

MMW4P Programme Summary - FinMark Trust (South Africa)

Purpose:

Making Financial Markets Work for the Poor in Southern Africa.

Dates:

Launched in 2002, this was the first MMW4P programme. This is a 5 year programme up for renewal in 2007.

Funding:

DFID has provided core funding support of £5 million. Additional public and private contributions have also been made to FinMark Trust for specific research/ studies.

History/Environment:

Despite the comparative sophistication of South Africa's financial services industry, access to financial services had remained low for the country's black population. As part of its effort to build a more inclusive society (Black Economic Empowerment programme), Government gave a clear policy signal of wanting the financial sector, particularly the commercial banks, to improve access to finance. Government could have initiated regulatory changes to force the banks to improve access to finance but gave the commercial banks the opportunity to respond on a voluntary basis. The Banking Council South Africa recognised the need to respond to Government's policy objective and had started to develop a Financial Charter that documented the obligations of the financial services industry in serving the needs of the country. Thus, the environment for the programme in South Africa was opportune (close to the 'perfect storm') with a clear policy issue to address and credible and committed stakeholders willing to respond to it. These conditions do not hold in the other countries of Southern Africa which are included in its remit.

Driver of programme, positioning & timing:

The programme was developed through extensive consultation between the Banking Council South Africa and DFID. However, it is positioned as an independent facilitator and advocate of change separate from the Banking council and DFID. The timing of the programme took advantage of the conducive environment and opportunity in South Africa. In other countries of Southern Africa, it is

positioned as a donor programme.

Governance:

FinMark is an independent trust with a board of trustees drawn from the financial services industry and civil society. The trustees provide strategic direction and oversight with the DFID project officer acting as an advisor. The CEO is appointed by the trustees and reports to them.

Management:

A small team consisting of a full time CEO and experts working part time provides the management. Staff are recruited by the trustees and hence are their employees. Staff are chosen on the basis of their credibility with the south African industry which helps to influence stakeholders. They engage with the government, central banks and financial sectors of other Southern African countries based on the track record FinMark has established in South Africa.

Approaches:

The programme plays the role of independent facilitator and support to financial sector. FinMark operates and is positioned as an independent professional think-tank with private sector characteristics rather than a typical donor project. By occupying neutral space between policy makers and the private providers and facilitating dialogue backed up with robust analysis and effective and timely communications, it has acquired considerable credibility amongst key stakeholders. The programme uses the FinMark 'house' to bring about systemic change addressing: i) institutional infrastructure (policies, laws, regulation); ii) organisational infrastructure (diversity, capacity, competition and innovation); iii) support infrastructure (service providers, information). The FinMark house thus incorporates the key elements of the MMW4P framework. The programme innovated the concept of the access frontier which shows how supply side shifts, through innovation or subsidy, or through catalysing private sector activity through making information available on the poor as market participants can help to deepen markets so that they reach the poor. FinMark's approach was to focus on one particular area transaction banking as a means of establishing an initial impact before

moving onto other areas. FinMark has gradually expanded into other financial services and now has work across 6 theme areas: i) Financial policy & regulation; ii) Financial sector charter follow-up; iii) Housing Finance; iv) Information architecture; v) Insurance; vi) Transaction banking and payments. These address elements of the house and particular markets (housing finance, insurance, transaction banking) that serve important needs of the poor.

Instruments/Tools:

- FinMark has developed tools that the private sector can use to design new products, notably FinScope, which helps to measure the extent to which the needs of the poor are being met by the financial services industry. The tool is increasingly paid for by the private sector, has been rolled out to other countries in Africa and Asia by DFID and the World Bank Group.
- High quality research to provide evidence and inform debates. In addition to more traditional studies and reports, FinMark has also used Financial Diaries.
- Establishing platforms for dialogue to influence regulators and financial service providers.
- The programme has developed specific tools to help policy makers and regulators assess the impact of proposed legislative or regulatory change. For example, the Policy Lens enables policy makers and regulators to assess the likely impact of proposed policy and regulatory change against specified policy indicators.
- Though the programme provides grants, it has recognised that there are sufficient funds for innovation and capable implementing agents in the financial services industry of South Africa and so has not used them extensively.
- Networking events FinMark Forum's held regularly in a private sector auditorium and focused each time on a specific theme with private sector presenters.

Major Challenges:

- **Attribution.** Part of the improvements in access to finance delivered in South Africa were initiated before the programme came into being and have been designed and implemented by the financial services industry itself. This raises the issue of how much attribution is possible for programmes that serve as catalysts and facilitators.
- **Expanding scope.** FinMark initially struggled for credibility when expanding the focus beyond just transaction banking given the different circumstances and stakeholders and interests of the different financial sub-sectors

(e.g Insurance). This was overcome through credible research however, and given brand value of FinMark is now less of a problem.

- **Expanding geographic reach.** Establishing the programme as a credible facilitator of pro-poor change in other countries of Southern Africa has proved more challenging than in its home base of RSA. This has highlighted difficulty in trying to roll out solutions, which lack sufficient local demand.
- **Internal capacity.** The FinMark team needs to build more internal capacity, mitigate the risks of relying so much on key individuals, and diversify and localise its staffing profile to a greater extent going forward.

Strengths:

- **FinMark is focused.** Through concentrating on the financial sectors FinMark was able to ensure greater expertise, depth in knowledge across the Trustees and executive. Focusing on one sector also enabled greater positioning, credibility and brand value with stakeholders.
- **FinMark is Flexible.** Unlike think-tanks dependent on short term funding, FinMark has been able to take a strategic long term view and pursue ideas for which current support is limited.
- **Started small, thinking big.** FinMark initially focused on transaction banking and focused in this one area. Following success in this one area FinMark was able to expand into other financial sub-sectors.
- **Strong ownership.** FinMark is owned by its trustees who have credibility and legitimacy.
- **Strong credibility.** Largely based on the founding CEO and other staff, the neutral yet professional organisational positioning, the focus quality and impact of initial work, the continued professional leadership and the usage of high quality researchers.
- **Strong private sector.** The financial sector in RSA has capable private actors who have responded to the policy imperatives set by government and facilitated by FinMark.
- **Independence.** F/M is an example of an independent Trust providing an effective vehicle for programme management. The current funding structure for FinMark contributes to its ability to position itself as an independent facilitator, rather than competing with other consulting firms for market share in the sector. This allows FinMark to focus on building the evidence base for good policy, even where the evidence is unpopular or controversial. FinMark's independence, the

high quality of its work, and the passion it brings to the issues are what stakeholders most value these require that FM retains a level of financial independence, and provides the key rationale for continued funding for this role.

- **Timing.** FinMark is a best-practise example of how the concept of 'making markets work better for the poor' can be successfully applied, illustrating also how a facilitation role can support and enhance wider change processes. FinMark has had a clear focus, it responded to a key policy priority in SA at the time, in a way that was independent of but linked to key role-players, & in ways that recognised & supported processes & initiatives already underway in the society. FinMark was set up in a context it describes a 'the perfect storm' high levels of social dialogue and negotiation over the terms of financial sector reform, leading to the Financial Sector Charter, coupled also with the private sector's need to break into new markets. These factors created a political economy context highly conducive to change & innovation, with a range of 'ready made' partners with which FinMark was able to engage.

Key lessons:

- **Perfect Storm.** The conditions for the programme were close to the 'Perfect Storm'. The lack of access to financial services for the poor, black population had become a major issue that demanded a response from stakeholders. The Banking council was willing and committed to providing an appropriate response.

- **Individuals.** The credibility and leadership of the CEO staff and researchers sub-contracted was critical in the programme having the necessary strategic direction and credibility with the private sector, with government and with donors. This credibility has been retained through strong subsequent staff and continued high quality offering to the sector.

- **Start small and build on credibility.** FinMark focused on one sector and within that, one area transaction banking. When FinMark moved into insurance they again had to build credibility in this sub-sector through effective independent research. Positioning of programme and building credibility therefore critical.

- **Positioning & Governance.** Establishing the programme as a trust helped to establish its independence and neutral positioning from DFID, the Banking Council and Government. Locating the trust in the city, and setting up

FinMark to operate in a private-sector manner also helped credibility. Through focusing on one sector, the 5 trustees are able to add significant value to FinMark compared to other programmes with less focus.

- **Replication.** A critical lesson, in attempting to replicate FinMark's successes in other contexts, is the need to find comparable momentum or political will amongst key stakeholders, as a necessary condition to achieve equivalent impacts, from policy reform to new product development. Where this is lacking, levels of advocacy and input will need to be greater, with outcomes likely to be slower and less dramatic.

- **Expansion.** Extending the remit to countries where conditions did not approximate the perfect storm and where it was perceived as a donor intervention proved a major challenge. The outcomes and impacts that have made it a success are mainly derived from South Africa showing that successful models cannot always be replicated in other contexts

- **Impact measurement.** Direct attribution of outcomes may not be an appropriate indicator of the success of programmes that serve as catalysts and facilitators. Change processes require local drivers and local ownership, and that there can be a tension between such ownership, and DFID's corporate requirement for more direct attribution of impacts and outcomes to a particular project. At the same time, these quantifiable, measurable OVI targets are a blunt instrument with which to capture or measure the scale and scope of FinMark's influence, and what it takes to achieve the complex interaction between research, relationship-building, effective advocacy, and the wider political economy context that are all key to the final outcome. Until the outcome is achieved, the measures of progress will be primarily about processes, yet 'processes underway' are frowned upon as an outcome despite the often significant difficulty in getting that far, and despite the fact that the desired change outcomes are usually impossible without them. With DFID giving priority to an 'influencing' agenda in MIC's, finding more effective measures of such influence and of the processes required to achieve change is key.

- **Information failures.** Through tools such as Finscope, FinMark has demonstrated the real information failure in markets affecting the poor. Though filling these information gaps and facilitating an ongoing dialogue with the private sector it is possible to influence private sector

perceptions on Base of the Pyramid markets.

- **Influencing government.** A crucial issue was to consider those who will be left behind despite improvements in financial products and distribution and efficiency and outreach afforded by new technology. FinMark successfully argued that Government strategy, to reach those currently unreachable by market, should increase rather than decrease incentives for the private providers. Social transfers to extreme poor, investment in infrastructure, introduction of no frills Mzansi account were all market making rather than market distorting strategies¹.

Case studies/papers available:

See www.finmark.org.za. A huge range of papers and tools are available from the website. Key papers include:

- Making Financial Markets Work for Poor David Porteous conceptual paper
- Financial diaries (methodology, data)
- Access Frontier (methodology and multiple country reports)
- Finscope survey papers on each of SACU countries & Botswana
- Innovation series (case studies on different areas of innovation)
- Housing finance various papers
- Financial regulation various papers
- Insurance various papers
- Land Markets new landmark programme

Reviews available:

Output to Purpose and Mid-Term Reviews.

¹ For example Government resisted temptations to unilaterally impose targets or interest rate ceilings.