

Annual Report 08





FinMark Trust is an independent trust based in Johannesburg, South Africa. Established in 2002, it has been provided with core funding by the South African office of the UK Department for International Development (DFID). Its mission is “to make financial markets work for the poor” in Africa. In practice, this means supporting initiatives to extend access to appropriate financial services to individuals and households who currently lack it.

FinMark Trust realises its mission through two core strategies:

- Removing the barriers to the better workings of financial markets, which involves substantial work with, and for, financial regulators and policymakers on the legislative, regulatory and informational environment; and
- Promoting innovation in product design and delivery, through the provision of concessional resources.



CHAIRMAN'S REVIEW	2
TRUSTEES	3
OLD-AGE SAVINGS	4
HOUSING FINANCE	5
BRANCHLESS BANKING	6
INNOVATION CASE STUDIES	7
FINMARK TRUST IN ZAMBIA	8
FINScope™ IN AFRICA AND BEYOND	9
MARKET-LED COERCION	10
THEME AREAS AND ACTIVITIES	11
CEO'S REVIEW	13
LIST OF PUBLICATIONS	15
PRESENTATIONS AND TALKS GIVEN	16
CO-FUNDED GRANTS AND PROJECTS	17

CHAIRMAN'S REVIEW



As the financial year to end March 2008 drew to a close, storm clouds had gathered on the economic horizon. Surging oil and food prices had sparked a sharp increase in inflation in South Africa and other African countries, with a significant erosion of the buying power of poor people and their ability to weather financial shocks. What this means for patterns of saving, growing overindebtedness and the ability to access financial services is uncertain. Banks, now experiencing serious increases in bad

debts in their mainstream markets, will either become more risk averse or seek out new growth opportunities in mass-market segments they have historically tended to avoid. For FinMark Trust, it highlights the importance of staying ahead in identifying these changing trends so that the trust can effectively continue with its mission of promoting financial inclusion.

FinScope™ South Africa 2007 showed that the country is becoming a more financially inclusive society, with 60% of the adult population now having a bank account. However, many people continue to use their accounts in a very limited way, often only to withdraw money deposited by someone else, and more complex savings and insurance products are not part of most people's financial tools. To understand this better, FinMark Trust is embarking on detailed research into the entry-level Mzansi account, which has now been on the market for almost four years. This will investigate the effectiveness of the Mzansi bank account from the perspective of both the issuer and the user. The information for the supply side is being provided by all five issuing banks and we believe it will be valuable for them as they assess the 2008 targets of the Financial Sector Charter in the coming year.

It is heartening to see FinMark Trust responding to new opportunities. Other important themes with which the trust is now occupied include government reforms of the social security, pension and health systems as well as moves to create a more efficient regulatory environment for the microinsurance industry. All of these have potentially far-reaching consequences for the financial well-being of low income earners.

A high point of the trust's increasing engagement in the rest of Africa was the establishment of FinMark Trust Zambia Ltd, an independent non-for-profit company that will work with the public and private sectors to promote financial access in that country. Engagement in countries north of the Limpopo increasingly makes sense for FinMark Trust and some 50% of our project spend, aside from implementing FinScope™, is now directed towards other African countries. This includes policy dialogue in Botswana and Namibia, supporting the Southern

African Development Community, conducting housing finance scoping studies and compiling case studies of commercial financial innovation in different countries around the continent.

However, even though levels of financial inclusion are much lower in the wider region, it is important for the trust to retain its presence in South Africa. Firstly, imbalances in its financial markets persist. Secondly, South Africa-based financial services organisations are increasingly casting their eyes northwards and opening up operations around the continent. FinMark Trust has developed strong working ties with the private sector in South Africa over the past six years and we hope to continue to build these relationships as companies expand.

The coming year will be a watershed one for FinMark Trust. DFID's funding commitment comes to an end in March 2010, and a strategic focus next year will be to ensure that the work of the trust will remain a legacy beyond this deadline. I would like to take this opportunity to again thank DFID for their continuing support and belief in the work of the trust.

I would also like to thank my fellow trustees for their valuable support and guidance over the past year. We have taken the decision to appoint a new trustee from outside South Africa, reflecting the trust's pan-African remit, and we look forward to the fresh insights that this appointment will bring.

Finally, I would like to acknowledge the hard work of the small but dedicated team at FinMark Trust, ably led by Mark Napier. FinMark Trust's reputation as a quality resource institution continues to grow, and the team should be congratulated.

Nkululeko Sowazi

Chairman

Johannesburg

July 2008

TRUSTEES



Nkululeko Sowazi

is deputy chair of Tiso Group, a black empowerment investment company, and has been extensively involved in the financial and development finance sector of South Africa.



Ishmael Mkhabela

is the founder and chief executive officer of Interfaith Community Development Association. Ishmael's skills and experience enable him to apply multiple approaches in development facilitation and organisation development and interventions.



Cas Coovadia

is the managing director of the Banking Association South Africa and is actively involved at strategic and policy level in low income housing, microfinance and SMME finance.



Ethel Matenge-Sebesho

is general manager of Home Loan Guarantee Company. Originally from Botswana, Ethel has long been involved in the banking and financial sector, and has been involved in several microfinance initiatives in Southern Africa.



Mark Napier

is the chief executive officer of FinMark Trust and is a qualified accountant by training and a banker by profession.

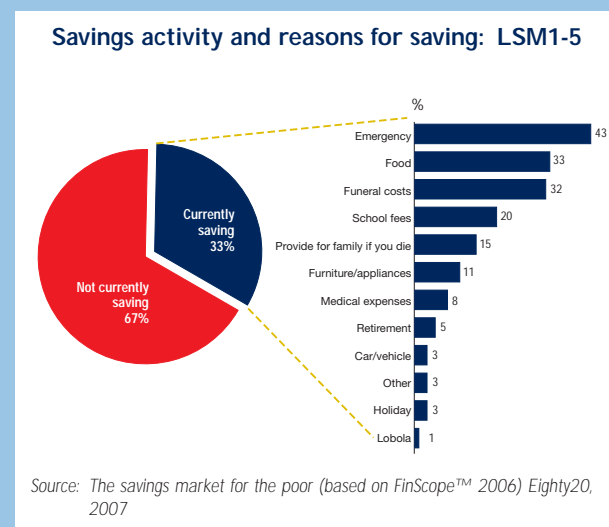


OLD-AGE SAVINGS

Governments in Africa are increasingly looking at ways to encourage people to save for their old age. A number are also evaluating their retirement policies.

In South Africa, the government is reforming its pension policy, including looking at the possibility of compulsory contributions. These reforms have important implications for many people, particularly low income earners.

FinMark Trust, with the South African Savings Institute, initiated a study to understand the ways poor people provide for their old age and to identify policy priorities. The research showed that the average personal income for people in every category of LSM1 to LSM5* is lower for working-age members than it is for their retired counterparts receiving a state old-age pension, now R940 a month. This highlights the low potential for working-age people in the LSM1-5 group to save. Around one-third of the working-age members of LSM1-5 save at all, but only 5% of them say that they actually save for retirement (see figure below).



Other reasons that lower income people do not save for the long term is because they do not see it as a priority and cannot easily afford to forego present consumption. They find the available products expensive, inflexible and unwieldy and prefer tangible long term objectives like piece-meal housing development and educating their children.

FinMark Trust believes that savings needs to be defined more broadly. The conventional cash-based definition, as understood by the financial industry, resonates little with poorer people. If a house is regarded by many lower income people as a good investment for the future and therefore part of a rational saving strategy – something that is not questioned in the higher income population segments – perhaps policymakers and private sector providers could be brought around to this perspective, so that the cost of educating children or developing housing is seen as part of the formal saving effort.

Informal insurance arrangements continue to be important. These soak up excess cash, as many in this group readily contribute to their neighbours, knowing they are likely to benefit similarly when beset by difficulty. A policy of compulsory saving may therefore be misplaced. It would remove assets from the community as a whole, undermining the informal arrangements that may keep many people afloat in times of difficulty.

The state old-age grant remains the most important source of income of the elderly poor in South Africa with 89% of age 60 and older members of the LSM1-5 group receiving their income from the grant.

Elderly citizens of Botswana also benefit from a low-level universal pension benefit. Few Batswana save for retirement in addition to this, either through pension funds or supplementary vehicles. However, firms are required to make a cash benefit on leaving employment, known as the severance/gratuity system. FinMark Trust explored the effectiveness of this system to see whether it might be used as the foundation for a national pension system.

The research confirmed the low level of savings and consequent high rates of dependence on government in old age. Some employees have access to company pension funds, but employers are not required to contribute to pension funds. Most workers have access only to the severance/gratuity that pays out after every five years or on termination, and about which the research raised widespread concerns. High rates of evasion by employers were identified. Except on retrenchment, the system does not align with the needs typically met by social security systems. Beneficiaries of these payments rarely use them to meet long-term needs – typically they are spent on consumption, or even to meet debt incurred with this payment in mind.

The study recommended a redesign of the system and that a mandatory redirection of the severance/gratuity contributions to long-term savings should be considered. This conclusion was strongly supported by employers, pensioners and workers.

* Living Standard Measure (LSM) is a system of categorisation used in South Africa to provide differentiated socio-economic groupings. It is not based on, but is highly correlated to, income.





In a broad framework of making markets work for the poor, why is a special focus on housing finance warranted and what does this mean in practice? If the house is not used as collateral for a loan, what makes a housing loan different from a personal loan? The answer lies in the role that housing plays in the broader asset profile of low income households, and then in the way households make this asset work for themselves.

Over the past four years, FinMark Trust has been exploring the concept of housing assets. This interest began with a review of resale property markets. The *2004 Township Residential Property*

Market study identified that property markets in the former black townships of South Africa were dysfunctional. Housing churn was about a fifth of what would be expected in a normal market, and prices were depressed, with households receiving about 44% less on the sale price of their homes than what they expected. In this context, the housing asset is a theoretical concept, unrealisable.

From these findings, a new study was initiated into the activities of housing entrepreneurs – people who earn money from their housing – and how housing finance might assist them maximise their returns. The rationale behind this study was simple: if people were unable to realise value from their housing asset in its sale, or in leveraging it as collateral to access a mortgage, then maybe they could realise value in some other way. The activities of home-based enterprises and small-scale landlords were explored and it was found that the income-earning potential of housing adds substantially to the sustainable livelihoods of its low income residents.

More recently, we've been exploring innovation in housing finance and ways in which financial products can respond to the demands of low income earners. Across Africa, affordability of mortgage finance is extremely limited, in most cases to less than 10% of the national population. Even in South Africa, the percentage of those who can afford mortgage finance is not much more than 15%. A lack of housing finance means that most households in Africa build their homes in stages, adding on rooms and upgrading as they get the money. In this context, microfinance for housing becomes an option – something which can help low income households improve their housing circumstances and the performance of their housing asset incrementally.

In the past year, our work has extended to explore the housing finance systems in other African countries. We are especially interested in the link between the functioning of the wider financial market and the performance of housing finance initiatives that meet the immediate housing needs of the poor in

Africa. We are developing a library on housing finance systems in specific countries in Africa, with studies completed so far in Botswana, Zambia, Kenya and Uganda.

International development agencies and governments continually cite the massive urbanisation challenges that face Africa as they develop strategies to respond to their Millennium Development Goal commitments. At the same time, as economies throughout Africa grow and develop, investors are increasingly looking for investment opportunities.

Housing becomes an important area for such investment, and the potential for meeting the diverse goals of the public and private sectors is significant. It is in this space that FinMark Trust will continue to explore housing finance and making it work for the poor, by better understanding the housing asset and promoting innovation in the development of housing finance products that meet the needs of the poor:



BRANCHLESS BANKING



Banks and building societies have been using agents to provide limited banking services for many years. Recently, though, new payment technologies used by agents such as shops and air time sellers have significantly boosted the provision of more affordable financial services in previously unserved locations where traditional outlets are limited (see figure).

Point of sale devices can now offer a range of transactions beyond the traditional debit or credit card payment. Examples are buying airtime or prepaid electricity, making a cash withdrawal or deposit, or obtaining a mini statement or balance. Point of sale devices can be powered by battery and even solar power, and may be linked to the GSM mobile network, wi-fi or satellite communications to facilitate on-line transactions.

The most notable example of branchless banking is using mobile phones to make payment transactions or obtain banking information such as balances. Mobile banking, or m-banking, does not operate entirely outside the cash economy as cash remains an important requirement for both making small payments and informal trading. In addition many people still prefer to receive a paper receipt and interact with a human being.

The ability to use the existing communications and physical infrastructure of businesses already handling cash, such as retail chains, or linking with post offices, allows banks to offer banking services in areas where potential income was not seen to justify a branch, given the low value and intermittent nature of the likely transactions. Examples of this approach include the cash transfer products offered by Shoprite Checkers with Capitec Bank in South Africa and the partnership between Nedbank and Nampost in Namibia.

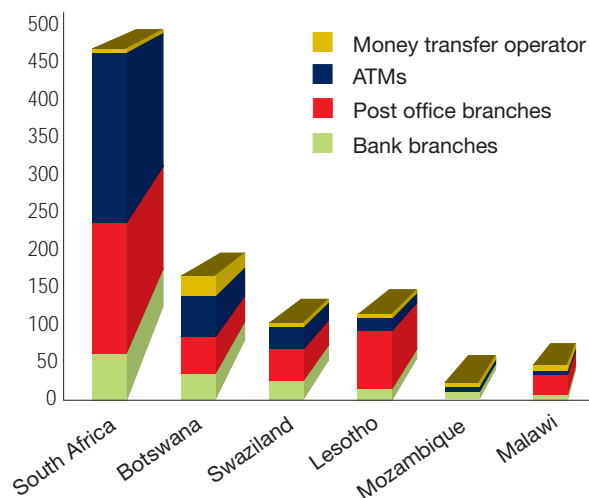
There are other variations. In Swaziland, FinMark Trust has followed and written up a case study of a drought aid programme where, on behalf of Save the Children, Standard Bank used Swazi Post as the payment agent. One of the most successful models in Africa is that of M-Pesa in Kenya, a partnership between Safaricom and Vodafone, which allows people who do not have a bank account to transfer money using a mobile phone. In this model the bank's role is limited to holding the float and all the transactions are offered at the shops of the Safaricom airtime sellers.

In some countries regulations do not permit agents to conduct banking services such as deposits and withdrawals. But it appears that regulators all over the continent are reviewing this. FinMark Trust continues to work with regulators in the region supporting the best practices proposed by global microfinance body CGAP, the Consultative Group to Assist the Poor, and their partners. These are based on assessments made in 2007 of policy and regulation in seven key countries.

To build up a data base of information about branchless banking, FinMark Trust commissioned a report which highlighted a number of models, including several on the African continent, and made suggestions about models that may be worth further consideration by local banks.

Another reason why regulators and banks are treating branchless banking cautiously is unease about potential risks, particularly around the new technologies such as mobile banking. FinMark Trust, therefore, commissioned an evaluation of the risks of different FinMark Brief technologies, how they can be compared to the risks of other technologies such as ATMs and internet banking, and how they can be mitigated.

Traditional payment receiving infrastructure



FinMark Trust is conducting a series of case studies of private sector innovation in Africa's financial markets. The 26 studies are representative of the whole African continent and showcase the diversity of Africa's financial markets. They profile a mix of mainstream banks, microfinance institutions, postal banks, insurance companies, leasing companies, commercial credit providers, remittance companies and housing finance providers. The central theme is that they are profit-making companies rather than aid-dependent organisations and they all demonstrate that it is possible to service lower income consumers profitably.

The intention is to publish the case studies as a book with essays collected under the themes of mass banking, small and medium enterprise banking, linkage banking, remote distribution, remittances and payments, rural banking, insurance, capital markets, technology and credit markets.

The case studies capture the activities of providers of financial services in Africa as they seek out ways to serve new markets profitably, often as pioneers. These new markets are those at "the bottom of the [financial] pyramid", to borrow from CK Prahalad; in other words markets in which people with low incomes or small businesses are the main actors. The markets served by the financial service providers in the case studies are varied. Some have set out expressly to reach the poorest in society, while others are operate more in the middle of the pyramid: they are, as Kenya's Equity Bank would describe them, the "missing middle", people who by Western standards would be considered poor and who manage their economic lives outside formal financial service provision. They are economically active people, perhaps traders, artisans, fishermen, farmers, low-paid government employees and even the recipients of social transfers, who collectively represent the *financially underserved*.

Banks profiled include Equity Bank in Kenya, Absa Bank in South Africa, the Tanzanian Postal Bank and Bank Windhoek in Namibia. The experience of Bank Misr in Egypt shows that it is possible to lend money profitably to very small businesses. Burkina Bail in

Burkina Faso has introduced leasing and factoring for small business in that country. Summit in South Africa provides a model of debt counselling. The partnership between insurer Hollard and retail chain Pep, also in South Africa, shows how using the distribution networks of retail chains can make financial services more accessible and less expensive. Microcare's community-based model of affordable privately funded healthcare services in Zambia seems sustainable, and brings services to some of the neediest people.

The Faulu example in Kenya of raising capital through a bond issue is unique and is a welcome example of how donor funding, through a partial guarantee, can crowd in local capital.

An important lesson from these case studies is that the business environment, while imperfect, can support innovation. Few of the companies profiled cited regulatory obstacles as a constraint to the development of their initiatives, although the innovators do have to contend with a very challenging business environment.

The research revealed some common themes for successful innovation:

- A cross-disciplinary approach is needed for successful innovation;
- Technology helps, but is not the "be all and end all";
- Doing things differently can pay off;
- Understand the needs of these new customers – they are different;
- New markets need to be developed; and
- Innovation often happens because of the commitment of a particular individual – but the support of senior management is essential.

FinMark Trust believes that the cases will be valuable for both service providers and policymakers. The project is being co-funded by FinMark Trust, the Development Bank of Southern Africa and the UK's Department of International Development.

Oxford Policy Management and the Wits Business School Case Centre of the Graduate School of Business Administration of the University of Witwatersrand are jointly researching and writing the case studies.





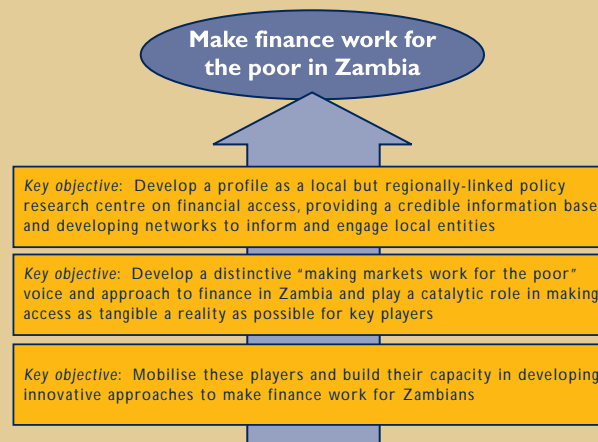
FinMark Trust has assisted the financial reform process in Zambia on a number of levels. A FinScope™ Consumer Survey has helped quantify issues around financial product supply, usage and behaviour that were not previously fully understood. This has helped build a common language of financial access among local market players. More importantly, it has assisted in pushing access to the top of government's financial policy agenda at the same time as providing private service providers with valuable market information that they can, and have, used to improve service delivery and their outreach.

With current levels of financial access more clearly defined, Zambia's government has set a target to significantly improve the landscape. While the evolution of a pro-access regulatory and policy environment will be important, motivating private service providers will be critical in achieving this target.

The promotion of effective access is not the primary focus of any independent locally-based organisation at present. FinMark Trust has therefore made a strategic decision to seed fund a new local entity, FinMark Trust Zambia Ltd (FMTZ), with the specific objective of fulfilling this critical role.

FMTZ will build on the credibility of FinMark Trust's market reputation in Zambia and its strong working relationships with government and other financial sector players. FMTZ will play a co-ordination and advisory role, supporting pro-access dialogue and research initiatives that lead to policy change and product innovation (see Figure 1).

Figure 1: FMTZ's mandate is to make finance work for the poor in Zambia



FinMark Trust believes that local legitimacy, independence and flexibility are the cornerstones of success in promoting local ownership and catalysing real change. FMTZ's management team will therefore be made up of experienced Zambians who embrace the making markets work for the poor (MMW4P) approach and who are well-positioned to solicit local support for the access agenda (see Figure 2).

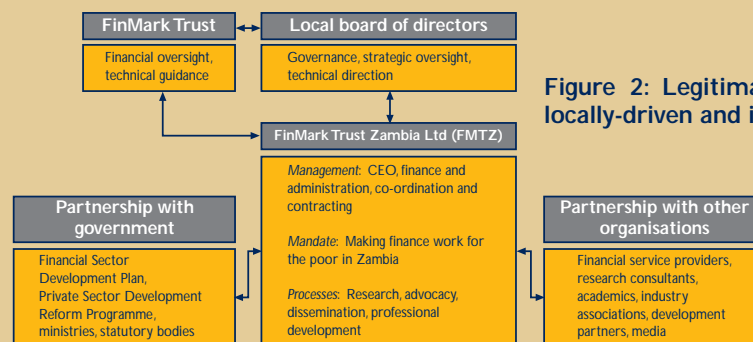


Figure 2: Legitimacy will be assured through a locally-driven and independent structure

As a not-for-profit entity, the independence of FMTZ will be assured. This will help promote partnerships and establish trust with public and private organisations that are crucial for implementing change, whatever their motivation. FMTZ's independence will also assist in achieving long-term sustainability, through its ability to access funding from multiple sources rather than being tied to a specific donor timeframe.

FinMark Trust has committed seed funding for FMTZ's first year of operation to March 2009 and will also provide technical oversight and support to the new local team for at least the first two years of operation.

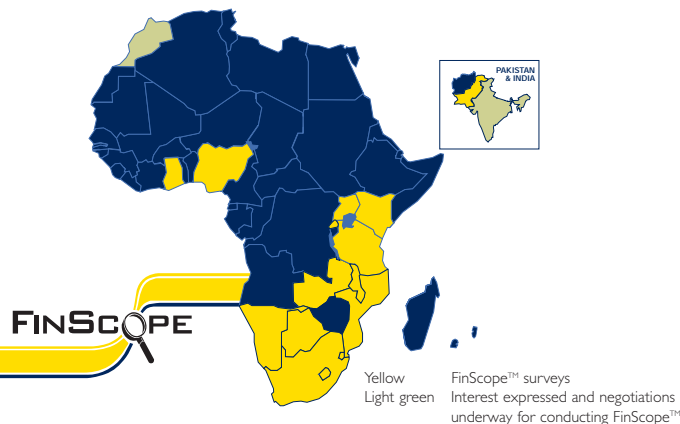
FMTZ has already attracted funding from local partners for specific initiatives. For example, the Government's Private Sector Development Reform Programme has covered 30% of the cost of a FinScope™ Small Business Survey in Zambia and is considering covering the full cost of a second FinScope™ Consumer Survey.

The target is for at least half of the cost of FMTZ's second year of operation to be covered by external sources of funds and for FMTZ to be fully funded by external funding sources within three years.



A key insight from the making markets work for the poor approach to development is that solutions arise from within a particular market. They cannot simply be imported from somewhere else. The key to unlocking these solutions is local research and market analysis. FinScope™ has been integral in promoting financial access in participating countries. The information allows policymakers, regulators and private sector providers to come together with the common goal of broadening access to financial services to the unbanked and underbanked.

FinScope™ has reached 15 countries and more are displaying interest (see map). FinScope™ Consumer Surveys have been completed in seven countries: South Africa, Botswana, Namibia, Zambia, Kenya, Tanzania and Uganda. Another five countries are implementing the survey: Nigeria, Ghana, Mozambique, Malawi and Rwanda. Morocco has expressed interest in the survey.

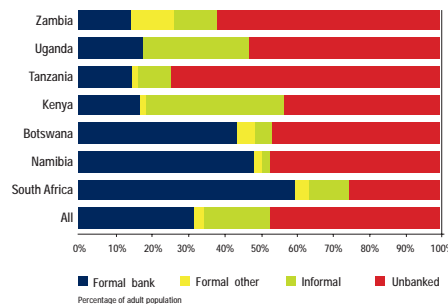


Zambia, Tanzania, Kenya, Uganda, Botswana and South Africa are now running repeat cycles of the consumer surveys. A FinScope™ Consumer Survey is also being conducted in Pakistan and India is interested in doing one.

A FinScope™ Mobile Banking Survey was carried out in South Africa and FinScope™ Small Business Surveys are now planned for two countries, Zambia and Tanzania. This follows the success of the pilot in South Africa in 2006.

The complexity of financial markets differs widely across the African continent, and in each country the questionnaire and the survey process is tailored to incorporate local conditions and reflect local interests.

While the formality in market structures is vastly different in the countries surveyed, the reasons people give for not participating in formal financial services are dominated across the continent by demand-side issues such as “I don’t have money” or “I don’t have a job” – in short, the lack of a perceived value proposition. Supply-side constraints, such as affordability, physical access and document requirements, contribute more to financial exclusion in lower income countries, than in the middle income countries of Southern Africa.



A key output from the FinScope™ surveys is the access strand (see above). What the strands reveal is that, with the exception of Kenya, few people use informal products only. There is an overlap between formal and informal product usage: many people who use informal products already have bank accounts.

About half of the people surveyed manage their lives without using any kind of financial product, formal or informal.

FinScope™ has demonstrated that use of its findings within a comprehensive market intervention strategy of appropriate policies and private sector service provision can contribute to the inclusion of previously excluded consumers. Below are some examples of how the survey information has fed into private and public sector initiatives.

- Bank Windhoek in Namibia developed a low income savings product called EasySave.
- In South Africa the Financial Services Board used the survey for planning around consumer financial literacy. “The FinScope™ surveys have played a major role in identifying consumer financial education needs by following consumer financial behaviour over time and in making valuable information available to others for their consumer financial education programmes”. The data was also used by National Treasury to support the development of a policy of financial inclusion and in addition the data has also fed into the government processes for wide-ranging social security reform.
- Barclays Bank Zambia has described FinScope™ as “very useful” in helping to quantify the low income market and intends to spatially map the data to identify optimum sites. Absa Bank in South Africa is already using the spatial data from the FinScope™ Small Business study to optimise the location of new service centres for its micro-enterprise activities.
- African Life Assurance Zambia said: “From the time we started using FinScope™ we have been able to develop a funeral insurance policy for the informal market ... and by understanding the current coping mechanisms and the recurrent costs of such mechanisms used by the informal sector, we have been able to determine an affordable price”.

The challenge which shadows FinScope™ is finding sustainable funding and application structures in each country. We continue to partner with local hosts and stakeholders, and with international donors, to build capacity for implementing the surveys and their findings in a bid to inform policies and catalyse inclusion through market stimulation and innovation.



Financial exclusion remains a serious problem in developing countries. This raises the question of whether more could, or should, have been done to accelerate processes leading to greater financial inclusion. However, the notion of “accelerating reform” runs counter to the prevailing wisdom that says governments should, in general, do less, not more, in financial markets and that government intervention in financial markets tends to do more harm than good. And yet, left on their own, markets are unlikely to develop in a way that is maximally inclusive.

So what can policymakers do to accelerate the pace of market-led reform – in other words, intervene in a pro-market way? The goal is, in Amartya Sen's words, not to “suppress markets, but to allow them to function better and with greater fairness”.

A growing number of commentators are now asking this question, because government interventionism in financial markets seems to be on the rise. Why the pendulum has swung away from *laissez-faire* approaches is hard to answer. There is

perhaps a greater appreciation now that markets need to be shaped to effectively help alleviate poverty. This is both an opportunity and a threat: an opportunity because governments are recognising the singular importance of access to finance for growth and poverty reduction, and are open to new ideas as to how to promote greater access; but also a threat, because direct government intervention has a poor record.

FinMark Trust has been exploring this topic lately because we have become interested in whether moral suasion, as a policy approach embodied in South Africa's Financial Sector Charter, might work in other African countries. Headline financial inclusion has grown markedly under the charter, not least because of the Mzansi basic bank account. But, five years after the charter was signed, South Africa's financial markets remain unequal. We therefore question whether the momentum generated by the charter is strong enough to lead to the development of financial markets that are sufficiently inclusive within an acceptable timeframe.

It is recognised that information asymmetries are a major reason why financial markets fail. Information asymmetries result in all sorts of failures such as products not meeting the needs of their

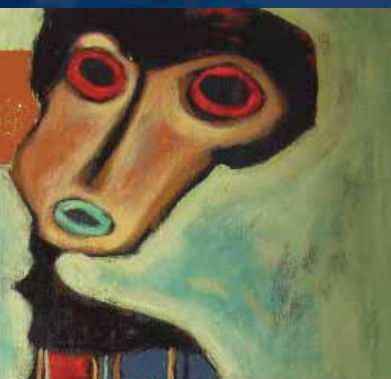
intended users, policies enacted in the absence of adequate research, or consumers being unable to make informed choices between suppliers. So it follows that providing information to market players – one of FinMark Trust's core functions – should help markets become inclusive because it addresses these information gaps or imbalances.

If information is important to support policy formation, then it is all the more important that good information is used if policies are to be *accelerated*, so that the consequences of policy acceleration are sufficiently understood. As a recent World Bank paper said: “Direct government interventions may be warranted in some cases but [should be preceded by] careful analyses to identify market failures and specify their causes.”

See Innovative Experiences in access to finance: Market friendly roles for the visible hand?” – Augusto de la Torre, Juan Carlos Gozzi, Sergio L Schmukler (2006)

THE PROGRESSION OF STATE ACTION IN THE MARKET		
State intervention	Pro-market activism or market-led coercion	<i>Laissez-faire</i>
State-owned banks Directed lending Interest rate regulation Coercion (stick)	Moral suasion/Charters Tax incentives Market structure/conduct Levies Quid pro quo for licences Infrastructure provision Competition enquiries	Enabling environment Privatisation Liberalisation Deregulation

THEME AREAS AND ACTIVITIES



Darrell Beghin

Doubell Chamberlain

Anne-Marie Chidzero

Jenny Hoffmann

Jeremy Leach

Mark Napier

Kecia Rust

Table 1: Theme areas and activities – Part 1

THEME AREA	MARKET INSIGHTS	TRANSACTION BANKING	HOUSING FINANCE
Co-ordinator/s	Darrell Beghin	Jeremy Leach and Jenny Hoffmann	Kecia Rust
Objectives	To produce credible information about financial needs and usage	To support the extension of transaction bank accounts as widely as possible, as the backbone for access to all other financial services	To support the development of frameworks for the sustainable leverage of private capital into affordable housing
Main projects/activities	FinScope™ South Africa Consumer Survey 2007 FinScope™ Namibia Consumer Survey 2007 Managing various FinScope™ Africa Surveys FinScope™ Africa Conference 2007 Development of an Africa FSM	Basel II regulation review Money laundering and terror financial-risk management of low-risk financial products and services in South Africa Case study on cash transfers for social payments in Swaziland	Housing finance scoping studies in Botswana, Ethiopia, Kenya, Mozambique, Namibia and Uganda Socio-economic household survey in Zambia Affordable housing monitor Diagnostic analysis of the Rwandan housing finance sector Housing finance access frontier, South Africa

THEME AREAS AND ACTIVITIES CONTINUED

Table 2: Theme areas and activities – Part 2

THEME AREA	INSURANCE	FINANCIAL POLICY AND REGULATION	AFRICA SPECIAL PROJECTS
Co-ordinator/s	Jeremy Leach and Doubell Chamberlain	Anne-Marie Chidzero	Mark Napier
Objectives	To stimulate the development of appropriate products for pro-poor access to insurance	To support the development of capacity within financial regulators to better serve access expansion in the region	To develop FinMark Trust's profile as a pan-African policy centre
Main projects/ activities	International Association of Insurance Supervisors project with International Development Research Centre (IDRC)/GTZ (continued) Disaster risk insurance Old-age saving among low income South Africans Study on the potential for developing a broad-based employee pension scheme in Botswana	Assistance to and in-house workshops for National Treasury The implementation of Basel II and its possible impact on financial inclusion Advisory support on the Co-operative Bank's Bill implementation Technical assistance to Bank of Namibia on AML (Anti-money laundering) CFT (Combating the financing of terrorism) Act Guidelines for AML for regulators – joint project with FIRST Initiative and World Bank work Impact assessment of the National Credit Act Substantive contributions to the Financial Policy Board financial sector review	FinMark Forums in Namibia and Botswana Zambia MFMW4P initiative Zambia Small Business Survey Case study book 2% affordability rule

Table 3: Theme areas and activities – Part 3

THEME AREA	NEW DEVELOPMENTS	BEE STRATEGIES	OTHER
Co-ordinator	Mark Napier	Mark Napier	Mark Napier
Objectives	Consumer financial empowerment and emerging technology themes	Building capacity of previously disadvantaged individuals and increase the use of Black Economic Empowerment (BEE)-type service providers	Grants and other activities
Main projects/ activities	Consumer recourse Partnerships – turning insights into innovation Managing the risk of mobile banking technologies	Mentorship programme Internships Research grants	Financial Sector Charter Council (FSCC) advisory support FinMark Forums Inter-country comparison report



After six years of FinMark Trust applying the making financial markets work for the poor approach, the question may rightly be asked as to how far we have come in achieving our goal of making financial markets more inclusive in Southern Africa. Undoubtedly there has been progress. The idea of banking the unbanked has moved from the margins as a concern of the

development world to become a commercial focus of mainstream financial institutions. Yet the reality is that financial inclusion levels remain low and often when there is a demand, such as in the funeral sector, informal offerings rather than formal institutions are capitalising on this market. This leads us to question whether more could have been achieved, and, if so, how.

FinMark Trust continues to be flexible in its approach so that it can respond to opportunities to catalyse change. This is reflected in the theme areas in which we are working, which have changed over time. Our main theme areas at present are technology and banking, insurance and long-term savings, credit markets, consumer financial empowerment, small medium and micro enterprises, and financial policy and regulation.

We have also begun to position ourselves strategically so that the work being done will outlive FinMark Trust itself. This essentially means finding alternative homes for our activities. So far two operations have been set up outside the trust, the Centre for Financial Regulation and Inclusion (Cenfri) and FinMark Trust Zambia Ltd (FMTZ).

Cenfri is a new policy centre founded with financial assistance from FinMark Trust. It is working in the financial regulation area and is also responsible for managing most of the trust's work in the insurance arena. FMTZ is a not-for-profit company established in Zambia. Its aim is to make financial markets work for the poor in that country. FinMark Trust is providing seed funding and technical assistance and FMTZ will have an independent Zambian management team and board of directors.

We are also considering turning our housing finance theme into an independent housing finance institute with financial support from FinMark Trust. The housing finance area has developed a strong identity of its own, in South Africa and increasingly across the continent, through research and publications such as AccessHousing.

FinScope™ is another option. FinScope™ has its own management structure within FinMark Trust and although co-funding for FinScope™ surveys is routed through the trust at

present it could just as easily be channelled through an independent unit.

Interest in FinScope™ continues to grow, not only in Africa but also in Asia. So far, seven African countries have completed FinScope™ surveys and a further five are implementing it.

The survey findings continue to provide valuable information for policymakers and the private sector in the different countries. They also help FinMark Trust in identifying important areas for engagement. FinScope™ SA 2007 confirmed that many people are servicing far more debt than they can afford. FinMark Trust is now researching the functioning of credit markets in the lower income markets and the effects of overindebtedness. This is just one example of the interdependence of FinMark Trust and FinScope™.

FinScope™ Namibia 2007 highlighted the importance of consumer education if innovations in product design and delivery are to succeed in lifting levels of financial inclusion. This new area of the trust will focus on building financial literacy and capability and a better-informed consumer base. Among the first initiatives is a study into the need for money advice for lower income earners and a conference to build a common vision for financial literacy in South Africa.

New themes are constantly emerging. The reality is that while yesterday's frontiers might have been the bank account or small business finance, tomorrow's frontiers might be over-indebtedness or financial literacy, retirement reform or social security, healthcare financing or microinsurance.

It is, however, gratifying to see work done in the past coming to fruition, such as the work we have done on tax incentives for small business investment. FinMark Trust identified that there was no fiscal support in South Africa for equity investors in small businesses. Based on research it conducted, the National Treasury announced this year that it would introduce such incentives and legislation is being drafted.

CEO'S REVIEW CONTINUED

FinMark Trust has been managing a multi-country study on behalf of the International Association of Insurance Supervisors/ Consultative Group to Assist the Poor (CGAP) Joint Working Group on Microinsurance. The study aimed to establish global guidelines for regulating microinsurance. This work informed a National Treasury discussion paper, which has been released for public comment, on the future of microinsurance regulation in South Africa. FinMark Trust believes the recommendations in the paper could play a valuable role in supporting delivery of appropriate microinsurance products to the lower income market.

None of this would have been possible without the commitment of the FinMark Trust team, which has expanded in the past year. Phyllis Ledwaba joined in early May as personal assistant, and Tamara Banda was promoted to project administrator to support Andrea van der Westhuizen, the project manager and financial co-ordinator. Rashid Ahmed joined in November 2007

as senior manager and theme co-ordinator for the small and medium enterprises and credit market theme areas. At the FinScope™ desk, Irma Grundling and Sizwe (Jabulani) Khumalo were appointed as FinScope™ advisors in December 2007. Jeremy Leach decided to leave FinMark Trust to join a local insurer as business development specialist with a special focus on the low end of the market; he made an enormously valuable contribution to our work during his four years with us. I would like to thank all my colleagues for their hard work during the year.

Mark Napier
CEO
July 2008



Tamara Banda



Phyllis Ledwaba



Andrea van der Westhuizen



Irma Grundling



Sizwe Khumalo



These are available on the FinMark Trust website: www.finmarktrust.org.za

Table 4: Publications

Document Heading	Author/s	Date
An investigation into the 2% affordability threshold for transactional banking and a cross-country analysis on factors influencing bank usage	Genesis Analytics (Pty) Ltd	2008/05/08
Press release: Making microinsurance easier	Janet Wilhelm, FinMark Trust	2008/04/21
FinMark Brief: Old-age saving by low income South Africans	Janet Wilhelm, FinMark Trust	2008/04/10
Press release: Old-age saving by low income South Africans	Janet Wilhelm, FinMark Trust	2008/04/10
Old-age saving by low income South Africans	Genesis Analytics (Pty) Ltd	2008/04/10
The poor and voluntary long term contractual savings – lessons from South Africa	J Roth, R Rusconi, N Shand	2008/04/03
Managing the risk of mobile banking technologies	Bankable Frontier Associates, LLC	2008/03/28
International experience of SME banks – lessons from South Africa	Peter F Hinton	2008/02/05
Access to housing finance in Africa: Exploring the issues in Kenya	Dr J G Muteru, Matrix Development Consultants	2008/01/21
Emerging issues in microinsurance intermediation	Anja Smith, Cenfri	2008/01/16
Zambia – Access to housing finance – meeting notes on discussion session in Lusaka, 25 October 2007	Kecia Rust, FinMark Trust	2008/01/11
The role of housing microfinance in supporting sustainable livelihoods (Housing Finance International, Vol XXII No 2, December 2007)	Kecia Rust, FinMark Trust	2007/12/05
Press release: Helping protect consumers of financial services	Janet Wilhelm, FinMark Trust	2007/12/13
Access Housing Newsletter: Issue 9, December 2007	Kecia Rust, FinMark Trust	2007/12/11
Landscape for consumer recourse in South Africa's financial services sector	ECIAfrica (Pty) Ltd	2007/12/06
Landscape for consumer recourse in South Africa's financial services sector – short report	ECIAfrica (Pty) Ltd	2007/12/06
Emerging microinsurance intermediary typologies	Doubell Chamberlain, Cenfri	2007/11/16
South Africa short-term insurance focus groups – the need for and awareness of asset insurance	Corporate Research Consultancy	2007/11/15
Botswana – access to housing finance – discussion session in Gaborone, meeting notes	Kecia Rust, FinMark Trust	2007/11/12
Access Housing Newsletter: Issue 8, September 2007	Kecia Rust, FinMark Trust	2007/10/15
Access to housing finance in Africa: Exploring the issues in Botswana	Lex von Rudloff, Emang Professional Services	2007/10/02
Stokvels in South Africa – exploring data discrepancies in the estimates of stokvel membership	Noble Scheepers	2007/09/17
Microinsurance in Uganda – emerging principles for regulation	Simon Hendrie and Anja Smith, Genesis Analytics (Pty) Ltd	2007/09/13
Mobile banking technology options – an overview of the different mobile banking technology options and their impact on the mobile banking market	Gavin T Krugel, TroyTyla (Pty) Ltd	2007/09/13

Table 4: Publications continued

Document Heading	Author/s	Date
Outsourced banking services – a pre-feasibility investigation into setting up an outsourced dedicated bank	J Hoffmann, RiskFrontier Consultants and R Pearson, Siana Strategic Advisors (Pty) Ltd	2007/09/07
Uganda insurance market survey report	The Steadman Group, Market Research Division	2007/09/07
Access to housing finance in the Financial Sector Charter target market	Illana Melzer, Eighty20 CC	2007/09/30
Access to housing finance in the Financial Sector Charter target market	Illana Melzer, Eighty20 CC	2007/08/30
Press release: Are bankers effective fisherman?	FinMark Trust and TNS Research Surveys (Pty) Ltd	2007/08/30
Press release: Going out in style – the culture and finance of death in South Africa	FinMark Trust and TNS Research Surveys (Pty) Ltd	2007/08/30
Press release: My home is my castle/cluster/townhouse/shack – housing in South Africa	FinMark Trust and TNS Research Surveys (Pty) Ltd	2007/08/30
Press release: To spend or not to spend, that is the question – an analysis of the retail sector in South Africa	FinMark Trust and TNS Research Surveys (Pty) Ltd	2007/08/30
Financial services access and usage in Southern and Eastern Africa: What do FinScope™ surveys tell us?	D Porteous, Bankable Frontier Associates, LLC	2007/08/29
Access to funeral insurance – Botswana, Namibia, South Africa and Zambia	Illana Melzer, Eighty20 CC	2007/08/21
Access to insurance in Botswana	Illana Melzer, Eighty20 CC	2007/08/21
Access to insurance in Namibia	Illana Melzer, Eighty20 CC	2007/08/21
FinMark Brief: Intermediation – the key challenge for microinsurance	Jeremy Leach, FinMark Trust	2007/08/21
Africa's financial sector – barriers to access and recommendations for donors	Mark Napier, FinMark Trust	2007/08/07
Opportunity International Agency: – the business case for a microinsurance intermediary in South Africa	Richard Leftley, Opportunity International	2007/07/17
Weather index insurance – the case for South Africa	Shadreck Mapfumo, MicroInsurance Agency	2007/07/17
Access Housing Newsletter: Issue 7, July 2007	Kecia Rust, FinMark Trust	2007/07/16
Access to financial services in Namibia	Christiaan Keulder, Social Surveys Consulting	2007/07/13
Analysis of South Africa's housing sector performance	Kecia Rust, FinMark Trust	2007/06/15
Enhancing access to banking and financial services in Botswana	Keith Jefferis, Econsult	2007/06/06
A literature review on housing finance development in Sub-Saharan Africa	Mary R Tomlinson	2007/05/29
Access to housing finance in Africa: Exploring the issues – Zambia	David Gardner	2007/05/29
Press release: South Africans shun the piggy-bank	FinMark Trust and TNS Research Surveys	2007/05/08
The access landscape and the challenges to the financial sector development in East, Central and Southern Africa	Mark Napier, FinMark Trust	2007/05/07
Access Housing Newsletter: Issue 6, March 2007	Kecia Rust, FinMark Trust	2007/04/12

PRESENTATIONS AND TALKS GIVEN

Table 5: Presentations

Topic	Presenter/s	Date
Managing the risk of mobile banking technologies	J Bezuidenhout and D Porteous	2008/05/28
Old-age saving by low income South Africans	Bankable Frontier Associates Genesis Analytics (Pty) Ltd	2008/04/10
Presentation on emerging principles for the regulation of microinsurance	Doubell Chamberlain, Cenfri	2008/03/12
Presentation on access and innovation in Africa's financial markets	Mark Napier, FinMark Trust	2008/02/07
Housing finance in Africa: The state of practice and opportunities for engagement (SIDA workshop)	Kecia Rust, FinMark Trust	2008/01/24
Presentation on microinsurance regulation	Doubell Chamberlain, Cenfri	2008/01/16
Presentation at the Swiss Re Conference – mitigating disaster risk among the poor	Jane Appasamy, FinMark Trust	2007/10/24
Presentation to UNISA International Banking Conference – banking the unbanked	Jeremy Leach, FinMark Trust	2007/10/15
Presentation to UNISA International Banking Conference: – the regulator's dilemma	Jeremy Leach, FinMark Trust	2007/10/15
Presentation to the African Union for Housing Finance AGM – housing microfinance in South Africa – the state of practice and issues to consider	Kecia Rust, FinMark Trust	2007/09/20
Presentation to the African Union for Housing Finance training session – the role of housing microfinance in supporting sustainable livelihoods	Kecia Rust, FinMark Trust	2007/09/20
Presentation to the Habitat for Humanity International – housing finance in Africa – the state of practice and issues to consider	Kecia Rust, FinMark Trust	2007/09/20
Presentation to CEO's – the microinsurance opportunity in Uganda	Jeremy Leach and Doubell Chamberlain, FinMark Trust	2007/09/17
Incremental housing – an analysis of the market and opportunities for housing micro-lenders	Kecia Rust, FinMark Trust	2007/09/10
Presentation on issues in microinsurance regulation	Doubell Chamberlain, Cenfri	2007/09/04
Segmentation – an obvious fact or an opportunity to optimise the market: presentation at the MicroFinance Conference 2007	Darrell Beghin, FinMark Trust	2007/08/28
Intermediation – the key challenge for microinsurance: presentation at the MicroFinance Conference held during 20-23 August 2007	Jeremy Leach and Anne-Marie Chidzero, FinMark Trust	2007/08/24
Presentation on microinsurance intermediation in South Africa	Doubell Chamberlain and Hennie Bester, Cenfri	2007/07/26
Presentation – development of housing finance in Sub-Saharan Africa	Mary R Tomlinson	2007/05/29
Presentation – housing finance in Zambia	David Gardner	2007/05/29
Africa's financial markets – barriers to access and recommendations for donors: presentation to Brenthurst Foundation event in Brussels	Mark Napier	2007/06/26
The access landscape and the challenges to financial sector development in East, Central and Southern Africa – presentation to World Bank's Making Finance Work for Africa event in Livingstone	Mark Napier	2007/05/07
Financial sector reform in Africa – discussion framework – presentation to American Enterprise Institute seminar in Washington DC	Mark Napier	2007/11/27
Articulating a framework for reform: – presentation to International Monetary Fund Institute conference in Tunis	Mark Napier	2008/03/05

Table 6: Forums in Botswana

Date	Topic	Presenter
2007/06/05	Home Finance Guarantors Africa – a vehicle for increasing access to housing finance and home ownership in Africa	Ethel Matenge-Sebeshe Home Loan Guarantee Company, South Africa
2007/06/05	Botswana Housing Scoping Study	Lex von Rudloff Emang Professional Services, Botswana
2007/06/05	A literature review on housing finance development in Sub-Saharan Africa	Mary Tomlinson Wits University, South Africa

Table 7: Forums in Namibia

Date	Topic	Presenter
2007/11/08 to follow	Housing finance in Namibia	Jonathan Adongo, Namene Kalili and Taylor Larson of NEPRU
2007/03/05	Access to financial services in Namibia – indicators and trends from FinScope™ 2004	Christiaan Keulder Social Surveys Consulting CC

Table 8: Forums in South Africa

Date	Topic	Presenter
2008/02/18	Finance for all? Policies and pitfalls in expanding access	Thorsten Beck Development Research Group
2007/10/24	MicroInsurance – the challenge of making profits and giving low income clients what they want	Andrew le Roux Old Mutual
2007/09/13	Mobile banking implementation options – the impact of choices made in implementing mobile banking solutions	Gavin Krugel TroyTyla (Pty) Ltd
2007/08/29	Charting the housing finance access frontier – mortgages, pension-backed and unsecured housing loans	Illana Melzer Eighty20 CC
2007/07/17	FinScope™ Africa – cross-country findings on the state of access in Southern and Eastern Africa	Mark Napier, FinMark Trust
2007/06/27	Market sizing, opportunities and competitive positioning in the low income consumer credit industry	Rob Rusconi, Tres Consulting
2007/05/29	What is the role of insurance in HIV?	Roseanne da Silva Toth Resources CC

CO-FUNDED GRANTS AND PROJECTS

FinScope™ Namibia 2007

FinScope™ is an initiative aimed at researching the financial behaviour of Namibian citizens. The survey's intention is to build dynamic financial market development, by affording focus to drive product innovation.

April 2007 to March 2008



FinScope™ South Africa 2007

FinScope™ is an initiative aimed at researching the financial behaviour of South African citizens. The survey's intention is to build dynamic financial market development, by affording focus to drive product innovation.

April 2007 to March 2008



Expanding access to insurance for the poor

To understand the role of policy, regulation and supervision of microinsurance and enhancing access to insurance services for the poor.

March 2006 to June 2008



The research is the result of a project supported by Canada's International Development Research Centre (www.idrc.ca)



Savings on housing study

A study into the role, impact and prospects for the savings requirement in the national housing subsidy scheme, and the capacity of the target market (households earning up to R8 500) to save for housing purposes.

November 2007 to January 2008



Affordable housing monitor

To review market activity at the very bottom end of the property market as a way for justifying a larger-scale development of an "affordable housing monitor" which would provide a similar service as the Absa House Price Index or FNB Property barometer but for the bottom end of the market.

January to April 2006



International SME study

A desk-top study on pertinent international experience of SME banks and suggested approach and advice to the Department of Trade and Industry.

April 2007



Africa research

FinMark Trust commissioned a series of studies that outline the nature and character of the housing finance sector in different countries throughout Africa.

March 2007 to April 2008



Access to financial services

Paper on inequality in South Africa and emerging issues to be included in the Development Report published by the Development Bank of Southern Africa

June to July 2007



FSCC advisory support

To integrate the various partially completed elements of the FSC Annual Report on Transformation Compliance which also includes a review and assessment of any conclusions and recommendations that have been made in the existing drafts of the various sections.

August to September 2007



Impact of the National Credit Act, 2005 (NCA)

To conduct a baseline study, the objective of which is to obtain information just prior to and at the time of commencement of the NCA; to do an ongoing review of data collected annually and produce reports with an analysis of the impact of the NCA.

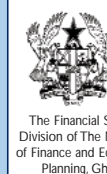
December 2007 and ongoing for five years



FinScope™ Ghana

FinMark Trust provides technical input to implement a consumer perception survey based on the FinScope™ survey tool and adapted for Ghana.

In progress



FinScope™ Nigeria Consumer Survey

FinMark Trust provides technical input to implement a consumer perception survey based on the FinScope™ survey tool and adapted for Nigeria.

In progress



FinScope™ Rwanda Consumer Survey

FinMark Trust provides technical input to implement a consumer perception survey based on the FinScope™ survey tool and adapted for Rwanda.

In progress



FinScope™ Pakistan Consumer Survey

Providing technical assistance in conducting the Access to Finance Study in Pakistan.

In progress





Stary Mwaba

Stary Mwaba was born in 1976 in Chingola, Zambia. He was raised in an intellectually stimulating environment with a rich cultural background, surrounded by traditional craftsmen and performers. He now lives in Lusaka, an urban metropolitan area where different cultures and urban practices meet.

"Many factors have influenced my practice but I have always wanted to say something strong and critical through my work about issues that are important in the preservation of my culture, spirituality, and the development of my society. I have realised the importance of discovering my identity in the practice of my art and have taken a journey of self-discovery, therefore creating work in a context in which my culture can be seen, experienced and studied in depth or compared and contrasted across time and space," he says about his art.

Most of Stary's previous works represent his restless search for material comfort, and spiritual and emotional fulfilment. He has experimented with different media, in the process dealing with themes such as cultural identity issues and politics.

He has also created art works in the form of wall murals in an experimental and research-minded way on universal themes such as human rights, collaborating with other artists both locally and internationally on projects that engage with the public.

Stary has participated in a number of residences, exhibitions and international workshops, including the Robert Wilson's Watermill Residence in New York, the Caribbean Contemporary Arts in Trinidad and Tobago, and the Braziers International workshop in London.

We would like to acknowledge and thank Stary for the use of his pictures in our Annual Report.

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