worried and afraid, and had ‘doubts’: ‘What if the money is lost?’ I am a poor man, and I don’t make enough money. So I ran to the Easypaisa agent and asked him to resend the message again. He did one more time. I was relieved.” This kind of an incident shows the precariousness of the emerging branchless banking and how it depends heavily on mobile networks, which in Pakistan get shut down occasionally by the government to interrupt terrorist coordination. Sometimes technical glitches could cause interruption in transactions, in which case, according to a Telenor representative, it takes 15 days to process the transaction record. In most instances of lost transactions, the retail agent has to bear the burden. In order to avoid such issues, Telenor has protected each transaction with multiple layers of coding. The first is the national identity card number, second a telephone number, third a unique number assigned at the end of phone number, and fourth a passcode.

Another migrant laborer also expressed a positive view of branchless banking. According to him, “Easypaisa is a good thing. Now we can send money instantly. Our family members back in the village do not need to borrow money from anyone, even from our relatives. Before Easypaisa, women in the village were vulnerable and suffered risk of losing honor when they had to borrow money from their relatives or neighbors. Now we send it to them instantly.” Because the money arrives instantly, it is important to observe that such instant movement affects temporal sensibilities. Why wait for a day or two when the money can be sent or received within seconds? More importantly, this change has added a new dimension in community relations whereby family members can just be more dependent on Easypaisa, the autonomous and objective entity free from personalized attributes, than on embedded familial ties.

While the laborers find it convenient to use branchless banking, it is imperative to understand that such financial services incorporate labor’s income into the global circuit of capital, and therefore make laborers further vulnerable to monetary shocks and crises. Despite getting financially included in the circuit, the laborers continue to stay excluded from the actual monetary benefits. In other words, there is financial inclusion of the laborers’ saving – historically saved in community networks – and physical exclusion of the laborers from the benefits of digitization of finance happen simultaneously.

State of Security

The state plays a very important role in the emergence of new methods of capital flow and financial management. This is especially true in the case of Pakistan where the government has increased the surveillance of capital flows because of their alleged use by terrorist organizations. In fact, 9/11 brought the US government and the Western media's sharp focus on Pakistan's informal economy — well known as being larger than its formal counterpart — where money circulated relatively free from interference or control by the Pakistani state. The militant Islamist networks of the region were reportedly using this economic space to fund their projects against the West. Thus, tropes of Islam, violence, and tribalism became strongly associated with both Pakistan and the forms in which its people did business and handled money.

After 9/11, under the rubric of security and counter-terrorism, the Pakistani state has further intensified its efforts to discipline vernacular financial practices, particularly the informal money transfer system known as *hawala*, generating tensions among local merchants and impacting laborers sending remittances to their homes.[1] According to the State Bank of Pakistan's representative, "We are not against traditional forms of money transfer, but we are against terrorist financing. The State Bank is providing administrative assistance to currency dealers to streamline their accounts and urging them to follow the rules and regulations."

In addition to financial surveillance, the Pakistani state has initiated a plan called the National Financial Inclusion Strategy. The vision of the plan is "to provide broad based

[1] In *hawala* transactions the hard currency never crosses the physical borders of the nation-state. Nor does the money pass through any formal international channels such as transnational banking networks. The only infrastructure that benefits the currency dealers is a wide kinship network spread across the continents. These kinship networks serve as monetary channels to transfer value from one place to another without any interaction with formal banking and state regulation.

access of financial services enabling access to credit, formal savings, insurance, and payments which can facilitate financial wellbeing of the masses."[2] In short, the state's role in expanding the reach of branchless banking cannot be ignored. It is argued in this paper that branchless banking became possible with the help of the state's counter-terrorist surveillance geared toward criminalizing the conventional value transfer channels.

The use of mobile technology to transfer cash instantly is slowly altering the temporal frame of the subjects. It is shaping the way people perceive social reality. The practice of sending money instantly, for example, inculcates a shorter frame within an individual's temporal orientation. A shorter frame means that the individual's capability to withstand situations for a longer time is eroding: He is losing patience because he wants to get things done instantly. The slow attrition of inner attributes of stillness, steadfastness, and calm is on the rise with the rapid increase of fast, instant, and easy – the attributes of the neoliberal economy. The digitization of finance also bifurcates historically embedded postcolonial markets into material and virtual realities. The latter orients participants to an imagined future of profit and abstraction, whereas the former continues to pull the subjects into materiality of cash. That is why aesthetic appreciation of the surface detail of money and the visual experience of large stacks of bills is a common experience in Karachi's markets. Money, and its exchange, is thus interwoven with subjectivities and structures of feelings and it is simultaneously embodied in people's bodily gestures and features (Maurer 2010). In the postcolonial context like Pakistan where the use of cash is more pronounced than digital finance, the materiality of cash as a value should be taken into account. Thus when we study digital finance, we should not discard the materiality of money as a past relic. Rather we need to understand how

[2] According to the State Bank of Pakistan, there are 54 banks, 13,134 bank branches, 12,000 ATMs, 44,000 POS, 310,000 branchless banking agents. Total number of accounts: 43,000,000; total number of borrowers: 7,000,000.

material and ephemeral forms of money are diverging and converging with each other, and how intersections between digital and material interfaces shape people's fiscal subjectivities.

Conclusion:

The conceptualization of digital finance should be placed in a larger cultural and historical matrix. It should be studied from a developmental perspective, which offers theoretical tools to understand the genealogical roots of modern finance implanted in the postcolonial world. The financial laws enacted in British India in the mid-nineteenth century abstracted the economy from material economic practices (Birla 2009). The economic abstraction then becomes the real or formal economy, a perfect model of exchange against which the entire social reality must be molded even if it requires violent means. The state-led economic agenda in the postcolonial world continues to thrive on the very economic abstraction that was constructed during colonial rule. Thus despite digitization, the roots of financial management can be traced back to the colonial era, when the terms of trade between a metropolis and colonies were outlined, and which continue to inform the contemporary financial practices.

The development of the financial sector especially after the liberalization of world markets in the 1990s is largely carried out according to neoliberal economic principles. This involves the privatization of banks, free flow of capital, micro-credit, and the digitization of money. In the last decade, a new discourse of financial inclusion has emerged calling for the inclusion of the unbanked masses, as if poor people do not have any financial management skills and thus are completely alien to how money is managed in everyday life. According to the World Bank Global Findex, only 13% of people maintain a bank account in Pakistan compared to

45% in South Asia as a whole.[3] Pakistan ranks lowest in financial inclusion. Retail agent banking, or branchless banking, may be seen as a radical democratization of formal finance by providing easy access to people for loans, credits, and savings. More than 300,000 branchless banking agents indeed point to the increased penetration of financial services deep inside rural and poor urban communities. This penetration indicates rapid financialization of the economy at the grassroots level. In other words, a large population in the country is waiting to be coerced into formal finance. But these data do not mean that the lower income adult population does not know how to manage money. The data actually show how the savings of the masses, which are done informally in the form of a ROSCA or by keeping cash in the home, could be incorporated into formal finance.

A quick view on the semantics of Easypaisa shows an intriguing insight into how emergent financial forms hide stark realities. For instance, the label Easypaisa and the idea behind it – an easier form of financial accessibility – promises hurdle-free transactions and a smooth flow of money from one point to another. Easypaisa promotes the idea an easily earned and transferred money. But the nature of capitalism offers a completely different reality. After all, earning money, especially for a wage laborer in the contemporary age of predatory capitalism, is not easy despite how much easier the flow of money transfer has become. The blood and flesh that go into the earning of money get completely ignored in the desire to promote digital financial instruments. Do we ask how laborers earn money, and what kinds of difficulties they have to face before they send money to their villages? Underneath the labels of instantaneous, speedy, fast, and easy are the realities of hardship, difficulty, labor exploitation, income inequality, and

[3] http://datatopics.worldbank.org/financialinclusion/country/pakistan. For more detail see Asli Demirguc-Kunt, Leora Klapper, Dorothe Singer, and Peter Van Oudheusden, *The Global Findex Database 2014: Measuring Financial Inclusion around the World*, World Bank Policy Research Working Paper 7255.

state surveillance. The ephemeral reality constructed by digital images and soundbites, glossy photos and smiling laborers betrays the actual material reality of avarice and violence entrenched in the very core of capitalism.

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