Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Direktion für Entwicklung und Zusammenarbeit DEZA
Direction du développement et de la coopération DDC
Swiss Agency for Development and Cooperation SDC
Agencia Suiza para el desarrollo y la cooperación COSUDE

Making Markets Work for the Poor
Case Studies Series

Developing financial services markets for the poor: FinMark in South Africa

Alan Gibson, The Springfield Centre
November 2006

Employment and Income Division
Freiburgstrasse 130, CH – 3003 Bern
Tel. ++41 31 322 10 65, Fax ++41 31 323 08 49
e-i@deza.admin.ch
www.deza.admin.ch/ei

This case study was prepared on behalf of the Fauno Consortium (Skat, Springfield Centre, Swisscontact, Facet, Inbas), which is a mandate of the Employment and Income Division of the Swiss Agency for Development and Cooperation (SDC).

This case is one of a series exploring the application of the Making Markets Work for the Poor approach to different areas of private sector development. This document represents the views of the author and does not imply the expression of any opinion whatsoever of the SDC, Employment and Income Division.

Summary

Developing financial services for low-income groups is recognised to be a key priority globally. In South Africa, it is an especially important issue. This case sets out the experience of FinMark, an independent trust funded by DFID, in facilitating the development of more inclusive markets for transaction banking services in South Africa. Learning from wider experiences, FinMark sought to be different from conventional approaches and was guided by a making markets work (M4P) for the poor approach. These differences are shown in their approach to market assessment, their interventions and ultimately the scale of their sustainable impact on the wider market system.

Market understanding

Guided by the M4P framework, a number of key obstacles to extending the market for financial services to low-income groups were identified, including poor coordination, poor quality information services, inappropriate rules and weak product innovation. Knowledge of the market and of these constraints increased iteratively both for FinMark and the local consultants and researchers with whom they worked.

Interventions

FinMark's programme of interventions was guided by their emerging understanding of the market. Key interventions included scenario-building exercises with stakeholders, a newly syndicated information service (FinScope), enhancing the quality of regulatory review processes and direct and indirect support for innovation. In contrast with conventional approaches, FinMark's approach:

- emphasised process, intervening *with* stakeholders to encourage ownership;
- concentrated on supporting functions and rules rather than the core of the market;
- was guided by a vision of how the market might work more effectively and sustainably in the future;
- built on a reputation and brand of FinMark independence and credibility.

Impacts

In the three years from 2002 to 2005, some 2.3m people additionally started using banking services, an increase in the banked population from 39% to 46.5%. Although there were other factors driving change (profits, technology, moral pressures etc), the rate of increase in access doubled in this period. Relative to most experiences with conventional approaches, FinMark has made a substantial additional impact, especially through the systemic changes that have resulted from its work. In particular:

- A more informed (and constructive) public dialogue: de facto agreements among stakeholders on the focus of future development have resulted.
- A sustainable information service: FinScope is a fully financed information service with high levels of acceptance and feedback from users. FinMark-type surveys have now spread to more than seven other countries.
- A more informed and rigorous regulatory review process: improved organisation and commitment to more rigorous regulatory review is emerging.
- A more conducive environment for innovation: direct and (especially) indirect support have encouraged more product innovation.

Overall, FinMark's experience in applying the M4P approach to financial services has achieved considerable positive, systemic change and is one from which other agencies can learn.

1. Introduction

Developing a more inclusive financial services industry is recognised as a core development challenge. Financial sector development is a key driver of growth and poor people with access to financial services are generally better off than those without[1]. For development agencies, financial services have historically been a high priority and they have used a range of interventions to stimulate pro-poor services. Most commonly, agencies have supported particular organisational partners (such as NGO microfinance institutions (MFIs)) directly – either in a financial or capacity-building basis - or utilised established specialists, subsidised service providers to MFIs (e.g. MicroSave). Although the current CGAP Donor Guidelines[2] emphasises a wider systems perspective, most support is still earmarked for direct organisational partners with a social mission.

"Conventional" arguments for developing financial markets for poor people apply equally in South Africa, but here they are given more urgency by post-apartheid realities. In the context of a previously divided society, more inclusive financial services are seen as being essential to promote mainstreaming of poor (especially black) people. And to be an essential complement to the country's new democratic dispensation[3].

This case study outlines the experience of the FinMark Trust, an organisation formed in 2002 to address the problem of access to financial services. FinMark saw the solution to improved access as engaging better functioning financial markets – with "making (financial) markets work for the poor" (M4P) – and this has been the focus of their work. Their initial experience indicates considerable success, with potentially major implications for financial services interventions globally.

The case first (Section 2) lays out the specific context in South Africa before focusing (in Section 3) on the underlying constraints, which have undermined the development of financial markets. From within a range of FinMark activity, Section 4 analyses a number of the most important interventions and Section 5 identifies the main impacts achieved to date. Finally, Section 6 highlights the main lessons emerging from the FinMark experience. Annex 1 gives some more general information on FinMark[4].

2. Rationale

Financial services were emerging as a hot topic in South Africa in 2002[5]. Although economic progress had been solid (with growth averaging around 3%) since the end of the apartheid era, there was widespread discontent about a perceived lack of progress in securing more gains for previously disadvantaged groups. Key sectors of the economy (such as mining, ICT and transport) were being challenged to develop plans for how more ownership and control would be offered to such groups; how they would develop a process of Black Economic Empowerment (BEE) – and so enshrine these plans into "empowerment charters", development plans that would extend ownership, control and benefits to the country's majority black population.

Financial services was about to begin its own charter process in 2002 and, with some 39% of the over-16 population holding a bank account, access was a major issue. In addition, the industry was characterised by a number of features:

---

1 King and Levine (1993); DFID (2004); Matin, I. (2005)

2 The Consultative Group to Assist the Poor (2004)

3 *"If having a vote is proof of political citizenship, then access to financial services is an ID card, establishing economic citizenship"* - Kennedy Bungane, Director of Standard Bank

4 The case focuses solely on transaction banking (i.e. checking, deposit and withdrawals) services in South Africa. In fact, FinMark are concerned with other financial services (such as insurance and housing finance) and with other countries in the region. These are not covered here.

5 Porteous, D and Hazelhurst, E (2004)

- Turmoil and (slight) retreat: the microlending boom in the late-1990s ended in disaster with a tightening of regulations on microlending, the collapse of one major bank (Saambou) and the forced merger of another (BoE). Following this, major banks were more reluctant to take risks and innovate to develop new products for low-income groups. Indeed, the gradual rise in access to services witnessed from 1994 to 2000 reversed in 2001-2002.
- Domination by a small number of formal sector players: increasing consolidation meant that there were only four main banks in the country, all listed on the stock market. Unlike in other African countries, there had never been a substantial not-for-profit microfinance movement in South Africa although indigenous stockvels[6] were widespread.
- A growing political/consumer campaign: the voice of the Financial Services Campaign Coalition (FSCC) had been heard with increasing volume and regularity since its formation in 2000. By 2002, their nationwide *Red October* campaign of street protests outside banks had received massive publicity and generated considerable political support

It was into this “perfect storm”[7] of circumstances that FinMark, at the instigation of DFID, was born in 2002. From the start, it sought to be different in two main respects. First, concerned about the weak sustainability and limited scale of impact of conventional approaches - for example, building a new organisation focused on finance for the poor (the poverty banking approach) – FinMark’s rationale grew from the belief that the fundamental problem was the *disconnect* between the supply-side (formal, large-scale) and the demand-sides of the market (informal, low-income). Their task was about understanding and addressing the reasons for this disconnect – the systemic issues underpinning the market’s existing situation. FinMark therefore was set up explicitly as a temporary facilitator or catalyst of market development rather than a permanent provider in the market per se. Secondly, FinMark was established as an independent trust, with a set of local trustees. As a market catalyst, FinMark had to engage with stakeholders in the financial sector (catalysts cannot act alone) and needed to have credibility in order to do so. FinMark believed that it would be better able to play this role as a locally owned and driven entity than if it were structured as a conventional delivery-oriented development project.

3. Understanding specific market system constraints

Discussion on access to financial services in South Africa in 2002 was often heated and seldom consensual. A range of views were put forward to explain the palpable failure of the market system to serve most of the population. For the FSCC and others in wider civil society, pointing to the majority, unserved population, the low levels of access were merely another symptom of the anti-poor bias of the economy’s formal institutions, with discrimination at its heart. Financial services, much like water, education or health care, were perceived as a *right* for people in the new South Africa that the banks should be forced to provide.

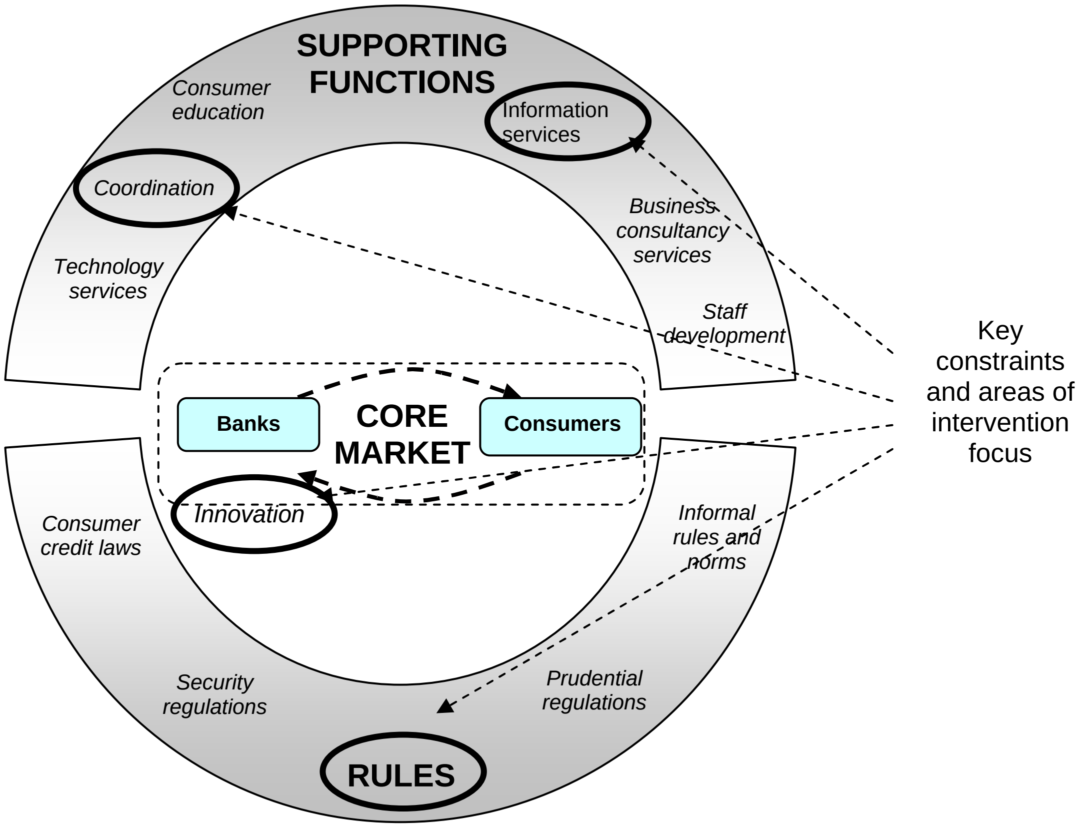
The banks, on the other hand, highlighted the risks and difficulties involved in seeking to extend services profitably to low-income groups who were often unstable (for example, a fixed address) and lacked the security of regular paid employment. They emphasised the progress already achieved since the end of apartheid in 1994 (an increase from 29% to 39% in access rates) and the need for wider development measures from government to help lessen their risks. Between these two positions lay a variety of other perspectives – giving more or less weight to each.

FinMark’s perspective from the outset was informed by a wider view of what was required for the financial market system to work (Figure 1[8]). The problem lay not only with banks and with consumers – at the core of the market – but with what was around them: with the rules and regulations governing the operations of the market and shaping the incentives of key players, and with the range of other services and information available to market players. Understanding why

[6] Stockvels is an Afrikaans term for an informal savings group.
[7] A phrase used by the first CEO of FinMark, David Porteous
[8] FinMark’s version of the M4P framework was termed the *FinMark House* but had the same essential elements within it.

the market was not working well meant looking at these wider market functions – not just consumers and providers.

Figure 1: The financial services market in South Africa



So what was wrong with the market? Why was it not working for poor people? FinMark's approach was based on identifying and seeking to address the key constraints inherent within the market system. However, this was not seen as a neat, simplistic, blueprint process where FinMark, in sequence, first conducted a market analysis and then intervened in pursuit of constraints. Financial markets, like markets everywhere, are fluid and dynamic. Identifying constraints and acting to address these was regarded as a process of engagement with key players and issues, not a mechanistic exercise. Throughout its period of operations, FinMark's analysis, based around a M4P framework, has never been static but has been built up in an iterative way with understanding growing with each intervention undertaken. FinMark recognised at an early stage that the capacity for learning and analysis within the wider market system is not simply as a means to an end but is an important function within the market. In its approach to market analysis therefore, it sought to work with and influence relevant consultants and researchers. FinMark commissioned them to undertake studies, engaged with them to develop new analytical tools and held regular meetings of an informal reference group of consultants. Building the intellectual capacity of the market system was a key element in its approach.

FinMark identified many factors, which appeared to hamper the development of the market system. Some were more peripheral to their main focus (such as poor levels of financial literacy among consumers), others beyond their remit (such as crime and security) and in other cases interventions have taken place but are still at an early stage of implementation (such as specialised consulting services for banks). From the outset, amidst this range of issues, a number of priority factors explaining existing low levels of access appeared to be especially important.

(a) Poor co-ordination within the financial sector

Lack of information also appeared to be a critical factor explaining the poor levels of coordination in the sector. All the key parties in the industry – the Banking Council, the FSCC, regulators, the Government and other interest groups– had committed themselves to develop a charter mapping out the future of the industry and in particular, how it would serve the wider society. Yet, there was little collective understanding of how this goal could be achieved and therefore a concern that stimulating greater access to financial services might be reduced to fine words with little operational meaning.

(b) Poor quality information services on consumers and financial services

Banks' understanding of their existing consumers was relatively good. From a variety of sources they knew about consumers' spending habits and lifestyles, perceptions of providers and experience of using services. However, in relation to low-income groups, their knowledge was extremely limited. One key source was a large bi-annual survey – the All Media and Products Survey (AMPS) – managed by the SA Advertising Research Foundation. Established in 1974, this provided general information on households' usage of all types of products by ten different customer segments. However, financial services were only one product grouping among many in a comprehensive listing. While AMPS was able to provide statistically valid data on overall consumption of financial services, it could not provide the kind of detailed information that might be useful for banks in developing new services. In short, there was no information service providing regular, in-depth analysis of financial aspects of consumer living and giving a measure and an understanding of consumer demand.

(c) Inappropriate rules and regulations

The existing regime of regulations impinging on the sector appeared to be subject to two countervailing pressures. First, from a supply perspective, the onerous capital and supervision requirements made entry of new providers in the market unlikely. Easing these for specialised banks with more limited functions might, it was argued, encourage more competition and innovation. It might also prompt the government into using the banking system to pay its social security grants through the banking system (rather than in cash), a step that would have major positive implications for access to banking services[9]. Secondly, while it was generally agreed that consumer credit reform was necessary, potentially this could increase costs for banks and act as a disincentive to supply to low-income groups.

(d) Weak product innovation

Since 1994, some major innovations had taken place in the banking sector. Standard Bank introduced its E-Plan in 1994 – a card-based electronic transaction and saving product aimed at low-income consumers – and attracted around three million clients[10]. This exerted a major influence on other banks, many of whom developed their own product offerings. However, by 2002 two factors seemed to be evident. First, there was a growing sense that innovation had stalled. A number of factors seemed to lie behind this trend. The unsettling experience of bankruptcy and merger had highlighted the risks of the low-income customer segment. With reduced competition and higher margins in the market as a whole, banks' assessment of risks and rewards had shifted and appeared to have reduced their enthusiasm for the low-income market. And, in general, banks' lack of knowledge of this large market segment was becoming more apparent. Secondly, there was increasing interest (but no concrete offerings) in the possibility of using emerging technology – especially mobile phones – to develop new low-cost services.

[9] *The Economist* (2005)

[10] Not all of these were new clients per se – some transferred from other accounts or from other banks.

4. Interventions to build the market

Given this analysis of the financial services market, and especially of key constraints, what then did FinMark do to try and bring about market development? How did they act to change the market system?

Three points were clear from the outset. First, FinMark interventions had to be flexible. The analysis of market constraints showed a fluid and changing situation and FinMark's understanding of it was only likely to improve through experience. There was no point therefore in trying to develop a fixed menu of interventions to deliver. Secondly, guiding its work and providing appropriate limits to flexibility, the interventions had to be consistent with its overall vision of a better functioning market system. Third, interventions could not be seen as discrete activities isolated from each other. The inherently inter-related nature of market constraints meant that, for example, actions to address coordination problems and weak information services were also interlinked.

In reality, FinMark has undertaken a series of related interventions but ,from within these, a number stand out as being especially important:

- Scenario planning exercise: Vision 2010
- Information service: FinScope
- Regulation: sharpening processes and outcomes
- Innovation: direct and indirect support to market players

These can be best understood in terms of: rationale (why), what the intervention did and how it did it, with whom, the intervention in relation to the market system and how (if at all) it is different from conventional approaches. The impacts on the market system are presented in section 5.

Scenario planning exercise: Vision 2010

Why: while there was much discussion about the future of financial services, this was characterised by friction and a lack of rigorous analysis. These faults were undermining genuine debate. Given a common commitment to improved access, there was a need to elevate discussion to allow stakeholders to consider the potential options facing the sector and (more importantly) the practical implications of those options. No existing player seemed to have the capacity or independence to undertake this activity.

What/how: Vision 2010 comprised a series (22 in total with approx. 400 participants) of scenario building workshops with key stakeholders facilitated directly by FinMark and informed by a number of specific studies. The process, spread over a period of 6 months, generated three main scenarios, each involving different roles for government in relation to the private sector (coercion, delivery or facilitation). An accessible, high quality booklet (500 copies) and a CD were produced as a result of the workshops. These were mainly delivered at no charge to participants – and some were later sold via the FinMark website.

With whom: FinMark conducted workshops for stakeholders ranging from political think tanks to civil society groups. The background research – six specific papers on, for example, technology, regulation, the political context, the supply-side and demographics – was undertaken by consultants and researchers working closely with FinMark.

Relationship to market system: this was seen as an important and early task to bring FinMark to people, kick-starting its work and developing relationships but primarily as a one-off activity and not included in the market system per se.

How different: scenario building exercises for financial services, and the depth of analysis and level of engagement contained within them, are rare. More commonly, views of the future are often confused with organisation business plans.

Information services: FinScope

Why: the information gap regarding low-income groups and financial services was damaging in two main ways (a) the debate over public actions was taking place in an information vacuum and (b) the banks didn't have the information base to allow growth into new markets. No existing commercial providers of in-depth, survey-based analyses apparently saw this as a market opportunity nor did they have the capacity to undertake this kind of analysis and present it in a user-friendly manner.

What/how: FinMark instigated and developed FinScope, an information service based on a national household survey and focusing on financial services' consumption, physical access, attitudes towards money and general sense of wellbeing. The data allows analysis per key population group. After an initial trial in 2002, FinScope was developed into a syndicated study[11]. Findings are given in a range of published formats and in presentations.

With whom: developed with recognised statistics advisers while the survey is undertaken by a market research firm.

Relationship to market system: FinScope was conceived as an information product, which was part of and sustained by the market system. After three years (and consulting with users), it is still owned by FinMark and a number of potential institutional homes are being considered for the future.

How different: conventionally, surveys done by agencies are "one-offs", delivered as public services, usually free, with limited user input and presented in a conventional manner. FinScope is completely different (see Box 1).

Regulation: sharpening processes and outcomes

Why: emerging regulations (for tiered banking and consumer credit) potentially had huge implications for access to the poor. However, processes of regulatory design considered access issues to a limited degree only. FinMark saw its role as injecting rigour and insight into these processes and seemed to be the only player likely to do this.

What/how: a range of related activities undertaken including; engaging with appropriate personnel in key ministries/agencies (especially the National Treasury), commissioning studies directly, influencing the focus of Treasury-commission studies and organising public fora on relevant issues.

With whom: key personnel in regulators and appropriate researchers and consultants.

Relationship to market system: while FinMark has been a direct player it has also been seeking to build sustainable capacity in regulatory processes – in government and in their relationship with consultants.

How different: relatively close relationship with regulators and consultants, and a focus on engagement in process rather than quick-fix recommendations.

[11] This has a variety of different outputs at different prices ranging from users who pay most (syndicate members), who can influence the survey design and gain access to original data to allow more detailed analysis, to free glossy summary outputs of the main findings.

Box 1: Explaining the impact of FinScope

Nowhere is FinMark's success more evident than with FinScope. Across the full gamut of its stakeholders, praise for FinScope is high and consistent. What explains this extraordinary response? Three general factors stand out.

First, technical competence. The findings presented by FinScope are believed and trusted. There is nothing especially unusual about its methods – it is after all a standard survey – but findings are presented transparently in a manner that invites scrutiny. As important, those undertaking the survey and presenting its findings are seen to be professional and inspire confidence.

Second, an emphasis on imaginative communication. From the outset, FinScope has sought to present its findings in (visual) ways that are imaginative and memorable. Learning from the familiar practice of development survey data presented in an inaccessible (and boring!) manner, it has striven to make its findings "real" – to be an accurate and insightful mirror on reality - for different types of user.

Third, a private product not a public good. Underpinning the above factors, FinScope's efforts to achieve credibility are shaped importantly by its funding status. And, appropriately for an organisation whose ethos is about unleashing the power of markets, the qualities underpinning the FinMark brand have been forged by the need to offer a product/service of value to customers.

As interest in taking FinScope to other countries grows, this last factor raises a challenge (and potential danger). FinScope is inherently (relatively) expensive. Syndicated commercial research is a "hard sell" in high-income economies – let alone elsewhere. FinScope as a private product is a central part of its character - even if the "model" may have to be adapted for different countries (by, for example, having it published every 2-3 years rather than annually). Interest from development and other public agencies in paying for the delivery of FinScope inevitably runs the risk of changing its character to that of public good.

Innovation: direct and indirect support to market players

Why: in the context of a shifting market environment, where banks' perceptions of risks and rewards also change, there appear to be two inter-related reasons for slow innovation. First, when large profits are being made elsewhere, banks' incentive to pursue perceived high-risk opportunities in low-income markets are reduced. Secondly, their knowledge of how to pursue these opportunities – with potential consumers who they do not know particularly well – was limited. Addressing these constraints, to help banks see the opportunity and how to pursue it, required external action.

What/how: two categories of intervention were undertaken - direct and indirect support. Direct support took the form of subsidised technical assistance for companies in the process of developing new products, either as generic consultancy on product and organisational questions (consultants placed with a company on a part-time basis over a period of several months) or specific tasks (for example, developing marketing plans). FinMark supplied appropriate expertise, largely free of charge.

Indirect support concentrated on developing an improved information environment that would stimulate innovation. This took the form of a variety of activities such as monthly newsletters, periodic items in the media and, in particular, regular *Financial Forums*. These mini-seminars, offered in the early evening of weekdays, focused on specific subjects and were based around speaker presentations. Subjects ranged from the impact of new legislation to financial management in low-income households but had new innovations as a key focus. These were offered free by FinMark.

With whom: direct support was offered (in the main) to two commercial companies: *WIZZIT*, a new cellphone banking operation and *MTNMobile*, also a cellphone bank (a joint venture between MTN and Standard Bank). Indirect interventions, such as the Financial Forums, were aimed at a wide range of stakeholders including commercial providers, consultants, researchers, academics, civil society groups and government. Attendances averaged around 40 per meeting and 6-8 were held per year.

Relationship to market system: direct support was seen as a temporary kick-start supporting new "disruptive" innovations in the market that would be unlikely to happen (or happen as quickly) without external stimulus. The direct example, it was hoped, would demonstrate to others the rewards of innovation. Indirect interventions aimed at improving information flows were seen as temporary "public" measures, which do not necessarily have to continue.

How different: this kind of direct support is similar to other interventions, although here has been relatively modest in scale. Indirect interventions differ but only in delivery style and quality. Financial Forums are regular, grounded in strong networks and can link the subject of discussions to other activity.

Beyond these interventions, FinMark are also engaged in a variety of other activities, some aimed at other financial services markets (such as housing) and others more generic, such as Financial Diaries – a major research study on poor households' approach to financial management. More details of these are given in Annex 1. While the above examples are important, they need to be seen in a context of a range of other activity.

5. Impacts to-date

FinMark's objective is to facilitate a more effective and inclusive financial services market in South Africa. It sought to generate positive change that was sustainable and substantial. Assessing its performance in relation to this goal is, of course, fraught with difficulty. As a catalyst, its role is to stimulate others to be more effective – and this kind of influencing role can seem intangible and scattered. Moreover, whether by design or chance, FinMark's period of operation has coincided with wider positive trends in South Africa – more moral/political pressure to improve access, the emergence of new technology options, strong growth and higher bank profits. Given this, what can be said about the impact of FinMark both in relation to overall access to services and (more important) the development of a more inclusive market system?

Overall access

Access to financial services has improved dramatically …

By 2005, 2.3m additional people were using banking services relative to 2002. Compared with the previous steady growth, the rate of access improvement doubled from 350-400,000 to 700-800,000 new customers per year. The 14.1m people using services still "only" represent 46.5% of the potential market but this represents a significant improvement in market performance (Figure 2)

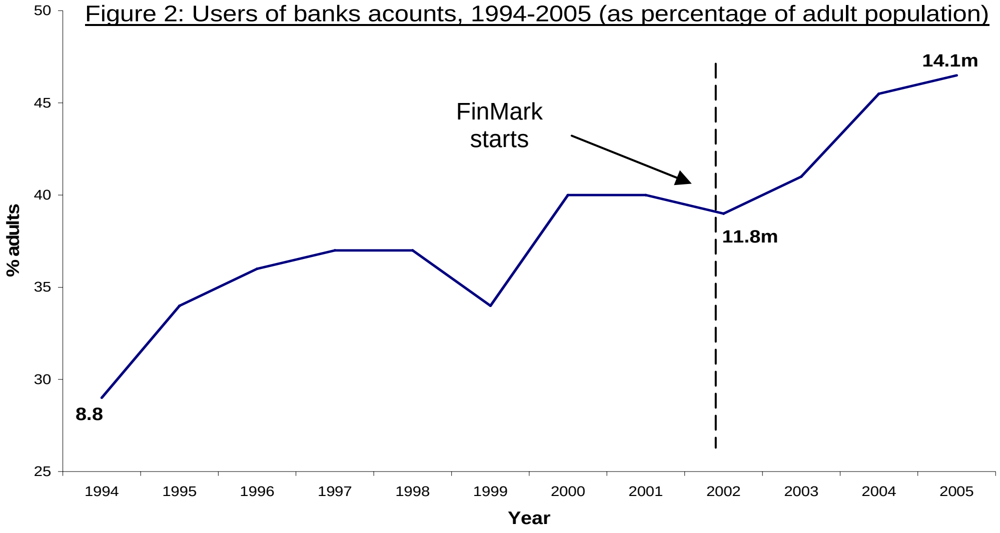
… but FinMark has been only one influence among many

The main drivers of change in the economy and society as a whole were already in place prior to FinMark's arrival on the financial landscape – and its influence can therefore be seen as only contributing to this positive change. In the absence of a valid counterfactual position (difficult to ascertain) the scale of the contribution cannot be quantified precisely. However, a 2005 external impact assessment did conclude that FinMark had "made a substantial additional impact in South Africa"[12]

Moreover, in looking at the more immediate impacts of FinMark's work on the systemic factors – the building blocks that shape market performance - there are reasons to believe that FinMark activities have had a major impact on the wider market system and in this sense contributed strongly to more sustainable, improved market performance. Four areas of change (in descending order of impact) are listed.

[12] Gibson A (2005)

Figure 2: Users of banks acounts, 1994-2005 (as percentage of adult population)



Systemic changes

A more informed (and constructive) public dialogue

Many of FinMark's interventions have contributed to improved public debate, including FinScope, the Financial Forums and engagement with regulators and researchers. However, the scenario building exercise is worthy of specific comment. While this did not result in a formal adoption of one of the three scenarios presented to key stakeholders, there are a number of indications of its positive impact.

- Within the agenda of subjects within the Financial Charter discussions, access increased as a priority relative to ownership and employment equity issues.
- Of the three scenarios developed, the most potentially damaging two – direct government provision or coercion of banks – have, *de facto*, been rejected in favour of market facilitation.
- From the initial deep concern among banks over the implications of a pro-poor strategy, when the Charter was finally agreed there was little negative reaction from banks (and movement in their values on the stock market).

In reality, if FinMark did not invent access to financial services as an issue in South Africa (and it didn't) it has at least been instrumental in making it a serious subject, open to rigorous analysis and debate. It has been especially critical in planting the vision that better access can best be achieved by developing the market (instead of displacing it).

A sustainable information service to lubricate the market

Building the information function within the market has been a central feature of FinMark's approach. Many aspects of its work contribute to this but FinScope has been especially important. After an initial free trial, payment for FinScope has increased from 20% to more than 100% recovery of costs with 12 syndicate members in 2005. In addition to this proxy market indicator of its worth, feedback from users is extremely positive. FinScope data is clearly accepted as the national benchmark on financial access while, more generally, FinScope information is feeding into new product innovation and informing analysis of the regulatory environment. By mid-2006, FinScope-type surveys had spread to at least seven other countries and a plan for its expansion to many more had been developed. Indeed, the revelation provided by FinScope analyses is proving to be an important "entry point" for FinMark in new financial services markets. For example, the insurance industry's approach to low-income markets changed considerably after (their initially reluctant) acceptance of FinScope's access figures.

All stakeholders in the South African financial services market now have access to a sustainable, high quality, information resource on household use and perceptions, and financial services as they impinge on their daily lives. In itself, FinScope has not filled the information void around low-income groups but it has laid the basis for a closer supply-demand-side relationship in this neglected part of the market.

A more informed and rigorous regulatory review process

At one level, limited change has resulted from interventions. The wider inertia of the legislative process has prevented some of the bills from reaching the statute book. Public sector capacity limitations are proving to be a serious constraint. However, some discernible change is evident:

- FinMark secured (directly) an exemption in the anti-laundering bill allowing banks to have clients without permanent addresses.
- The National Treasury (the Finance Ministry) – where access has become the stated policy priority – has started to develop a mechanism to improve coordination between ministries aimed at ensuring that financial access issues are considered in all relevant policies. In addition, separate relationships between government and consultants that do not involve FinMark are emerging.

Overall, while the number of concrete legislative changes has been relatively few, FinMark has helped to develop a more informed process of analysis around regulations where serious consideration is given to access issues. Analysis is deeper and of higher quality and (still early) steps have been taken to build this capacity and process on a more sustainable basis.

A more conducive environment for innovation

FinMark has sought to influence innovation in a variety of ways but primarily through direct and indirect support. Direct support has probably not resulted in additional new innovations per se. Both companies supported believe that they would have developed new products without FinMark. But FinMark did influence the nature of these products positively (in relation to features, targeting, branding, pricing etc). The results of indirect support are difficult to gauge precisely. However, feedback on the Financial Forums is positive and attendance good.

More widely, innovation in transaction banking services has increased. There are now three cell phone banking operations (each with breakevens of several hundred thousand customers). In practice, FinMark's emphasis has moved away from an initial strong emphasis on direct support to individual firms to improving the environment for innovation (Box 2).

The environment around banks appears relatively more encouraging to innovation. While other factors (such as rising profits!) have contributed here, improvements in the learning and information context in particular (in part created by FinMark) have helped to stimulate a momentum and more positive environment for innovation.

Box 2: The debate around innovation

FinMark's initial design laid strong emphasis on direct support to fund innovations among firms. This, it was argued, was necessary to kick-start innovation and defray firms' sense of risk. Around 20% of project funds were earmarked for these kinds of interventions.

In practice, much less than this has been devoted to direct firm-level support and FinMark has been engaged in a lively debate about what to do to stimulate more (and better) innovation. One proposal was that (consistent with its original plans) an innovation fund should be established and that finance should be at the heart of interventions. Against this, it was argued that this would make FinMark a player in the market – potentially distorting more than developing - rather than a facilitator of it.

Eventually, following strong inputs from stakeholders it was agreed that the underlying constraints to innovation lay with lack of ideas and appropriate information. Money, in itself, was not the issue. While FinMark has kept direct firm support in its menu of intervention offerings, its focus has moved to how to create a more conducive information environment to encourage innovation.

In other spheres of the financial market beyond banking services, FinMark has stimulated less impact as yet – for example, consulting services, housing finance and insurance – but in banking services the fundamentals of the market have been enhanced suggesting that the basis for sustainable and major change has been laid. In some cases, this change is manifested in specific changes. In many others, as a facilitator seeking to influence others, concrete change is more elusive to track down. The most powerful indicator of impact lies in the views of stakeholders. And these, almost universally, are positive. Typical comments include the following[13]:

"They have changed the discourse. They're the godparents of the pro-poor agenda"

"FMT's work has been groundbreaking"

"They're established as an authority. Highly professional and credible"

"They have led the wake-up call to the white-managed financial sector"

"They've shown great intellectual leadership. We tapped into their intellectual capital"

"They make it real for a variety of audiences"

FinMark impact versus more conventional approaches

Emerging from FinMark's experience are strong indications of, at one level, a contribution to a significant improvement in access to finance for poor people and, at another, and perhaps more important, some improvement in the systemic factors that underpin sustainable change. In particular, FinMark has contributed significantly to the creation of improved coordination and dialogue and the development of high quality information service. And, less decisively (if still important), to a better regulatory review process and a more conducive environment for innovation.

How does this compare with wider experiences? Finding a like-for-like basis for comparisons with other interventions in the financial services sector is, of course, not straightforward. There have been a range of interventions to support improved access to financial services for low-income people. And, arguably, in the last few years there has been greater emphasis in the development of the financial sector as a whole[14]. But, even accepting that there is no fixed blueprint, overwhelmingly, the most common approach from agencies has been to support the development of specific providers – the poverty-lending approach.

[13] Gibson A (2005)

[14] For example, the key theme of the UNDP's Year of Microcredit in 2005 was the development of "inclusive financial sectors".

A full critique of this approach is certainly beyond the scope of this paper and, given that the number of microcredit customers globally continues to grow, at an aggregate level, progress is being undoubtedly being made. However, the extent to which this is promoting systemic change – that is both large-scale and sustainable – is more open to question. A recent, large study of experiences of focused on developing effective financial services for poor people[15] [16] offers some relevant comparisons. Typically, interventions here were direct support to MFIs with a mandate to provide pro-poor finance. Among the key conclusions reached here were that:

- “the outreach of MFIs is still relatively small”,
- “the limitations of scaling-up provision through MFIs alone have become increasingly evident”,
- “competition effects are not strongly in evidence” and
- demonstration effects are (at best) “very general”.

In short, the study suggested that wider systemic change was not being promoted through conventional approaches. Generalising beyond this (quite large) example of course runs the risk of simplification. Nonetheless, the findings from FinMark’s experience are in striking contrast to the above and suggest that the basis for broader pro-poor market development is being established.

6. Lessons and challenges[17]

FinMark has developed and implemented an innovative programme of market development activities in the financial markets of South Africa. In banking services (which has been the focus of this case) its impact has been significant. From the experience to-date, what can be learned? In particular, beyond South Africa (see Box 3), what lessons and challenges emerge for organisations addressing the dilemmas of developing financial markets for the poor? And how is this different from “conventional” approaches to financial services? Six brief points stand out.

1) Use the M4P framework to shape the facilitator’s focus …

While every environment is different, M4P offers a framework to identify constraints and focus the actions of facilitators. In South Africa this included information services, regulatory processes and innovation – but the priorities, determined by the context, may be different elsewhere. However, whatever their specific focus, the role of a facilitator – a time-bound, catalyst of change - doesn’t alter. Conventional approaches lack the ambition and realistic opportunity to achieve significant systemic change and therefore substantial impact.

2) … and to build a vision of the future

At the heart of FinMark’s work has been the development of general consensus of the future. Its initial work in building scenarios – and the real choices facing the industry – helped to concentrate stakeholders’ minds on choices to be faced and the implications of these. Building this vision of the future provides an overall direction for interventions and is an essential step. Conventional interventions do not develop this future vision of the wider market system.

---

15 A 5-year action research programme into MFIs and the poor - Imp-Act (*Improving the impact of microfinance on poverty*) - funded by the Ford Foundation

16 Copestake et al (2005)

17 This draws considerably on Porteous (2004) and Gibson (2005)

Box 3: Relevance beyond South Africa?

Even if FinMark's record in South Africa is acknowledged to be successful, its relevance to other countries in Africa and beyond is questioned. All very well, it is said, for the special circumstances there but not so relevant in "real" developing country contexts.

Certainly, the differences in South Africa do need to be recognised. It is a middle-income economy; its characteristic split nature mean that the contrasts between its formal and informal worlds are especially vivid; it is a more urban society; and its unique history has given access to financial services a special urgency.

Yet, beyond these obvious differences, much is similar. The challenges facing financial sectors in most countries are different in degree not kind. In a globalising world, financial organisations frequently operate in more than one country; most banks active in South Africa are present elsewhere on the continent. Across most countries, there are constraints relating to, for example, regulation and regulatory processes, information, consulting services and coordination – which may vary in their relative degree of importance but are, nonetheless, there.

While it is clear that addressing the constraints that prevent markets from working effectively and inclusively may not always involve the same set of interventions as in South Africa (there is no neat formulaic guide to actions) it is also clear that the approach has a consistency and rationale that makes it relevant to every context.

As FinMark's experience gains more attention – especially FinScope – the challenge is to recognise what is generic (FinMark's market development approach) and what is specific to South Africa (its particular choice of interventions and partners).

3) Independence and credibility at the heart of the facilitator's brand

Facilitators have to engage actively with key stakeholders in a market. And, in order to do so, they need to be seen to be independent (rather than nursing a secret vested interest) and to have credibility (technically and strategically). The positive achievements of FinMark in the banking sector have been built upon these qualities. Conversely, in other spheres, where its work is still growing and it is still developing credibility (such as in insurance), impact has been less evident as yet. Facilitators and those working with them therefore, from the outset, need to be aware of what they have to offer to different players in the market system. These characteristics stand in contrast to conventional interventions, which tend to be concentrated more narrowly on delivery of services directly to poor people.

4) Not just what but how – the importance of process

A central dilemma facing facilitators is the balance between doing themselves and encouraging others to do. Too much of the former removes ownership from others; not enough and facilitators are peripheral. However, FinMark's experience shows critically that successful facilitation must not neglect the process of engaging with others. FinMark's impacts – e.g. in information services and regulatory processes – are based not just on outcomes achieved per se but on the process through which these have been achieved which has sown the seeds of sustainability. The easy route of using facilitator resources to "do it ourselves" may only be buying an illusory sense of impact.

5) Where to intervene?

Although their precise activities will vary from one situation to another, FinMark's experience suggests two related points on interventions for facilitators. First, most activity should be in the supporting functions around a market (information, services, regulations etc) rather than with individual market players. For example, rather than simply subsidising existing organisations to develop a new product the challenge is to generate an environment that encourages innovation more broadly. Support for individual firms needs to be seen in this context. Second, the supporting functions around the core market need to be seen as inherent elements of the market system, which therefore have to be sustainable. Indeed, often these supporting elements around core markets are themselves inter-connected markets. For example, FinScope's achievement is not just the high quality and insight of its analysis – it is that users want it enough to pay for it.

6) What is "one-off" facilitation activity and what should be in the market?

One indicator of the worth of FinMark's performance is that, for many, it is the main custodian and champion of the making financial markets work for the poor agenda. While this is a testament to its success, it also leaves a problem. Which of its various activities are legitimately "one-off" exercises by a finite facilitator and which should it be seeking to build into the market system? In some cases – such as FinScope – the answer might seem clear but in others less so. Should Financial Forums continue? Who should take up the role of M4P champion? Someone in government or in the media? Who might lead another scenario building exercise? Answers to these questions are not straightforward nor is there necessarily one correct response. But they do need to be considered.

Annex 1: FinMark background information

The FinMark Trust was set up in 2002 with £5m funding from DFID. Its mission was summarised in the refrain “making financial markets work for the poor” in South Africa, Botswana, Namibia, Lesotho and Swaziland (BNLS). More specifically, its objective was to promote the “sustainable expansion in the provision of financial services” and to so do by achieving systemic change in the market. Its key overall target was to facilitate an additional 2m people into the market. FinMark was established as an independent trust governed by appointed local trustees with DFID holding observer status on the Board.

Originally, FinMark was set up as five-year programme but in late-2005 an extension was agreed upon with DFID. FinMark, however, still sees itself as a time-bound facilitator that will phase out operations as it stimulates processes of market development. FinMark has been set up to allow considerable flexibility in its activities. In character it has taken the form of a flexible programme evolving in response to experience and opportunities. Transaction banking services was an initial high priority for FinMark. However, following an external review in 2005, transaction banking has been de-emphasised in preference to other areas reflecting the substantial, positive impact that has already been achieved. By their nature, the impact of FinMark interventions is not confined neatly into separate categories but spills into more than one area of financial services markets. Nonetheless, the following gives an indication of the range of activities that have been undertaken.

- Insurance: As a relatively conservative industry, insurance is at a comparatively early stage relative to banking. FinMark has worked with key players (especially industry bodies) to consider access more seriously. They have now signed up to FinScope and are beginning to develop standards and access targets.
- Housing finance: FinMark’s key initiative here was the first major study of Township Residential Property Markets whose findings have been widely promoted. This has provided the basis for engagement with a number of key players.
- Services and information: Beyond FinScope, FinMark has collaborated with a range of other specialist players on the development of new information-based consultancy services to financial sector players. The Financial Diaries research programme has thrown light on financial management in poor households.
- Other countries: In BNLS FinMark activities have been less intense than in South Africa – which is the dominant player in the region. FinScope research programme activities and a range of other studies have been undertaken but there has been more limited follow-up to-date.
- Wider development community: Following strong demands from various agencies, FinScope exercises are now taking place in several other African countries (and are likely in Asia). Plans are emerging to develop FinMark Africa to manage this work. FinScope methodologies are also being used by the World Bank in its efforts to benchmark access throughout Africa.

In all areas, FinMark has been committed to generating information and analysis for public consumption, including studies, booklets, presentations and media briefings, most of which are available on its website.

References

Copestake et al (2005); Money with a mission. Microfinance and poverty reduction (Volume 1); ITDG Publishing.

DFID (2004); The importance of financial sector development of growth and poverty reduction; DFID Financial Sector team, London

Gibson A (2005); Impact assessment of FinMark Trust's activities, 2002-2005; unpublished paper

King and Levine (1993); *Finance and growth; Schumpeter may be right*, Quarterly Journal of Economics, 108 (3), pp 717-37

Matin, I (2005); The very poor who participate in microfinance institutions and those who never have; Small Enterprise Development Journal Vol 16 No. 3

Porteous, D (2004); *Making financial markets work for the poor*; FinMark Trust, South Africa

Porteous, D and Hazelhurst, E (2004); Banking on Change. Democratising finance in South Africa 1994-2004 and beyond; Double Storey, Cape Town

The Consultative Group to Assist the Poor (2004); Building inclusive financial systems: donor guidelines in microfinance

The Economist (2005); *Banking on the unbanked*; The Economist 28th May 2005