



# ANNUAL REPORT 2015





## FinMark Trust purpose

FinMark Trust, an independent trust based in Johannesburg, South Africa, was established in 2002, and is funded primarily by UKaid from the Department for International Development (DFID) through its Southern Africa office. FinMark Trust's purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration' as well as institutional and organisational development, in order to increase access to financial services for the un-served and under-served. FinMark Trust commissions research to identify the systemic constraints that prevent financial markets from reaching out to these consumers and by advocating for change on the basis of the research findings. FinMark Trust is driven by its purpose to start processes of change that ultimately lead to the development of inclusive financial systems that can benefit all consumers.

FinMark Trust is an independent centre of excellence for financial inclusion research, advocacy and implementation facilitation that achieves its purpose by:

- Providing technical and policy support to regional financial integration and harmonisation initiatives in the SADC region to further the overall vision of financial inclusion for the poor in the region
- Supporting national governments (within a regional financial inclusion programme) by facilitating stakeholder driven financial inclusion programmes and supporting their implementation by conducting financial inclusion diagnostics, developing country roadmaps and implementation activities
- Providing data and analysis that enables policy makers and financial service providers to better understand the financial needs
- Playing a catalytic role to make financial markets accessible, sustainable and inclusive by promoting and supporting policy and institutional change in the financial sector and policy arena

## FinMark Trust vision

A SADC region in which all people are able to utilise affordable, quality financial services offered by a range of service providers to improve their lives, AND where inclusive financial markets contribute to economic growth and prosperity for all people.

### All people

FinMark Trust places the poor at the centre of its strategy, particularly vulnerable groups such as women and youth. Our approach is therefore to always understand what the needs and livelihood strategies of the poor are and to design interventions to support these strategies. The Millennium Development Goals (MDG) definition of the poor is used by FinMark Trust as those who live on less than \$1,25 per day.

### Improve their lives

FinMark Trust adopts a sustainable livelihoods approach to poverty reduction and focuses on improving the capabilities, assets and activities required for a means of living.

### Affordable, quality and transparent financial services

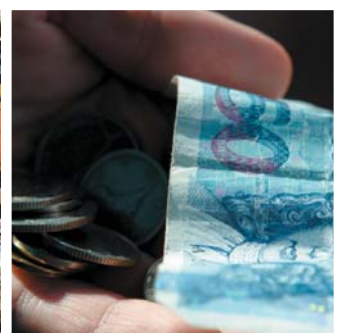
Services that the poor can afford which meets their livelihood strategy needs.

### Inclusive economic growth

Growth of economies at local and national levels that include the poor and provide for their sustainable livelihoods.

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## Trustees



**Cas Coovadia** is the chairman of FinMark Trust and the managing director of the Banking Association of South Africa, which is the mandated representative body of all licensed banks in South Africa, both national and international. He is also chairman of the National Business Initiative, first deputy-president of the African Union for Housing Finance and president of the International Union for Housing Finance. He also serves on the Council of the University of Witwatersrand.



**Prega Ramsamy** is the chief executive officer of FinMark Trust. Before joining FinMark Trust, Prega has held several senior positions including executive secretary of SADC, principal advisor to the President of Madagascar, and head of the Business for Development (B4D) Pathfinder at the Southern Africa Trust. With a strong background in regional integration and development economics, he has extensive knowledge and experience in business and development, as well as in international relations. He has provided policy and strategic advice to both the private and public sectors in the SADC region.



**Ethel Matenge-Sebesho** is head of New Markets for Home Loan Guarantee Company. She is involved with establishing new markets for the company in a number of African countries. Ethel has considerable experience in the banking and financial services sector at a strategic and policy level, and in several microfinance initiatives in Southern Africa. She also serves on the boards of FirstRand Limited, Momentum Investment Divisional Board, First National Bank Divisional Board and is vice chairman of Botswana Investment and Trade Centre.



**Ishmael Mkhabela** is a freelance community development practitioner and organiser who also serves on the boards of both public and private companies. He is the founder, and was chief executive officer of Interfaith Community Development Association, which has pioneered community organisation and conflict resolution in South Africa since 1991.



**Esau Nebwe** is a chartered accountant by profession and executive chairman of Ness Associates, a family consulting firm. He is a board member of the Bank of Zambia and serves on a number of other boards including the Maamba Collieries Limited.

## Chairman's review

Like the previous year, FinMark Trust had a productive and rewarding year, extending its activities beyond the SADC region and keeping its usual high standard of delivery. It was encouraging to receive positive feedback on the work of FinMark Trust from a number of institutions involved in financial inclusion during an outreach mission that I undertook, with the CEO, on behalf of FinMark Trust in the United States in May last year. The positive and constructive work of the Trust to facilitate making markets work for the poor in the SADC region was also echoed by the independent reviewers appointed by DFID to undertake the annual performance review of the organisation during the period under review. Another performance review, specifically on the regional financial integration programme of FinMark Trust, confirmed the catalytic role played by the organisation in the implementation of the Finance and Investment protocol.

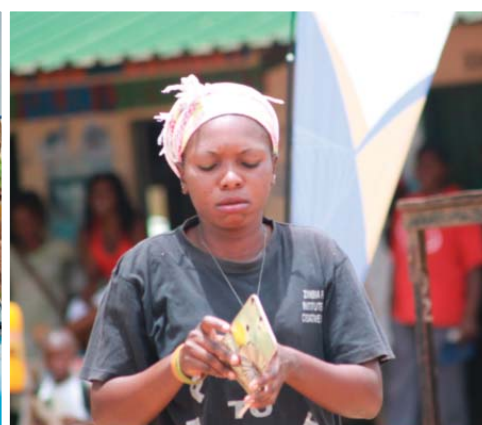
Against this background, I have been intensively involved in reshaping and charting the future focus of FinMark Trust together with my colleagues on the Board of Trustees and the management of the organisation. In January this year, the FinMark 2015-2020 strategy was approved after a series of internal and external consultations. This strategy takes into consideration the evolving nature of financial inclusion, its role in supporting sustained economic welfare and in reducing poverty. The strategy is anchored on three broad pillars: namely regional financial integration, regional financial inclusion and global thought leadership. It provides a space for more collaborative work amongst stakeholders to extend the benefit frontiers of financial inclusion by making markets more accessible and products more affordable, especially in the SADC region.

It is estimated that some 2.5 billion adults globally do not use formal financial services to save or borrow and the majority of these unserved adults live in Africa, Asia, Latin America, and the Middle East. In the SADC region, it is estimated that some 33 million people representing 34% of the adult population are financially excluded. They do not use any financial products – either formal or informal. It is imperative to enable these people to interact with the formal financial sector if we are to grow economies and sustain such growth.

It is my expectation that the work of FinMark Trust on regional financial integration and financial inclusion will be a critical element, amongst others, in addressing the above challenges. The evolving FinMark Trust strategy now includes a livelihood approach to financial inclusion to obtain a better understanding of the financial landscape within the context of people's lives and realities in order to identify inclusion actions and strategies that will improve the welfare of low-income households in SADC. This will require intense stakeholder engagement based on evidence-based research. In that regard, the long experience of FinMark Trust in harnessing research results for policy and market changes will be of immense value.

An essential element of financial inclusion is to consider any unintended consequences of such inclusion on different strata of people. There is increasing evidence of such unintended consequences, such as in the area of unsecured credit. In that regard, there is a need to ensure a balance between increased access to financial services and consumer protection to avoid exploitation of consumers. In this context, the legal recognition of financial consumer protection is imperative. However, the real impact of consumer protection can only be ascertained if the oversight bodies have the necessary authority and resources to carry out their mission combined, with responsible business conduct by financial services providers and borrowers.

While the important role played by FinMark Trust as a game changer in the arena of financial inclusion has been acknowledged and acclaimed by critical stakeholders, there is still a lot of work to be done to improve the welfare of the low income people in the SADC region and beyond. In many instances the long walk to financial inclusion for all segments of the population has just begun. To reach the final destination, there is a need for continued leadership, courage, perseverance and, above all, the resources to gel everything together and make financial inclusion happen. It is my sincere hope that on the basis of our track record and our commitment to action, we will be able to mobilise the required resources from the funding partners, including our own governments and the private sector, to extend the benefit frontier of financial inclusion in the SADC region and beyond. There is increasing acceptance that financial inclusion offers an opportunity for the development of new markets and products for service providers, improves livelihoods and is a critical component for sustainable economic growth. This is thus not a corporate social responsibility issue, but an economic issue.





## Chairman's review

I take this opportunity, as Chairman of FinMark Trust, and on behalf of the Board of Trustees, to thank DFID, our core donor, as well as all the other development partners for supporting the work of FinMark Trust. DFID has been our long term partner and has contributed immensely to our work. I hope that this partnership will continue so that, together, we can continuously broaden financial inclusion and increase the wellbeing of vulnerable people.

I would also like to thank the Bill & Melinda Gates Foundation and the MasterCard Foundation for supporting the establishment of the new Facility for effective decision-making in financial inclusion. This support will go a long way in improving the quality, relevance and comparability of indicators of financial inclusion and the client-centric data needed to design effective programs, products and policies. Another organisation which I must recognise and thank is the UNCDF which has contributed to further enhance the global visibility of FinMark Trust through the Making Access Possible(MAP) initiative.

I must also recognise the professionalism and hard work of the entire staff of FinMark Trust who, under the able and inspiring leadership of the CEO, Dr Prega Ramsamy, have all contributed to the success of the organisation. Finally, I salute and thank my fellow Trustees for the commitment and unflinching support that I receive from them at all times.

### Cas Coovadia

Johannesburg

May 2015



## Chief executive officer's review



As more evidence is emerging on the positive link between financial inclusion and improved livelihoods of the poor, more countries around the world have embarked on financial inclusion strategies to improve access to and usage of financial services and products. The ultimate aim is to unlock the economic and social potential of the unbanked population whose financial needs have not been met. In fact, during the last 5-6 years, financial inclusion has become an important agenda in the fight against poverty and inequality. Today, this is clearly a compelling global agenda especially taking into consideration that one out of every three adults are excluded from formal financial systems – more so in developing countries among low income, rural, and female populations as well as among small businesses and surprisingly millions in prosperous nations.

As one of the main drivers of financial inclusion in the SADC region, FinMark Trust continues to play a critical role in the creation of inclusive financial markets that work for the poor. This is a challenging task which requires a combination of targeted actions aim at ensuring that indeed the poor benefit from financial markets as very often consumer centricity is outside the radar of policy makers, regulators and financial service providers. These targeted actions are not possible without a clear understanding of the drivers and barriers that shape markets and on how poor people manage their financial lives.

Accordingly, we have started unfolding the MAP methodology in a number of countries within and outside the SADC region. As a new cutting-edge methodology, MAP begins with a thorough national consultation process, followed by in-depth demand-side, supply-side diagnostics and regulatory analysis on the basis of which a national financial inclusion strategy or roadmap is developed. This strategy/roadmap will assist participating countries to realise their financial inclusion objectives as espoused in their commitments to the Maya Declaration and other national policies. We have taken the lead on MAP in the SADC region by providing support to the diagnostics and the implementation of the roadmap.

While increased financial inclusion alone cannot eliminate poverty, they can make transformative contributions to the stability of poor households and improve the economic potential of small businesses and the vibrancy of communities. Accordingly, during the period under review, we have adopted a livelihood approach to obtain a better understanding of the financial landscape within the context of people's lives and realities to identify actions and strategies that will improve the welfare of low-income households. On the basis of our understanding, we have continued to encourage policy-makers and regulators in the financial sector to focus on strategic reforms to create the appropriate enabling environment for improving the access, usage and affordability of financial services. These have proved to be challenging tasks as policy and regulatory changes require proximity engagement with a wide array of stakeholders which, in our experience, takes time and resources, especially in the regional context.

Naturally, financial inclusion should carry with it the benefit of betterment of human life through improved living standards of those financially included. To assess the betterment of human life calls for a closer look at the quality of usage of financial products. Scholars argue that the quality of usage of financial products should result in efficiency and less costs compared to the alternative. Financial access should go further than access and usage of financial products/services to allow product users to engage more actively in the economy while protecting their rights. This subsequently boils down to whether financial products are effectively meeting users' needs and ultimately if they are better off as a result. It is against this background that we have created new and more extensive measurement tools, concentrating on understanding the quality dimension of usage of financial inclusion. It is worth noting that quality of financial inclusion should mean that there is a reasonable expectation of individuals to migrate out of poverty through effective use of financial products, coupled with a lesser probability of those that are financially included to slip into poverty.

Going forward with the work we have started in financial inclusion, we have adjusted and aligned our 2015-2020 strategy to the requirements of the region with a view to contribute to the scaling up of financial inclusion to help strengthen economic activity, improve livelihoods, and reduce the footprint of poverty. Based on our current programme of work and the experience gained on financial sector development across the region, we have reorganised our work over the next five years around three broad pillars namely: regional financial integration, regional financial inclusion and thought leadership. These will allow us to make meaningful contribution to the inclusive growth agenda of the SADC countries. Whilst the core of our work has been focused on regional initiatives, the methodologies, information and expertise developed in the process has been applied globally and we will continue, with our global partners, to shape the debate on financial inclusion. Already we have started the process of global discourse in South East Asia and India.



## Chief executive officer's review

During the period under review, two new international partners, the Bill and Melinda Gates Foundation and the MasterCard Foundation have joined the existing funders of FinMark Trust to provide funding for the establishment of a new centre to improve the quality, relevance and comparability of indicators of financial inclusion and the data needed to design effective programmes, products and policies. The centre will also address the use and quality of client centric data as well as the design of a greater range of more relevant and impactful financial products and services for the financially underserved individuals.

Cognisant of the increasing unintended negative consequences of financial inclusion on the poor, we have put more emphasis on policy and regulation, consumer empowerment and financial capability to better mitigate the risks of financial inclusion and adopt new ways of measuring the quality of financial inclusion. The contribution of financial inclusion to the real economy has become more prominent in our work with an emphasis on women and youth and how their livelihood strategies can be supported so that they do not fall back in the poverty trap.

All the work of FinMark Trust would not have been possible without the generous financial support and commitment to the agenda of financial inclusion from UKaid from the Department of International Development (DFID) through its Southern Africa office as well as other funding partners. As we continue to bring more of the unserved and under-served population into the fold of financial inclusion, it is my hope that our work will continue to be supported by our co-operating partners to meet the increasing demand from the recipient countries. It is estimated that in SADC out of the 124 million adults only 36% representing 45 million individuals are banked. The proportion of adults that are banked ranges from 85% in Mauritius to 12% in the DRC. The work ahead is, no doubt, daunting.

I take this opportunity to thank the Chairperson and the members of the Board of Trustees for their usual guidance and oversight as well as their dedication and commitment to the work of FinMark Trust. Their inspiring and strategic leadership has turned FinMark Trust into a well-established centre of excellence on financial inclusion. I also take this opportunity to express my immense gratitude to the staff and theme coordinators who have put long working hours to make our success possible. They have distinguished themselves not from what they do, but how they do it!

### Prega Ramsamy

Johannesburg

May 2015





## Regional financial integration

Head:  
Geoff Orpen



Regional financial integration is a process whereby a country's financial markets become linked or integrated with those of other countries or with those of the rest of the world. In fully integrated markets, all forms of barriers are eliminated to enable foreign financial institutions to participate in domestic markets.

An enabling environment needs to be created whether a country chooses to integrate its financial markets formally or informally in order to attract foreign participation. Some of the steps that a country could take include the harmonisation of rules and regulations that govern its domestic financial markets, and the creation of standards and benchmarks similar to those of international markets.

At FinMark Trust, the focus of the regional financial integration theme area is to broaden and deepen financial links within the SADC region. The theme's main aim is to benefit fragmented financial markets by bringing together scarce savings, viable investment projects and financial infrastructure whilst increasing competition and innovation in the private sector so as to benefit the region in the long term. Critical challenges facing regional financial integration include the following:

- Non-harmonised regulatory environments especially in the areas of microfinance, microinsurance and payments
- Fluctuating exchange rates within the region leading to difficulty in making investment decisions
- Inadequacy of financing mechanisms, high currency conversion costs and weak regional payment systems
- Limited skills, technology and infrastructure
- Lack of political will amongst some regulators and policy makers to drive the integration agenda

The FIP (Protocol on Finance and Investment in the SADC region) remains the key instrument to facilitate regional financial integration and aims at making the SADC region an attractive destination for foreign direct investment and regional investment. In this regard, in the region efforts have been geared towards the harmonisation of tax policies, macro-economic convergence, liberalisation of capital and current accounts as well as harmonisation of Central Banks' policies, amongst other issues.

### SADC Protocol on Finance and Investment (FIP)

During the period under review, FinMark Trust continued to support a number of SADC countries to put in place coordinating structures in developing their national strategies and roadmaps for implementing the FIP. To date, as a result of FinMark's intervention and technical inputs, many countries (Swaziland, Botswana, Mozambique, Lesotho, Malawi and Namibia), have developed road maps with the support and involvement of the Ministries of Finance as well as the Central Banks and other stakeholders. FinMark Trust has, in addition, facilitated consultation with different stakeholders on specific areas of the FIP (payment systems, harmonisation of insurance regulations and mobile money regulations) so as to ensure that the effectiveness of the protocol implementation is maximised. The consultations were planned and held with the SADC Secretariat's department of Trade Finance Industry and Investment (TIFI) as well as the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ).

### SADC Credit Information Sharing project

The Credit Information Sharing project aims to increase access to formal credit by many of the financially excluded people in the SADC region through promoting sharing of credit information amongst credit providers. The steering committee comprising the South African Credit Providers Association (CPA), the SADC Committee of Central Bank Governors (CCBG), SADC Bankers Association and FinMark Trust as well as GIZ met quarterly to guide and provide insight into the project. As a result of these interventions, Credit Providers Associations have been registered in Namibia, Lesotho, Swaziland, Zambia, Zimbabwe and Botswana. In Namibia the Governor of the Central Bank officially launched the establishment of the Namibian Data Sharing Association (NDSA) on the 2nd of March 2015. Moreover the fundamental elements of credit information sharing have been presented to the bank supervision subcommittee of the Committee of Central Bank Governors (CCBG) for adoption at their meeting scheduled for May 2015. In South Africa, data sharing focusing on the SMME and agricultural sector is



## Regional financial integration

being piloted so as to increase access to credit by business owners and smallholder farmers through the Business Credit Information Sharing Initiative (BCISI) programme. Currently credit information sharing by the members of the Credit Providers Association (CPA) focuses on sharing of information of individual persons whilst the BCISI programme focuses on sharing credit data of registered entities (SMME's) thereby ensuring that risk profiles of these entities can be created since credit data on these entities was previously limited.

### Payment systems

FinMark Trust assisted the SADC Payment System's subcommittee of the CCBG to support the SADC Integrated Regional Electronic Settlement System (SIRESS) which aims to effect payment in 'real time' thereby reducing the cost and risk of doing business. Following the successful implementation of this project in the CMA countries, other SADC countries such as Mauritius, Malawi and Zimbabwe have joined the system. To date a total of 9 SADC countries and 61 banks have joined the SIRESS system and volumes of transactions show a steady increase on a monthly basis to reach a total of Rand 76 billion in March 2015. The daily average value of transactions for the first 3 months of 2015 was R3.3 billion. In order to support the development of SIRESS, FinMark Trust concluded its research on the regulations governing payments in each of SADC member states and is currently developing a Model-Law for Payments in association with the Payments and Legal sub-committees of the CCBG.

### Cross-border remittances

Remittances are defined as non-reciprocal transfers of relatively low value (<US\$1,000) from one person to another across a distance (generally cross-border) usually cash-to-cash. Remittances from South Africa to the SADC region are the most expensive in the world with fees in excess of 22% for a remittance value of \$200. In 2012 FinMark Trust conducted a study on the South Africa-SADC remittances channel. The study found that the total value of remittances from South Africa into the SADC region is approximately R11.2 billion per annum of which approximately 68% is estimated to be remitted through informal channels (using taxis, friends, family or other means). Since low income migrants struggle with access to the formal financial system, both in terms of regulatory barriers and in terms of overall affordability, FinMark Trust recognised that this was an area where significant intervention is required so as to make an impact on the lives of the poor. In engaging with the regulators, (Central banks of Lesotho and South Africa) private sector (Shoprite and Capitec bank), FinMark Trust has been instrumental in enabling cross-border remittances at a cost of R9.99 per transaction up to a maximum of R5000. The first transactions of this nature and at this cost were conducted on 31 March 2015. FinMark Trust is of the view that this new channel for remitting money will have a major impact on the migrant population living in South Africa as well as on the pricing of remittance channels in the future.

## Support to the Committee of Insurances, Securities and Non-bank Authorities (CISNA)

### Microinsurance Forum

FinMark Trust has engaged and lobbied extensively with the Committee of Insurances, Securities and Non-bank Authorities (CISNA) which resulted in microinsurance being placed high on CISNA's agenda for the first time. In addition, the Trust was instrumental in supporting the establishment of the SADC Microinsurance Forum, which is aimed at enhancing microinsurance policies and regulations throughout SADC. An objective of the Forum is to harmonise regulations across SADC so as to enhance access to insurance for low-income individuals. In the past financial year, we conducted research on the policies and regulations governing microinsurance in the region which resulted in the development of a harmonised framework of regulatory principles for the sector. In addition, a data project has also been initiated, aimed at examining the data requirements for the development of microinsurance markets in the SADC region.

### Microfinance

FinMark Trust continued its partnership with the GlZ and MicroFinance South Africa in developing the Southern Africa Microinsurance Project (SAMP) that seeks to identify and address the challenges of the regulatory environment whilst at the same time recognising opportunities for the microfinance sector to attract additional investment. During the period under review, specific activities were aimed at developing a microfinance subcommittee within CISNA, conducting microfinance regulatory and policy assessment case studies (Tanzania, Namibia and Zambia) and conducting a broad quantitative study of the microfinance investment vehicles active in sub-Saharan Africa. The Microfinance Investment self-Assessment Tool (MIAT), an excel-based tool that allows microfinance institutions to self-evaluate before seeking investment from MIVs was also developed and is currently being circulated widely to microfinance institutions within the SADC region.

## Making Access Possible (MAP)

Strategic support & MAP coordinator:  
Brendan Pearce



Making Access Possible (MAP) is a multi-country initiative to support financial inclusion, through a process of evidence-based country diagnostic and stakeholder dialogue, leading to the development of national financial inclusion roadmaps that identify key drivers of financial inclusion and recommended action. Through its design, MAP seeks to strengthen and focus the domestic development dialogue on financial inclusion. In each country, MAP brings together a broad range of stakeholders from within government, the private sector and the donor community to create a set of practical actions aimed at extending financial inclusion tailored to that country. These actions support the expansion of access to, or consolidating the provision of, financial services for individuals and micro-and small-businesses.

MAP was initiated in 2012 and is implemented in partnership with the United Nations Capital Development Fund (UNCDF) and the Centre for Financial Regulation and Inclusion (Cenfri). Each partner within MAP brings a wealth of experience in financial inclusion development, aligning their respective strengths to offer a holistic approach, securing government commitment and buy-in up-front, conducting an evidence-based diagnostic analysis and leading to an informed roadmap and implementation plan.

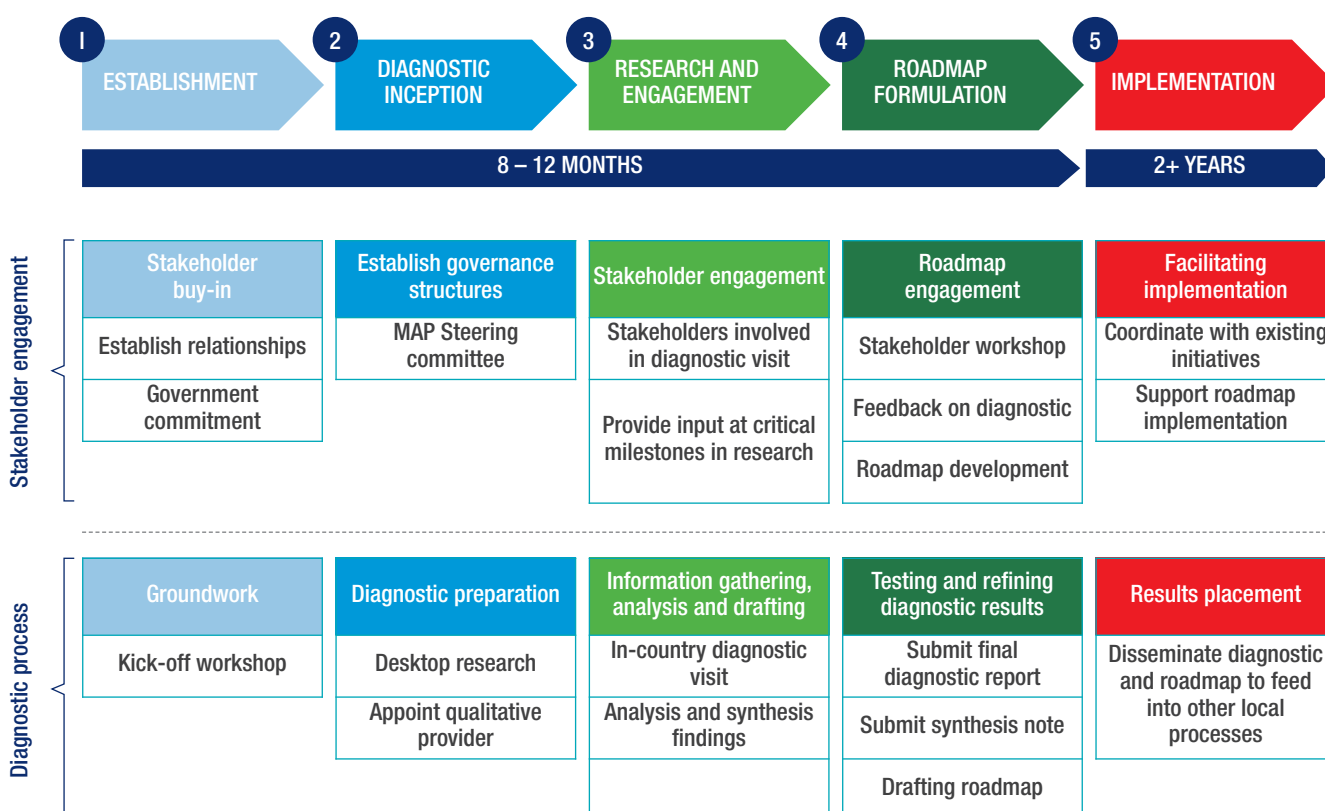
The evidence-based consultative approach results in a collaborative strategy and roadmap which enables government to prioritise and coordinate internally, provides donors with an agenda to support, facilitate donor coordination, and gives the private sector insights into key investment opportunities. The following diagram sets out the MAP methodology.

The MAP methodology is at the core of FinMark Trust's new five year strategy on financial inclusion in the SADC region. The methodology will be rolled out in 10 countries in the region where the Trust is taking the lead with the support of the UNCDF and Cenfri. Significant progress is already being made in this regard and the status of the programme in various countries is as follows:

### Lesotho and Swaziland

MAP has reached roadmap implementation stage in these two countries. Priorities have been developed for each country with overwhelming national stakeholder support for the programme. The learnings from these two countries are being used to advance and improve our methodology in other countries.

### An overview of the MAP process





## Making Access Possible (MAP)



The utilisation of mobile money to increase financial inclusion was identified as a significant priority for these two countries and work has already commenced to implement projects in this area.

### Mozambique

In Mozambique MAP has progressed to the diagnostic stage. A draft report has been finalised in preparation for discussion with national stakeholders in the new financial year which will be followed by a roadmap development process in partnership with the Financial Sector Development Trust Mozambique (FSDM).

### Malawi

Malawi has reached the diagnostic stage of the MAP process and the report is being discussed with stakeholders. This will be followed by the development of the roadmap whose implementation is planned for the beginning of September 2015. As the MAP process started immediately after the launch of the FinScope survey in Malawi, this provided the impetus and momentum required for focus on the financial inclusion agenda.

### Botswana

MAP Botswana was launched in February 2015 and the supply-side research which is ready to be analysed, will be presented to stakeholders in July 2015 after which the development of the roadmap will commence.

### DRC

The first DRC FinScope survey was completed in April 2015 and planning is currently underway for the MAP diagnostic phase to commence in May 2015. This will be the first time that a financial inclusion strategy is designed in the DRC which is the most populous and poorest country in the SADC region.



## Payment systems

Theme coordinator:  
Doubell Chamberlain



Retail payment systems are used by consumers to transact and to enable the use of other financial services. Cash is still the most widely used payment mechanism in SADC for goods and services, salaries, and wages and also often for grants. Although cash is convenient and flexible, it is prone to theft and creates substantial costs for governments and financial institutions. Cash is also difficult to intermediate, which limits the extent to which capital can be accumulated and allocated for productive uses to develop economies. Identifying appropriate means to reduce the cost of transacting for consumers is therefore critical to enable access and to encourage the use of payment systems by the poor.

Payments are one of the most complex areas to properly regulate and supervise. Many SADC regulators are under-capacitated and do not have the skills to establish and monitor regulatory frameworks that manage risks while still encouraging access by reducing costs.

FinMark Trust's approach to inclusive payments starts with the needs and nature of consumer access to appropriate payment mechanisms to identify priority areas for intervention. As such, our channel-focused approach interrogates all the platforms through which consumers interact with payment systems, namely mobile platforms, cards, and agency. Grant and remittance payments are further focus areas as key enablers to develop payment ecosystems. Payments ecosystems development is crucial due to its ability to advance financial inclusion by not only increasing access and value for consumers, but by also providing a sustainable business model that allows financial services providers to extend their product offerings to low income, and often remote, consumers.

### Enabling Agency

Agency is emerging as one of the key levers through which to offer access to payment mechanisms and to reduce the cost of distribution of access points to cash-in and cash-out transactions. Retailers are amongst the most successful agents for financial institutions to partner with to enable retail payments. To enable retailers to better serve clients and to aid financial service providers in understanding how to structure partnerships with retailers, FinMark Trust has commissioned business and user-case studies on retailers as agents for financial services. The first study demonstrated why retailers get involved in financial service provision and which type of services best align the incentives of retailers and financial service providers in agency partnerships. The second study drew on surveys and interviews to unpack the value consumers get out of accessing services from retailers rather than financial service providers, especially given the fact that most retailers are close to a bank branch or at least an ATM. The findings were used to understand the evolution of the financial services offering and primary factors underlying the business case for retailers to provide financial services. In addition, it led to a broader investigation into the alternative models for agency beyond retailers. This included MNO-led models, bank-led models, models initiated by technology providers, FMCG models, and government-led models.

### E-money as formal payments catalyst

E-money can play a catalytic role to include the unserved in formal payment systems. However, with some notable exceptions, e-money often struggles to go beyond urban areas and serve the rural excluded. Our MAP studies in Swaziland and Lesotho indicated that this was a key challenge for e-money in these countries. The studies pointed to e-money as an affordable and convenient payments alternative. Affordability was evidenced not only in the pricing of the channel, but also in the elimination of the need to spend money on travel costs in order to receive funds. FinMark Trust is currently developing action plans and policy notes to enable the improved provision of e-money in both these countries.

### Capacity building

National payment systems are complex and can introduce or mitigate risk in the financial system. During the past financial year, the Trust provided national payment systems training to key participants in the payment system landscape in South Africa and the SADC region.



## Microinsurance

Theme coordinator:  
Doubell Chamberlain



FinMark Trust plays a leading role in developing and supporting microinsurance markets in the region and globally. Beginning with its role in supporting insurance regulators in the South African context, the Trust was able to translate its learnings from its research and technical assistance work to become a founding member of the Access to Insurance Initiative (A2ii) and make key contributions to the IAIS (International Association of Insurance Supervisors) Application Paper on Regulation and Supervision Supporting Inclusive Insurance in 2012.

Over the past year we continued our technical support to the A2ii and IAIS, including drafting input into the new IAIS issues paper related to market conduct. These contributions build on earlier work done to synthesise findings across global microinsurance diagnostics to identify the regulatory and business models that have emerged from microinsurance to date.

There has been a significant increase in demand for technical assistance to support the development and implementation of microinsurance guidelines and policies in the region following the release of the IAIS application paper. As a result the Trust has established a Microinsurance Forum, through which a harmonised regulatory framework has been designed for SADC, together with a data monitoring strategy. Training on the data monitoring approach has been provided to four forum countries (South Africa, Swaziland, Mozambique and Tanzania). The focus for the next financial year will be to support countries to adopt and implement the harmonised framework.

Beyond regulatory interventions, FinMark Trust has also worked closely with a number of insurers and retailers during the past year to assist them to better design and deliver services to lower income people. This assistance has included a number of public forums on key research questions, one-on-one engagements, evaluating consumer data to inform decisions and peer learning exchanges with similar businesses in other regions who are successfully serving poorer people with insurance.

### Update on microinsurance in South Africa

In South Africa, the proposal for a microinsurance regulatory framework has been on the table since 2008, when National Treasury released a Discussion Paper on the Future of Microinsurance Regulation. This was followed by the release of a Microinsurance Policy Document in 2011, which envisaged the regulatory framework as being incorporated in a forthcoming Microinsurance Act and subordinate legislation. However, in 2014 consideration was given to no longer pursue standalone microinsurance legislation, but rather to incorporate microinsurance provisions under the new Market Conduct and Insurance Bills, which are likely to be presented to parliament during 2015.

FinMark Trust supported thematic research into critical microinsurance questions to enable improved access to insurance in South Africa. These include studies on credit life insurance (one of the most pervasive forms of insurance), funeral parlour insurance provision and hospital cash plan insurance.

### Credit life insurance in South Africa: the customer perspective

Credit life is frequently the first insurance product that low-income consumers interact with and is also the most widely available form of insurance to this segment of the market world-wide. Therefore FinMark Trust set out to investigate the question of whether consumers were receiving a fair deal when they purchase credit life insurance, from a demand-side perspective. Through a mystery shopping exercise to ascertain the value that low-income consumers see in credit life insurance, we were able to provide support to the regulator in revisiting the credit life regulatory approach from a customer-centric view.

This study follows on from an independent panel of enquiry, the Nienaber Panel, to 'identify and eradicate undesirable practices prevalent in the consumer credit insurance market impacting negatively on consumers'. The 2008 enquiry found that while consumer credit insurance (CCI) met a clear insurance need, its design was such that it primarily served the interests of the credit provider and that there were systemic deficiencies which unscrupulous providers could exploit. It further found that CCI had a bad name due to various factors, such as the lack of sufficient disclosure. At the same time, given the variations in the forms of CCI and insurers, the panel cautioned that generalisations were difficult to make.

By highlighting a demand-side perspective on how consumers experience the purchase of credit life insurance, particularly in the low income space, the study complements the work of the Consumer Credit Insurance Task Team, which was formed in 2011 and is jointly led by National Treasury and the Financial Services Board, to investigate the state of the consumer credit insurance industry in South Africa. Most recently FinMark Trust oversaw actuarial modelling work for the regulatory task team to scope out feasible regulatory options and respond to blanket consumer credit insurance price caps proposed by NCR.



### Regulating funeral parlours

Funeral parlours are one of the largest providers of insurance in South Africa. Regulating this informal market for financial services is difficult as funeral parlours are often not regulated by health authorities. Furthermore despite a number of instances of client abuse, funeral parlours also provide significant value to consumers due to the flexibility of product options, speed of payment and perceived affordable rates charged by these providers. The regulatory balance between consumer protection from abuse and enabling access to insurance is therefore a difficult one. Over-regulation poses the risk of eroding the value offered by informal funeral insurance providers as well as decreasing employment if funeral parlours were to close down. Technical assistance was provided to National Treasury to assist in the creation of an appropriate regulatory framework for the funeral parlour industry. This assistance will continue during the current financial year with an emphasis on unpacking the nature and extent of abuse faced in the market to better inform regulatory requirements.

### The demand for hospital cash plan insurance

Medical schemes serve less than 20% of adults in South Africa and largely reach the upper end of the market. Hospital Cash Plans (HCPs) have emerged as a risk cover that helps many low income South Africans who do not have access to medical aid to bridge some of the income impact resulting from hospitalisation. They are insurance products that do not cover the cost of medical care, but rather pay out a cash amount directly to the client, with hospitalisation as the payment trigger.

The increasing popularity of HCPs in South Africa is relevant to an ongoing policy debate on the role of hospital cash plans and other insurance products vis-à-vis medical schemes, stemming from concerns that insurance products are infringing on the business of medical schemes. Building on a prior supply-side study, FinMark Trust commissioned a study to understand the demand and consumer characteristics of medical schemes and hospital cash plans. There were underlying implications that hospital cash plans in practice serve as a substitute for medical aid membership or that they might lead to behaviour whereby people 'buy down' to lower-cost medical aid options.

The findings shed light on the implications of implementing proposed legislation that considered limiting access to HCPs as a means of safeguarding the medical scheme consumer market. The outcomes of the study showed that there was no overlap between consumers of hospital cash plans and those who utilised medical aid schemes and there was no threat of cannibalisation as HCPs were not a substitute to medical schemes. The users of HCP's were found to be predominantly young consumers with fairly low health risks, whereas medical scheme consumers were characterised as being older and having higher risk. For consumers, HCPs are a means of ensuring some income in the event of hospitalisation or to cover other, non-medical, expenses that arise when in hospital, such as transport costs, food, toiletries or additional medication once discharged. The same holds true for the few respondents who did have medical aid. They also view their HCP as fulfilling a different role to the medical aid: while the medical aid pays the hospital, they use the cash pay-out from the HCP for other expenses.

During the past year we provided inputs to National Treasury into the finalisation of the health demarcation regulations, a contentious topic in the SA insurance regulatory framework with which we have had a long-standing engagement and which has a direct impact on affordable health insurance options for those excluded from the medical aid market. Drafting assistance was provided on the key response document, which required digesting all submissions and supporting National Treasury, the Financial Services Board and the Council for Medical Schemes to craft the way forward.

## Microinsurance in SADC

### SADC Microinsurance Forum

FinMark Trust has been a key driver of discussions for, and action towards, enhanced microinsurance policies and regulations throughout SADC. Those efforts were a primary catalyst for the establishment of the SADC MI Forum, which was created by FinMark Trust under the auspices of CISNA. The ultimate objective of the Forum is to harmonise regulations across SADC to enhance access to insurance for low-income individuals. Having agreed on a preliminary outline for the harmonisation framework, the MI Forum signed off on a regulatory framework which draws heavily on principles found in the IAS Application Paper and also incorporates topics based on individual country experience. In recognition of the importance of better quality data in advancing the growth of MI markets, the Forum has developed an approach to improve microinsurance data collection, management, and use. Capacity building workshops have been conducted with supervisors in 4 selected pilot countries (Mozambique, South Africa, Swaziland, and Tanzania) to date to implement this approach.

### Development of microinsurance regulations in Zambia and Swaziland

FinMark Trust has been supporting the promotion of access to insurance in Zambia and Swaziland for a number of years. Most recently, the Trust provided technical assistance to the authorities in both countries for the drafting of a microinsurance regulatory framework to facilitate access to insurance in line with the realities of the market and regulatory objectives. The technical assistance formed the basis for the release of draft microinsurance regulations by the

## Microinsurance

Pensions and Insurance Authority (PIA) in Zambia in February 2014. The regulations were welcomed by industry. In Swaziland, the regulator has shared the proposed microinsurance regulatory framework with the industry and is in the drafting process.

### Access to insurance action plan in Tanzania

The Trust is supporting an ongoing stakeholder process to develop and implement an action plan to promote access to insurance in Tanzania, led by the Tanzania Insurance Regulatory Authority and the insurance association. The strategy process stems directly from the Access to Insurance Diagnostic study commissioned by the Trust in 2012, which was implemented in partnership with Financial Sector Deepening Trust (FSDT) Tanzania.

In 2013, we commissioned the microinsurance coordinator from Zambia to apply his learning and expertise to kick-start the process in Tanzania, including setting up the stakeholder committee and guiding the development of an action plan. Together with partners FSDT, the ILO Microinsurance Innovation Facility and the Munich Re Foundation, FinMark Trust supported the first step in the action plan, namely a two-day MI learning seminar attended by more than 100 representatives in Dar es Salaam at the end of March 2014. Throughout the year, we continued to support defined activities towards the development of the insurance market in Tanzania.

### Microinsurance in Zimbabwe and Tanzania

Insurance provided through mobile phones has significant potential to reach the unserved. Over 70 microinsurance schemes have been launched across 15 countries. This offers an opportunity to cover large numbers of poor people, but can pose risks when these schemes fail. EcoLife in Zimbabwe, for example, covered 20% of the adult population in 7 months. When the partnership failed 1.2 million people lost their coverage. Appropriate policies are needed to encourage innovation while protecting consumers. Learning from the Zimbabwe example, FinMark Trust developed a risk assessment tool to assist regulators to protect consumers while encouraging innovation to enable the market to better serve the poor. During this year microinsurance risk assessments were conducted in Tanzania and Zambia to assist regulators to appropriately supervise this new area of insurance.

This approach is increasingly in demand amongst regulators and donors. CIMA (the insurance regulatory body for 11 countries in West Africa) have indicated their appreciation for the study. We presented the study at the MiNetwork/A2ii Consultative Forum in Rwanda and at a Responsible Finance Conference in Perth.



## Consumer financial empowerment

Theme coordinator:  
Dhashni Naidoo



Consumer financial empowerment continues to be an important focus area for FinMark Trust. Building on the previous year's programme on financial empowerment and financial capability, the Trust, during the period under review, focused on implementing programmes that have a more direct impact on improving financial capability and consumer empowerment.

Increased financial inclusion can reduce the vulnerability of households, help increase income and spur small enterprise activity through greater access to financial products and services, and the financial capability to understand and appropriately engage with those products. As countries in the region continue to focus on improving financial inclusion, the focus on financial capability and specifically financial education has increased. Increasing the knowledge, skills, attitudes and confidence of the population to manage one's finances and appropriately engage with financial products through the provision of financial education is an important component of financial inclusion.

Financial education is a critical component in financial capability. Enhancing and continuing on work done from previous years, during the period under review, we embarked on two projects to contribute to the improvement of financial education programmes in the region. The first one was the development of the Financial Education Interim Strategy and Implementation plan for the Kingdom of Lesotho and the second one was the development of the FE Training Toolkit which aims to assist providers of financial education to improve their programmes and the financial capability of their target populations.

The Financial Education Interim Strategy and Implementation for the Kingdom of Lesotho made specific recommendations on how to deliver financial education within the country. Based on these recommendations a national steering committee has been established and is driving financial education activities. A key initiative is the inclusion of financial education into the school curriculum. Plans are currently underway to achieve this in Lesotho.

A Financial Education Training Toolkit which was developed by the Trust aims to assist providers of financial education to improve their programmes and the financial capability of their target populations. It is based on 12 best practices in the design and implementation of a financial education programme. The FE Training Toolkit is a practical guide using case studies and activities to build the knowledge and skills of financial education practitioners. The training is delivered by FinMark Trust and is a two-day, hands-on training workshop which can also be accessed via an online training platform.

In February 2015, in partnership with the Namibian Financial Literacy Initiative (FLI) and GlZ, the Trust ran a successful training course that included a variety of institutions working in the area of financial education in the country. This was the first time that the country brought together various institutions and received training in financial education. In addition to building the capacity of institutions to better manage their financial education programmes the training provided an opportunity for the institutions to come together and develop a shared vision for financial education in the country. It provided the platform for FLI to further develop their network of partners.

Following the successful launch of the programme, FinMark Trust was invited to Mauritius to conduct training with a number of stakeholders. The Financial Services Commission Mauritius and the Banker's Association of Mauritius hosted two workshops in the country which resulted in the successful training of over 30 individuals. Following the training of the Mauritius Banker's Association (MBA) and its members, plans are now in place by the MBA to develop a national strategy for financial education which will seek to have a coordinated approach to financial education by the industry. FinMark Trust provides technical input in the form of a draft strategy and has provided additional guidance on the development and adoption of the strategy.

The Trust continues to play an active role in various forums and conferences to promote improved activity and quality of financial education. In March 2014 we participated in a national conference hosted by the Kwa-Zulu Natal Financial Literacy Association in South Africa. In September 2014 FinMark Trust was represented at the Alliance for Financial Inclusion (AFI) Global Policy Forum in Trinidad and Tobago. The focus at both events was on monitoring and evaluation of financial education.

### Financial policy and regulation

Appropriate financial policy and regulation is a cornerstone to improved financial inclusion. In the Southern African Development Community (SADC) policy makers and regulators are giving increased importance to ensuring that policies and regulations support financial inclusion. This is important to ensure that the regulatory frameworks support and do not inhibit increased financial inclusion. Critical to this agenda is to ensure adequate consumer protection to mitigate against the unintended consequences of increased access to financial products and services.

FinMark Trust assisted the Kingdom of Swaziland to draft regulations for the Consumer Credit Bill. This project included market research to better understand consumer experience and the cost of credit to inform and ensure that regulations include adequate consumer protection measures. National strategies, policy and an enabling regulatory environment to promote financial inclusion are important. To get a better understanding of the financial inclusion landscape in



## Consumer financial empowerment

SADC, a study is underway to assess the national strategies, policies and regulations that pertain to financial inclusion in four SADC countries. The study aims to understand the extent to which various financial inclusion interventions have proven to be successful and to identify areas requiring further attention. It complements the work conducted in the Making Access Possible (MAP) programme and will be published during the course of the new financial year.

FinMark Trust has previously conducted research into Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT). This work continued in 2014 into March 2015. The follow-up research resulted in the compilation of 13 SADC country reports which provides an overview of the regulatory environments in each country. The focus of the study is to look at country level legal and regulatory frameworks in relation to FATF Recommendations, as it relates to financial inclusion with a view to identify areas where the regulations constrain financial inclusion and to work towards achieving a harmonised approach to AML/CFT across the region.

In addition to the country reports, five focus notes were published in early 2015 which draws attention to specific areas of AML/CFT. The topics covered are:

- Financial inclusion and AML/CFT
- Risk based approaches to AML/CFT
- AML / CFT due diligence
- Mobile services / technology
- Harmonisation of regulatory frameworks in the SADC region



## Agricultural and rural finance

Theme coordinator:  
Geoff Orpen



It is estimated that by 2050, the world population will be 9 billion people and that in order to feed this population, there will be a need for a substantial increase in food production. Food production must increase significantly to meet the future demands of a growing and more affluent world population. The importance of agriculture on the African continent cannot be undermined and with the vision of creating increased food security on the continent, the African Heads of State declared 2014 as the 'year of agriculture' in support of the continent's Comprehensive African Agricultural Development Plan (CAADP).

FinMark Trust has recognised the need for a thriving agricultural sector on the continent and has engaged with regional organisations such as SADC-FANR (Food Agriculture and Natural Resources) to ensure that the Regional Agricultural Policy (RAP) is geared towards supporting CAADP and developing agriculture. Key to FinMark Trust's interventions has been the recognition that increased access to agricultural and rural finance is an important catalyst to increased food security within the region. The interventions undertaken by the Trust in supporting increased access to agricultural finance are as follows;

### Knowledge dissemination and research

We undertook a series of studies in 2011-12 to examine and document the current state of agricultural and rural financial services in Southern Africa. Research was undertaken in six Southern African Development Community (SADC) countries – Botswana, Malawi, Mozambique, South Africa, Zambia and Zimbabwe. Following from this research, a study was conducted in 2012-13, of best current practices and innovations in roughly comparable countries across the world.

During the period under review, the Trust used the findings of the research to work with policy-makers and practitioners in the region to create awareness on the status of agricultural and rural financial services in the region. The series of engagements with the relevant stakeholders culminated in the hosting of a regional workshop, from the 28th to the 30th of January 2015, where the results of the research together with additional inputs from commercial and smallholder farmers were shared with stakeholders from all 15 member states in the SADC region. The outcome of this conference has led to the development of an informed practical implementation framework for accelerating access to agricultural and rural financing in the SADC region. This implementation framework will focus on providing support to:

- Improved regulatory framework for agricultural and rural finance
- Enhanced institutional capacities for agricultural finance and investment
- Strengthened Agricultural Value Chains

### Skills development

FinMark Trust recognises that one of the key impediments to increased financial inclusion in the agricultural and rural financing space is that there is a lack of appropriate products to service this sector of the market. Specific skills are, therefore, required to develop new and innovative products that cater to the needs of smallholder farmers in particular. For this purpose, a pilot course in Agricultural and Rural Finance was launched in September 2014 in partnership with Continuing Education at the University of Pretoria (CE at UP). The objective of the course was to provide a deeper understanding of what is needed to reach out to smallholder families and to serve them sustainably with an appropriate range of financial products and services. It was designed specifically to provide strategic, rather than operational guidance for senior and middle management in Southern African agricultural finance institutions and non-bank organisations - such as input suppliers, off-takers and NGOs – that provide financial services to smallholder farmers. Participants from Botswana, Mozambique, South Africa, Zambia, Malawi and Zimbabwe added value to the learning outcomes through sharing their own country experiences and 'best practice' models.

### Support to savings groups

Savings groups form an important conduit through which many of the financially excluded are able to gain access to finance in the rural communities. FinMark Trust has been working closely with about 30 000 members of the SaveAct group in South Africa to identify new technologies so as to benefit the rural poor through improved access to information, operational efficiencies and financial intermediation. We have partnered with PlaNNet Finance, SaveAct and ABSA Bank to provide necessary impetus to develop a digital optimisation strategy aimed at:

- Assisting savings groups to manage excess liquidity in their groups at specific times in their cycle
- Streamlining bulk orders of agricultural inputs initiated by farmers within savings groups
- Developing cost-effective communication/ learning systems linking farmers to markets and input suppliers

## Agricultural and rural finance



### Supporting policy interventions

Formal private sector financial institutions do not serve the majority of smallholder producers because of perceived high risk, perceived low relative profitability and inability to provide the physical collateral usually required by such institutions. This constraint to accessing finance compels some producers to rely on informal sectors to finance their needs. These sources of financing limit the ability of smallholder farmers to actively participate in the formal economy and become globally competitive. Sustainable delivery of finance on a larger scale (outreach, quantum and ease of disbursement) would generate positive developments in the sector. A need for an integrated and holistic support from all the stakeholders involved is thus essential. FinMark Trust has assisted the Department of Agriculture Forestry and Fisheries (DAFF) with the elaboration of a Development Finance Policy Framework so as to ensure the inclusion of the marginalised sectors.

DAFF manages a pool of funding programmes through which it provides finance to support those producers who have historically been unable to access finance through the mainstream financial institutions.

### Supporting co-ordinated approach to agricultural finance

In order to ensure that there is a co-ordinated attempt to maximise the interventions of Financial Sector Deepening (FSD) entities in Africa, FinMark Trust and Financial Sector Deepening Africa (FSDA) hosted a joint workshop in Johannesburg in April 2014, where clarity on the objectives of each of the FSD's was attained. Building on from this initial intervention, the Trust has taken the lead in developing a working group of FSD entities that focuses on agricultural and rural finance. The overall objective of the working group is designed to create space for the FSD network to begin reflecting on some of the critical issues with respect to agriculture. More specifically, these working groups will focus on:

- The creation of a new peer-to-peer network of FSD agricultural finance
- Identifying common challenges, opportunities and areas for collaboration
- Determining a 'vision' for high-impact M4P-type interventions by the FSD network

From a private sector perspective, we have been instrumental in establishing the Agricultural Development Finance Forum of Southern Africa (ADeFFSA). The general purpose of ADeFFSA is to bring together stakeholders and interested parties involved in agricultural development finance to share experiences, support each other in implementing initiatives, mobilise resources and to introduce best practice and innovations in finance.



## Housing finance

Theme coordinator:  
Kecia Rust



In May 2014, FinMark Trust launched its Centre for Affordable Housing Finance in Africa (CAHF) as an independent non-profit organisation, with a broad mission of making housing finance markets work for the poor across Africa. FinMark Trust supports CAHF's work in the SADC region, gearing the funding of FSD Africa and the National Housing Finance Corporation, towards an overall goal of seeing an increase of investment in affordable housing and housing finance across the continent. As such, FinMark Trust is supporting CAHF in the achievement of its vision in countries throughout Africa, where governments, business, and advocates work together to provide a wide range of housing options accessible to all.

Even in South Africa's highly developed mortgage market, access to loans by low income earners is constrained. According to data published by the National Credit Regulator (NCR), South African credit providers originated over R124 billion in mortgage loans in 2013 (data for the full year for 2014 has not yet been published). Roughly 30% of mortgages granted (by number) were for less than R350 000 with 11% of all mortgages (again, by number) going to individuals earning less than R15 000 per month. According to the NCR, as at end Q3 2014 roughly 3.3% of mortgage loans by number and 3.9% by value were 90 days or more in arrears. The trend is positive, with arrears levels significantly lower than their peak of 6.5% by number and 9.4% by value in 2010. The data published by the South African Reserve Bank (SARB) for bank lenders tells the same story.

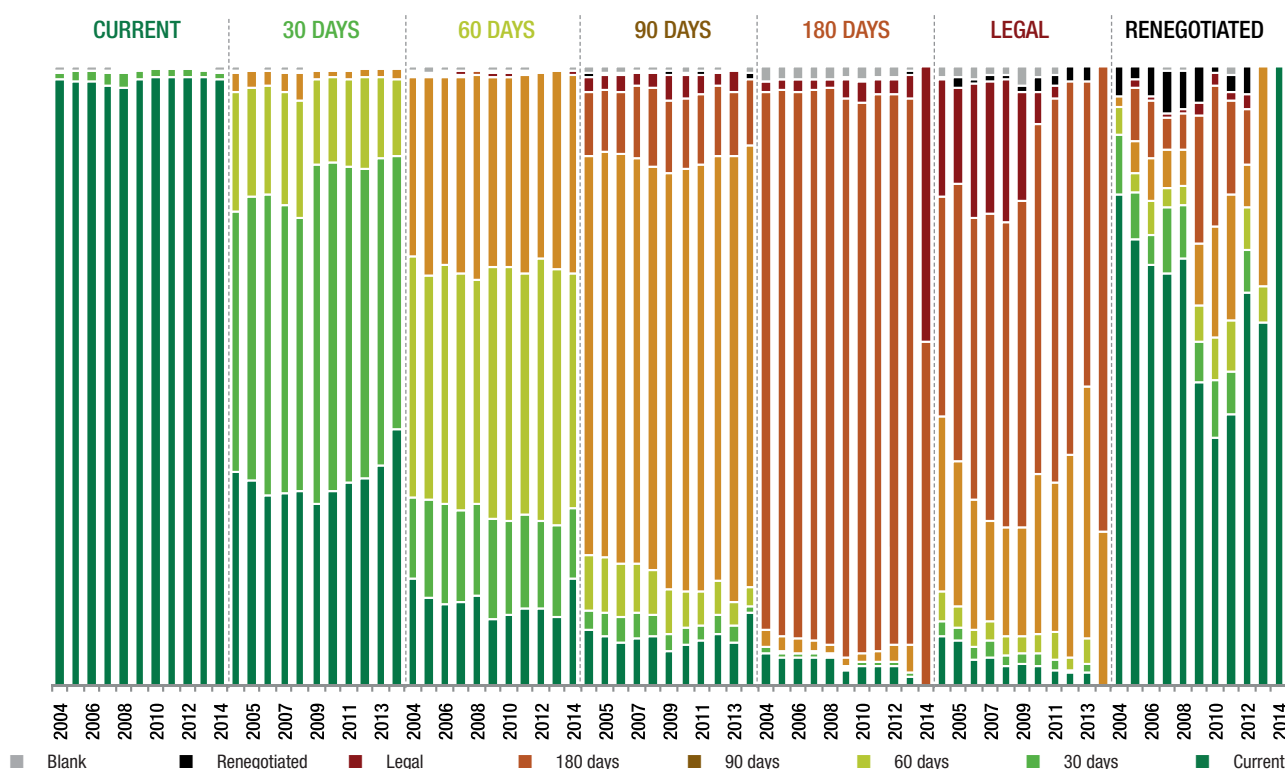
However, neither the SARB nor the NCR publish performance data by market segment; their data cannot be used to explore how mortgages granted to lower income households performed relative to those granted to higher income borrowers. This is an important question for policy makers and housing finance practitioners wishing to expand access to housing finance for low income earners. What are the risks involved, and how might they be managed?

For the past 3 years, FinMark Trust has been tracking mortgage loan performance together with Eighty20, and the work has revealed interesting results. With the support of the FinMark Trust and the National Housing Finance Corporation, CAHF has now taken the analysis further, tracking the performance of mortgages in the affordable market as compared with the traditional market.

Understanding the risk of non-performance allows for financial institutions to use increasingly sophisticated models to more accurately manage lending to market segments. In this, lenders can explicitly target lower income groups, increasing access to housing finance for those previously excluded.

The research team developed a transition matrix, which illustrates the percentage of borrowers in any one NPL phase that move into another. So, of the borrowers who are 60 days in arrears, about a third stay in that tranche, another third resume payment and move themselves into the 30 day tranche, and a last third find themselves graduating into the 90 days arrears tranche.

The transition matrix below shows the percentage of loans in a particular state in any month moving to any other state the following month



Source: Eighty20 analysis

## Housing finance

The next step of analysis will need to explore what it is that makes one borrower resume payment and another not. Once this is better understood, lenders can better frame their credit scoring systems, and price better for the risk that exists in the particular sub-markets. This level of detail in mortgage loan performance analysis has never been available before in the public domain. FinMark Trust will continue to support this work in an effort to promote data-led and evidence-based market development in Africa's housing finance sector.

A prominent output of FinMark Trust's investment has been CAHF's CityMark product – a web-based dynamic dashboard that delivers local housing market intelligence to promote investment in affordable housing. CityMark has attracted significant investment from both private and public sector organisations and is increasingly being used to drive affordable housing market investment decisions at the local level. Last year CityMark data assisted Nedbank in its decision-making to provide two construction loans for construction of 2500 affordable housing units. CityMark also provided data to the South African Human Rights Commission to help the Commission measure the progress South Africa has made in terms of providing access to housing for the poor. More recently, CityMark has worked with the National Housing Finance Corporation, and with the Housing Development Agency, in support of the South African government's intention to regenerate a number of South African mining towns. There are a number of exciting projects that CityMark is currently involved in, which are underway.

Moving beyond South Africa, FinMark Trust provided support to CAHF for its 5th Edition of the Housing Finance in Africa Yearbook. The yearbook provides an overview of housing finance across Africa, and contains profiles for 44 of its countries and four of its regional markets. The yearbook continues to aid the development of housing finance sector, as does the Housing Finance Course for sub-Saharan Africa (HFCSSA), which FinMark Trust also supports. The course is delivered by the University of Cape Town, South Africa and the Wharton School of the University of Pennsylvania, United States, with the support of CAHF. CAHF was instrumental in the course's establishment, and continues scholarships to increase its reach. The course, which was attended by 53 students last year, provides information about how housing finance markets should work and investigates what can be done to make these markets work.

In the coming year, FinMark Trust will continue to support CAHF to increase the availability of reliable credit information so credit providers can better target and price for their products. The support will also assist both financial service providers and regulators in using demand-side data and analysis in the housing finance sector towards the development of new policy and products that better serve lower income consumers. In this, FinMark Trust gears its own investment with that of other funders to broader CAHF's programme of work for the benefit of providers and regulators across the continent. FinMark Trust is pleased to be among the funders and partners that are supporting CAHF in its work.



## Information and research support

Head:

Kingstone Mutsonziwa



FinScope surveys continue to stimulate evidence-based dialogue on financial inclusion by expanding the information available on financial services in sub-Saharan Africa and beyond. The demand for FinScope surveys continues to increase and our partnership with UNCDF is taking FinScope to a global level. During the period under review, FinScope surveys were undertaken in South Africa, Mauritius, Malawi, Myanmar, Swaziland, Zimbabwe and the Democratic Republic of Congo.

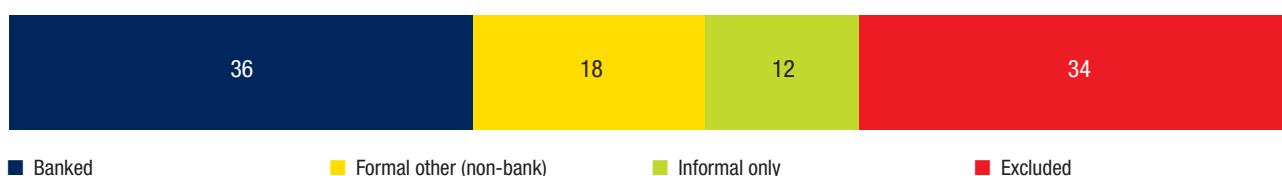
FinMark Trust continues to facilitate dialogue through stakeholder engagements following the launch of FinScope results.

### Regional Financial Access Strand

FinMark Trust has now undertaken the financial access landscaping of 12 countries in the SADC region through FinScope consumer surveys. The countries yet to be covered are Angola, Madagascar (currently underway) and Seychelles. The information and data collected have provided useful insight into the financial inclusion situation in the SADC region. The challenge to include the unserved and under-served population in SADC is overwhelming with only 36% of the adult population being banked and 34% still excluded from any financial service/product as reflected in the access strand below:

### Savings and credit in the SADC region

Savings and credit products uptake which are consistently tracked by FinScope surveys continue to be a source of concern in the SADC region. As shown below, about 15% (18.3 million) adults have credit from a bank or other formal credit institution and 68% (83.9 million) of the adult population do not borrow nor do they have access to credit and loan products/services. It appears that the uptake of savings and credit products have an inverse relationship – as people have more access to credit their propensity to save diminishes. There is therefore the need to encourage savings and responsible credit use in the SADC region.



### Savings Strand



### Credit Strand



### Information indaba

During the year under review, an information indaba was hosted by FinMark Trust, in collaboration with FSD Africa, in Johannesburg in April 2014. The workshop provided an opportunity to map the existing supply of research products and programmes that aim to improve understanding and decision-making around financial inclusion. It also provided a platform for different organisations to share what they were doing to strengthen the research and analysis capacities of different stakeholders and to understand what more needed to be done. It was agreed that FinScope remains the most viable demand-side tool for financial inclusion and given the number of institutions involved in the exercise, there is a need for more collaboration and exchange of information.



## Information and research support

### Bill & Melinda Gates and MasterCard partnerships

During the past financial year, FinMark Trust and Cenfri jointly partnered with the Bill & Melinda Gates Foundation for the establishment of a new facility to improve the quality, relevance and comparability of the indicators of financial inclusion and the data needed to design effective programs, products and policies.

More importantly, the data quality work stream which will be housed within FinMark Trust aims to drive data quality and innovation to new levels leveraging the FinScope surveys as well as other research initiatives while the measurement work stream aims to develop and disseminate financial inclusion measurement frameworks.

FinMark Trust and Cenfri have also partnered with the MasterCard Foundation for the establishment of a Client Data and Research Hub to serve as a central convening point for client data and research in sub-Saharan Africa. The ultimate goal of the Hub is to increase the use of quality client centric data, research and methodologies by Financial Service Providers (FSPs) to inform business decisions in a way that would lead to the design of a greater range of more relevant and impactful financial products and services for financially under-served individuals. Ultimately the Hub will serve as a leading resource for practitioners wanting to be more client-centric in their choice of target market segments, their design of products and the manner in which financial services are offered and distributed to clients.

### Information and research thought leadership indicators

Over the years, FinMark Trust has accumulated operational experience, a wealth of data and knowledge regarding today's most pressing financial inclusion issues and complex challenges faced by a number of countries. We have been developing and using various indicators to improve the harmonisation of data and deepen policymakers' and suppliers' understanding of financial inclusion data. Some of the important tools are:

- Access strand
- Landscape of access
- Access Frontier

During the period under review, we have embarked on creating new and extensive measurement tools (indicators) and concentrated on understanding the quality/impact dimension of financial inclusion. Amongst these are; (i) employing GIS tools for spatially mapping financial access points and (ii) the Quality of Financial Inclusion Measure.

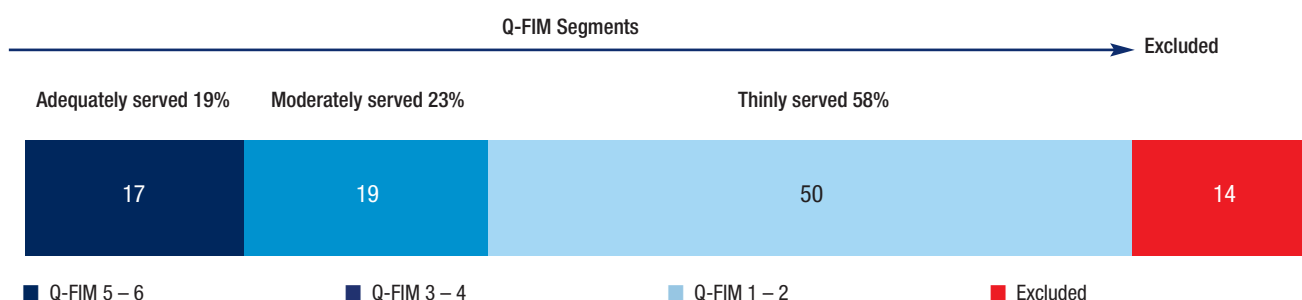
### Quality of Financial Inclusion Measure (Q-FIM)

The following analysis demonstrates the Quality of Financial Inclusion Measure (Q-FIM) for South Africa for the people that are financial included.

#### South Africa Access Strand – 2014



#### QFIM for South Africa – 2014



## Information and research support

The Q-FIM analysis takes into account the combination and usage of different landscape products/services (transaction service, savings, insurance and credit) and thereby creating six segments which are then tiered into the following financial inclusion segments namely:

- Adequately served (Q-FIM 5 & 6) – This segment is more likely to have access to all landscape products and fully benefitting from the overall product offering
- Moderately served (Q-FIM 3 & 4) – This segment is also likely to have access to all landscape products but marginally benefit from the overall product offering
- Thinly served (Q-FIM 1 & 2) – Likely to have access to some landscape products and/or have access to only one landscape product and do not benefit from the overall product offering

The Q-FIM for South Africa – 2014 shows that only 17% are adequately serviced, 19% moderately served, 50% thinly served. The 14% of the adult population that are financially excluded remains the same. The most important message to note from this analysis is that having a product does not translate to proper usage or benefiting from the product/service.

The Q-FIM indicator seeks to illustrate that high levels of inclusion do not necessarily mean people are benefiting from the financial products they have/have access to. It also radicalises the definition of 'Fully Included' that requires a person to have access to a suite of basic services that generally includes a saving, credit, insurance and transactions, through looking at the depth of each landscape product component. According to Q-FIM South Africa, adults could have financial products/services across four landscape products but be thinly served. A case study has shown that an adult could have a transactional product (without using it for transactional purposes), belong to a burial society and have a formal funeral policy; have access to unsecured loan; and belong to a savings club. However, the depth of his/her portfolio fails to serve different needs that he/she encounters. Thus, Q-FIM South Africa shows the bulk of the financially included being thinly served.

### FinScope testimonials

#### FinScope Zimbabwe 2014 launch

Dr Charity Dhlwayo Deputy Reserve Bank Governor said that the findings of the survey were 'of keen interest to the RBZ in that they stimulated an important dialogue' and 'laid the basis for evidence-based interventions'.

*'The identified challenges create scope to harness resources currently circulating in the informal sector', Dr Dhlwayo said. They are consistent with empirical evidence which shows a strong correlation between financial inclusion and economic development', she added.*

Dr Dhlwayo asserted that the results would enable policy makers to effectively deal with issues hindering financial inclusion whilst innovative service providers will be encouraged to deliver appropriate services to financially excluded segments. (Source: Herald, 18 February 2015).

#### FinScope Malawi 2014 launch

FinScope Malawi 2014 launch: Speaking during the launch of the Survey Report, Minister of Finance Economic Planning and Development, Dr. Goodall Gondwe said the survey, which measures the current level of financial inclusion in the country and tracks the changes in financial inclusion, provide data that the country can use to improve the lives of people in rural areas. He observed that there was still growing poverty in the country especially in the rural areas despite the country's fifty years of independence.

*'We have done well in infrastructure and education development, but we are lagging behind because our grand-parents in the villages are still living the old life they were living 50 years ago,' observed Gondwe.*

(Source: <http://allafrica.com/stories/201408110056.html>)



## Information and research support

### FinScope Mauritius 2014 launch

Speaking on the occasion of the FinScope release, Governor Rundheersing Bheenick of the Bank of Mauritius emphasised the role of all stakeholders in both the banking and non-banking sectors to collaborate and tap those who are financially excluded. According to him, more efforts should be made to tackle the issue of financial exclusion by encouraging banks to bring innovative changes to reach more people and review their service charges.

The Governor also spoke about introducing financial literacy in the education system, which, he noted, is a great means to sensitise people at a young age on using financial services. He further stated that, in the next five years, Mauritius should be ready to target the 10% unbanked while citing India as a reference where, in a day, 15 million bank accounts have been opened. He concluded by stressing on the need for an action programme to be worked out by all the stakeholders with a view to combat financial exclusion.

(Source: <http://africamoney.info/mauritius-has-highest-financial-inclusion-rate-in-sadc-90-avail-financial-services/>)

### FinScope South Africa 2014 results

Finweek publication used the FinScope South Africa 2014 launch results to provide insight into their article titled 'Why are South Africans not saving more?' – *[South Africans are frequently criticised for being notoriously bad savers. This label is borne out by a recent FinScope study which shows that only 20% of South Africans have any kind of formal savings with a recognised financial institution. SA doesn't compare well internationally either: even compared to other BRICS countries South Africa has the lowest savings rate at 13.5% with a household savings rate of just 1.7%].*

(Source: <http://finweek.com/2014/11/20/money-south-africans-saving/>)





## Presentations

These are available on the FinMark Trust website: [www.finmarktrust.org.za](http://www.finmarktrust.org.za)

Topic	Event	Presenter	Date
Why consumer financial education matters – getting the balance right	Next generation payments Southern Africa conference	Dhashni Naidoo; FinMark Trust	March 2014
Monitoring and evaluating financial education	KZN Financial Literacy Association International Youth and Child Finance conference	Dhashni Naidoo; FinMark Trust	March 2014
Making Access Possible (MAP) in Swaziland	Stakeholder presentation, Swaziland	Cenfri	April 2014
FinMark Trust overview	European Union private sector development workshop, Johannesburg, South Africa	Prega Ramsamy; FinMark Trust	April 2014
Making Access Possible Myanmar financial inclusion roadmap	Workshop, Nay Pyi Taw, Myanmar	FinMark Trust, UNCDF	May 2014
Understanding financial cooperatives	Cooperative Banks Development Agency South Africa annual board meeting, Pretoria, South Africa	Dhashni Naidoo; FinMark Trust, Alyn Wyatt; Genesis Analytics	June 2014
Savings and financial capability – towards a collaborative approach	Stakeholder workshop with Ford Foundation grantees, Johannesburg, South Africa	Brendan Pearce; Prega Ramsamy; Dhashni Naidoo; FinMark Trust	July 2014
Why retailers – a demand-side perspective of the key drivers that influence the decision to use financial services offered by retailers in South Africa	Stakeholder workshop, Sandton, South Africa	Herman Smit; Cenfri	June 2014
FinScope consumer survey Malawi 2014	Launch of results of FinScope Malawi consumer survey, Lilongwe, Malawi	Prega Ramsamy; Jabulani Khumalo; FinMark Trust, Paul Mkhoma; Millenium Consulting Group	August 2014
Measuring financial inclusion	Panel discussion, Alliance for Financial Inclusion Global Policy Forum; Port of Spain, Trinidad and Tobago	Dhashni Naidoo; FinMark Trust	September 2014
What motivates retailers to offer financial services?	Stakeholder workshop, Cape Town, South Africa	Cenfri	September 2014
Regional integration and civil society alliance-building for pro-poor policy change in Africa	Strategic leadership and collaboration: Harnessing the power of people and partnerships, Leadership for Change, Johannesburg, South Africa	Prega Ramsamy; FinMark Trust	September 2014
FinScope consumer survey Mauritius 2014	FinScope consumer survey Mauritius 2014 launch, Port Louis, Mauritius	Prega Ramsamy; Abel Motsomi; FinMark Trust	October 2014
Introduction to the work of FinMark Trust	Presentation in Kigali	Prega Ramsamy; FinMark Trust	October 2014
FinScope overview	Launch of FinScope Mauritius 2014 results, Port Louis, Mauritius	Prega Ramsamy; FinMark Trust	October 2014
FinMark Trust Financial Education Training Toolkit	SADC financial education roundtable; Gaborone, Botswana	Dhashni Naidoo; FinMark Trust	November 2014
FinScope consumer survey South Africa 2014	FinScope consumer survey South Africa 2014 launch, Sandton, South Africa	Prega Ramsamy; FinMark Trust, Rob Powell; TNS	November 2014
Developing a research agenda for child and youth finance in Africa	Workshop: Child Youth Finance International Africa regional meeting; Addis Ababa	Dhashni Naidoo; FinMark Trust	December 2014
FinScope consumer survey Swaziland 2014	FinScope consumer survey Swaziland 2014 launch, Mbabane, Swaziland	Prega Ramsamy; Bobby Berkowitz; FinMark Trust	February 2015
FinScope consumer survey Zimbabwe 2014	FinScope consumer survey Zimbabwe 2014 launch, Harare, Zimbabwe	Kingstone Mutsonziwa; Obert Maposa; FinMark Trust	February 2015
FinScope consumer survey Democratic Republic of Congo 2014	Launch of results of FinScope DRC consumer survey, Kinshasa, DRC	Kingstone Mutsonziwa; FinMark Trust	March 2015
Financial inclusion and financial capability	Financial Services Commission Mauritius; Port Louis, Mauritius	Dhashni Naidoo; FinMark Trust	March 2015

## Publications

Document	Author	Date
Report: Regaining momentum – an update on microinsurance in South Africa	FinMark Trust, Cenfri (Christiaan Endres; Sandisiwe Ncube; Christine Hougaard; Louis van As)	April 2014
Newsletter	FinMark Trust	April 2014
Report: Legal expenses insurance	FinMark Trust, Eighty20 Consulting	April 2014
Report: Regulating m-insurance in Zimbabwe: managing risk while facilitating innovation	FinMark Trust, Jeremy Leach; Bankable Frontiers Associates (BFA), Sandisiwe Ncube; Hennie Bester; Cenfri	April 2014
Report: Assessment of expected microinsurance regulatory impact: The case of a funeral administrator	FinMark Trust, Nigel Bowman; Nigel Bowman actuarial consulting	April 2014
Brochure: FinScope Myanmar 2013	FinMark Trust, UNCDF	May 2014
Media release: Creating financial inclusion through leadership towards a market based approach	FinMark Trust, UNCDF	May 2014
Data book: FinScope Myanmar 2013	FinMark Trust, UNCDF	May 2014
Newsletter	FinMark Trust	May 2014
Report: Managing risk while facilitating innovation: The case of m-insurance in Tanzania – Regulation of m-insurance series: case study 2	FinMark Trust, Jeremy Leach; Bankable Frontiers Associates (BFA), Sandisiwe Ncube; Hennie Bester; Cenfri	June 2014
Newsletter	FinMark Trust	June 2014
Report: Financial education interim strategy for the Kingdom of Lesotho: Implementation plan and road map	FinMark Trust, Genesis Analytics	July 2014
Newsletter	FinMark Trust	July 2014
Microfinance investment self-assessment tool	FinMark Trust, Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH (GIZ), PlaNet Finance	July 2014
Report: Liberalisation of the capital and financial account of Malawi	FinMark Trust, Dylan Smith; Richard Ketley; Taz Cahponda; Genesis Analytics	July 2014
Newsletter	FinMark Trust	August 2014
Media release: Results from FinScope Malawi consumer survey 2014	FinMark Trust	August 2014
Brochure: FinScope consumer survey Malawi 2014	FinMark Trust	August 2014
Annual report 2014	FinMark Trust	August 2014
Newsletter	FinMark Trust	September 2014
Media statement: Programme on agricultural and rural finance	FinMark Trust	October 2014
Report: Making Access Possible (MAP) diagnostic report Lesotho	FinMark Trust, UNCDF, Cenfri	October 2014
Report: Making Access Possible (MAP) qualitative demand-side report Lesotho	FinMark Trust, UNCDF, Cenfri	October 2014
Report: Making Access Possible (MAP) synthesis report Lesotho	FinMark Trust, UNCDF, Cenfri	October 2014
Newsletter	FinMark Trust	October 2014
Report: Making Access Possible (MAP) diagnostic report Myanmar	FinMark Trust, UNCDF, Cenfri	October 2014
Report: Making Access Possible (MAP) qualitative report Myanmar	FinMark Trust, UNCDF, Cenfri	October 2014
Report: Making Access Possible (MAP) diagnostic report Swaziland	FinMark Trust, UNCDF, Cenfri	October 2014
Report: Making Access Possible (MAP) qualitative demand-side report Swaziland	FinMark Trust, UNCDF, Cenfri	October 2014
Report: Making Access Possible (MAP) synthesis report Swaziland	FinMark Trust, UNCDF, Cenfri	October 2014

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Report: Making Access Possible (MAP) diagnostic report Swaziland	FinMark Trust, UNCDF, Cenfri	October 2014
Report: Making Access Possible (MAP) qualitative demand-side report Swaziland	FinMark Trust, UNCDF, Cenfri	October 2014
Report: Making Access Possible (MAP) synthesis report Swaziland	FinMark Trust, UNCDF, Cenfri	October 2014
Brochure: FinScope consumer survey Mauritius 2014	FinMark Trust	October 2014
Media release: New facts and figures from FinScope Mauritius 2014	FinMark Trust	October 2014
Brochure: FinScope South Africa 2014	FinMark Trust	November 2014
Media release: What changed in people's lives according to FinScope since 2004? A ten year perspective on financial inclusion in South Africa	FinMark Trust	November 2014
Discussion paper: How long can we go? A discussion note on whether life microinsurance schemes offer value at low claims ratios	FinMark Trust, Nigel Bowman; Nigel Bowman actuarial consulting	November 2014
Newsletter	FinMark Trust	November 2014
Media statement: FinMark Trust signs a MOU with Bank of Lao PDR and National Statistics Bureau (NSB) of Lao for the FinScope Consumer Lao 2014 survey	FinMark Trust	November 2014
Report: Microfinance regulatory and policy assessment in SADC – Case study of Namibia, Tanzania and Zambia	FinMark Trust, GIZ, Dominique Brouwers; Bezant Chongo; Altemius Millinga; Frances Fraser; PlaNet Finance	December 2014
Media release: New facts and figures from FinScope MSME survey Mozambique 2012	FinMark Trust	December 2014
Report: Retailers' motivation for offering financial services	FinMark Trust, Eighty20 Consulting	January 2015
Report: FinScope MSME survey Mozambique 2012	FinMark Trust	January 2015
Media statement: Accelerating inclusive rural and agricultural financing programme in SADC – towards the implementation of the SADC Regional Agricultural Policy (RAP)	FinMark Trust	January 2015
Newsletter	FinMark Trust	January 2015
Financial education toolkit – participant manual	FinMark Trust, Genesis Analytics	February 2015
Financial education toolkit – facilitators guide	FinMark Trust, Genesis Analytics	February 2015
Focus notes: Microfinance regulatory and policy assessment in SADC – Case study of Namibia, Tanzania and Zambia	FinMark Trust, Dominique Brouwers; Bezant Chongo; PlaNet Finance	February 2015
Brochure: FinScope consumer survey Zimbabwe 2014	FinMark Trust	February 2015
Media release: Highlights from FinScope Consumer Survey Zimbabwe 2014 results	FinMark Trust	February 2015
Brochure: FinScope consumer survey Swaziland 2014	FinMark Trust	February 2015
Media release: New New facts and figures from FinScope Swaziland 2014	FinMark Trust	February 2015
Media release: Namibia launches Namibia Data Sharing Alliance (NDSA)	FinMark Trust	March 2015
Media release: FinMark Trust rolls out newly developed Financial Education Toolkit in Mauritius	FinMark Trust	March 2015
Newsletter: Lesotho country news	FinMark Trust	March 2015
Media release: Lesotho corridor allows remittance at low affordable rates	FinMark Trust	March 2015
Brochure: FinScope consumer survey Democratic Republic of Congo 2014	FinMark Trust	March 2015
Media release: Results from FinScope Consumer Survey Democratic Republic of Congo (DRC) 2014	FinMark Trust	March 2015



## Co-funding for 2014/2015

These are available on the FinMark Trust website: [www.finmarktrust.org.za](http://www.finmarktrust.org.za)

Project	Co-funder
Lesotho financial education strategy and implementation plan	UN Capital Development Fund (UNCDF)
Microinsurance	Deutsche Gesellschaft fur Internationale Zusammenarbeit (GIZ)
FinScope SA	Absa, First National Bank, Liberty Life, Metropolitan, National Treasury, Nedbank, Old Mutual, Standard Bank SA, Metropolitan, Sanlam, Post Office
Housing microfinance	Rooftops Canada, Habitat for Humanity International, University of Cape Town
Housing Finance Yearbook 2014	Home Finance Guarantors Africa Reinsurance, International Housing Solutions (Pty) Ltd, FNB Housing Finance, Shelter Afrique, International Finance Corporation, Old Mutual Investment Group SA (Pty) Ltd, HFC Bank (Ghana) Limited, National Housing Corporation Tanzania, Lendcor, FSD Mozambique, Phatisa, PlaNet Finance Group, FinMark Trust, FSD Africa
Credit Information sharing and microfinance project	GIZ
Zambia Insurance	ILO, Bankable Frontier Associates
Technical support to FinScope Uganda	Economic Policy Research Centre in Uganda
FinScope Zimbabwe	The World Bank
FinScope Mauritius	Ministry of Finance and Economic Development, Mauritius
FinScope Mozambique SME	German Development Cooperation, Ministry of Finance Mozambique
FinScope Botswana	Bankers Association of Botswana
MAP in Lao, Thailand, Mozambique, Myanmar, Nepal	UNCDF

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